



AS MERKO EHITUS

GROUP

2017 12 months and IV quarter consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2017 – 31.12.2017
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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BRIEF OVERVIEW OF THE GROUP

AS Merko Ehitus is a construction and real estate development group operating in Estonia, Latvia, Lithuania and Norway.



BUSINESS SEGMENTS

ESTONIA

General construction
Civil engineering
Electrical construction
Road construction
Residential real estate development and investments

LATVIA

General construction
Civil engineering
Electrical construction
Residential real estate development and investments

LITHUANIA

General construction
Residential real estate development and investments

NORWAY

General construction

The construction company with the largest equity in the Baltics, long-term capability to self-finance its projects

A strong position on the Baltic construction market, the leading residential real estate developer

International quality, environmental protection and occupational safety **certificates ISO 9001, ISO 14001, OHSAS 18001**

SHARES

The shares are listed in the Main List of NASDAQ Tallinn since 1997.

The main shareholder is AS Riverito (**72%**)

2017 KEY FIGURES

Revenue **318 million** EUROS

Net profit **15 million** EUROS

755 employees



VISION

Our vision is reliable solutions and quality performance for your ideas.

VALUES

RESPONSIBILITY	We decide based on business thinking, awareness and ethical beliefs. We offer enduring and environmentally friendly solutions.
KEEPING PROMISES	We give realistic promises to the shareholders, contracting entities, cooperation partners, employees and we keep our promises. Good solutions are born in cooperation, the keeping of one's promises is mutual.
COMPETENCE	We value quality and professionalism. We constantly develop our professional knowledge and skills.
INITIATIVE	We manage processes and we are result-oriented. We accept the challenges which presume more.
CREATIVITY	We are open, innovative and creative in working out and implementing the solutions. We have a will to carry out forward-looking ideas.

STRATEGY

The business strategy of AS Merko Ehitus is focussed on improving profitability and enhancing the efficiency of the cost base, offering general contracting services in the field of construction of buildings and infrastructure facilities and developing residential real estate in its main home markets Estonia, Latvia, Lithuania and Norway. AS Merko Ehitus aims to be a preferred partner to its clients for construction works.

FINANCIAL OBJECTIVES UNTIL 2018

The Management Board and Supervisory Board have approved the company's financial objectives to 2018, which are:

**average return on equity
of the period 2013-2018
of at least
10%**

**dividend rate
50-70%
of annual profit**

**equity ratio
at least
40%**

FULFILLMENT OF LONG-TERM FINANCIAL OBJECTIVES 2013-2017

	2017	2016	2015	2014	2013	AVERAGE
Return on equity, ROE (on yearly basis)	11.9%	5.0%	8.0%	10.1%	8.8%	8.8%
Dividend rate	120%	119%	90%	58%	70%	91%
Equity ratio 31.12	47.0 %	51.6 %	59.5%	51.0%	50.9%	52.0%



AS MERKO EHITUS EESTI DESIGNED AND CONSTRUCTED TELIA OFFICE BUILDING, WHICH RECEIVED THE DIGITAL BUILDING OF THE YEAR AWARD IN 2017

MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

Sales revenue of Merko Ehitus for both Q4 of 2017 and the entire 12 month period outstripped the totals for the same periods last year by more than a quarter – Q4 sales revenue was EUR 102.8 million and the 12-month figure EUR 317.6 million. The last time sales revenue reached above EUR 300 million was 10 years ago. The group's net profit was EUR 8.1 million for Q4 and EUR 14.7 million for the 12-month period. As discussed with the Supervisory Board, the Management Board proposes to pay 120% of last year's earnings in dividends to shareholders, which makes 1 euro per share.

The group's revenue increased mostly because of the growth in construction contracts concluded with private sector customers in the last two years. The sales revenue increased on all of group's home markets – in Estonia, Latvia, Lithuania and Norway. The net profit exceeded management expectations set a year ago, but it should be noted that such a strong quarterly result is not usual. A number of positive factors supported the growth of profit in the last quarter of the year, including real estate transactions of a one-time nature in Q4, the preparations for which spanned a longer period. Also, a large share of the apartments sold coincided with the last quarter, as did an improvement in the profitability of several projects. However, the profitability of providing construction services to customers is under pressure, as the construction market is still facing challenges in the rise of input prices and the lack of design development and subcontracting resources. Above all, this has an effect on the profitability of the general contracting construction companies, increases contractual risk and forces to continuously seek greater internal efficiency. This year, the volume of new orders for road and engineering works fell short of the management's expectations and as a whole, we were unable to compete with the prices bid at public procurements

**2017 12M
REVENUE
318 MILLION EUROS
PROFIT BEFORE TAX
18.8 MILLION EUROS**

In Q4, Merko Ehitus sold 106 apartments, and during 12 months 392 apartments; the revenue figures were EUR 13.3 million and EUR 47.1 million, respectively (figures do not include VAT). In 2017, Merko companies launched the construction of around 500 new apartments and invested EUR 48 million into the development projects launched this year and projects already in progress. In addition, the group acquired new immovable properties in the amount of approximately EUR 9 million. The apartment market in the Baltics has generally been good, although the supply of new apartments on the market has grown and a stabilisation of the number of sales transactions has been seen for some time now. In the management's assessment, we cannot be satisfied with the pace at which building permits and planning documents are processed, as this is keeping Merko group from bringing more development projects to market faster. Demand for Merko apartments is strong. Apartment development is a central business line for Merko Ehitus and depending on obtaining building permits, Merko Ehitus plans to invest more than EUR 50 million into this area in 2018.

In Q4 of 2017, Merko Ehitus posted revenue of EUR 103 million, EBITDA of EUR 11.2 million, profit before taxes of EUR 10.6 million and net profit of EUR 8.1 million. 2017 sales revenue was EUR 317.6 million, EBITDA was EUR 22.2 million, profit before taxes was EUR 18.8 million and net profit was EUR 14.7 million. In the 12 months of 2017, the group entered into new contracts with a total volume of EUR 335 million and EUR 31 million in Q4, including, in Estonia, Toom-Kuninga 21 apartment building, Viimsi State Gymnasium and Tallink office building, as well as performance of additional works on the Z-Towers complex in Latvia.

As of 31 December 2017, Merko Ehitus had a secured order-book of EUR 344.4 million compared to EUR 269.6 million in the same period in the previous year. Among larger projects in progress in Q4 in Estonia were the construction of T1 Mall of Tallinn shopping centre, Maakri Kvartal business complex, Õpiku Maja's building B, Noblessner residential quarter, Pärnu mnt 22 office building, expansion of Wendre production facility, and the Embassy of the People's Republic of China. In Latvia, the larger projects in progress were Akropole and Alfa shopping centres, Z-Towers complex and Ventpils music school and concert hall; and in Lithuania, Radisson Blu Hotel Lietuva expansion, Philip Morris plant, and Rinktinės Urban development project. In Norway, the biggest projects in progress in Q4 were the addition to the Blakstad hospital building and Akersgata 8 office building in Oslo.

As discussed with the Supervisory Board, the Management Board proposes to pay EUR 17.7 million (EUR 1.0 per share) in dividends to shareholders at the expense of retained earnings; with the dividend rate for 2017 thus amounting to 120%. The management board bases the proposal to pay dividends more than the last year's earnings and above that of the dividend policy rate mainly on the rather high equity level of the group, and modest debt level. In the light of low margins in the construction services segment, which limits the group's profitability and return on equity, one of the group's goals is to make the usage of shareholders' capital more efficient. The group continues to invest in apartment development.

OVERVIEW OF THE IV QUARTER AND 12 MONTHS RESULTS

PROFITABILITY

Q4 2017 net profit was EUR 8.1 million (Q4 2016: EUR 1.4 million) and net profit margin 7.9% (Q4 2016: 1.8%). Net profit in 12M 2017 was EUR 14.7 million (12M 2016: EUR 6.1 million), having increased by 91.7% compared to the same period last year. Net profit margin increased to 4.6% (12M 2016: 2.4%). Profit before tax in 12M 2017 was EUR 18.8 million (12M 2016: EUR 7.3 million), which brought the profit before tax margin to 5.9% (12M 2016: 2.9%).

REVENUE

Q4 2017 revenue was EUR 102.8 million (Q4 2016: EUR 78.6 million) and 12M 2017 revenue was EUR 317.6 million (12M 2016: EUR 252.0 million). 12M revenue has increased by 26.0% compared to last year. The share of revenue earned outside Estonia in 12M 2017 was 39.9% (12M 2016: 29.4%).

SECURED ORDER BOOK

As at 31 December 2017, the group's secured order book had grown to EUR 344.4 million (31 December 2016: EUR 269.6 million). In 12M 2017, group companies signed new contracts in the amount of EUR 334.9 million (12M 2016: EUR 202.4 million). In Q4 2017, new contracts were signed in amount of EUR 31.3 million (Q4 2016: EUR 61.9 million).

REAL ESTATE DEVELOPMENT

The group sold a total of 392 apartments (incl. 17 apartment in a joint ventures) in 12 months of 2017 at a total value of EUR 47.1 million (excl. VAT). During 12 months of 2016 493 apartments (incl. 21 apartment in a joint ventures) were sold at total value of EUR 56.6 million. In Q4 of 2017 a total of 106 apartments were sold (incl. 16 apartment in joint ventures) at a value of EUR 13.3 million (excl. VAT), compared to Q4 of 2016 when 225 apartments were sold (incl. 9 apartments in joint ventures) at a total value of EUR 27.0 million.

CASH POSITION

At the end of the reporting period, the group had EUR 39.2 million in cash and cash equivalents, and equity EUR 130.2 million (47.0% of total assets). Comparable figures as at 31 December 2016 were EUR 33.5 million and EUR 122.8 million (51.6% of total assets), respectively. As at 31 December 2017 the group had net debt of EUR 20.1 million (31 December 2016: EUR 12.5 million).

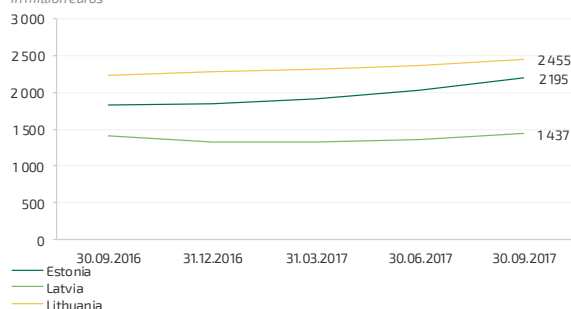
PROPOSAL FOR DISTRIBUTION OF PROFITS

As discussed with the Supervisory Board, the Management Board proposes to distribute to shareholders EUR 17.7 million (1 euro per share) in dividends from retained earnings in 2018. This is equivalent to a 120% dividend rate for 2017.

OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

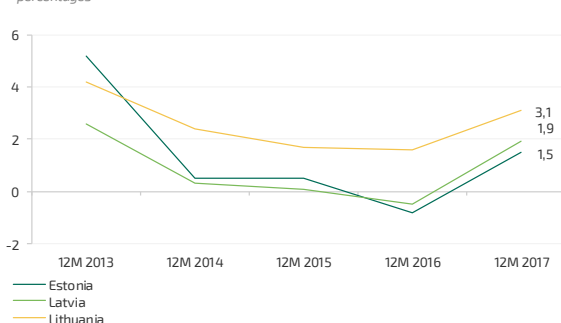
CONSTRUCTION SERVICES

BALTIC STATES CONSTRUCTION MARKETS (WITH OWN FORCES) ROLLING 12 MONTHS
in million euros



Source: Local national statistical offices.

12 MONTHS CHANGE IN CONSTRUCTION PRICE INDEX
percentages



Source: Local national statistical offices.

In large part, Q4 saw a continuation of the same developments that characterised the previous period. Input prices continued to rise. Unlike the last few years, in 2017, in addition to labour force, also the other two components of the construction price index – building machines and building materials – grew. The workforce situation continues to be under pressure – employment is high and there are no unallocated resources. This has resulted in a general rapid wage rise that has lasted for seven years now (more than 5% a year). In the construction sector, wage pressure in the last two years was lower than in general, but in 2017, it has once again increased. Whereas expenditure on workforce is largely dependent on local developments, the regional situation plays a key role in the case of construction machines and materials. In 2017, inflation returned to Europe, which was also felt in commodities prices. On the other hand, price competition among general contractors is strong and the deadlines are ever tighter. It is difficult for general contractors to pass rising construction prices on to customers, and thus their profit margins are under growing pressure. The group continues to make efforts to find internal efficiency. The keywords are better planning and use of optimal solutions, together with usage of new technological applications.

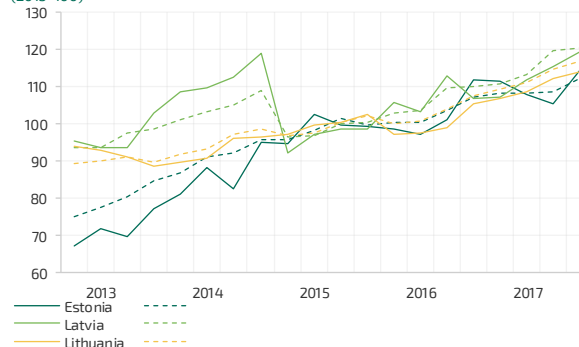
The situation in each of the group's home markets is somewhat different:

- A hefty rise in construction volumes has been seen first and foremost in **Estonia**, which is operating at the peak levels of the past five years. Housing construction remains active, and the development pace of commercial buildings is stabilising. New road and infrastructure procurements, both for highways and within Tallinn, have been launched. Public sector procurements in the field of buildings continue at a moderate pace.
- In **Lithuania** as well, construction volumes grew last year, but after a modest retreat in 2016, they have not returned to the previous highs. Market demand for new commercial buildings – in particular, office buildings – is stabilising. In private sector, there are many new industrial and logistics buildings in the planning stages. In public sector, procurements for buildings are in preparation, including for schools, hospitals and national defence sites. Bidding competition is quite stiff among general contractors.
- In **Latvia**, construction volumes continue to be weaker and growth slower than in the other two Baltic states. A number of construction procurements for business sector and public sector buildings are in progress. The number of capable general contractors taking part in them has somewhat decreased. Several large-scale engineering infrastructure objects are still in the planning, including in relation to new railway infrastructure.
- In **Norway**, the construction market is moderately active for both new building construction and renovation. Market activity varies by region. Large-scale public sector investments into infrastructure are planned

DEVELOPMENT OF APARTMENTS

The rate of growth seen in the Tallinn and Vilnius apartment markets in recent years is settling down. The supply of apartments has increased, and quality, location and response to buyers' preferences have all become more important. Sales periods of less attractive projects have increased. The price rise seen in new developments tends to be tapering off in Estonia, but there is still an upward trend in all three Baltic states. The apartment market in Riga continues to be characterised by lower activity level than Tallinn and Vilnius. For apartment buyers, the macroeconomic environment is still favourable – economic growth has sped up, incomes and savings are increasing, loan interest rates are still low and bank loans available. On the Norwegian housing market, something of a price correction and lengthening of sales periods has taken place since spring 2017 after the rapid price rise of recent years. The new trend is partially due to measures applied by financial regulators to rein in loan growth, especially in Oslo.

NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX
(2015=100)



Source: Eurostat

BUSINESS ACTIVITIES

The group business reporting is divided into three business segments:

- Estonian construction service;
- other home markets construction service;
- real estate development.

See additionally the detailed management structure on page 21.

ESTONIAN CONSTRUCTION SERVICE

The Estonian construction service segment consists of services in the field of general construction, civil engineering, electricity, external networks and road construction, as well as concrete works and construction services on project basis in Finland.

million EUR

	12M 2017	12M 2016	VARIANCE	Q4 2017	Q4 2016	VARIANCE
Revenue	135.2	122.4	+10.5%	35.7	34.2	+4.3%
% of total revenue	42.6%	48.6%		34.7%	43.5%	
Operating profit	5.9	3.4	+72.2%	1.5	(0.6)	-328.9%
Operating profit margin	4.3%	2.8%		4.1%	(1.9%)	

In the 12 months of 2017, the revenue of the Estonian construction service segment was EUR 135.2 million (12 months of 2016: EUR 122.4 million), having increased by 10.5% from the same period last year. The 12 months revenue includes revenue from Finnish projects in the amount of EUR 0.02 million (12 months of 2016: EUR 0.6 million). The increase in revenue in the segment is primarily influenced by the fact that several large-scale general construction projects launched in 2016 have continued to progress. The Estonian construction service segment revenues for 12 months 2017 were 42.6% of the group's revenue, forming the largest proportion in the group's revenue (2016: 48.6%).

In this segment, the group earned an operating profit of EUR 5.9 million for 12 months (12 months of 2016: EUR 3.4 million). In 12 months of 2017, the operating profit margin of the Estonian construction service segment was 4.3%, which increased by 1.5 pp compared to the 12 months of 2016 (2.8%). The Estonian construction services market is characterised by stiff competition. The number of civil engineering projects remains small. The group is continually enhancing the efficiency of its internal project management processes, having reduced and relocated group resources in order to maintain an efficient cost base.

Larger projects in the fourth quarter in Estonian construction service segment included the construction works of Maakri Kvartal business complex, T1 shopping centre, Öpiku office building B, Pärnu mnt 22 office building, extension works to the complex of the air traffic control centre, Embassy of the People's Republic of China residence, extension works of Wendre production building and construction works for clean up of the residual pollution of the Maadevahe and Priimetsa asphalt concrete plant.

On 13th June 2017, AS Vooremaa Teed, 100% subsidiary of Tallinna Teed AS, part of AS Merko Ehitus group, and Eesti Keskkonnateenused AS entered into sales and purchase agreement to dispose AS Vooremaa Teed's road maintenance field of activity. The largest contract under disposal of the field of activity was with Estonian Road Administration signed in 2015. Under the contract, AS Vooremaa Teed performed the road and maintenance works of main roads in Viljandi county in total annual value of approximately EUR 1.8 million and with the term till 31 December 2020. The transaction was approved by Estonian Competition Authority on 21st of June 2017 and completed during 3rd quarter 2017.

OTHER HOME MARKETS CONSTRUCTION SERVICE

The other home markets construction service segment consists of general construction work in Latvia, Lithuania and Norway, as well as provision of civil engineering and electricity construction services in Latvia.

million EUR

	12M 2017	12M 2016	VARIANCE	Q4 2017	Q4 2016	VARIANCE
Revenue	108.4	52.7	+105.6%	42.8	12.5	+241.6%
% of total revenue	34.1%	20.9%		41.7%	16.0%	
Operating loss	1.8	(1.3)	-233.8%	1.8	(0.5)	-328.9%
Operating profit margin	1.7%	(2.5%)		4.1%	(4.2%)	

The sales revenue of the other home markets construction service segment amounted to EUR 108.4 million in the 12 months of 2017 (12 months of 2016: EUR 52.7 million), which is 105.6% more than in the 12 months of 2016. If the other home markets construction

service segment revenues of 12 months of 2016 formed 20.9% of the group's revenue, then during 12 months of 2017, that ratio increased to 34.1%. The revenue growth has been supported mainly by major construction contracts in Latvia.

In Latvia, Merko has gained a stronger position among general contractors than previously, which provides opportunities to grow business volumes. In Lithuania, we are continuing our strategic plan to focus on foreign customers, who make up the predominant part of the group's Lithuanian secured order book. In Lithuania, we have also entered more widely the public procurement sphere in the field of general construction. In Norway, group has signed two major construction contracts this year, in the amount of EUR 4.3 million and EUR 6.4 million, as well as performing several smaller-scale agreements.

The 12 months operating profit of the other home market construction service segment amounted to EUR 1.8 million (12 months of 2016: operating loss EUR 1.3 million) and the operating profit margin was 1.7% (12 months of 2016: negative 2.5%). The sales revenue of other home market construction service segment has increased by 3,4 times in Q4 compared to the same period last year and the operating profit was EUR 1.8 million (Q4 2016: operating loss EUR 0.5 million).

In the fourth quarter of 2017, the larger ongoing projects in the other home markets construction service segment included, in Riga, the construction works of Multifunctional Centre Akropole and of Alfa Shopping Centre, finishing works of Z-Towers complex and, in Ventspils, the construction works of music school and concert hall. In Vilnius, the larger projects were the construction works of Narbuto 5 office building, the design and construction works of Radisson Blu Hotel Lietuva extension and, in Klaipeda, the reconstruction and extension construction works of Philip Morris plant. In Norway, the larger projects included construction works for an extension of Blakstad Hospital building, and renovation and building works of Akersgata 8 office building in Oslo.

REAL ESTATE DEVELOPMENT

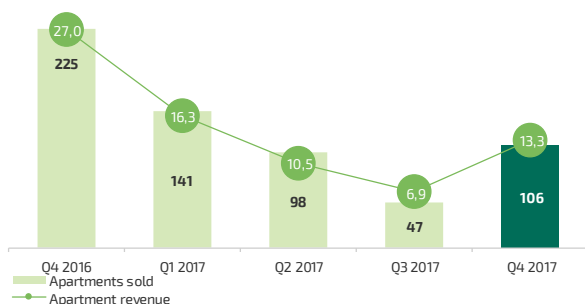
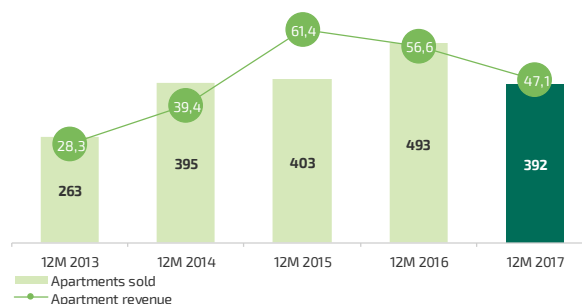
The real estate development segment includes residential real estate development and construction of joint venture projects, long-term real estate investments and commercial real estate projects in Estonia, Latvia and Lithuania. In the interests of the finest quality and maximum convenience and assurance for buyers, Merko handles all phases of development: acquisition of the real estate, planning, design of the development project, construction, sales and marketing, and warranty-period customer service.

million EUR

	12M 2017	12M 2016	VARIANCE	Q4 2017	Q4 2016	VARIANCE
Revenue	74.0	76.9	-3.7%	24.3	31.9	-23.8%
Incl. apartments revenue	47.1	56.6		13.3	27.0	
Incl. construction service to joint venture projects	18.5	7.7		5.3	2.4	
Incl. revenue from immovable properties	5.2	9.2		5.2	0.5	
% of total revenue	23.3%	30.5%		23.6%	40.5%	
Operating profit	13.8	7.5	+84.0%	8.0	3.2	-147.4%
Operating profit margin	18.6%	9.7%		32.9%	10.1%	

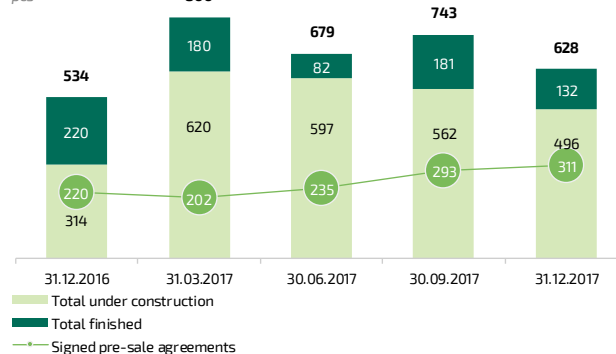
The group sold a total of 392 apartments (incl. 17 apartment in a joint ventures) in 12 months of 2017 at a total value of EUR 47.1 million (excl. VAT) comparing to 2016 12 months when 493 apartments (incl. 21 apartment in a joint ventures) were sold at a total value of EUR 56.6 million. In 12 months of 2017, real estate development segment revenues decreased by 3.7% compared to the same period last year. In the 12 months of 2017, the share of revenue from the real estate development segment formed 23.3% of the group's total revenue (12 months of 2016: 30.5%). In Q4 of 2017, a total of 106 apartments were sold (incl. 16 apartment in joint ventures) at a total value of EUR 13.3 million (excl. VAT), compared to Q4 of 2016 when 225 apartments were sold (incl. 9 apartments in joint ventures) at a total value of EUR 27.0 million.

The 12 months of 2017 operating profit of the segment amounted to EUR 13.8 million (12 months of 2016: EUR 7.5 million) and the operating profit margin was 18.6% (12 months of 2016: 9.7%), which increased by 8.9 pp compared to the same period previous year. The fourth quarter operating profit was positively influenced by the sale of immovable assets in Estonia.

APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million eurosAPARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros

At the end of the period, group's inventory comprised 311 apartments where a preliminary agreement had been signed: 36 completed apartments (28 in Estonia, 5 in Latvia and 3 in Lithuania) and 275 apartments under construction (185 in Estonia, 25 in Latvia and 65 in Lithuania). The sale of these apartments had not yet been finalised and delivered to customers, because the development site is still under construction or the site was completed at the end of the reporting period and the sales transactions have not all been finalised yet.

As at 31 December 2017, the group had a total of 317 apartments for active sale (as at 31 December 2016: 314 apartments), for which there are no pre-sale agreements and of which 96 have been completed (47 in Estonia, 44 in Latvia and 5 in Lithuania) and 221 are under construction (95 in Estonia, 71 in Latvia and 55 in Lithuania).

GROUP APARTMENTS INVENTORY
pcs

APARTMENT PROJECTS IN PROGRESS AND INDICATIVE DATE OF COMPLETION

PROJECT	PLACE/COUNTRY	COMPLETION DATE	NO OF UNSOLD APARTMENTS *	INCL. PRE-SOLD APARTMENTS
Fizikų 8	Vilnius, Lithuania	Completed	4	2
Tartu road 52 stage I & II	Tallinn, Estonia	Completed	23	1
Krokuvos 73	Vilnius, Lithuania	Completed	4	1
Grostonas 12 stage I (Skanstes Parks)	Riga, Latvia	Completed	6	-
Grostonas 12 stage II (Skanstes Parks)	Riga, Latvia	Completed	43	5
Paepargi 53 (Paepargi towers)	Tallinn, Estonia	Completed	2	2
Staapli 4 (Noblessner Homeport) ***	Tallinn, Estonia	Completed	50	25
			132	36
Started in 2017				
Gaiļezers stage I (Gaiļezers nami)	Riga, Latvia	Beginning of 2018	96	25
Ceikiniu 3 (Rinktinės Urban) **	Vilnius, Lithuania	Second half of 2018	120	65
Staapli 3 (Noblessner Homeport) *** / **	Tallinn, Estonia	End of 2018	103	58
Staapli 8 (Noblessner Homeport) ***	Tallinn, Estonia	End of 2018	18	-
Paepargi 43 and 47 (Paepargi)	Tallinn, Estonia	Summer of 2018	66	65
Paepargi 39,41 and 45 (Paepargi)	Tallinn, Estonia	Autumn of 2018	93	62
			496	275
Total			628	311

* The completed apartments indicate the number of apartments that are unsold and where possession has not been given to customers.

** The number of apartments has been corrected due to changes in the project.

*** Project developed by a joint venture. Group revenue generated through provision of construction services, and profit of development activities recognised based on the equity method.

In 12 months of 2017, the group launched the construction of a total of 496 new apartments in the Baltic states (12 months of 2016: 344 apartments). In the 12 months of 2017, the group has invested a total of EUR 48.4 million (12 months of 2016: EUR 53.6 million) in new development projects launched in 2017 as well as projects already in progress.

One of group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As at 31 December 2017, the group's inventories included land plots with development potential, where the construction works have not started, in amount of EUR 63.6 million (31.12.2016: EUR 63.2 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	31.12.2017	31.12.2016
Estonia	28.9	26.6
Latvia	26.5	28.1
Lithuania	8.2	8.5
Total	63.6	63.2

In the 12 months of 2017, the group purchased new land plots at an acquisition cost of EUR 9.2 million for real estate development purposes (12 months of 2016: EUR 19.1 million).

In Q1 of 2017, the group acquired an approximately 1.5-hectare development area in Riga city centre, allowing to build nearly 350 apartments in the upcoming years.

In Q3, the group purchased immovable properties located on the Maarjamäe limestone cliff in the Lasnamäe district of Tallinn. Considering the registered immovables in this area that were already owned by the group, there is now potential to establish more than 1,000 apartments. The development has a long-term perspective and will take place in multiple phases.

Post balance sheet date, the group has disposed non-strategic land plots in a sales value of EUR 0.7 million.

SECURED ORDER BOOK

As at 31 December 2017, the group's secured order book amounted to EUR 344.4 million, compared to EUR 269.6 million as at 31 December 2016, having increased by 27,8% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 12 months of 2017, EUR 334.9 million worth of new contracts were signed, compared to EUR 202.4 million in same period 2016. The value of new contracts signed in the fourth quarter of 2017 amounted to EUR 31.3 million (Q4 2016: EUR 61.9 million).

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FOURTH QUARTER OF 2017

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	COST MILLION EUR
Construction contract for the construction of residential building in Toom-Kuninga 21, Tallinn	Estonia	December of 2018	5.1
Construction contract for the constructing of Viimsi State Gymnasium	Estonia	Autumn of 2018	4.9
Construction contract for the construction of the first stage of an office building in Sadama 9, Tallinn	Estonia	August of 2018	3.8

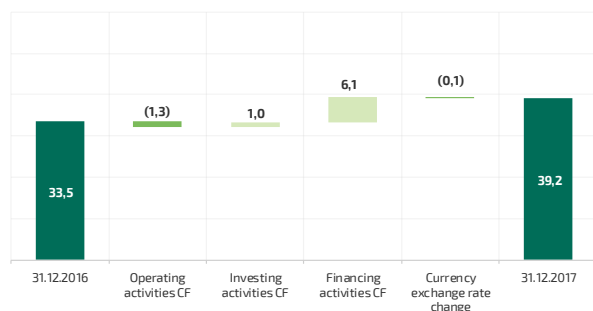
Of the contracts signed in the 12 months of 2017, private sector orders accounted for the majority, which is also represented in the group's secured order book, where private sector orders from projects in progress constitute approximately 86% (31.12.2016: approximately 70%).

Traditionally, the share of Estonian construction activity has been the highest in the group's revenues. However, given the growth outlook of the Estonian construction market, the group's strategic goal is to increase the volume of construction orders from outside Estonia. Thus, the group will continue to identify and strengthen its competitive advantages and monitor the development and opportunities both in the Baltic states and Nordic countries.

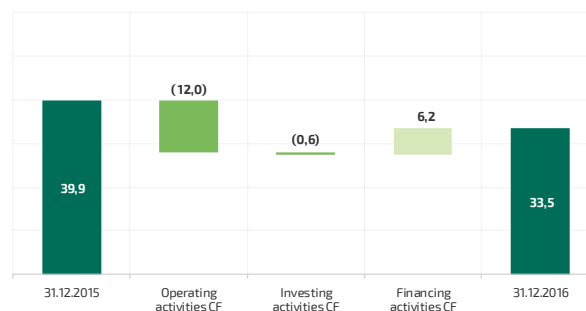
CASH FLOWS

As at 31 December 2017, the group had cash and cash equivalents in the amount of EUR 39.2 million (31.12.2016: EUR 33.5 million). The group's cash position is continually strong: the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As at the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 17.5 million, of which EUR 9.5 was unused (31.12.2016: EUR 11.2 million, all of which was unused). In addition to the overdraft facilities, the company has a working capital loan facility with the limit of EUR 3.5 million (31.12.2016: EUR 3.5 million) from AS Riverito, which was not withdrawn at the end of current nor previous financial period.

CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



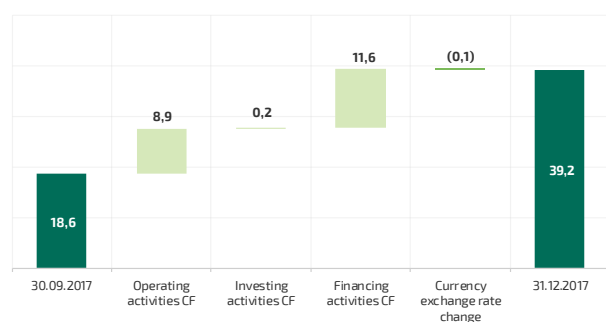
The 12 month cash flow from operating activity was negative at EUR 1.3 million (12 months of 2016: negative EUR 12.0 million), cash flow from investing activity was positive at EUR 1.0 million (12 months of 2016: negative EUR 0.6 million) and the cash flow from financing activity was negative at EUR 6.1 million (12 months of 2016: positive EUR 6.2 million). Compared to the year 2016, the cash flow from operating activities had positive impacts from increase of EBITDA EUR 22.2 million (12 months of 2016: positive EUR 11.2 million) and from the positive change of the provisions EUR 0.6 million (2016: negative change of EUR 0.5 million), while negative impacts came from change in the receivables and liabilities related to construction contracts recognised under the stage of completion method EUR 8.5 million (2016: positive change of EUR 3.7 million), and from the corporate income tax paid on dividends EUR 1.3 million (2016: negative change EUR 1.7 million).

To support cash flows from operating activities, the group has judiciously raised additional external capital. At the same time, the debt ratio has remained at a moderate level (21.4% as at 31.12.2017; 19.3% as at 31.12.2016).

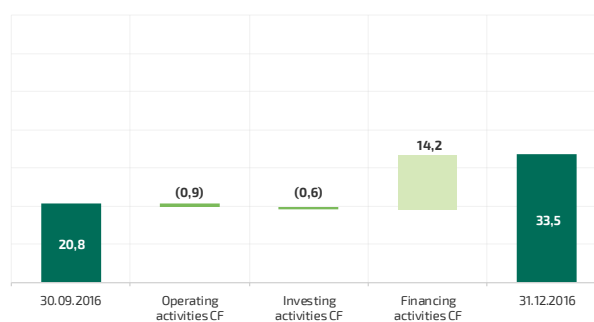
Cash flows from investing activities include negative cash flow from the acquisition of non-current assets in the amount of EUR 1.4 million (12 months of 2016: EUR 3.0 million) and positive cash flow from the sale of non-current assets in the amount of EUR 1.9 million (12 months of 2016: EUR 1.1 million). The acquisitions and disposals of non-current assets was made in the road construction activity.

The largest negative items in cash flows from financing activities were the dividend payment of EUR 7.3 million (12 months of 2016: EUR 9.0 million) and finance lease principal repayments in amount of EUR 0.8 million (12 months of 2016: EUR 0.9 million). The positive net effect of EUR 14.3 million (12 months of 2016: positive net effect in amount EUR 16.0 million) to cash flow from financing activities came from the loans received and loans repaid in connection with acquisitions of immovable properties, as well as financing of construction costs of development projects.

QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The Q4 2017 cash flow from operating activity was positive at EUR 8.9 million (Q4 2016: negative EUR 0.9 million), which was significantly affected by the disposal of immovable properties in the Q4. The cash flow from investing activity was positive at EUR 0.2 million (Q4 2016: negative EUR 0.6 million) and the cash flow from financing activity was positive at EUR 11.6 million (Q4 2016: positive EUR 14.2 million).

The quarterly cash flow from financing activities was mainly influenced by the net change in loans drawn for financing the construction costs of real estate development projects.

RATIOS

(attributable to equity holders of the parent)

		12M 2017	12M 2016	12M 2015	Q4 2017	Q4 2016	Q4 2015
Income statement summary							
Revenue	million EUR	317.6	252.0	251.0	102.8	78.6	66.4
Gross profit	million EUR	30.9	19.0	23.0	14.2	5.0	7.7
Gross profit margin	%	9.7	7.5	9.1	13.8	6.4	11.6
Operating profit	million EUR	19.5	7.7	12.5	10.7	1.6	4.9
Operating profit margin	%	6.2	3.1	5.0	10.4	2.1	7.3
Profit before tax (PBT)	million EUR	18.8	7.3	11.7	10.6	1.6	4.7
PBT margin	%	5.9	2.9	4.7	10.3	2.0	7.0
Net profit	million EUR	15.8	6.0	9.8	8.9	1.3	4.3
attributable to equity holders of the parent	million EUR	14.7	6.1	10.0	8.1	1.4	4.4
attributable to non-controlling interest	million EUR	1.1	(0.1)	(0.2)	0.8	(0.1)	(0.1)
Net profit margin	%	4.6	2.4	4.0	7.9	1.8	6.7
Other income statement indicators							
EBITDA	million EUR	22.2	11.2	15.5	11.2	2.8	5.6
EBITDA margin	%	7.0	4.4	6.2	10.9	3.6	8.4
General expense ratio	%	4.6	5.3	4.8	4.2	4.9	5.1
Labour cost ratio	%	10.1	11.7	12.2	8.4	9.6	12.4
Revenue per employee	thousand EUR	435	325	322	141	101	85

OTHER SIGNIFICANT INDICATORS		31.12.2017	31.12.2016	31.12.2015
Return on equity	%	11.9	5.0	8.0
Return on assets	%	5.8	2.8	4.4
Return on invested capital	%	11.4	5.1	7.9
Equity ratio	%	47.0	51.6	59.5
Debt ratio	%	21.4	19.3	14.8
Current ratio	times	2.2	2.9	3.2
Quick ratio	times	1.1	1.1	1.2
Accounts receivable turnover	days	40	37	39
Accounts payable turnover	days	40	38	39
Average number of employees	people	731	776	779
Secured order book	million EUR	344.4	269.6	246.9

Ratio definitions are provided on page 45 of the report.

* As at 31 December 2016, in the formula for calculating the current ratio and the quick ratio, the amount of current liabilities has been reduced by EUR 12.5 million as a result of refinancing of the short-term loan received from the parent company AS Riverito at the end of 2016 with long-term bank loans at the beginning of 2017. Additional information has been disclosed in Note 16.

RISK MANAGEMENT

Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine significant risks and to optimally manage risks so that the company achieves its strategic and financial objectives.

Merko Ehitus divides risks into four main categories: business risk, market risk (incl interest risk and foreign exchange risk), financial risk (incl credit risk and liquidity risk) and operational risk (incl health and safety risk and environmental risk). The topic of risk management has been thoroughly covered on the group's website <http://group.merko.ee/en/investors/risk-management/>.

Legal risk

Due to different interpretations of contracts, regulations and laws related to group's principal activities, there is a risk that some buyers, contractors or supervisory authorities evaluate the company's activities from the perspective of laws or contracts from a different position and dispute the legitimacy of the company's activities.

As at 31 December 2017, a provision has been set up at the group in the amount of EUR 0.1 million (31.12.2016: EUR 0.3 million) for covering potential claims and legal costs.

An overview of the key legal disputes of group entities ended during 2017 and ongoing as of 31.12.2017 is presented below:

Estonia

Lawsuit against former employee

On 17 December 2014, AS Merko Infra filed a claim in Harju County Court against a former AS Merko Infra employee, Maksim Vihharev, seeking EUR 97 thousand in damages (EUR 84 thousand being the principal claim and EUR 13 thousand late interest) along with a petition to secure the action. The lawsuit relates to intentional damage caused by fictitious transactions concluded by Maksim Vihharev on behalf of AS Merko Infra while serving as electrical work project manager and purchase of items not necessary for contractual work. The potential positive outcome of this suit is not recognised in the group's financial reporting.

On 3 October 2016, Harju County Court proclaimed a court decision satisfying AS Merko Infra's action in full with regard to a claim for principal (EUR 84 thousand) and late interest EUR 12 thousand; the defendant was also ordered to pay AS Merko Infra procedural expenses totalling EUR 37 thousand.

By decision of 22 February 2017, the Tallinn Circuit Court partially satisfied Maksim Vihharev's appeal and changed the decision of Harju County Court. The Tallinn Circuit Court ordered Maksim Vihharev to pay AS Merko Infra damages of EUR 56 thousand and late interest as of 22 February 2017 of EUR 9 thousand. On 22 March 2017, AS Merko Infra filed an appeal in cassation against the Tallinn Circuit Court decision in the extent to which Vihharev's appeal was affirmed. Maksim Vihharev also filed an appeal in cassation in regard to the extent to which the Circuit Court upheld the decision made by Harju County Court in favour of AS Merko Infra.

On 13 November 2017, the Supreme Court annulled the judgment of the Tallinn Circuit Court on 22 February 2017, in which the Tallinn Circuit Court dismissed the claim for AS Merko Infra in the amount of EUR 37 thousand. The Supreme Court also annulled the judgment of the Tallinn Circuit Court in respect of the payment of default interest and the division of procedural expenses and sent the case to the Tallinn Circuit Court for review in the part revoked. By decision of the Supreme Court, the judgement of the Tallinn Circuit Court of 22 February 2017, which satisfied the action of AS Merko Infra against Maksim Vihharev, was enforced in the amount of EUR 56 thousand.

On 3 March 2015, Maksim Vihharev filed an action in Harju County Court against AS Merko Infra seeking compensation for alleged damage to his reputation. The plaintiff is seeking EUR 6,658 thousand in reparations plus damages in an undetermined amount due to alleged impairment of his health. The abovementioned legal formulation is legally opaque and unjustified, and as a result AS Merko Infra does not acknowledge Maksim Vihharev's claim, deems the mentioned demand to be without merit, and is petitioning the court to dismiss it. On 22 January 2016, Harju County Court refused to hear the action filed by Maksim Vihharev against AS Merko Infra (civil matter No 2-15-6047), in which Maksim Vihharev accused AS Merko Infra of defamation and of causing damage thereof. On 30 January 2017, Harju County Court dismissed the case filed by Maksim Vihharev against AS Merko Infra (civil matter No 2-15-6047), seeking compensation for health damage. The judgement has come into force.

Appeal for the revocation of the order of the Minister of the Environment

Several court cases are ongoing in connection with Minister of the Environment regulation No 22 of 27 March 2015, which redrew the boundaries of species protection sites to exclude properties on Paekalda tänav owned by AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ.

On 2 February 2016, AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ filed a complaint in Tallinn Administrative Court for compensation of damage. The plaintiffs are seeking a ruling ordering that the state pay damages of approximately EUR 3.2 million to Suur-Paekalda OÜ (exact amount to be determined) and approximately EUR 1.6 million to Väike-Paekalda (exact amount to be determined) as well as late interest at the rate specified in subsection 113 (1) of the Law of Obligations Act starting from 2 February 2016 until due compliance with the demand for compensation. The claims consist of direct patrimonial damage (reduction in the value of immovable property and expenditures made on development activity) and claims for revenue foregone (failed development activity in 2005-2007). The possible positive impact of the claim submitted has not been recognized by the group in its financial statements.

Latvia

Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. Previously, on 2 March 2015, SIA Merks had filed a petition to secure the action in the same amount, which was duly granted by the court. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The possible effect of the potential positive outcome of this suit has not been taken into account in the group's financial reporting.

On 6 April 2016, the case was transferred to Ogre District Court in order to expedite the reviewing of the case. The next court hearing was scheduled to take place on 11 April 2017, but was postponed due to the illness of the judge. In addition, the criminal proceeding against Rolands Mēnesis are concluding. Therefore, SIA Merks asked to stop the civil case, due to the fact that part of factual material mentioned in civil case is already investigated during criminal proceeding. Court ruling is expected during the first quarter of 2018.

On 18 June 2015, SIA Merks filed an action against Rolands Mēnesis for termination of the employment contract due to entry into transactions and conduct of operations causing damage to SIA Merks as described above in accordance with the Latvian law, which provides for the corresponding procedure in cases where the trade union objects to the dismissal of an employee. The statement of claim has been accepted. On 12 January 2016, Rolands Mēnesis filed a counterclaim against SIA Merks, asking the court to declare unlawful the removal from work and order SIA Merks to pay damages in the amount of average remuneration, starting from the initial suspension of the employment contract (7 January 2015), as well as non-patrimonial damage in the amount of 12-month average remuneration. At a court hearing held on 23 August 2016, the court decided to satisfy the action brought by SIA Merks against Rolands Mēnesis to terminate the employment contract, reject the counter-action filed by Rolands Mēnesis against SIA Merks to have his removal from work declared unlawful and for compensating him for average remuneration, and to order Rolands Mēnesis to pay procedural expenses totalling EUR 1 thousand. Rolands Mēnesis has appealed the decision made. Furthermore, Rolands Mēnesis has submitted an application for extra-judicial adjudication in order to present his own proposal for a compromise solution. SIA Merks has not received yet any noteworthy proposals from Rolands Mēnesis. The case was reviewed by Riga Regional court as an appeal institution on 30th of August 2017. The court decided to satisfy the action brought by SIA Merks against Rolands Mēnesis. Rolands Mēnesis has filed a cassation on 3 October 2017. The cassation was accepted, but case is not scheduled yet.

Starptautiskā lidosta "Rīga"

On 21 September 2017, SIA Merks has initiated court proceedings against VAS "Starptautiskā lidosta "Rīga"" (Riga International Airport). The basis of the court proceeding is dispute with Riga International Airport on the terms and conditions of signing the final completion certificate of the new passenger terminal of Riga International Airport. SIA Merks seeks court decision requiring Riga International Airport to sign the final completion certificate and thus entitling SIA Merks for payment of EUR 414 thousand for the works and EUR 920 thousand for the warranty period retention. SIA Merks is of an opinion that the works are fully and properly performed and should be duly accepted by Riga International Airport, releasing the final payment and transferring the retention money for the warranty time guarantee. The date of the first court hearing is scheduled on 16 May 2018. No additional provisions are recognised in relation to the potential outcome of this suit.

Lithuania

Vilniaus vandenys

On 18 May 2016, AS Merko Ehitus and UAB Merko Statyba, acting pursuant to the joint venture agreement, filed an action against UAB Vilniaus vandenys in the total amount of EUR 183 thousand, encompassing the acceptance of additional works and the compensation of direct expenses incurred, interest on unpaid sums and the extension of the contract term of the sewerage and wastewater pipeline project carried out in Avižieniai region (project "Extension of water supply and waste water networks in Avižieniai Subdistrict"). The plaintiffs maintain that due to the actions of UAB Vilniaus vandenys, both the construction period became longer and also additional works were carried out – works that the customer later refused to pay for. In the hearing on 2 February 2017, the plaintiffs asked the court to appoint a court expertise and by the court decision of 9 January 2018, the court expertise was appointed. The planned term of the court expertise is 3 months.

The potential positive outcome of this claim is not recognised in the group's financial reporting.

EMPLOYEES AND LABOUR COSTS

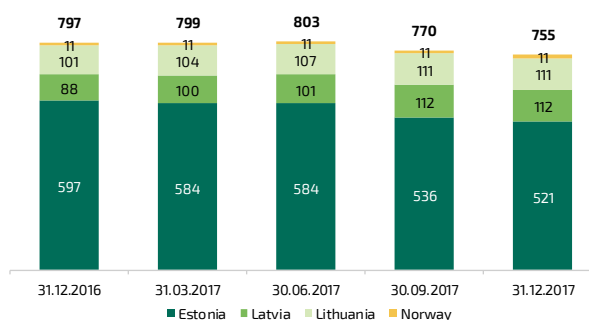
As of 31 December 2017, Merko Ehitus Group employed 755 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 42 (-5.3%). The number of employees has increased mainly due to increase of construction volumes in Latvia and Lithuania and decreased due to partial disposal of road maintenance activity in Estonia.

Professionals with longstanding experience are the company's key value. The group's objective is to pay its employees competitive salary. The interests of employees and the company are balanced by performance-based remuneration.

The group defines labour cost as salary (incl. fixed salary, additional pay, holiday pay, and performance pay), taxes based on salary, fringe benefits and taxes on fringe benefits. In 12 months 2017, the labour cost was EUR 31.9 million (12 months 2016: EUR 29.6 million), which increased by 7.9% compared to the same period previous year, while the labour cost ratio decreased by 1.6 pp from 11.7% to 10.1%. In 4Q of 2017, the labour cost was EUR 8.6 million; in 4Q of 2016, EUR 7.5 million.

During 12 months of 2017, AS Merko Ehitus Eesti, the largest Estonian construction company belonging to the Merko Ehitus group, has paid EUR 6.0 million in labour taxes in Estonia, making it the largest labour tax payer in the construction sector in the year 2017.

NUMBER OF EMPLOYEES BY COUNTRY
people



ETHICAL BUSINESS PRACTICES

Group's core values include ethical business practices, which are an important long-term success factor. By following highly ethical policies, we promote profitable growth, gain the trust of our stakeholders, and support fair competition and equal treatment.

We do business honestly, follow ethical principles in our activities and make sure our employees know and follow business ethics standards in their everyday work. To allow the principles to take firmer root, the Group has established a Code of Business Ethics.

The topic of business ethics has been thoroughly covered on the group's website:

<http://group.merko.ee/en/corporate-governance-2/responsibility/ethical-business-practices/>.

RECOGNITIONS IN 2017

In 2017, the activities of the group have been recognised in the form of the following prizes:

- At Baltic Market Awards 2016 AS Merko Ehitus received third place in the main category "The Best Investor Relations in the Baltic Countries" for the third year in a row and third place in the category "The Best Annual and Corporate Governance Report"
- SIA Merks project Exupery International School in Pinki received the grand prize from awards in the "Newly erected public building" category of the "The Year's Best in Latvia 2016" competition, and second prize from the Riga-based congregation house (Church of Jesus Christ of Latter-day Saints).
- The Rode altarpiece technical investigation and conservation project "Rode Altarpiece in Close-up", which was supported by Merko Ehitus in 2014–2016, received the most reputable heritage award in Europe – the European Union Prize for Cultural Heritage and Europa Nostra Award for 2017.
- SIA Merks project manager Sergejs Perļņecs was awarded the title of project manager of the year at the Latvian construction industry's Grand Prix ceremony for the on-time completion of the Exupery International School, which met high quality standards.
- A job expectation survey conducted by the employer branding agency Instar in Estonia among students at higher education and vocational education institutions found that Merko placed third out of 184 employers in terms of attractiveness as a place to work.
- In its 2017 Real Estate Survey, Euromoney business and investment magazine named AS Merko Ehitus as Estonia's best real estate developer, and subsidiary SIA Merks was named Latvia's best residential real estate developer.
- In 2017, Merko Ehitus was again declared Estonia's most competitive construction company. It was the 11th time the company had been tapped for the honour.
- The main project manager of Tallinna Teede AS/Merko Ehitus Eesti AS Meelis Möisja received a silver pin from the Ministry of Defense for leading to the early completion of the Tapa military centre extension.
- UAB Merko Statyba won the gold medal at a competition held by the Lithuanian Confederation of Industrialists – Lithuanian Product of the Year for the Kražių Namai apartment development project established near the Old Town in Vilnius.
- At a competition held to recognise Latvia's most energy efficient building in 2017, the Grostonas 21 apartment building in the Skantes Mājas development, built by SIA Merks, won second prize in the category "Most energy-efficient apartment building. New building".



KRAŽIŲ NAMAI APARTMENT DEVELOPMENT PROJECT IN LITHUANIA

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

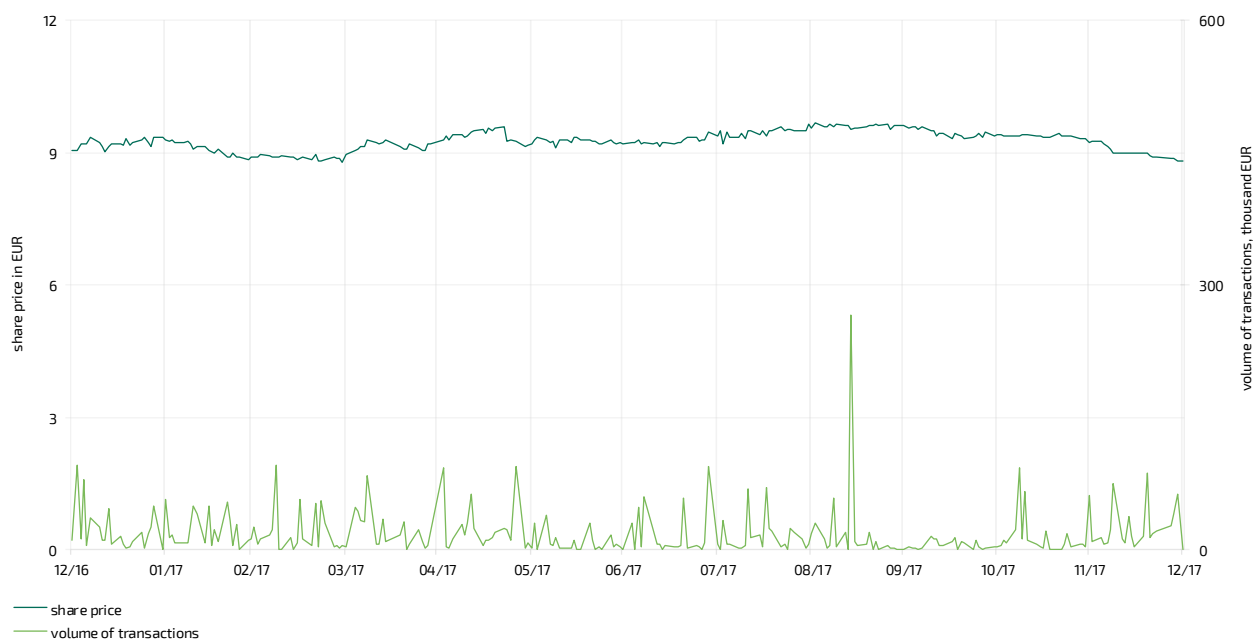
Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRK1T
Residency of issuer	Estonia
Stock Exchange List	NASDAQ Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	without nominal value
Number of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR
Listing date	11.08.2008

The shares of Merko Ehitus are listed in the Main List of NASDAQ Tallinn. As at 31 December 2017, the company has 17,700,000 shares. The number of shares has not changed during 2017.

A total of 2,203 transactions were conducted with the shares of Merko Ehitus in 12 months of 2017, with 0.51 million shares (2.9% of total shares) traded, generating a turnover of EUR 4.69 million (comparable figures in 12 months 2016 were accordingly: 2,312 transactions with 0.63 million shares traded (3.6% of total shares) and generating a turnover of EUR 5.35 million). The lowest share price amounted to EUR 8.75 and the highest to EUR 9.69 per share (12 months of 2016: EUR 7.60 and EUR 9.22). The closing price of the share was EUR 8.81 on 31 December 2017 (31.12.2016: EUR 9.05). As at 31 December 2017, the market value of AS Merko Ehitus amounted to EUR 155.9 million, which has decreased by 2.7% compared to the same period end last year (31.12.2016: EUR 160.2 million).

	31.12.2017	31.12.2016	31.12.2015
Number of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.83	0.35	0.56
Equity per share, euros	6.99	6.90	7.02
P/B ratio	1.26	1.31	1.21
P/E ratio	10.61	26.17	15.01
Market value, million EUR	155.9	160.2	150.1

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2017



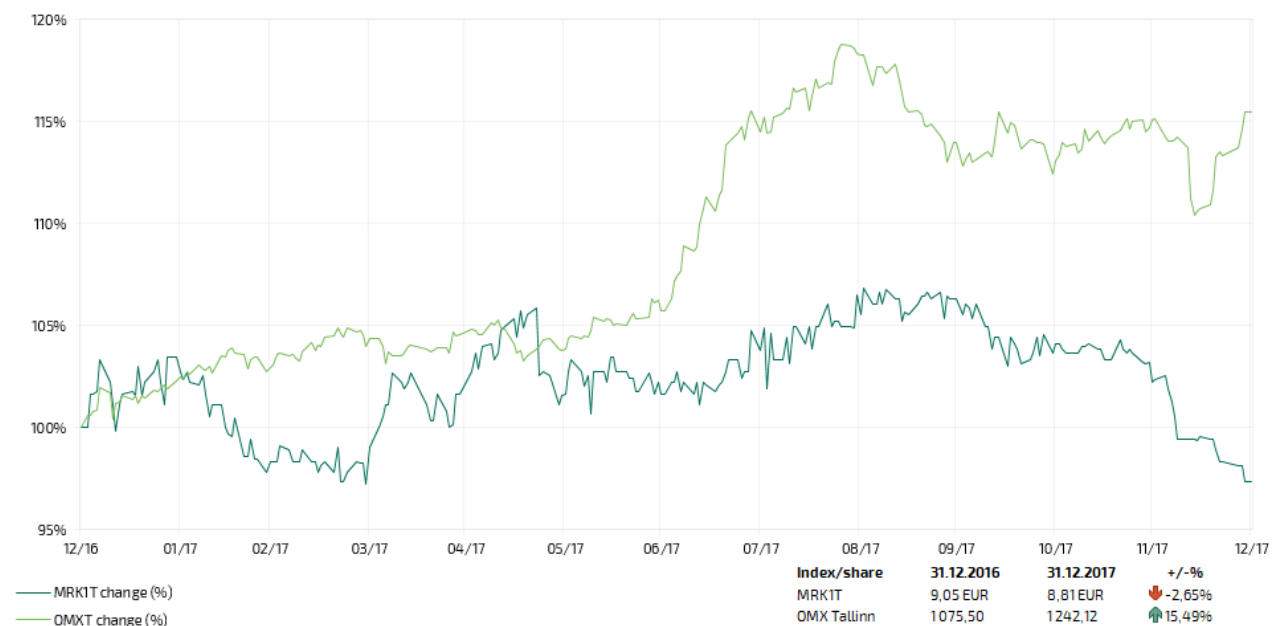
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.12.2017

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.05%	12,742,686	71.99%
100,001 - 1,000,000	11	0.54%	2,806,884	15.86%
10,001 - 100,000	36	1.76%	1,003,238	5.67%
1,001-10,000	260	12.75%	721,645	4.08%
101-1,000	1,015	49.75%	388,263	2.19%
1-100	717	35.15%	37,284	0.21%
Total	2,040	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.12.2017 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.12.2017	% OF TOTAL 30.09.2017	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	974,126	5.50%	5.50%	-
Firebird Republics Fund Ltd	363,094	2.05%	2.05%	-
SEB S.A. UCITS client assets	232,222	1.31%	1.31%	-
Firebird Aurora Fund Ltd	220,519	1.25%	1.25%	-
Skandinaviska Enskilda Banken AB, Swedish customers	211,260	1.19%	1.19%	-
OÜ Midas Invest	163,025	0.92%	0.71%	37,500
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	143,887	0.81%	0.81%	-
Firebird Fund L.P.	131,331	0.74%	0.74%	-
Total largest shareholders	15,335,168	86.64%	86.43%	37,500
Total other shareholders	2,364,832	13.36%	13.57%	(37,500)
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2017



DIVIDENDS AND DIVIDEND POLICY

The distribution of dividends to the shareholders of the company is recorded as a liability in the financial statements as of the moment when the payment of dividends is approved by the company's shareholders.

According to the current dividends policy the objective is paying the shareholders 50–70% of the annual profit.

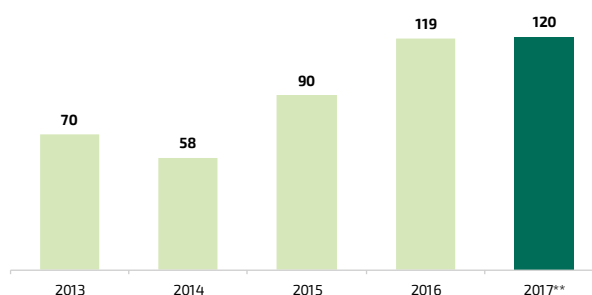
The annual general meeting of shareholders of AS Merko Ehitus held at 28 April 2017 approved the Supervisory Board's proposal to pay the shareholders the total amount of EUR 7.3 million (EUR 0.41 per share) as dividends from net profit brought forward, which is equivalent to a 119% dividend rate and a 4.5% dividend yield for the year 2016 (using the share price as at 31 December 2016). Comparable figures in 2015 were accordingly: EUR 9.0 million (EUR 0.51 per share) as dividends, which is equivalent to a 90% dividend rate and a 6.0% dividend yield (using the share price as at 31 December 2015).

According to the Estonian Income Tax Law section 50 subsection 1¹, AS Merko Ehitus can pay dividends, without any additional income tax expense and liabilities occurring, up to the amount it has received dividends from subsidiaries, which are resident companies of a Contracting State of the EEA Agreement subject to that state's income tax legislation. Taking into account the dividends already paid to the parent company by the subsidiaries during 2017, the group incurred additional income tax expense in connection with the disbursement of dividends of EUR 0.9 million (Q2 2016: EUR 0.6 million) in Estonia, in the second quarter of 2017. The dividend payment to the shareholders took place on 26 May 2017.

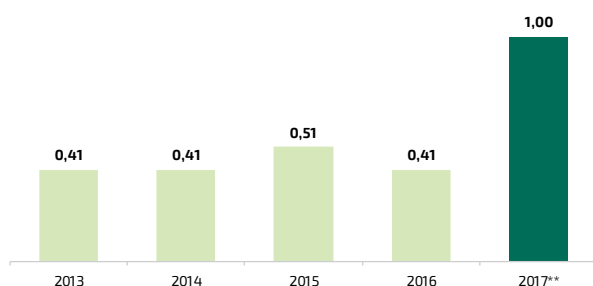
As discussed with the Supervisory Board, the Management Board proposes to pay the shareholders EUR 17.7 million as dividends from net profits brought forward (EUR 1.00 per share) in 2018, which is equivalent to a 120% dividend rate and a 11.4% dividend yield for the year 2017 (using the share price as at 31 December 2017). Taking into account the dividends already paid to the parent company and planned to be paid by foreign subsidiaries in early 2018, the group will not incur income tax expenses arising in 2018 in Estonia in connection with disbursement of dividends.

In the past five years, the shareholders have received dividends from the net profit of the accounting year as shown on diagrams:

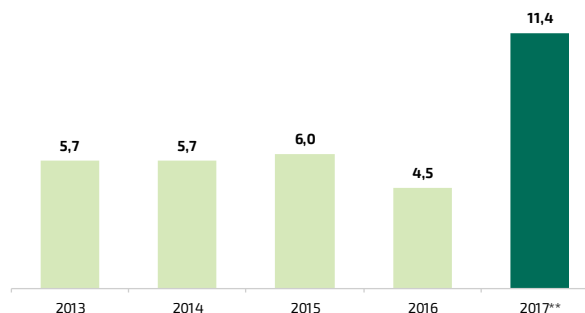
DIVIDEND RATE
percentages



DIVIDEND PER SHARE
in euros



DIVIDEND YIELD *
percentages



* Using share price as at 31.12

** 2017 figures are based on Management Board proposal

Dividend payments are carried out in the next fiscal year, in accordance with the decisions of the general meeting of the shareholders, regarding the previous fiscal year.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

AS Merko Ehitus operates as a holding company whose companies in Estonia, Latvia, Lithuania and Norway offer complete solutions in the field of construction and real estate development. The group's largest companies are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%) and the companies belonging to the AS Merko Ehitus Eesti group: Tallinna Teede AS (100%) and AS Merko Infra (100%).

The main area of activity of the holding company is developing and implementing strategies for the Merko Ehitus group's various business domains by way of planning resources, deciding on major investments, targeting and overseeing the activity of subsidiaries and coordinating partner relations. The holding company AS Merko Ehitus has a two-member Management Board: Andres Trink and Tõnu Toomik.

The profiles of the members of the Management Board and Supervisory Board have been presented on page 23 and Note 16 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at <http://group.merko.ee/en/corporate-governance-2/>.

It is important to maintain a simple organisational structure in the group and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum efficiency in the group management, we in some cases differentiate the management structure and legal structure. Management of the group's operating activity takes place in a country-specific manner and is coordinated at the level of the holding company. As of 31 December 2017, the management structure is as follows:



GROUP'S LEGAL STRUCTURE

As at 31 December 2017, the group comprises 45 companies (31.12.2016: 46). The group's legal structure is predominantly based on regulatory requirements and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 16 of the financial statements.

Changes in the legal structure of the group

On 8 November 2016, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas. In accordance with the restructuring plan, UAB Merko Bustas's 100% subsidiary UAB VPSP1 will be merged with parent company UAB Merko Bustas. The restructuring is completed and the final merger entry in the Commercial Register made on 4 July 2017.

On 28 December 2016, AS Merko Ehitus's 100% subsidiary AS Merko Ehitus Eesti initiated a process to merge its fully owned subsidiaries AS Merko Tartu, AS Gustaf, OÜ Rannamõisa Kinnisvara and OÜ Heamaja, all engaged in real estate development, in order to have savings in administrative cost related to company management. The acquiring company is AS Merko Tartu. The companies being acquired will be merged into AS Merko Tartu and as a result of the merger the companies being acquired will wind up without liquidation proceedings and AS Merko Tartu will become the legal successor of the companies being acquired. As a result of the merger, AS Merko Ehitus Eesti will remain the sole shareholder in AS Merko Tartu, the acquiring company. The closing date of the merger was 1 January 2017 after which all transactions of the acquirees have been deemed to have been made on account of the acquirer. The final merger entry in the Commercial Register was made on 5 September 2017.

On March 17 2017, AS Merko Ehitus and AS Ehitusfirma Rand ja Tuulberg initiated a process to dissolve joint venture Poolkoksimäe Sulgemise OÜ, in which each joint owner has a 50% share. The liquidation of the company was completed and the deletion entry to the Commercial Register made on 26 January 2018.

On 16 June 2017, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Latvia, SIA Merks. In accordance with the restructuring plan, SIA Merks's 100% subsidiary SIA Elniko will be merged with the parent company. The restructuring was completed and the final merger entry in the Commercial Register made in December 2017.

On 25 July 2017, Tallinna Teede AS, part of Merko Ehitus group, and its 100% subsidiary, AS Vooremaa Teed have signed a merger agreement with the intention to improve the internal efficiency. According to the merger agreement, the acquiring company is Tallinna Teede AS. Because of the merger, AS Vooremaa Teed will wind up without liquidation proceedings. The merger date is 1st of August 2017, after which all AS Vooremaa Teed transactions will be deemed to be made on the account of Tallinna Teede AS. The final merger entry in the Commercial Register was made on 29 September 2017.

On 31 July 2017, AS Merko Ehitus entered into an agreement with Nordecon AS to acquire 50% shareholding and loan receivable in joint venture Unigate OÜ and 100% stakes in entities OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9. The acquisition cost was EUR 4.5 million and the completion of transaction took place on 4th August 2017 after the payment of purchase price. The acquisition of the subsidiaries is recognized at the group level as acquisition of inventories and starting from the moment of acquisition is recorded under inventory entries Work-in-progress and Registered immovables purchased for resale. The purpose of

the acquisition is to resolve the ownership of Paekalda development in Tallinn and to secure a long-term strategy for the development of apartments in Merko Ehitus group in Estonia.

According to the decision of the sole shareholder, demerger of OÜ Metsailu took place on 19 December 2017, in order to simplify the development project management. According to the demerger plan, the OÜ Metsailu registered immovables, located on Kiviaia tee in Tallinn, were distributed to OÜ Kiviaia Kinnisvara.

On 16 November 2017, AS Merko Ehitus Eesti, part of Merko Ehitus group, acquired a share of Eesti Kivimäe 32 OÜ, which represented 50% of its share capital, thereby becoming 100% owner of the company.

On 20 November 2017, AS Merko Ehitus supervisory board has decided to start liquidation procedures of 100% owned subsidiary based in Russia, OOO Lenko Stroi. The liquidation of the company is planned to be completed in 2018.

On 30 November 2017, AS Merko Ehitus Eesti disposed of its 76% shareholding in OÜ Fort Ehitus to its co-owner.

Regarding the improvement of efficiency of the business operations and the structure of the Estonian companies of AS Merko Ehitus group, on 21 December 2017, AS Merko Ehitus and AS Merko Ehitus Eesti, part of Merko Ehitus group, entered into a real right contract to transfer the right of ownership on registered immovables and shareholdings in private limited companies. According to the contract, the shareholdings in companies connected with real estate as well as registered immovables of the development segment are transferred to AS Merko Ehitus Eesti. These companies are (a) 100% subsidiaries of AS Merko Ehitus: OÜ Tähelinna Kinnisvara, OÜ Metsailu, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7, OÜ Paekalda 9, OÜ Unigate, Suur-Paekalda OÜ, Väike-Paekalda OÜ; and (b) a 50% joint venture OÜ Kodusadam. AS Merko Ehitus Eesti, OÜ Metsailu, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7, OÜ Paekalda 9, OÜ Unigate, Suur-Paekalda OÜ, Väike-Paekalda OÜ, Kivimäe 32 OÜ and AS Merko Tartu, all part of AS Merko Ehitus group, entered into a merger agreement in the fourth quarter of 2017. According to this agreement, the acquiring company is AS Merko Ehitus Eesti. The merger date is 1st of January 2018, after which all transactions of the companies acquired will be deemed to be made on the account of the acquiring company.

On 21 December 2017, a merger between AS Merko Infra and OÜ Mineraal, both belonging to AS Merko Ehitus group, was initiated. The acquiring company is AS Merko Infra. OÜ Mineraal will be acquired by AS Merko Infra and as a result of the merger, the company being acquired will wind up without liquidation proceedings and AS Merko Infra will become the legal successor of OÜ Mineraal. The merger date is 1st of January 2018, after which all transactions of the acquired company will be deemed to be made on the account of AS Merko Infra.

On 31 December 2017, as an intra-group transaction in Lithuania, UAB Merko Statyba, 100% subsidiary of AS Merko Ehitus, acquired a 100% ownership of a real estate development company UAB Timana from its sister company UAB Merko Bustas.

GENERAL MEETING OF SHAREHOLDERS

The Company's highest governing body is the General Meeting of Shareholders, the authorities of which are regulated by legislation and the articles of association of the Company.

The general meeting of the shareholders was held on 28 April 2017. The general meeting resolved to approve the annual report and the profit allocation proposal for 2016. The dividends in the sum of EUR 7.3 million (EUR 0.41 per share) were paid out to the shareholders on 26 May 2017.

In addition, it was decided at the general meeting of the shareholders that the Supervisory Board will have 3 members who will be elected for the term of next 3 years and also to extend the terms of office of members of the Supervisory Board Toomas Annus, Teet Roopalu and Indrek Neivelt until April 28th 2020, i.e. for a period of three years from the decision for the extension. The remuneration of members of the Supervisory Board did not change and will continue based on terms and conditions approved at general meeting of shareholders of AS Merko Ehitus, held on 31st of October 2008.

The Management Board made a presentation on the company's financial results and future prospects.

In accordance with the Commercial Code, its Articles of Association and Good Governance Code, AS Merko Ehitus calls the annual and extraordinary general meeting of shareholders by notifying the shareholders through the Tallinn Stock Exchange and by publishing a meeting call in one national daily newspaper at least 3 weeks in advance. The general meeting shall be held at the place shown in the notice, on a working day and between 9 a.m. and 6 p.m., enabling most of the shareholders to participate in the General Meeting of Shareholders.

Before their publication, agendas at annual and extraordinary general meetings of the company's shareholders are approved by the Supervisory Board that shall also present to the general meeting subjects for discussion and voting. Agenda items of the general meeting, recommendations of the Supervisory Board with relevant explanations, procedural guidance for participation in the general meeting and how and when new agenda items can be proposed are published together with the notice on calling the general meeting.

General meetings can be attended by any shareholder or his or her authorised representative. AS Merko Ehitus does not allow participation in general meetings by electronic means of communication equipment, since the deployment of reliable solutions for the identification of shareholders, some of whom live abroad, while ensuring the privacy of participating shareholders, would be too

complicated and costly. No picture taking or filming is allowed at the general meeting, because it may disturb the privacy of shareholders.

Annual and extraordinary general meeting of shareholders shall be chaired by an independent person. In 2017, the general meeting was chaired by attorney-at-law Vesse Võhma who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board and Supervisory Board about the company's activities.

On behalf of the company, usually the Chairman of the Management Board shall participate in the General Meeting of AS Merko Ehitus, and if necessary, other members of the Management and Supervisory Boards shall be involved. The company's auditor also participates.

The annual general meeting of shareholders of AS Merko Ehitus held in 2017 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Signe Kukin (Group Chief Financial Officer) and Ago Vilu (Auditor).

SUPERVISORY BOARD

The Supervisory Board shall plan the activities of the company, organise the management of the company and supervise the activities of the Management Board. The Supervisory Board shall notify the general meeting of shareholders of the results of a review. The Chairman of the Supervisory Board organises the work of the Supervisory Board. The main duties of the Supervisory Board are to approve the group's material strategic and tactical decisions and to supervise the activities of the group's Management Board. The Supervisory Board's actions are guided by the company's articles of association, guidelines of the general meeting, and law.

According to the Articles of Association of AS Merko Ehitus, the Supervisory Board has 3 to 5 members who shall be elected for the term of three years.

At the annual general meeting of shareholders, held on 28 April 2017, it was decided to extend the term of office of Supervisory Board members Toomas Annus, Teet Roopalu and Indrek Neivelt until 28 April 2020, i.e. for three years from the decision of the extension. Mr. Olari Taal's mandate as a Member of the Supervisory Board was not renewed, at his own discretion, and expired on 30 April 2017.

According to decision of the Supervisory Board of AS Merko Ehitus of 6 June 2017, Mr. Toomas Annus will continue as the Chairman of the Supervisory Board.

As at 31 December 2017, the Supervisory Board of AS Merko Ehitus had three members of whom, in accordance with the requirements of the Good Governance Code, Indrek Neivelt is an independent member.

MANAGEMENT BOARD

The Management Board is a governing body, which represents and manages AS Merko Ehitus in its daily activities in accordance with the law and the Articles of Association. The Management Board has to act in the most economically purposeful manner, taking into consideration the best interests of the company and all shareholders, while ensuring the company's sustainable development in accordance with set objectives and strategy. To ensure that the company's interests are met in the best way possible, the Management and Supervisory Boards shall extensively collaborate. At least once a quarter, a joint meeting of the members of the Supervisory and Management Boards shall take place, in which the Management Board shall inform the Supervisory Board of significant issues regarding the company's business operations, the fulfilment of the company's short and long-term goals and the risks impacting them. For every meeting of the Supervisory Board, the Management Board shall prepare a management report and submit it well in advance of the meeting so that the Supervisory Board can study it. The Management Board prepares reports for the Supervisory Board also in between the meetings, if it is considered necessary by the Supervisory Board or its Chairman.

Pursuant to the Articles of Association approved at the general meeting of shareholders in 2012, the Management Board may have up to three members.

On 13th December 2017, the Supervisory Board of AS Merko Ehitus extend the powers of the Chairman of the Management Board, Mr. Andres Trink for three years, starting from 1st January 2018. The Management Board of AS Merko Ehitus has two members: Andres Trink (Chairman of the Management Board) and Tõnu Toomik (Member of the Management Board).

The responsibilities of Andres Trink, Chairman of the Management Board, include, among others, fulfilling daily obligations of the CEO of AS Merko Ehitus, managing and representing the company, ensuring compliance with the Articles of Association, legal acts, organising the work of the Management Board and supervisory boards of the more important subsidiaries, coordinating the development of strategies and providing for their implementation, being responsible for business development and finance. Tõnu Toomik is responsible for the management of the portfolio of properties and coordination of construction segment development activities across the whole group.

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

Authorisation and responsibility of supervisory boards of subsidiaries of AS Merko Ehitus are based on their Articles of Association and intergroup rules. Generally, Supervisory Boards of subsidiaries consist of members of the Management Board and Supervisory Board of the company that is the main shareholder of the specific subsidiary. Supervisory Board meetings of the most significant subsidiaries are held usually once a month, otherwise according to the group's needs, Articles of Association of subsidiaries and legal provisions. Generally, no separate fee is paid to members of the Supervisory Board of subsidiaries. Members of the Supervisory Board will also receive no termination benefit in case their contract of service is terminated before due date or not extended.

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 31 December 2017:

COMPANY	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti	Andres Trink (Chairman), Teet Roopalu, Tõnu Toomik	Keit Paal (Chairman), Jaan Mäe, Alar Lagus, Veljo Viitmann
AS Merko Infra	Keit Paal (Chairman), Veljo Viitmann, Mihkel Mugur	Boris Tehnikov (Chairman), Marek Hergauk, Leino Lootus
Tallinna Teede AS	Tõnu Toomik (Chairman), Keit Paal, Alar Lagus, Veljo Viitmann	Jüri Läll (Chairman), Jüri Helila
AS Merko Tartu	Jaan Mäe (Chairman), Veljo Viitmann, Alar Lagus	Juhan Varik, Mihkel Mugur
OÜ Merko Investments	-	Andres Trink, Priit Roosimägi
SIA Merks	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Oskars Ozoliņš (Chairman), Jānis Šperbergs
SIA Merko Investments	-	Andres Trink (Chairman), Oskars Ozoliņš
UAB Merko Statyba	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Saulius Putrimas (Chairman), Jaanus Rästas
OÜ Merko Property	-	Andres Trink, Priit Roosimägi
UAB Balsiu mokyklos SPV	-	Virginijus Verbickas
OÜ Metsailu	-	Tiit Kuusik, Ines Prual

Changes in the management of group subsidiaries

On 17 January 2017, the Supervisory Board of AS Merko Infra, Estonian subsidiary, part of AS Merko Ehitus group, decided to extend the powers of the Chairman of the Management Board, Mr. Arno Elias and the Member of the Management Board, Mr. Boris Tehnikov for three years, i.e. from 23 January 2017 until 22 January 2020. The Board appointed Mr. Marek Hergauk as a new member of the Management Board from 23 January 2017 until 22 January 2020. Mr. Tarmo Pohlak's mandate as a Member of the Management Board was not renewed and expired on 22 January 2017. The Management Board of AS Merko Infra will continue with three members: Mr. Arno Elias (The Chairman), Mr. Boris Tehnikov and Mr. Marek Hergauk.

On 31 March 2017, the Supervisory Board of AS Merko Infra, Estonian subsidiary, part of AS Merko Ehitus group, decided to appoint Mr. Leino Lootus as a new member of the Management Board for three years, from 31 March 2017 until 27 March 2020. The Supervisory Board of AS Merko Infra additionally decided to recall the former chairman of the Management Board Mr. Arno Elias and appoint Mr. Boris Tehnikov, former Management Board Member, as the new Chairman of the Management Board. The Management Board of AS Merko Infra will continue with three members: Mr. Boris Tehnikov (The Chairman), Mr. Marek Hergauk and Mr. Leino Lootus.

On 24 July 2017, the Supervisory Board of Tallinna Teede AS – the subsidiary of AS Merko Ehitus Eesti, part of AS Merko Ehitus group – decided to extend the powers of the Chairman of the Management Board, Mr. Jüri Läll from 31 July 2017 till 30 January 2020. The Management Board of Tallinna Teede AS will continue in a former two-member panel: Mr. Jüri Läll (The Chairman) and Mr. Jüri Helila.

On 28 July 2017, the Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Member of the Management Board, Mr. Alar Lagus for three years, i.e. from 1 August 2017 till 31 July 2020. On 14 November 2017, the Supervisory Board of AS Merko Ehitus Eesti decided to extend the powers of the Members of the Management Board, Mr. Jaan Mäe and Veljo Viitmann for three years, i.e. from 1 January 2018 till 31 December 2020. The Management Board of AS Merko Ehitus Eesti will continue in a former four-member panel: Mr. Keit Paal (The Chairman), Mr. Jaan Mäe, Mr. Alar Lagus and Mr. Veljo Viitmann.

On 17 November 2017, the Management Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Members of the Supervisory Board of AS Merko Tartu, Mr. Alar Lagus and Mr. Veljo Viitmann for three years, i.e. till 23 December 2020. The Supervisory Board of AS Merko Tartu will continue in a former three-member panel: Mr. Jaan Mäe (The Chairman), Mr. Veljo Viitmann and Mr. Alar Lagus.

On 17 November 2017, the Supervisory Board of AS Merko Tartu, part of AS Merko Ehitus group, decided to extend the powers of the Member of the Management Board, Mr. Mihkel Mugur for three years, i.e. till 17 November 2020. The Management Board of AS Merko Tartu will continue in a former two-member panel: Mr. Juhan Varik and Mr. Mihkel Mugur.

As per the decision of AS Merko Ehitus Management Board on 21 December 2017, starting from 1 January 2018, Priit Roosimägi will be a member of the Supervisory Boards of group companies UAB Merko statyba and SIA Merks, and a member of the Management Boards of group companies OÜ Merko Property and OÜ Merko Investments, replacing the current member, Signe Kukin.

According to a decision of the Management Board of AS Merko Ehitus from 8 January 2018, the powers of the Members of the Supervisory Board of AS Merko Ehitus Eesti, Mr. Andres Trink, Mr. Tõnu Toomik and Mr. Teet Roopalu have been extended from 1 January 2018 until 31 December 2020. The Supervisory Board of AS Merko Ehitus Eesti will continue with three members: Mr. Andres Trink (The Chairman), Mr. Tõnu Toomik and Mr. Teet Roopalu.

AUDIT COMMITTEE

The Supervisory Board of AS Merko Ehitus has formed an audit committee as its work body. The responsibility of the audit committee is advising the Supervisory Board in supervision related issues. The Committee executes supervision over the whole group (incl. subsidiaries): a) arrangement of accounting, b) preparation and approval of the financial budget and reports, c) management of financial risks, d) performance of external audit, e) functioning of an internal control system and f) legality of the activities. Subsidiaries have not formed audit committees.

On November 1, 2017, the Supervisory Board of AS Merko Ehitus decided to amend the composition of the Audit Committee by appointing Viktor Möisja as a new member and recalling Mr. Olari Taal. AS Merko Ehitus Audit Committee continues with three members: Mr. Teet Roopalu (the Chairman), Mr. Indrek Neivelt and Mr. Viktor Möisja.

MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

The Management Board of AS Merko Ehitus declares and confirms that the interim financial statements provide, to the best of the knowledge of the Management Board, a true and fair view of the development, results and financial position of the company and the consolidated undertakings as a whole, include a description of the principal risks and uncertainties, and reflect transactions with related parties.

Andres Trink

Chairman of the Management Board



08.02.2018

Tõnu Toomik

Member of the Management Board



08.02.2018

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2017 12 months	2016 12 months	2017 IV quarter	2016 IV quarter
Revenue	2	317,598	251,970	102,791	78,593
Cost of goods sold	3	(286,747)	(232,961)	(88,638)	(73,555)
Gross profit		30,851	19,009	14,153	5,038
Marketing expenses		(3,215)	(3,281)	(795)	(904)
General and administrative expenses		(11,289)	(10,076)	(3,500)	(2,960)
Other operating income		3,793	2,466	1,148	668
Other operating expenses		(601)	(399)	(277)	(201)
Operating profit		19,539	7,719	10,729	1,641
Finance income/costs		(767)	(440)	(173)	(79)
incl. finance income from sale of subsidiary		14	-	14	-
finance income/costs from joint ventures		64	163	76	97
finance income/costs from other long-term investments		2	2	2	1
interest expense		(745)	(610)	(192)	(172)
foreign exchange gain (loss)		(1)	(6)	1	1
other financial income (expenses)		(101)	11	(74)	(6)
Profit before tax		18,772	7,279	10,556	1,562
Corporate income tax expense		(3,020)	(1,275)	(1,625)	(241)
Net profit for financial year		15,752	6,004	8,931	1,321
incl. net profit attributable to equity holders of the parent		14,694	6,122	8,133	1,408
net profit attributable to non-controlling interest		1,058	(118)	798	(87)
Other comprehensive income, which can subsequently be classified in the income statement					
Currency translation differences of foreign entities		(74)	19	(47)	(11)
Comprehensive income for the period		15,678	6,023	8,884	1,310
incl. net profit attributable to equity holders of the parent		14,637	6,140	8,099	1,399
net profit attributable to non-controlling interest		1,041	(117)	785	(89)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.83	0.35	0.46	0.08

The notes set out on pages 31-43 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.12.2017	31.12.2016
ASSETS			
Current assets			
Cash and cash equivalents	5	39,210	33,544
Trade and other receivables	6	75,844	45,566
Prepaid corporate income tax		492	617
Inventories	7	118,421	123,364
		233,967	203,091
Non-current assets			
Long-term financial assets	8	17,242	15,805
Deferred income tax assets		5	1,325
Investment property	9	15,719	4,108
Property, plant and equipment	10	9,665	12,838
Intangible assets	11	497	673
		43,128	34,749
TOTAL ASSETS		277,095	237,840
LIABILITIES			
Current liabilities			
Borrowings	12	24,218	21,485
Payables and prepayments	13	74,972	56,259
Income tax liability		413	278
Short-term provisions	14	4,569	5,637
		104,172	83,659
Non-current liabilities			
Long-term borrowings	12	35,138	24,516
Deferred income tax liability		1,259	1,122
Other long-term payables	15	1,789	2,061
		38,186	27,699
TOTAL LIABILITIES		142,358	111,358
EQUITY			
Non-controlling interests		4,567	3,692
Equity attributable to equity holders of the parent			
Share capital		7,929	7,929
Statutory reserve capital		793	793
Currency translation differences		(702)	(645)
Retained earnings		122,150	114,713
		130,170	122,790
TOTAL EQUITY		134,737	126,482
TOTAL LIABILITIES AND EQUITY		277,095	237,840

The notes set out on pages 31-43 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent					Non- control- ling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings	Total		
Balance as at 31.12.2015	7,929	1,200	(663)	117,232	125,698	3,268	128,966
Profit (loss) for the reporting period	-	-	-	6,122	6,122	(118)	6,004
Other comprehensive income	-	-	18	-	18	1	19
Total comprehensive income (loss) for the reporting period	-	-	18	6,122	6,140	(117)	6,023
Transactions with owners							
Contribution to subsidiary's share capital (Note 16)	-	-	-	-	-	108	108
Increase of share capital by non-monetary contribution and acquisition of non-controlling interest (Note 16)	-	-	-	(21)	(21)	472	451
Non-controlling interest of acquired subsidiary (Note 16)	-	-	-	-	-	283	283
Option over shares relating to non-controlling interests (Note 16)	-	-	-	-	-	(322)	(322)
Reserve capital reduction	-	(407)	-	407	-	-	-
Dividends (Note 4)	-	-	-	(9,027)	(9,027)	-	(9,027)
Total transactions with owners	-	(407)	-	(8,641)	(9,048)	541	(8,507)
Balance as at 31.12.2016	7,929	793	(645)	114,713	122,790	3,692	126,482
Balance as at 31.12.2016	7,929	793	(645)	114,713	122,790	3,692	126,482
Profit (loss) for the reporting period	-	-	-	14,694	14,694	1 058	15,752
Other comprehensive income	-	-	(57)	-	(57)	(17)	(74)
Total comprehensive income (loss) for the reporting period	-	-	(57)	14,694	14,637	1,041	15,678
Transactions with owners							
Non-controlling interest of sold subsidiary	-	-	-	-	-	123	123
Option over shares relating to non-controlling interests (Note 16)	-	-	-	-	-	(182)	(182)
Dividends (Note 4)	-	-	-	(7,257)	(7,257)	(107)	(7,364)
Total transactions with owners	-	-	-	(7,257)	(7,257)	(166)	(7,423)
Balance as at 31.12.2017	7,929	793	(702)	122,150	130,170	4,567	134,737

The share capital of AS Merko Ehitus consists of 17,700,000 shares without nominal value.

The notes set out on pages 31-43 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2017 12 months	2016 12 months
Cash flows from operating activities			
Operating profit		19,539	7,719
Adjustments:			
Depreciation		2,675	3,488
(Profit)/loss from sale of non-current assets		(571)	(444)
(Profit) loss from sale of a business unit		(474)	-
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		(8,488)	3,711
Interest income from operating activities		(1,979)	(1,856)
Change in provisions		572	(520)
Change in trade and other receivables related to operating activities		(19,301)	(17,954)
Change in inventories		(4,851)	(14,128)
Change in trade and other payables related to operating activities		12,058	8,945
Interest received		1,709	1,515
Interest paid		(879)	(732)
Other finance income and costs		(28)	(32)
Corporate income tax (paid)/reclaimed		(1,284)	(1,733)
Total cash flows from operating activities		(1,302)	(12,021)
Cash flows from investing activities			
Acquisition of subsidiaries	16	328	1,276
Disposal of subsidiary		(7)	-
Purchase of investment property		(6)	-
Purchase of property, plant and equipment		(1,186)	(2,834)
Proceeds from sale of property, plant and equipment		1,924	1,098
Purchase of intangible assets		(181)	(191)
Sale of a business unit		113	-
Interest received		6	47
Total cash flows from investing activities		991	(604)
Cash flows from financing activities			
Proceeds from borrowings		61,651	36,839
Repayments of borrowings		(47,380)	(20,807)
Finance lease principal payments		(818)	(855)
Contributions to the subsidiary's share capital from non-controlling shareholder		-	108
Dividends paid		(7,364)	(9,027)
Total cash flows from financing activities		6,089	6,258
Net increase/decrease in cash and cash equivalents		5,778	(6,367)
Cash and cash equivalents at the beginning of the period	5	33,544	39,905
Effect of exchange rate changes		(112)	6
Cash and cash equivalents at the end of the period	5	39,210	33,544

The notes set out on pages 31-43 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 12 months and IV quarter 2017 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2016 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2016 audited annual report and 2016 12 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 12 months and IV quarter 2017 present a true and fair view of the group's economic results based on the principle of going concern. While the influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 1.1 CHANGES IN THE PRESENTATION OF INFORMATION

AS Merko Ehitus presented gross profit as per segment reporting of Estonian construction, other home markets construction and real estate development in previous reporting periods. Based on the resolution of the AS Merko Ehitus management board to monitor the revenue and the operating profit (-loss) as the main financial indicators in the segment reporting, the operating profit (-loss) is presented according to segments in this interim report. The comparative data for previous periods has been adjusted accordingly to new presentation in 2017 12 months consolidated interim report.

NOTE 2 OPERATING SEGMENTS

in thousand euros

The chief operating decision-maker, i.e. the Management Board of parent AS Merko Ehitus, monitors the business of the group by countries and operating segments

Based on internal management information, the group's Management Board monitors activities by the following segments:

- Estonian construction service,
- other home markets construction service,
- real estate development.

The business result is assessed based on external revenue, operating profit and profit before tax of the business segment. The operating profit and profit before tax of the segment is composed of the income and expenditure directly related to the segment. Other income and expenses not directly related to the segments are attributable to the activities of holding companies and are monitored at group level.

Additional information on the segments is provided in the Business activities chapter of the Management report.

In the segment reporting, all intra-segment income and expenses have been eliminated from the pre-tax profit of the segments and all unrealised internal profits have been eliminated from the segment assets.

2017 12 months	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Revenue	135,338	108,446	98,388	342,172
Internal revenue	(125)	(55)	(24,394)	(24,574)
Revenue from clients	135,213	108,391	73,994	317,598
Operating profit (-loss)	5,853	1,795	13,760	21,408
Profit (-loss) before tax	5,822	1,552	13,426	20,800
incl. interest income from operating activities	18	-	1,654	1,672
depreciation (Note 3)	(1,873)	(48)	(271)	(2,192)
impairment of inventories (Note 3)	-	-	(2,360)	(2,360)
reversal of impairment of inventories (Note 3)	-	-	5,276	5,276
recognition of provisions (Note 3)	(1,095)	(1,305)	(365)	(2,765)
reversal of provisions (Note 3)	191	-	-	191
profit from joint ventures	-	-	64	64
other finance income (costs)	(31)	9	(357)	(379)
incl. interest income	-	9	-	9
interest expenses	(18)	-	(341)	(359)
Assets 31.12.2017	29,422	49,162	157,058	235,642
incl. joint ventures (Note 8)	-	-	79	79

2016 12 months	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Revenue	122,566	52,993	108,199	283,758
Internal revenue	(191)	(262)	(31,335)	(31,788)
Revenue from clients	122,375	52,731	76,864	251,970
Operating profit (-loss)	3,398	(1,341)	7,479	9,536
Profit (-loss) before tax	3,349	(1,425)	7,322	9,246
incl. interest income from operating activities	-	-	1,675	1,675
depreciation (Note 3)	(2,629)	(40)	(293)	(2,962)
impairment of inventories (Note 3)	-	-	(37)	(37)
recognition of provisions (Note 3)	(687)	(527)	(1,860)	(3,074)
reversal of provisions (Note 3)	166	23	-	189
profit from joint ventures	-	-	163	163
other finance income (costs)	(35)	(3)	(280)	(318)
incl. interest income	-	-	1	1
interest expenses	(35)	(3)	(262)	(300)
Assets 31.12.2016	32,636	12,137	158,128	202,901
incl. joint ventures (Note 8)	-	-	434	434

2017 IV quarter	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Revenue	35,722	42,856	31,074	109,652
Internal revenue	(68)	(10)	(6,783)	(6,861)
Revenue from clients	35,654	42,846	24,291	102,791
Operating profit (-loss)	1,472	1,763	7,981	11,216
Profit (-loss) before tax	1,473	1,639	7,977	11,089
incl. interest income from operating activities	3	-	423	426
depreciation (Note 3)	(308)	(15)	(55)	(378)
impairment of inventories (Note 3)	-	-	(2,360)	(2,360)
reversal of impairment of inventories (Note 3)	-	-	5,276	5,276
recognition of provisions (Note 3)	(619)	(819)	(168)	(1,606)
reversal of provisions (Note 3)	86	-	-	86
loss on joint ventures	-	-	76	76
other finance income (costs)	(3)	-	(67)	(70)
incl. interest expenses	(3)	-	(64)	(67)
Assets change in IV quarter	(9,047)	13,269	(6,310)	(2,088)
incl. joint ventures	-	-	(252)	(252)

2016 IV quarter	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Revenue	34,241	12,720	40,320	87,281
Internal revenue	(60)	(166)	(8,462)	(8,688)
Revenue from clients	34,181	12,554	31,858	78,593
Operating (-loss)	(643)	(533)	3,226	2,050
Profit (-loss) before tax	(654)	(558)	3,216	2,004
incl. interest income from operating activities	-	-	396	396
depreciation (Note 3)	(951)	(10)	(71)	(1,032)
impairment of inventories (Note 3)	-	-	110	110
recognition of provisions (Note 3)	(411)	(298)	(1,382)	(2,091)
reversal of provisions (Note 3)	166	23	-	189
loss on joint ventures	-	-	97	97
other finance income (costs)	(8)	(1)	(92)	(101)
incl. interest expenses	(8)	(1)	(79)	(88)
Assets change in IV quarter	(6,803)	(1,676)	15,241	6,762
incl. joint ventures	-	-	97	97

In addition to the segment assets, as at 31.12.2017 the group holds assets in the amount of EUR 41,453 thousand (31.12.2016: EUR 34,939 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, loans receivable, excluding loans to joint ventures, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

RECONCILIATION OF THE PRE-TAX PROFIT OF SEGMENTS AND THE GROUP

in thousand euros

	2017 12 months	2016 12 months	2017 IV quarter	2016 IV quarter
Pre-tax profit from reporting segments	20,800	9,246	11,089	2,004
Other operating profit (-loss)	(1,869)	(1,817)	(487)	(409)
incl. recognition of provisions	(98)	(76)	(23)	(76)
finance income (costs)	(159)	(150)	(46)	(33)
incl. interest income	1	41	-	10
interest expenses	(147)	(178)	(37)	(40)
Total profit before tax	18,772	7,279	10,556	1,562

Other income and expenses, which are not directly associated with segments, are associated with holding companies.

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2017 12 months		2016 12 months		2017 IV quarter		2016 IV quarter	
Estonia	190,928	60%	172,656	68%	53,040	52%	53,175	68%
Latvia	79,914	25%	44,924	18%	34,166	33%	12,141	15%
Lithuania	34,629	11%	24,801	10%	10,276	10%	10,256	13%
Finland	23	0%	5,110	2%	2	0%	1,975	3%
Norway	12,104	4%	4,479	2%	5,307	5%	1,046	1%
Total	317,598	100%	251,970	100%	102,791	100%	78,593	100%

NON-CURRENT ASSETS (EXCEPT FOR FINANCIAL ASSETS AND DEFERRED INCOME TAX ASSETS) BY LOCATION OF ASSETS

in thousand euros

	31.12.2017	31.12.2016
Estonia	13,367	17,054
Latvia	12,390	443
Lithuania	5	10
Norway	119	112
Total	25,881	17,619

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2017 12 months	2016 12 months	2017 IV quarter	2016 IV quarter
Construction services and properties purchased for resale	186,352	145,079	64,061	49,793
Materials	50,983	40,911	12,644	10,194
Labour costs	22,255	20,703	5,720	5,024
Construction mechanisms and transport	9,317	8,161	2,375	1,916
Design	4,544	2,987	1,481	1,070
Real estate management costs	265	221	80	58
Depreciation	2,192	2,962	378	1,032
Impairment of inventories	2,360	37	2,360	(110)
Reversal of impairment of inventories	(5,276)	-	(5,276)	-
Provisions	2,574	2,885	1,520	1,902
Other expenses	11,181	9,015	3,295	2,676
Total cost of goods sold	286,747	232,961	88,638	73,555

NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

Basic earnings per share for profit attributable to equity holders of the parent have been derived by dividing the net profit attributable to shareholders by the weighted average number of shares.

	2017 12 months	2016 12 months	2017 IV quarter	2016 IV quarter
Net profit(-loss) attributable to shareholders (in thousand EUR)	14,694	6,122	8,133	1,408
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700	17,700
Earnings (loss) per share (in euros)	0.83	0.35	0.46	0.08

The group did not have any potential ordinary shares to be issued; therefore the diluted earnings per share equal the basic earnings per share.

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation decision, dividends were paid by parent company AS Merko Ehitus in Q2 2017 in the amount of EUR 7,257 thousand, i.e. EUR 0.41 per share (Q2 2016: 9,027 thousand, i.e. EUR 0.51 per share), which was accompanied by income tax liability of 20/80 of the amount to be paid out, i.e. EUR 1,814 thousand, which was partially covered by the income tax withheld on taxed dividends received from subsidiaries in the previous periods. In the second quarter of 2017, the group incurred additional income tax expenses of EUR 880 thousand in Estonia in connection with disbursement of dividends (Q2 2016: EUR 566 thousand).

As at 31.12.2017, the parent company AS Merko Ehitus has EUR 67 thousand (31.12.2016: EUR 0 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 31.12.2017, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 97,172 thousand (31.12.2016: EUR 91,255 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 17 thousand (31.12.2016: EUR 0 thousand), the corresponding income tax on dividends would amount to EUR 24,276 thousand (31.12.2016: EUR 22,813 thousand). For calculating the additional income tax on dividends, the income tax rate in force in 2017 was used, which is 20/80 of the amount paid as net dividends. The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.12.2017	31.12.2016
Cash on hand	1	2
Bank accounts	39,174	33,291
Overnight deposits	35	251
Total cash and cash equivalents	39,210	33,544

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.12.2017	31.12.2016
Trade receivables		
Accounts receivable	36,768	31,735
Allowance for doubtful receivables	(103)	(265)
	36,665	31,470
Tax prepayments excluding corporate income tax		
Value added tax	733	3,318
Other taxes	2	-
	735	3,318
Accrued income from construction services	17,780	4,606
Other short-term receivables		
Short-term loans	10,590	1,560
Interest receivables	603	218
Other short-term receivables	636	347
	11,829	2,125
Prepayments for services		
Prepayments for construction services	8,075	3,155
Prepaid insurance	248	348
Other prepaid expenses	512	544
	8,835	4,047
Total trade and other receivables	75,844	45,566
incl. short-term loan receivables from related parties (Note 16)	9,000	-
other short-term receivables and prepayments to related parties (Note 16)	2,911	4,333

NOTE 7 INVENTORIES

in thousand euros

	31.12.2017	31.12.2016
Materials	238	422
Work-in-progress	36,023	39,537
Finished goods	17,612	18,918
Goods for resale		
Registered immovables purchased for resale	63,613	63,150
Other goods purchased for resale	747	746
	64,360	63,896
Prepayments for inventories		
Prepayments for other inventories	188	591
Total inventories	118,421	123,364

As at 31.12.2017, the inventories of OÜ Unigate, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9 are presented in lines Work-in-progress and Registered immovables purchased for resale at registration value of EUR 6,415 thousand (Note 16),

In 2017, inventories have been revalued in Latvia by net amount of 2,916 thousand euros, incl 660 thousand euros calculated proportionally to non-controlling interest, which is presented in net profit attributable to non-controlling interest in consolidated statement of comprehensive income.

NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

	31.12.2017	31.12.2016
Investments to joint ventures	79	434
Long-term loans	4,000	3,952
Long-term bank deposit	-	36
Long-term interest	-	261
Long-term receivables from customers of construction services	13,163	11,122
Total other long-term loans and receivables	17,242	15,805
incl. long-term loan receivables from related parties (Note 16)	-	3,952
other long-term receivables from related parties (Note 16)	-	261

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.12.2017	31.12.2016
Land	11,902	51
Right of superficies at carrying amount		
Cost	29	29
Accumulated depreciation	(12)	(11)
	17	18
Buildings at carrying amount		
Cost	5,252	5,245
Accumulated depreciation	(1,452)	(1,206)
	3,800	4,039
Total investment property	15,719	4,108

In the fourth quarter of 2017, the land at Skanstes in Riga totalling EUR 11,851 thousand was reclassified from inventories to investment property for long-term holdings for the purpose of capital appreciation.

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.12.2017	31.12.2016
Land	811	821
Buildings at carrying amount		
Cost	5,530	5,650
Accumulated depreciation	(2,077)	(1,948)
	3,453	3,702
Machinery and equipment at carrying amount		
Cost	13,707	17,625
Accumulated depreciation	(9,458)	(11,164)
	4,249	6,461
Other fixtures at carrying amount		
Cost	5,561	5,190
Accumulated depreciation	(4,719)	(4,429)
	842	761
Prepayments for property, plant and equipment	310	1,093
Total property, plant and equipment	9,665	12,838

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.12.2017	31.12.2016
Goodwill		
Cost	74	970
Impairment	-	(656)
	74	314
Software at carrying amount		
Cost	1,471	1,137
Accumulated depreciation	(1,092)	(991)
	379	146
Prepayments for intangible assets	44	213
Total intangible assets	497	673

In connection with the disposal of the road maintenance field of activity from AS Vooremaa Teed, a 100% subsidiary of Tallinna Teede AS belonging to AS Merko Ehitus group, and the merger of the companies in Q3 2017, the goodwill of AS Vooremaa Teed has been impaired and written off the balance sheet.

NOTE 12 BORROWINGS

in thousand euros

	31.12.2017	31.12.2016
Finance lease payables		
Present value of lease payments	863	1,769
incl. current portion	487	1,282
non-current portion 1...5 years	376	487
Bank loans		
Loan balance	50,383	25,703
incl. current portion	20,621	7,696
non-current portion 1...5 years	29,762	18,007
Loan from parent company		
Loan balance	-	12,500
incl. current portion (Note 16)	-	12,500
Loans from entities under common control		
Loan balance	6,000	6,000
incl. current portion (Note 16)	1,000	-
non-current portion 1...5 years (Note 16)	5,000	6,000
Loans from other entities		
Loan balance	2,110	29
incl. current portion	2,110	7
non-current portion 1...5 years	-	22
Total loans		
Loans balance	58,493	44,232
incl. current portion	23,731	20,203
non-current portion 1...5 years	34,762	24,029
Total borrowings	59,356	46,001
incl. current portion	24,218	21,485
non-current portion 1...5 years	35,138	24,516

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.12.2017	31.12.2016
Trade payables	35,356	25,035
Payables to employees	8,613	7,106
Tax liabilities, except for corporate income tax		
Value added tax	532	4,122
Personal income tax	554	513
Social security tax	958	993
Unemployment insurance tax	53	55
Contributions to mandatory funded pension	43	46
Other taxes	160	122
	2,300	5,851
Prepayments for construction services	13,749	8,943
Other liabilities		
Interest liabilities	2	21
Other liabilities	594	508
	596	529
Prepayments received	14,358	8,795
Total payables and prepayments	74,972	56,259
incl. payables to related parties (Note 16)	17	38

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.12.2017	31.12.2016
Provision for warranty obligation for construction	2,874	2,476
Provision for costs of projects sold	1,221	2,788
Provision for onerous construction contracts	224	79
Provision for legal costs and claims filed	120	273
Other provisions	130	21
Total short-term provisions	4,569	5,637

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.12.2017	31.12.2016
Trade payables	1,248	1,317
Other long-term liabilities	541	744
Other long-term payables total	1,789	2,061
incl. other long-term payables to related parties (Note 16)	541	322

NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

In compiling the group report, the following entities have been considered as related parties:

- parent company AS Riverito;
- shareholders of AS Riverito with significant influence over AS Merko Ehitus through AS Riverito;
- other shareholders with significant influence;
- other subsidiaries of AS Riverito or so-called sister companies, in the Note 'Entities under common control';
- associates and joint ventures;
- key members of the management (supervisory and management board), their close relatives and entities under their control or significant influence.

Significant influence is presumed to exist when the person has more than 20% of the voting power.

The parent of AS Merko Ehitus is AS Riverito. As at 31.12.2017 and 31.12.2016, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %		Location	Area of operation
	31.12.2017	31.12.2016		
Subsidiaries				
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	Estonia, Tallinn	Road construction
AS Vooremaa Teed	-	100	Estonia, Jõgeva	Road construction
AS Merko Infra	100	100	Estonia, Tallinn	Construction
AS Gustaf	-	100	Estonia, Pärnu	Construction
AS Merko Tartu	100	100	Estonia, Tartu	Construction
OÜ Fort Ehitus	-	76	Estonia, Viimsi	Construction
OÜ Mineraal	100	100	Estonia, Tallinn	Mining
OÜ Heamaja	-	100	Estonia, Tallinn	Real estate
OÜ Rannamõisa Kinnisvara	-	100	Estonia, Tallinn	Real estate
Kivimäe 32 OÜ	100	-	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
UAB Statinių priežiūra ir administravimas	100	100	Lithuania, Vilnius	Real estate
UAB Timana	100	-	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikštele	100	100	Lithuania, Vilnius	Real estate
UAB VPSP1	-	100	Lithuania, Vilnius	Real estate
UAB Timana	-	100	Lithuania, Vilnius	Real estate
UAB Rinktinės projektai	100	100	Lithuania, Vilnius	Real estate
OÜ Jõgeva Haldus	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	100	100	Estonia, Tallinn	Real estate
OÜ Kiviaia Kinnisvara	100	-	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	Real estate
Väike-Paekalda OÜ	100	100	Estonia, Tallinn	Real estate
Suur-Paekalda OÜ	100	100	Estonia, Tallinn	Real estate
OÜ Unigate	100	-	Estonia, Tallinn	Real estate
OÜ Paekalda 2	100	-	Estonia, Tallinn	Real estate
OÜ Paekalda 3	100	-	Estonia, Tallinn	Real estate
OÜ Paekalda 7	100	-	Estonia, Tallinn	Real estate
OÜ Paekalda 9	100	-	Estonia, Tallinn	Real estate
SIA Merko Investments	100	100	Latvia, Riga	Holding
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding

	Ownership and voting rights %		Location	Area of operation
	31.12.2017	31.12.2016		
SIA Merks	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	Latvia, Riga	Real estate
SIA Merks Investīcijas	100	100	Latvia, Riga	Real estate
SIA Industrijas Parks	-	100	Latvia, Riga	Real estate
SIA Elniko	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	Latvia, Riga	Real estate
PS Merks-Ostas celtnieks	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	-	Latvia, Riga	Construction
Merko Finland Oy	100	100	Finland, Helsinki	Construction
Hartian Oy	75	75	Finland, Helsinki	Real estate
Lenko Stroi LLC	100	100	Russia, Petersburg	SI Holding
Merko Investments AS	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	Norway, Sofiemyr	Construction
Joint ventures				
OÜ Unigate	-	50	Estonia, Tallinn	Real estate
Poolkoksīmāe Sulgemise OÜ	50	50	Estonia, Tallinn	Construction
Kivimäe 32 OÜ	-	50	Estonia, Tallinn	Real estate
Kodusadam OÜ	50	50	Estonia, Tallinn	Real estate

Additional information of the changes in reported period is provided in chapter Corporate governance in Management report on pages 21-22.

GOODS AND SERVICES

in thousand euros

	2017 12 months	2016 12 months
Provided services and goods sold		
Parent company	15	15
Joint ventures	15,763	7,471
Entities under common control	6,430	5,641
Members of the management	42	108
Other related parties	-	617
Total services provided and goods sold	22,250	13,852
Interest income		
Joint ventures	435	280
Purchased services and goods		
Parent company	90	90
Joint ventures	-	20
Entities under common control	59	126
Total purchased services and goods	149	236
Interest expense		
Parent company	34	38
Entities under common control	146	177
Total interest expense	180	215

BALANCES WITH RELATED PARTIES

in thousand euros

	31.12.2017	31.12.2016
Receivables from related parties		
Loans granted (Notes 6, 8)		
Joint ventures	9,000	3,952
Receivables and prepayments (Note 6)		
Parent company	4	4
Joint ventures	2,489	3,896
Entities under common control	418	433
Total receivables and prepayments	2,911	4,333
Other long-term receivables (Note 8)		
Joint ventures	-	261
Total receivables from related parties	11,911	8,546
Payables to related parties		
Short-term loans received (Note 12)		
Parent company	-	12,500
Entities under common control	1,000	-
Total short-term loans received	1,000	12,500
Payables and prepayments (Note 13)		
Parent company	9	9
Joint ventures	7	-
Entities under common control	1	29
Total payables and prepayments	17	38
Long-term loans received (Note 12)		
Entities under common control	5,000	6,000
Other long-term payables (Note 12)		
Other related parties	541	322
Total payables to related parties	6,558	18,860

TRANSACTIONS INVOLVING RELATED PARTIES (ADDITIONAL INFORMATION)

On 14 December 2016, AS Merko Ehitus signed a short-term (due date 31 of January 2017) loan agreement in the amount of EUR 12,500 thousand with parent company AS Riverito, to partially finance the acquisition of Veerenni land plots (purchase price EUR 16,800 thousand). The loan from AS Riverito has been repaid before the due date and refinanced with long-term loans from different credit institutions.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 12 months of 2017 was EUR 2,355 thousand (12 months of 2016: EUR 2,221 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 12 months of 2017, the Management Board members of major subsidiaries received EUR 147 thousand in compensation (12 months of 2016: EUR 65 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

Track record and photographs of the members of the Supervisory Board can be found on AS Merko Ehitus website at group.merko.ee/en/corporate-governance-2/supervisory-council/.

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31.12.2017:

		NO OF SHARES	% OF SHARES
Toomas Annus (AS Riverito)	Chairman of the Supervisory Board	8,322,914	47.02%
Indrek Neivelt (OÜ Trust IN)	Member of the Supervisory Board	31,635	0.18%
Teet Roopalü	Member of the Supervisory Board	-	-
		8,354,549	47.20%

The Management Board of the holding company AS Merko Ehitus has two members: Andres Trink and Tõnu Toomik.

Shares held by members of the Management Board of AS Merko Ehitus as at 31.12.2017:

		NO OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	600	0.00%
Tõnu Toomik (AS Riverito)	Member of the Management Board	1,607,185	9.08%
		1,607,785	9.08%

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

The group has purchased the following guarantees from financial institutions to guarantee the group's obligations to third parties. These amounts represent the maximum right of claim by third persons against the group in case the group is unable to meet its contractual obligations. Management estimates that additional expenses related to these guarantees are unlikely.

	31.12.2017	31.12.2016
Performance period's warranty to the customer	31,229	21,036
Tender warranty	2,201	767
Guarantee for warranty period	18,197	20,470
Prepayment guarantee	16,249	4,411
Payment guarantee	31,019	30,500
Contracts of surety	4,215	3,902
Total contingent liabilities	103,110	81,086

The "Payment guarantee" entry includes a payment guarantee for the benefit of a financial institution, issued within the framework of a contract for construction entered into in 2015, in order to secure the customer's contractual payment obligations in the total amount of up to EUR 30,500 thousand. The realisation of the payment guarantee is not considered likely by the group. To secure the customer's contractual obligations, a first-ranking mortgage of EUR 36,600 thousand with the financing institution as the beneficiary has been established on the registered immovable property of the building to be constructed in the framework of the construction agreement. To secure the group's payment guarantee, a second-ranking mortgage of EUR 8,500 thousand with the group as the beneficiary has been established.

Performance period's warranty to the customer – warranty provider guarantees to the customer that the contractor's obligations arising from construction contract will be adequately fulfilled.

Tender warranty – warranty provider guarantees to the customer arranging the tender process that the tenderer will sign a contract as per tender conditions.

Guarantee for warranty period – guarantee provider guarantees to the customer that the construction defects discovered during the warranty period will be eliminated.

Prepayment guarantee – guarantee provider guarantees to the customer that advances will be reimbursed, if contractor fails to deliver goods or services agreed.

Payment guarantee – guarantee provider guarantees repayments of the customer's/developer's loan and/or guarantee provider guarantees to the customer payment for goods or services.

Letter of credit – A letter of credit is the obligation of the buyer (i.e. the bank issuing the letter of credit) to pay the seller (i.e. the receiver of the letter of credit) the amount of the letter of credit, if the seller fulfils and presents documentation to the bank regarding the fulfilment of the conditions fixed with the letter of credit.

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of AS Merko Ehitus has prepared the consolidated interim financial statements for the 12 months of 2017, which are set out on pages 5-43.

The Management Board confirms that to the best of its knowledge:

- The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as adopted by the European Union;
- the financial statements give a true and fair view of the Group's financial position and the results of its operations and cash flows;
- the parent company and the group companies are going concerns.

Andres Trink Chairman of the Management Board

08.02.2018



Tõnu Toomik Member of the Management Board

08.02.2018



DEFINITION OF RATIOS

Gross profit margin (%)	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
Operating profit margin (%)	=	$\frac{\text{Operating profit}}{\text{Revenue}}$
EBT margin (%)	=	$\frac{\text{Earnings before tax}}{\text{Revenue}}$
Net profit margin (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$
Return on equity, ROE (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Shareholders equity (average of the current 4 quarters)}}$
Return on assets, ROA (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Total assets (average of the current 4 quarters)}}$
Return on invested capital, ROIC (%)	=	$\frac{(\text{Profit before tax} + \text{interest expense} - \text{foreign exchange gain (loss)} + \text{other financial income}) \text{ of the current 4 quarters}}{(\text{Shareholders equity (average)} + \text{interest-bearing liabilities (average)}) \text{ of the current 4 quarters}}$
Equity ratio (%)	=	$\frac{\text{Shareholders equity}}{\text{Total assets}}$
Debt ratio (%)	=	$\frac{\text{Interest-bearing liabilities}}{\text{Total assets}}$
Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	=	$\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$
Accounts receivable turnover(days)	=	$\frac{\text{Trade receivables of the current 4 quarters (average)} \times 365}{\text{Revenue of the current 4 quarters}}$
Accounts payable turnover (days)	=	$\frac{\text{Payables to suppliers of the current 4 quarters (average)} \times 365}{\text{Cost of goods sold of the current 4 quarters}}$
EBITDA (million EUR)	=	Operating profit + depreciation
EBITDA margin (%)	=	$\frac{\text{Operating profit} + \text{depreciation}}{\text{Revenue}}$
General expense ratio (%)	=	$\frac{\text{Marketing expenses} + \text{General and administrative expenses}}{\text{Revenue}}$
Labour cost ratio (%)	=	$\frac{\text{Labour costs}}{\text{Revenue}}$
Revenue per employee (EUR)	=	$\frac{\text{Revenue}}{\text{Number of employees (average)}}$
Earnings per share, EPS (EUR)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$
Equity/share (EUR)	=	$\frac{\text{Shareholders equity (average of the current 4 quarters)}}{\text{Number of shares}}$
Dividend per share (EUR)	=	$\frac{\text{Payable dividends}}{\text{Number of shares}}$
Dividend rate (%)	=	$\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$
Dividend yield (%)	=	$\frac{\text{Dividends payable per share}}{\text{Share price 31.12}}$
P/E	=	$\frac{\text{Earnings per share of the current 4 quarters}}{\text{Share price 31.12}}$
P/B	=	$\frac{\text{Equity per share (average of the current 4 quarters)}}{\text{Share price 31.12}}$
Market value	=	Share price 31.12 x Number of shares