



# AS MERKO EHITUS

## GROUP

### 2017 6 months and II 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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Financial year:	01.01.2017 – 31.12.2017
Reporting period:	01.01.2017 – 30.06.2017
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%**)

## 2016 KEY FIGURES

Revenue **252 million** EUROS

Net profit **6 million** EUROS

**797** employees



## VISION

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

## VALUES

<b>RESPONSIBILITY</b>	We decide based on business thinking, awareness and ethical beliefs. We offer enduring and environmentally friendly solutions.
<b>KEEPING PROMISES</b>	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.
<b>COMPETENCE</b>	We value quality and professionalism. We constantly develop our professional knowledge and skills.
<b>INITIATIVE</b>	We manage processes and we are result-oriented. We accept the challenges which presume more.
<b>CREATIVITY</b>	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 2013-2016

	2016	2015	2014	2013	AVERAGE
Return on equity, ROE (on yearly basis)	5.0%	8.0%	10.1%	8.8%	8.0%
Dividend rate	119%	90%	58%	70%	84%
Equity ratio 31.12	51.6 %	59.5%	51.0%	50.9%	53.3%



CONSTRUCTION WORK ON T1 SHOPPING AND ENTERTAINMENT CENTRE IN TALLINN CONTINUE IN Q2.

# MANAGEMENT REPORT

## COMMENTARY FROM MANAGEMENT

Merko Ehitus grew both its revenue and net profit figures for Q2 and first half-year compared to last year. Sales revenue in the second quarter was EUR 70.7 million and net profit was EUR 2.2 million; while six-month sales revenue was EUR 128.8 million and net profit was EUR 3.2 million.

In the estimation of the group's management board, sales revenue and profit showed the expected growth compared to 2016 and it is gratifying to see that sales revenue increased on all of the group's home markets. This year, the group has increased its secured order book, above all in Latvia, where we have launched construction on several major projects. As a result, the number of the Latvian company's employees has grown. Competition between general contractors continues to be very close in all of the countries in which we operate. Furthermore, the availability of workforce and stability of suppliers is becoming increasingly complicated, which in the assessment of the management puts general contractors under pressure with regard to profit margins and deadlines and forces a search for solutions.

**2017 6M**  
**REVENUE**  
**129 MILLION EUROS**  
**PROFIT BEFORE TAX**  
**4,4 MILLION EUROS**

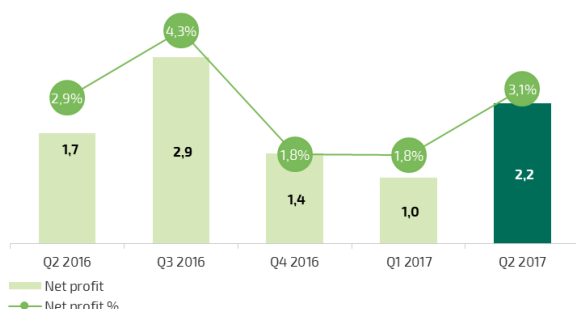
In the opinion of the group's management, apartment sales in Q2 and first half-year have proceeded according to expectations. Compared to the same period last year, Merko Ehitus sold 50% more apartments in the first six months of this year and earned 54% more sales revenue. A contributing factor was the simultaneous completion and sales of several projects at the same time in the first half-year. The apartment market in Tallinn and Vilnius continues to be active, even though it appeared that the price ceiling has been reached, and in future, somewhat longer sales periods in some development projects can be expected. The Riga apartment market has not built up the same momentum yet. In six months, Merko has invested more than EUR 18 million into development projects launched this year and projects already in progress.

In the second quarter of 2017, the group's companies entered into new construction contracts at a greater volume than in past years, including for the construction of the multifunctional centre Akropole and Z-Towers complex in Riga and the addition to the air traffic control centre in Tallinn. Among major projects in progress in Q2 in Estonia were the construction of T1 shopping centre, Maakri Kvartal, Öpiku office building B, and the tram line that will serve the airport. In Latvia, the biggest projects in progress were the multifunctional centre Akropole in Riga and the Ventspils music school and concert hall; in Lithuania, the Radisson Blu Hotel Lietuva, the Philip Morris plant and a hotel and residential building complex in the Rinktinės Urban development project.

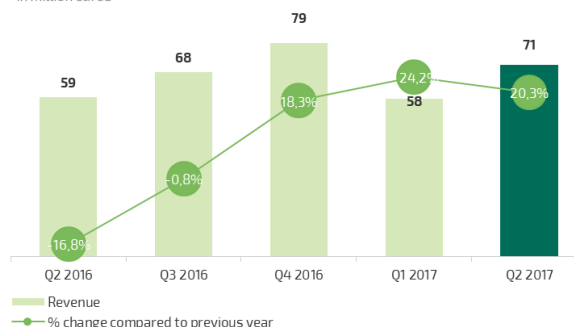
Assessing the outlook on the construction market, we expect that demand on the apartment market in Riga will more rapidly approach the level of the other Baltic capitals. While the growth in the apartment market in Vilnius and Tallinn is stabilizing, yet the demand for a good living environment remains strong. We would like to see more public procurements on the construction market in Lithuania. In Estonia, on the other hand, we presume that the number of accruing commercial real estate sites will stabilize and that operating volumes will grow on the infrastructure side. As a whole, the group is working to ensure that the growth in business volumes in our home markets in the first half of the year will continue in the second half.

## OVERVIEW OF THE II QUARTER AND 6 MONTHS RESULTS

GROUP NET PROFIT  
in millions euros



GROUP REVENUE  
in million euros



### PROFITABILITY

Q2 2017 net profit was EUR 2.2 million (Q2 2016: EUR 1.7 million) and net profit margin 3.1% (Q2 2016: 2.9%). Q2 net profit was influenced by additional income tax expense on dividends in the amount of EUR 0.9 million (Q2 2016: EUR 0.6 million). Net profit in 6M 2017 was EUR 3.2 million (6M 2016: EUR 1.8 million), having increased by 76.2% compared to the same period last year and net profit margin increased to 2.5% (6M 2016: 1.7%). Profit before tax in 6M 2017 was EUR 4.4 million (6M 2016: EUR 2.7 million), which is equivalent to a profit before tax margin of 3.4% (6M 2016: 2.6%).

### REVENUE

Q2 2017 revenue was EUR 70.7 million (Q2 2016: EUR 58.7 million) and 6M 2017 revenue was EUR 128.8 million (6M 2016: EUR 105.6 million), has increased by 22.0% compared to last year. The share of revenue earned outside Estonia in 6M 2017 was 31% (6M 2016: 30%). The number of apartments (239 units) sold in 6 months of 2017 has increased by 50.3% compared to last year and the revenue from apartment sales (EUR 26.9 million) has increased by 54.5% (6 months of 2016: 159 units, revenues of EUR 17.4 million).

### CASH POSITION

At the end of the reporting period, the group had EUR 25.9 million in cash and cash equivalents and equity EUR 118.7 million (49.3% of total assets). Comparable figures as at 30 June 2016 were accordingly EUR 21.7 million and EUR 118.5 million (54.8% of total assets). As at 30 June 2017 the group had net debt of EUR 19.4 million (30 June 2016: EUR 13.3 million).

### SECURED ORDER BOOK

As at 30 June 2017, the group's secured order book had grown to EUR 387.5 million (30 June 2016: EUR 279.4 million). In 6M 2017, group companies signed new contracts in the amount of EUR 216.6 million (6M 2016: EUR 109.0 million). Q2 2017 new contracts signed in amount of EUR 158 million (Q2 2016: EUR 86.6 million).

		6M 2017	6M 2016	VARIANCE	Q2 2017	Q2 2016	VARIANCE	12M 2016
Revenue	million EUR	128.8	105.6	+22.0%	70.7	58.7	+20.3%	252.0
EBITDA	million EUR	6.0	4.6	+32.4%	4.1	3.4	+22.5%	11.2
EBITDA margin	%	4.7	4.3		5.9	5.8		4.4
EBIT	million EUR	4.7	3.1	+53.1%	3.5	2.6	+33.4%	7.7
EBIT margin	%	3.7	2.9		4.9	4.4		3.1
Profit before tax	million EUR	4.4	2.7	+59.1%	3.3	2.4	+33.8%	7.3
PBT margin	%	3.4	2.6		4.6	4.1		2.9
Net profit (parent)	million EUR	3.2	1.8	+76.2%	2.2	1.7	+27.5%	6.1
Net profit margin	%	2.5	1.7		3.1	2.9		2.4
EPS	EUR	0.18	0.10	+76.2%	0.12	0.09	+27.5%	0.35

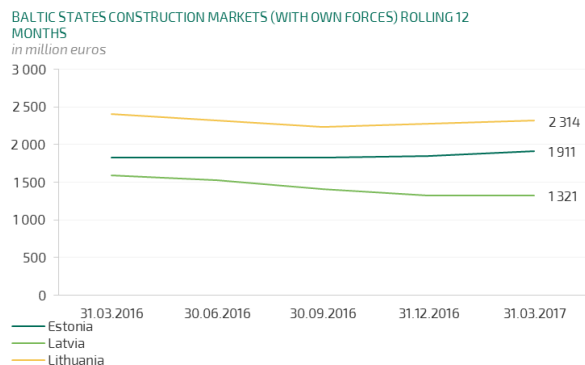
  

		30.06.2017	30.06.2016	VARIANCE	31.12.2016
ROE (on yearly basis)	%	6.2	7.7		5.0
Equity ratio	%	49.3	54.8		51.6
Secured order book	million EUR	387.5	279.4	+38.7%	269.6
Total assets	million EUR	241.0	216.4	+11.4%	237.8
Number of employees	people	803	826	-2.8%	797

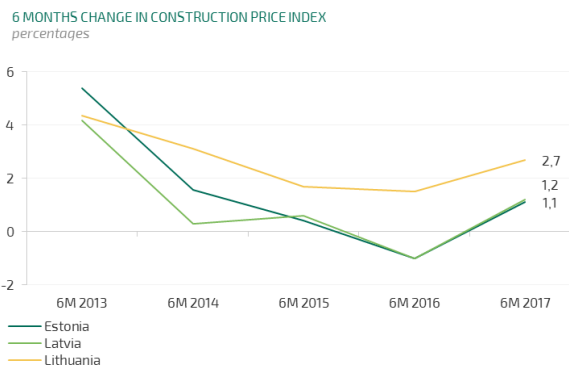
Ratio definitions are provided on page 28 of the report.

# THE CONSTRUCTION AND REAL ESTATE MARKET PERSPECTIVES

## CONSTRUCTION SERVICES



Source: Local national statistical offices.



Source: Local national statistical offices.

The situation and outlook on our region's construction market is marked by contrasts and a good deal of variation from one country to the next.

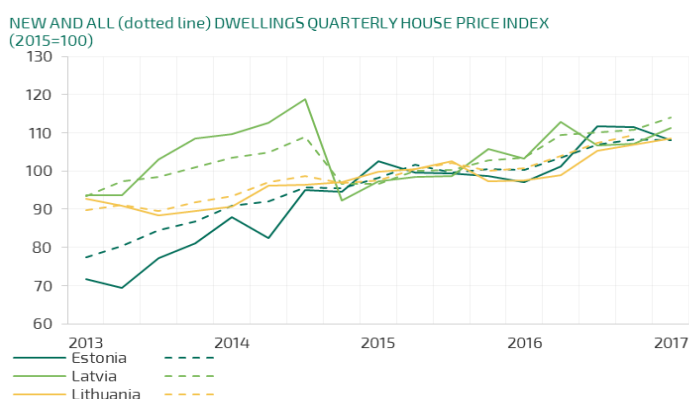
- In **Estonia**, residential real estate development continues to be active due the favourable real estate market cycle, while the pace of development of new commercial buildings is stabilizing. To continues pursue certain larger construction projects in the industrial and logistics sectors, and it is planning large-scale procurements of roads and structures. Public procurements in the field of buildings continue at a moderate pace.
- In **Latvia**, a number of construction procurements for commercial buildings and public sector building projects are in preparation. The residential real estate remains passive compared to the other Baltic capitals. Several large-scale engineering infrastructure sites will shortly be put to tender, including railway infrastructure construction.
- In **Lithuania**, demand for new commercial buildings – in particular, office buildings – is stabilizing. More public sector buildings are coming to tender, including schools, hospitals and national defence sites. The apartment building market in Vilnius continues to be active, although the transaction activity is stabilizing.
- The construction market in **Norway** is still moderately active for both new building construction and renovation, although the market activity is different by regions. The pace of new apartment buildings has decreased due to the balancing of the real estate market. Public sector investments into infrastructure are also planned.

In the construction sector, pressure on input prices increasing as well as on the existence of available resources (such as workforce) is continuing. While general contractors' price competition has become even closer and the risks are greater, for both construction companies and customers. It is important for the group to reach internal efficiency through better planning, optimum solutions and the use of new technology, while ensuring high construction quality. In the long-term, the Baltic construction market is expected to be significantly influenced by the construction of Rail Baltic, with regard to both the availability of resources and input of prices, as well as construction capacities.

## DEVELOPMENT OF APARTMENTS

The rate of growth seen in the Tallinn and Vilnius apartment markets in recent years is stabilizing. In Riga, the apartment market activity is still relatively low but there is the potential for increasing demand.

The increased supply of apartments in Tallinn and Vilnius has led to an increase in the stock of apartments offered and a certain amount of lengthening of sales periods in some projects. Above all in Estonia, and in Lithuania as well, the prices of apartments in the new developments are stabilising, which is reflected by the corresponding price index curves for new housing in the respective countries (see graph).



Source: Eurostat.

Due to the small size of the Baltic market, the volatility of the price index for new developments is somewhat greater than for the price index for all housing units sold, as the average price of new developments are impacted to a significantly greater extent by the timeframe for completion and price level of individual development projects delivered to customers.

The macroeconomic environment continues to be favourable for supporting apartment buyers' position – growth of income, low interest rates and relatively good availability of bank loans.

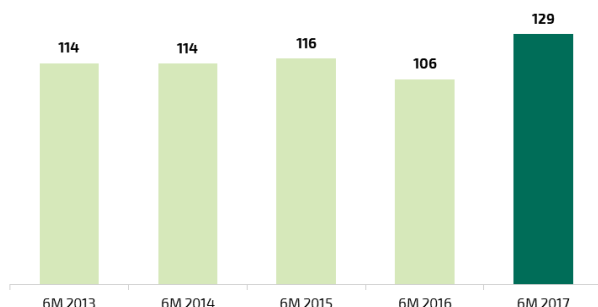


## OPERATING RESULTS

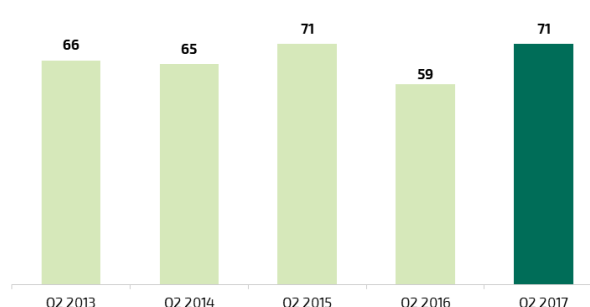
### REVENUE

Merko Ehitus group generated a total of EUR 128.8 million in revenue in 6 months of 2017 (6 months of 2016: EUR 105.6 million). Compared to 6 months of 2016 the group revenue has increased by 22%, the revenue increased in all group home markets. The additional information on change of revenue structure is provided in chapter Business activities of the Management report (page 9).

GROUP REVENUE  
in million euros



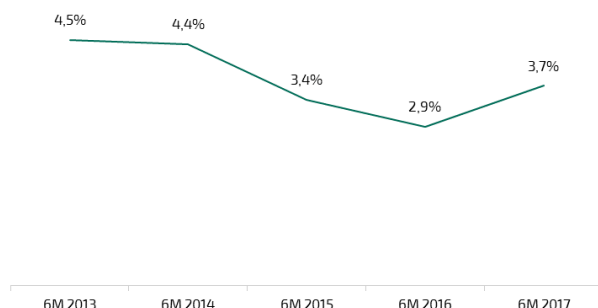
GROUP QUARTERLY REVENUE  
in million euros



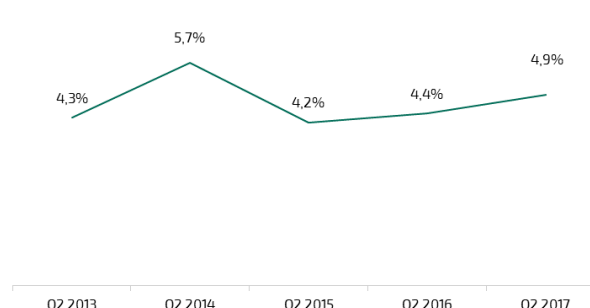
### OPERATING PROFIT

In 6 months of 2017 the group's operating profit was EUR 4.7 million (6 months of 2016: EUR 3.1 million). The 6 months operating profit margin (3.7%) has increased by 0.8 pp compared to the same period last year (6 months of 2016: 2.9%). Operating profit margin has been positively impacted by the profitability in the real estate development segment, which depends largely on the price of the land as part of the total specific project expenses and is thus different on a project basis. The group's aim is to improve the profitability in construction service domain, but the scarcity of projects and the ever-tightening competition remain a major challenge. The number of companies participating in tenders and the risk of low pricing bids is high in all three Baltic states.

GROUP OPERATING PROFIT MARGIN  
percentages



GROUP QUARTERLY OPERATING PROFIT MARGIN  
percentages



### PROFIT BEFORE TAX AND NET PROFIT

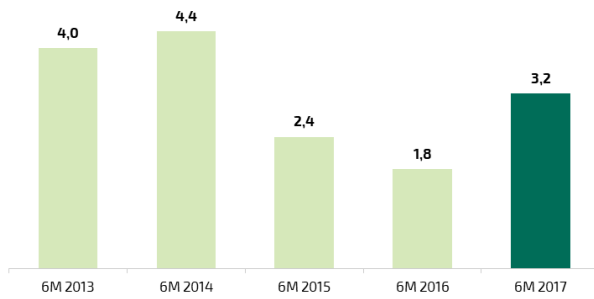
In 6 months of 2017, the group's profit before tax totalled EUR 4.4 million (6 months of 2016: EUR 2.7 million) and net profit attributable to equity holders of the parent was EUR 3.2 million (6 months of 2016: EUR 1.8 million). Group's profit before tax margin was 3.4% (6 months of 2016: 2.6%) and the net profit margin was 2.5% (6 months of 2016: 1.7%).

In Q2 of 2017, the group's pre-tax profit totalled EUR 3.3 million and net profit was EUR 2.2 million as compared to the pre-tax profit of EUR 2.4 million and net profit of EUR 1.7 million in Q2 of 2016.

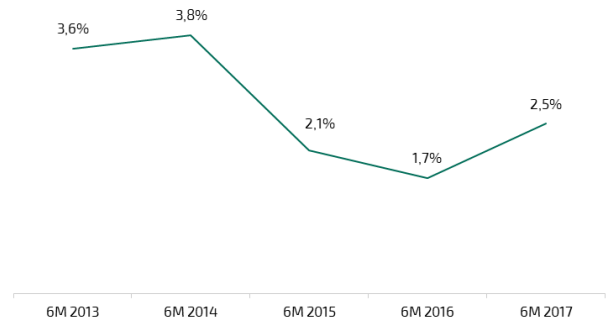
In the second quarter of 2017, the group paid EUR 7.3 million in dividends, which incurred additional income tax expense in the amount of EUR 0.9 million. The situation in the second quarter of 2016 was alike, when the group paid EUR 9.0 million in dividends, with the exception that then the group incurred additional income tax expense on dividends in the amount of EUR 0.6 million.



GROUP NET PROFIT  
in million euros



GROUP NET PROFIT MARGIN  
percentages



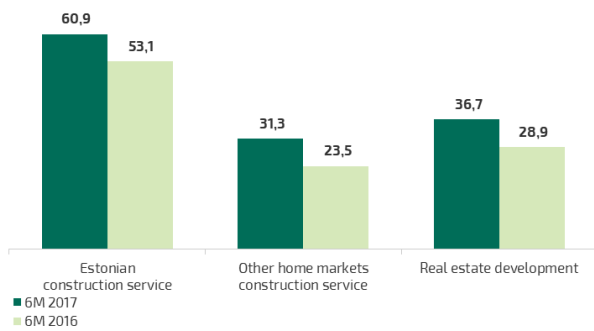
## BUSINESS ACTIVITIES

The group business reporting is divided into three business segments:

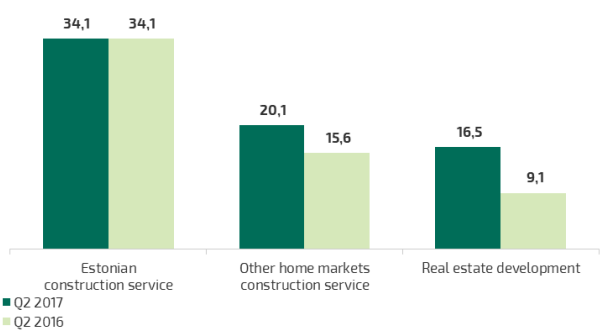
- Estonian construction service;
- other home markets construction service;
- real estate development.

See additionally the detailed management structure on page 24.

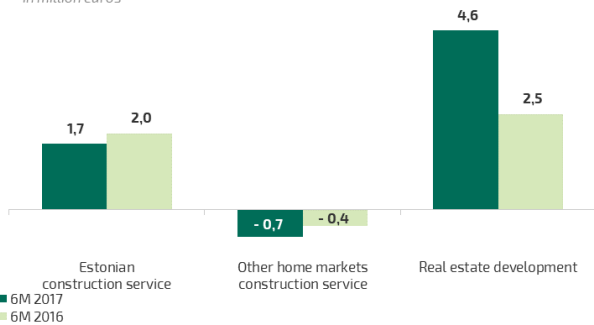
GROUP REVENUE BY SEGMENTS  
in million euros



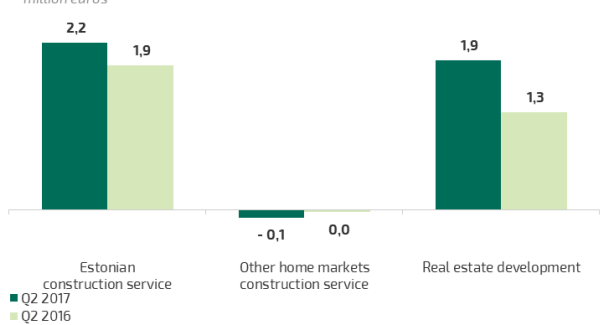
GROUP QUARTERLY REVENUE BY SEGMENTS  
in million euros



GROUP OPERATING PROFIT BY SEGMENTS  
in million euros



GROUP QUARTERLY OPERATING PROFIT BY SEGMENTS  
million euros



## ESTONIAN CONSTRUCTION SERVICE

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

million EUR

	6M 2017	6M 2016	VARIANCE	Q2 2017	Q2 2016	VARIANCE	12M 2016
Revenue	60.9	53.1	+14.6%	34.1	34.1	+0.1%	122,4
% of total revenue	47.2%	50.3%		48.3%	58.0%		48,6%
Operating profit	1.7	2.0	-13.9%	2.2	1.9	+15.7%	3,4
Operating profit margin	2.8%	3.7%		6.3%	5.5%		2,8%

In the 6 months of 2017, the revenue of the Estonian construction service segment was EUR 60.9 million (6 months of 2016: EUR 53.1 million), having increase by 14.6% from the same period last year. The 6 months revenue includes revenue from Finnish projects in the amount of EUR 0.02 million (6 months of 2016: EUR 0.4 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 6 months 2017 were 47.2% of the group's revenue, forming the largest proportion in the group's revenue.

In this segment, the group earned a operating profit of EUR 1.7 million for 6 months (6 months of 2016: EUR 2.0 million). In 6 months of 2017, the operating profit margin of the Estonian construction service segment was 2.8%, which decreased by 0.9 pp compared to the 6 months of 2016 (3.7%). The Estonian construction services market is characterised by stiff competition. The number of civil engineering projects remains small, with general construction witnessing ever-increasing competition. 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.

Our major projects in the second quarter in Tallinn included the construction works of Maakri Kvartal business complex, T1 shopping centre, Öpiku office building B, Pärnu mnt 22 office building, in Tapa construction works of the barracks in military campus depot and Viru Infantry Battalion technology park buildings and facilities, construction of the airport tram line infrastructure and construction work on the passenger, walkway at Vanasadama Harbour quay No 5. Additionally the construction works of Juuliku road junction and road section at Tallinn roundabout and the road maintenance works done under the service agreement with Tallinn county had a significant impact.

On 13th June 2017, AS Vooremaa Teed, 100% subsidiary of Tallinna Teed AS part of Merko Ehitus group, and Eesti Keskkonnateenused AS have entered 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 approximately 1.8 million euros and with the term till 31 December 2020. The transaction is approved by Estonian Competition Authority on 21th of June 2017 and is planned to be 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 and provision of civil engineering and electricity services in Latvia.

million EUR

	6M 2017	6M 2016	VARIANCE	Q2 2017	Q2 2016	VARIANCE	12M 2016
Revenue	31.3	23.5	+32.8%	20.1	15.5	+28.9%	52.7
% of total revenue	24.3%	22.3%		28.4%	26.5%		20.9%
Operating loss	(0.7)	(0.4)	+68.5%	(0.1)	(0.0)	+243.3%	(1.3)
Operating profit margin	-2.2%	-1.7%		-0.5%	-0.2%		-2.5%

The revenue of the other home markets construction service segment amounted to EUR 31.3 million in the 6 months of 2017 (6 months of 2016: EUR 23.5 million), which is 32.8% more than in the 6 months of 2016. If the other home markets construction service segment revenues of 6 months of 2016 formed 22.3% of the group's revenue, then during 6 months of the current year the segments revenues increased to 24.3%.

Merko's position among Latvia general contractors is currently strong and we see opportunities for growing our business volumes. In Lithuania, we are continuing our strategic plan to focus on external 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, the group is mainly performing smaller-scale agreements, while actively working on building project management capability and systems to conclude larger general contracting agreements. The group's continued focus is on increasing the revenues outside Estonia.

The 6 months operating loss of the other home market construction service segment amounted to EUR 0.7 million (6 months of 2016: operating loss EUR 0.4 million) and the operating profit margin was negative 2.2% (6 months of 2016: negative 1.7%). The operating result was affected by the realisation of the risks associated with a particular contract for construction, higher overhead costs compared to the revenue posted in the first half-year, and the pressure exerted on input prices.

In the second quarter of 2017, the main ongoing projects included in the other home markets construction service segment were in Vilnius the construction works of Narbuto 5 office building, the construction works of Kauno/Algirdo residential complex with office premises and the design and construction works of Radisson Blu Hotel Lietuva extension, in Klaipeda the reconstruction and extension construction works of Philip Morris plant. In Riga the construction works of Multifunctional Centre Akropole, construction works of Cēsu 9 apartment building. In Jūrmala the construction works of Jasmīnu 10 residential complex and in Ventspils the construction works of music school and concert hall and design and in Oslo construction works of an extension of a building at Blakstad Hospital.

## 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

	6M 2017	6M 2016	VARIANCE	Q2 2017	Q2 2016	VARIANCE	12M 2016
Revenue	36.7	28.9	+26.8%	16.5	9.1	+80.9%	76.9
% of total revenue	28.5%	27.4%		23.3%	15.5%		30.5%
Operating profit	4.6	2.5	+87.4%	1.9	1.3	+53.5%	7.5
Operating profit margin	12.6%	8.5%		11.7%	13.8%		9.7%

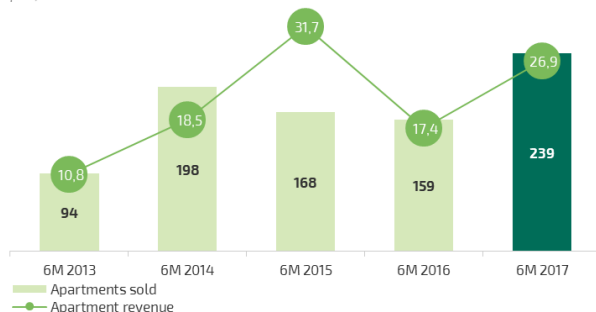
The group sold a total of 239 apartments (incl. 1 apartment in a joint venture) in 6 months of 2017 at the total value of EUR 26.9 million (excl. VAT), compared to 159 apartments and EUR 17.4 million in 6 months of 2016. In Q2 of 2017 a total of 98 apartments were sold at the total value of EUR 10.5 million (excl. VAT), (Q2 2016: 58 apartments and EUR 6.0 million). In 6 months of 2017, the group didn't sell immovable properties (6 months of 2016: EUR 8.6 million and Q2 2016: EUR 1.1 million). The construction service revenue from projects developed by joint ventures in 6 months of 2017 was EUR 6.2 million (6 months of 2016: EUR 1.5 million).

In 6 months of 2017 real estate development segment revenues have increased by 26.8% compared to the same period last year. The growth is primarily influenced by the increase of amount of sold apartments.

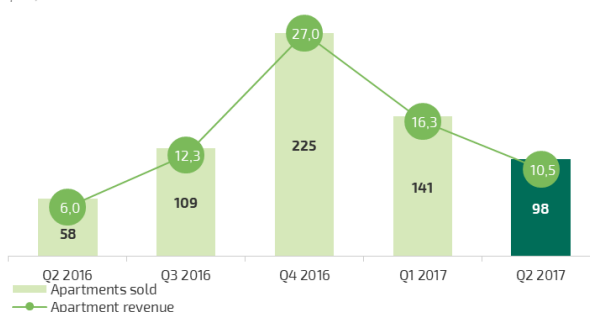
In the 6 months of 2017 the share of revenue from the real estate development segment formed 28.5% of the group's total revenue (6 months of 2016: 27.4%).

The 6 months operating profit of the segment amounted to EUR 4.6 million (6 months of 2016: EUR 2.5 million) and the operating profit margin was 12.6% (6 months of 2016: 8.5%), which increased by 4.1 pp compared to the same period previous year.

APARTMENTS SOLD AND APARTMENT REVENUE  
pcs / in million euros

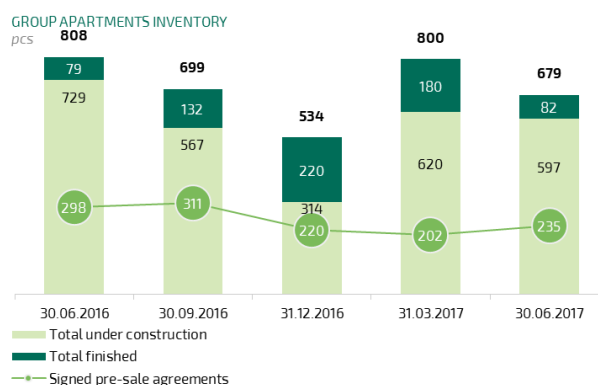


APARTMENTS SOLD AND APARTMENT REVENUE  
pcs / in million euros



At the end of the period, group's inventory comprised 235 apartments where a preliminary agreement had been signed: 13 completed apartments (10 in Estonia, 1 in Latvia and 2 in Lithuania) and 222 apartments under construction (131 in Estonia, 40 in Latvia and 51 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 30 June 2017, the group had a total of 444 apartments for active sale (as at 30 June 2016: 510 apartments), for which there are no pre-sale agreements and of which 69 have been completed (47 in Estonia, 8 in Latvia and 14 in Lithuania) and 375 are under construction (164 in Estonia, 142 in Latvia and 69 in Lithuania).



#### APARTMENT PROJECTS IN PROGRESS AND INDICATIVE DATE OF COMPLETION

PROJECT	PLACE/COUNTRY	COMPLETION DATE	NO OF UNSOLD APARTMENTS *	INCL. PRE-SOLD APARTMENTS
Grostonas 17	Riga, Latvia	Completed	1	-
Grostonas 19	Riga, Latvia	Completed	1	1
Grostonas 21	Riga, Latvia	Completed	1	-
Fiziku 8	Vilnius, Lithuania	Completed	5	-
Tartu road 52 stage I & II	Tallinn, Estonia	Completed	52	9
Jahu 1a	Tallinn, Estonia	Completed	1	-
Kaupmehe 9	Tartu municipality, Estonia	Completed	1	1
Sõpruse avenue 33	Tallinn, Estonia	Completed	3	-
Krokovos 73	Vilnius, Lithuania	Completed	11	2
Grostonas 12 stage I (Skanstes Parks)	Riga, Latvia	Completed	6	-
			<b>82</b>	<b>13</b>
Grostonas 12 stage II (Skanstes Parks)	Riga, Latvia	Q3 of 2017	86	30
Staapli 4 (Noblessner Homeport) ***	Tallinn, Estonia	End of 2017	66	32
Paepargi 53 (Paepargi towers)	Tallinn, Estonia	End of 2017	60	51
			<b>212</b>	<b>113</b>
<b>Started in 2017</b>				
Gaiļezers stage I (Gaiļezers nami)	Riga, Latvia	End of 2017	96	10
Ceikiniu 3 (Rinktinės Urban) **	Vilnius, Lithuania	Second half of 2018	120	51
Staapli 3 (Noblessner Homeport) *** / **	Tallinn, Estonia	End of 2018	103	27
Paepargi 43 and 47 (Paepargi)	Tallinn, Estonia	Summer of 2018	66	21
			<b>385</b>	<b>109</b>
<b>Total</b>			<b>679</b>	<b>235</b>

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

\*\* The number of apartments has corrected due changes in project.

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

In 6 months of 2017, the group launched the construction of a total of 385 new apartments in the Baltic states (6 months of 2016: 284 apartments). In the 6 months of this year, the group has invested a total of EUR 18.4 million (6 months of 2016: EUR 25.1 million) in new development projects launched in 2017 as well as projects already in progress.

The group will continue to invest in residential real estate projects and in 2017, the group plans to launch the construction of approximately 650-700 (incl. 60-160 apartments in joint ventures) new apartments in the Baltic states. In 2016, construction was started on 344 apartments. The investment level in 2017 in both development projects initiated in previously and new projects to be launched in 2017 is in the range of EUR 45 million (2016: EUR 53.6 million invested).

One of group's objectives is to keep a moderate portfolio of land plots to ensure stable inventory of property development projects considering the market conditions. At 30 June 2017, the group's inventories included land plots with the development potential, where the construction works have not started, of EUR 67.0 million (30.06.2016: EUR 50.3 million).

#### GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	30.06.2017	30.06.2016	31.12.2016
Estonia	26.6	8.9	26.6
Latvia	31.9	32.3	28.1
Lithuania	8.5	8.9	8.5
<b>Total</b>	<b>67.0</b>	<b>50.3</b>	<b>63.2</b>

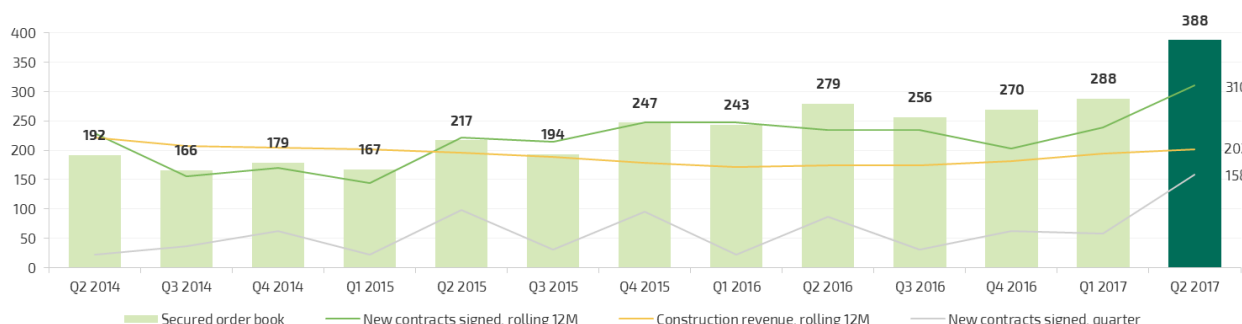
In the 6 months of 2017, the group has purchased new land plot, at an acquisition cost of EUR 4.1 million, for real estate development purposes (6 months of 2016: no new land plot acquisitions). In Q1 of 2017, the group acquired an approximately 1.5-hectare development area between Rūpniecības and Pētersalas streets in the heart of Riga, allowing to build nearly 350 apartments in the upcoming years.

After the balance sheet date, on 31 July 2017, AS Merko Ehitus purchased immovable properties located on the Maarjamäe limestone cliff in the Lasnamäe district of Tallinn to support group's long-term residential development strategy in Estonia. Considering the registered immovables in this area that were already owned by the group, there is now potential to establish a total of around 1,500 apartments. The development has a long-term perspective and will take place in multiple phases.

## SECURED ORDER BOOK

As at 30 June 2017, the group's secured order book amounted to EUR 387.5 million as compared to EUR 279.4 million as at 30 June 2016, having increased by approximately 38,7% in the annual comparison. The secured order book excludes the group's own residential development projects and construction work related to developing real estate investments.

SECURED ORDER BOOK  
in million euros



In 6 months of 2017, EUR 216.6 million worth of new contracts were signed (without own developments) as compared to EUR 109.0 million in same period last year. The value of new contracts signed (without own developments) in the second quarter of 2017 amounted to EUR 158.0 million, which included the multifunctional centre Akropole construction contract in the amount of EUR 100.0 million.

## LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE SECOND QUARTER OF 2017

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	COST MILLION EUR
Contract to perform construction works of multifunctional centre Akropole in Riga	Latvia	January of 2019	100.0
Construction contract for the completion of construction of multifunctional Z-Towers Complex in Riga	Latvia	September of 2018	36.0
Construction contract for the constructing an extension to the complex of the air traffic control centre in Tallinn	Estonia	May of 2018	5.2

In the second quarter of 2017, AS Merko Ehitus 100% subsidiary SIA Merks concluded a 100-million euro contract for construction of the multifunctional Akropole centre in Riga. The main contractor, SIA Merks, has engaged UAB Mitnija as a 50:50 partner in the management of the project. The contract is fully included in the secured order book, as SIA Merks remains directly responsible to the contracting entity.

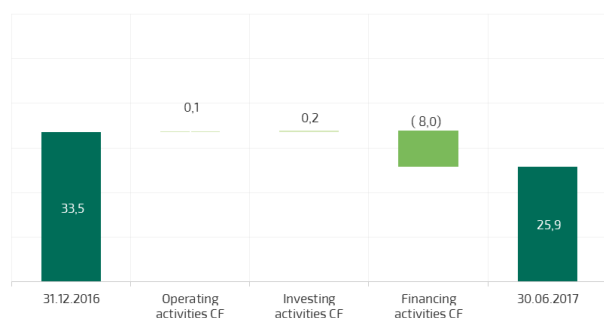
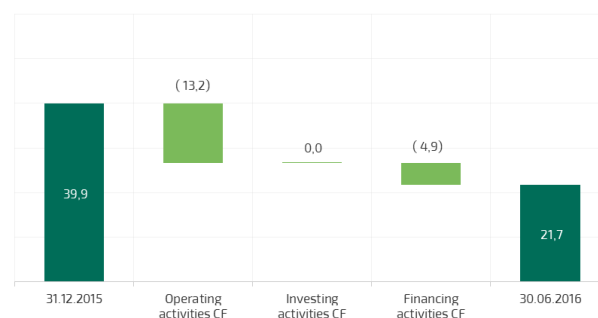
Of the contracts signed in the 6 months of 2017, private sector orders accounted for the majority proportion, which is also represented in the group's secured order book as at the end of the reporting period, where private sector orders from projects in progress constitute approximately 82% (30.06.2016: approximately 80%).

After the balance sheet date, on 10 July 2017, the group concluded one large construction contract. AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and Trading House Property OÜ entered into a contract to perform the design and construction works, which includes the extension and partial rebuilding of the existing production building of Wendre, located at Lina 31, Pärnu. The contract value is approximately EUR 6.0 million.

Traditionally the share of Estonian construction activity has been the highest in the group's revenues. Given the growth outlook of the Estonian construction market, the group's goal is to increase the volume of construction orders from outside Estonia. Thus, we will continue to identify and strengthen the groups competitive advantages and are closely monitoring the development and opportunities both in the Baltic states and Nordic countries. The group will focus to Norwegian market and continue to take part in various individual Finnish construction procurements in a selective and project-based manner in the Nordic countries.

## CASH FLOWS

As at 30 June 2017 the group had cash equivalents in the amount of EUR 25.9 million (30.06.2016: EUR 21.7 million). The group's financial position is continually strong, the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As at end of the period, the group entities had concluded overdraft contracts with banks in the total amount of EUR 11.2 million, of which EUR 10.6 was unused (30.06.2016: EUR 26.3 million, unused was EUR 23.1 million). In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million (30.06.2016: EUR 3.5 million) from AS Riverito, which has not been withdrawn at the end of current and previous financial periods.

CHANGE IN CASH AND CASH EQUIVALENTS  
in million eurosCHANGE IN CASH AND CASH EQUIVALENTS  
in million euros

The 6-month cash flow from operating activity was positive at EUR 0.1 million (6 months of 2016: negative EUR 13.2 million), cash flow from investing activity was positive at EUR 0.2 million (6 months of 2016: EUR 0.0 million) and the cash flow from financing activity was negative at EUR 8.0 million (6 months of 2016: negative EUR 4.9 million).

To support cash flows arising from operating activity, the group has been cautious in raising additional external capital, including factoring. At the same time, the debt ratio has remained at a moderate level (18.3% as at 30.06.2017; 16.2% as at 30.06.2016; 19.3% as at 31.12.2016).

Cash flows from investing activities include negative cash flow from the acquisition of non-current asset in the amount of EUR 1.0 million (6 months of 2016: EUR 1.7 million) and the positive cash flow from the sale of non-current assets in the amount of EUR 1.1

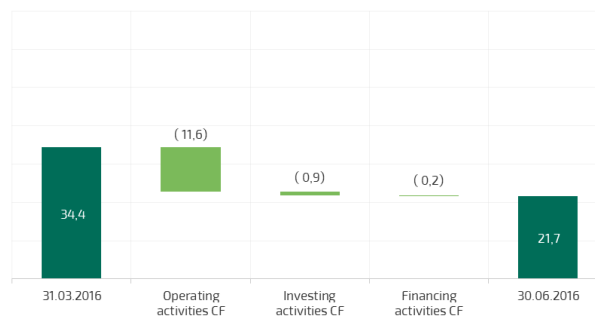
million (6 months of 2016: EUR 0.4 million). The group mainly invested in non-current assets for the purpose of renewing its fleet of machinery in the road construction.

The largest single negative item in cash flows from financing was the dividend payment of EUR 7.3 million (6 months of 2016: EUR 9.0 million). In addition, bank loans totalling EUR 15.4 million, raised in order to acquire the registered immovables, had a major influence. At the end of 2016 EUR 12.5 million was engaged as a short-term loan from the parent company AS Riverito to purchase the Veerenni development area. The loan was refinanced at the beginning of 2017 with long-term loans from various credit institutions. In Q2 of 2017, a EUR 2.9 million bank loan was raised to finance the development area located between Rūpniecības and Pētersalas streets in Riga, Latvia, purchased in Q1.

QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



The Q2 2017 cash flow from operating activity was negative at EUR 5.5 million (Q2 2016: negative EUR 11.6 million), cash flow from investing activity was positive at EUR 0.3 million (Q2 2016: negative EUR 0.9 million) and the cash flow from financing activity was negative at EUR 2.8 million (Q2 2016: negative EUR 0.2 million).

The quarterly cash flows from operating activities were negative primarily as a result of the need for working capital for construction projects due to the start of the construction season and to cover investments in development projects. Cash flows from operating activities was also negatively impacted by the corporate income tax paid EUR 1.0 million (Q2 2016: EUR 1.1 million).



## RATIOS

(attributable to equity holders of the parent)

		6M 2017	6M 2016	6M 2015	Q2 2017	Q2 2016	Q2 2015	12M 2016
<b>Income statement summary</b>								
Revenue	million EUR	128.8	105.6	116.2	70.7	58.7	70.6	252.0
Gross profit	million EUR	10.2	8.5	8.9	6.1	5.4	5.4	19.0
Gross profit margin	%	7.9	8.0	7.7	8.6	9.3	7.6	7.5
Operating profit	million EUR	4.7	3.1	4.0	3.5	2.6	3.0	7.7
Operating profit margin	%	3.7	2.9	3.4	4.9	4.4	4.2	3.1
Profit before tax	million EUR	4.4	2.7	3.6	3.3	2.4	2.7	7.3
PBT margin	%	3.4	2.6	3.1	4.6	4.1	3.9	2.9
Net profit	million EUR	3.2	1.8	2.4	2.2	1.8	1.6	6.0
attributable to equity holders of the parent	million EUR	3.2	1.8	2.4	2.2	1.7	1.6	6.1
attributable to non-controlling interest	million EUR	(0.0)	(0.0)	(0.0)	0.1	0.1	0.0	(0.1)
Net profit margin	%	2.5	1.7	2.1	3.1	2.9	2.3	2.4
<b>Other income statement indicators</b>								
EBITDA	million EUR	6.0	4.6	5.6	4.1	3.4	3.7	11.2
EBITDA margin	%	4.7	4.3	4.8	5.9	5.8	5.2	4.4
General expense ratio	%	5.1	6.2	5.0	4.5	5.7	4.0	5.3
Labour cost ratio	%	11.7	13.9	12.0	10.4	13.8	10.8	11.7
Revenue per employee	thousand EUR	169	138	154	93	77	93	325

<b>OTHER SIGNIFICANT INDICATORS</b>		30.06.2017	30.06.2016	30.06.2015	31.12.2016
Return on equity	%	6.2	7.7	8.4	5.0
Return on assets	%	3.2	4.4	4.3	2.8
Return on invested capital	%	5.9	7.5	8.0	5.1
Equity ratio	%	49.3	54.8	54.3	51.6
Debt ratio	%	18.3	16.2	15.6	19.3
Current ratio	times	2.8	2.8	2.5	2.9
Quick ratio	times	1.2	1.1	1.0	1.1
Accounts receivable turnover	days	39	36	47	37
Accounts payable turnover	days	37	37	41	38
Average number of employees	people	764	765	757	776
Secured order book	million EUR	387.5	279.4	217.2	269.6

Ratio definitions are provided on page 28 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. The company considers it important to assess aggregate group risks, instead of the impact factors of individual risks. Turning constant attention to risk management enables to exclude or minimise a possible financial loss. The following are deemed by the company to be the most significant risks: market risk, operational risk and financial risk, including interest rate risk, foreign currency risk, credit risk, liquidity risk, equity risk and legal risks.

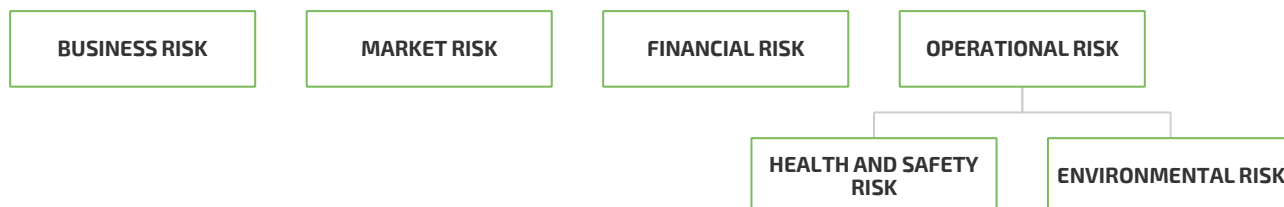
Because of the group's balance sheet structure and the market position, none of these risks has a significant impact as at the date of this report.



The company manages risks so as to achieve its strategic and financial objectives.

Group risk management is coordinated by the management board. In addition, the management board of each subsidiary develops, implements and maintains processes covering subsidiary's activities for the management of all material risks impacting the activity and results of the group. Each group company and business unit must ensure that risks are managed on an ongoing basis with reference to the objectives it has been assigned. Risk-taking is a normal part of business but in doing so, one must be convinced that if the risk materialises, purposeful and sustainable activity is maintained with reference to the strategy of the company and business unit. The group assesses ongoing business risks and risks affecting investments in a calculated manner.

Merko Ehitus divides risks into four main categories:



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 30 June 2017, a provision has been set up at the group in the amount of EUR 0.1 million (30.06.2016: EUR 0.1 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 30.06.2017 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 made 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. The Supreme Court has not yet decided whether to hear the appeals.

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 13 February 2015, Suur-Paekalda OÜ and Väike-Paekalda OÜ filed a joint action to Tallinn Administrative Court obliging the Ministry of the Environment to decide on the acquisition of the immovable properties at Paekalda tn 5, 6, 6a and 11 within two months of the entry into force of the court decision, or, alternatively, in order to order the Land Board and the Ministry of the Environment to bring to a close without delay the proceedings on the acquisition of the immovable properties at Paekalda tn 5, 6, 6a and 11 (administrative matter no. 3-15-386). The plaintiffs also requested to establish the unlawfulness of the delay on the part of the Land Board and the Ministry of the Environment in processing the plaintiffs' joint request of 16 May 2006. Tallinn Administrative Court turned down the appeal; however, Tallinn Circuit Court in its decision of 6 April 2017 partially upheld the complaint in regard to compelling the institutions. The decision has been appealed to the Supreme Court. The court has not yet decided whether to hear the appeal.

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 (amount to be determined) and approximately EUR 1.6 million to Väike-Paekalda (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.

The proceedings on acquisition of the registered immovable properties at Paekalda tn 4a, 5, 6, 6a and 11 were ended by Minister of the Environment directive of 4 May 2017. Suur-Paekalda OÜ and Väike-Paekalda OÜ challenged the directive in Tallinn Administrative Court.

### **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 following court hearing which was scheduled to take place on 11 April 2017, but postponed due to the illness of the judge and scheduled on 23 of November 2017. Besides - the criminal proceeding against Rolands Mēnesis has been initiated as well (Article 179 of Criminal Law), the investigation in this process is still being performed and within three month period will be submitted to the prosecutor's office.

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. To the knowledge of SIA Merks, Rolands Mēnesis has appealed the decision made. Furthermore, Rolands Mēnesis has submitted an application for extra-judicial adjudication, and had until 3 February 2017 to present his own proposal for a compromise solution. SIA Merks did not received any noteworthy proposals from Rolands Mēnesis. The case will be reviewed by Riga Regional court as an appeal institution on 16th of August 2017.

### **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 (hereinafter "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 Vilniaus vandenys, both the construction period became longer and also additional works were carried out – works that the customer later refused to pay for. The potential positive outcome of this claim is not recognised in the group's financial reporting. In the hearing on 2 February 2017 the plaintiffs asked the court to appoint a court expertise. The following court hearing is scheduled for 4 October 2017.

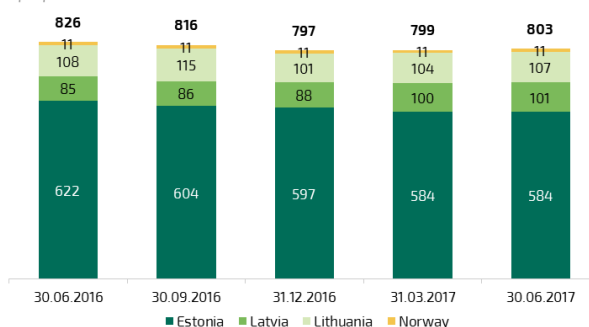
## EMPLOYEES AND LABOUR COSTS

As of 30 June 2017, Merko Ehitus Group employed 803 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 23 (-2.8%). The number of employees has increased mainly due to increase of construction volumes in Latvia and decreased somewhat in Estonia.

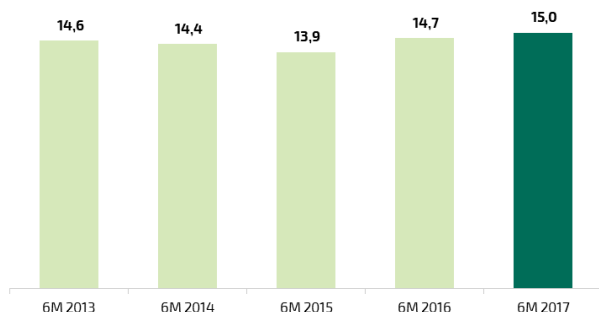
Professionals in the corresponding specialities who possess longstanding experience – this is the company's key value. The group's objective is to pay its employees competitive salary. The interests of employees and the company are balanced by performance-based remuneration.

The group defines labour cost as salary (incl. fixed salary, additional pay, holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 6 months 2017, the labour cost was EUR 15.0 million (6 months 2016: EUR 14.7 million), which has increased by 2.1% compared to the same period previous year, while the labour cost ratio decreased by 2,2 pp from 13.9% to 11.7%.

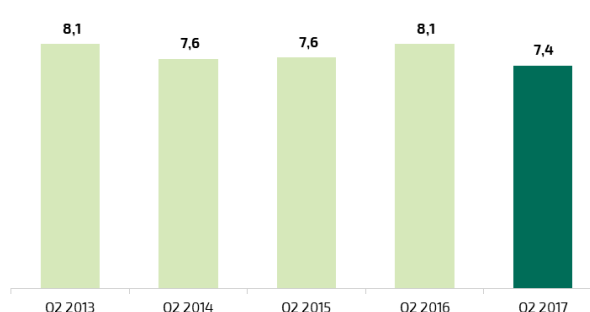
NUMBER OF EMPLOYEES BY COUNTRY  
people



LABOUR COST  
in million euros



QUARTERLY LABOUR COST  
in million euros



AS Merko Ehitus Eesti, the largest Estonian construction company belonging to the Merko Ehitus group, has paid 3.3 million euros labour taxes in Estonia in 2017 6 months and is the largest labour tax payer in the construction sector in the first half of 2017.

## ETHICAL BUSINESS PRACTICES

Merko's core values include ethical business practices, which is an important success factor in the long run. By following highly ethical policies, we promote profitable growth, gain the trust of our stakeholders and support fair competition and equal treatment. Unethical business practices carry serious consequences – including hindering the functioning of a fair market and distorting competition.

AS Merko Ehitus has zero tolerance for corruption in any form. We do business honestly, obey anti-corruption laws, 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/>. With the aim of stopping any unethical conduct in its tracks and preventing potential losses to the company, employees, partners and customers can report documented or possible unethical conduct through various anonymous channels. For an overview of these channels, visit the website <http://group.merko.ee/en/corporate-governance-2/responsibility/reporting-channels/>. Each reported misconduct will be investigated by an independent cooperation partner, and will lead to appropriate action.

## RECOGNITIONS IN 2017

In 2017, the activities of AS Merko Ehituse have been recognised in the form of the following prizes:

### BALTIC MARKET AWARD 2016

At an award gala held in the first quarter of 2017 – the Baltic Market Awards 2016 - NASDAQ Baltic stock exchanges announced the companies of the year with the best investor relations. The goal of the competition was to raise the general level of investor relations among listed companies by recognizing the ones that stood out during the year with first-class investor relations. In 2016, the publicly listed companies received awards in five categories; in addition, the year's best stock exchange member was selected. 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".



### BUILDING OF THE YEAR 2016

SIA Merks received two awards in the "Newly erected public building" category of the "The Year's Best in Latvia 2016" competition in Latvia. The grand prize went to [Exupery International School in Pinki](#), half way between Riga and Jurmala. The new school building accommodates 200 pupils, with more than 120 kindergarten places. Second prize went to the Riga-based [congregation house](#) (Church of Jesus Christ of Latter-day Saints).

### THE EUROPEAN UNION PRIZE FOR CULTURAL HERITAGE / EUROPA NOSTRA AWARDS

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. A total of 29 laureates from 18 countries were recognised for their outstanding accomplishments. Juries of independent experts reviewed 202 nominees for the award by individuals and organisations from 39 countries across Europe and then selected the laureates.

The project focused on the conservation of the retable of the high altar in St. Nicholas' Church. The retable is one of the grandest and best-preserved North German altars from the Late Middle Ages. It arrived in Tallinn in 1481 and has remained in its place for more than 500 years. More than 6 metres in width and 3.5 metres in height when opened, the conservation work on the retable can also be viewed on site at the muuseum.



KINDERGARTEN AND SCHOOL BUILDINGS COMPLEX IN PINKI.



## SHARE AND SHAREHOLDERS

### INFORMATION ON SECURITY

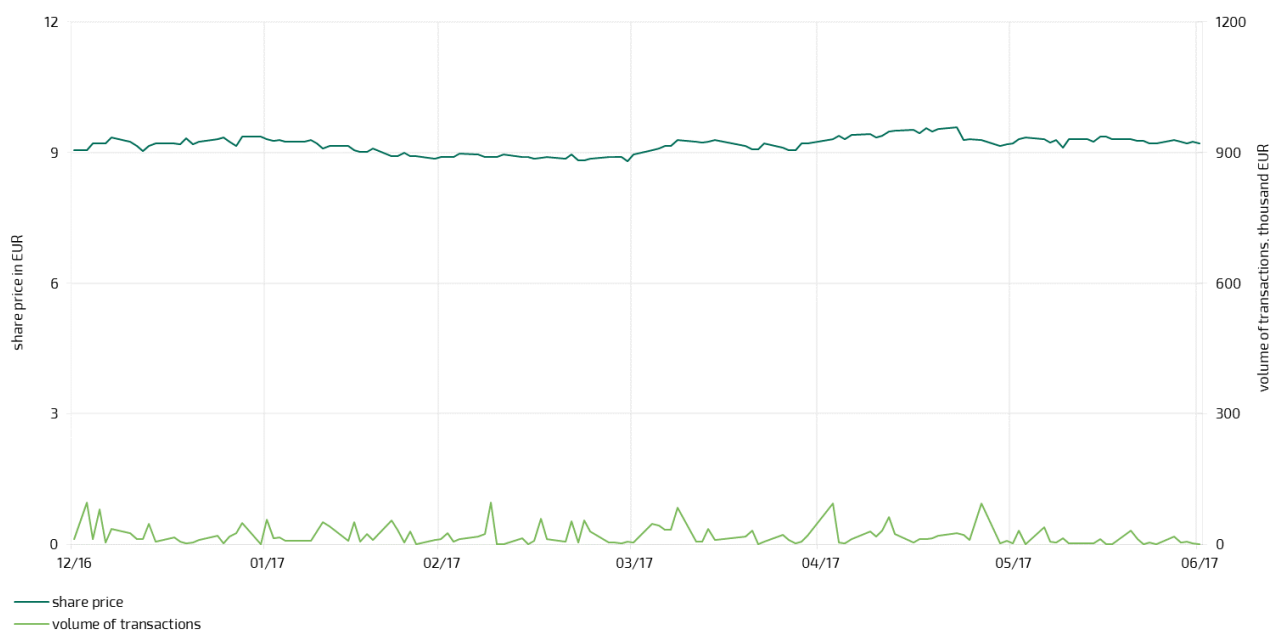
Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRK1T
Residency of issuer	Estonia
Stock Exchange List	NASDAQ Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	without nominal value
Number of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR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

The shares of Merko Ehitus are listed in the Main List of NASDAQ Tallinn. As at 30 June 2017, the company has 17,700,000 shares. The number of shares has not changed during 2017.

A total of 1,179 transactions were conducted with the shares of Merko Ehitus in 6 months of 2017, with 0.27 million shares (1.5% of total shares) traded, generating a turnover of EUR 2.49 million (comparable figures in 6 months 2016 were accordingly: 1,403 transactions with 0.40 million shares traded (2.2% of total shares) and generating a turnover of EUR 3.35 million). The lowest share price amounted to EUR 8.75 and the highest to EUR 9.58 per share (6 months of 2016: EUR 7.60 and EUR 9.22). The closing price of the share was EUR 9.2 on 30 June 2017 (30.06.2016: EUR 7.91; 31.12.2016: EUR 9.05). As at 30 June 2017, the market value of AS Merko Ehitus amounted to EUR 162.8 million, which has increased by 16.3% compared to the same period end last year (30.06.2016: EUR 140.0 million; 31.12.2016: EUR 160.2 million).

	30.06.2017	30.06.2016	30.06.2015	31.12.2016
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.18	0.10	0.14	0.35
Equity per share, euros	6.87	6.94	7.05	6.90
P/B ratio	1.34	1.14	1.19	1.31
P/E ratio	21.68	14.89	14.19	26.17
Market value, million EUR	162.8	140.0	148.7	160.2

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



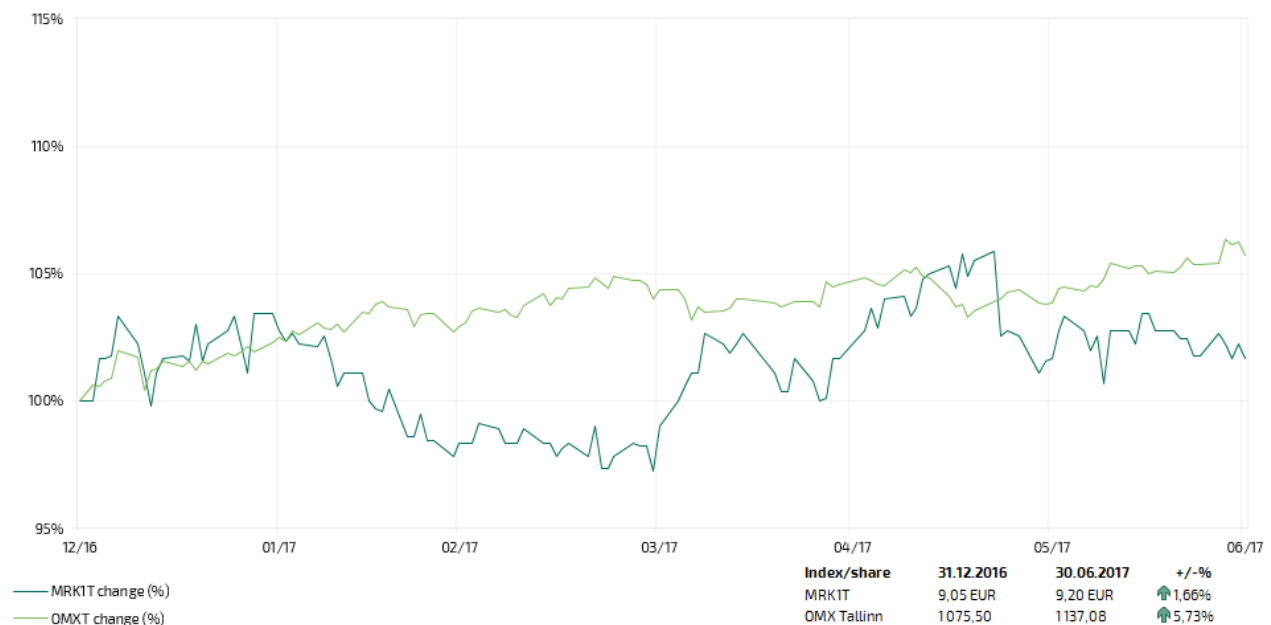
## STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 30.06.2017

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	0.56%	2,797,913	15.81%
10,001 - 100,000	34	1.74%	1,016,888	5.75%
1,001-10,000	263	13.45%	734,697	4.15%
101-1,000	977	49.97%	372,692	2.11%
1-100	669	34.22%	35,124	0.20%
<b>Total</b>	<b>1,955</b>	<b>100%</b>	<b>17,700,000</b>	<b>100%</b>

## SHAREHOLDERS OF AS MERKO EHITUS AS AT 30.06.2017 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 30.06.2017	% OF TOTAL 31.03.2017	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	215,660	1.22%	1.29%	(12,221)
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
OÜ Midas Invest	149,525	0.84%	0.78%	+11,040
SEB Elu- ja Pensionikindlustus AS	143,887	0.81%	0.81%	-
Firebird Fund L.P.	131,331	0.74%	0.74%	-
<b>Total largest shareholders</b>	<b>15,326,068</b>	<b>86.59%</b>	<b>86.65%</b>	<b>(1,181)</b>
Total other shareholders	2,373,932	13.41%	13.35%	1,181
<b>Total</b>	<b>17,700,000</b>	<b>100%</b>	<b>100%</b>	<b>-</b>

## 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 §50 section 1<sup>1</sup> AS Merko Ehitus can pay certain portion of dividends without any additional income tax expense and liabilities occurring due to previously received and taxed distribution of profits from subsidiaries. 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 a place on 26 May 2017.

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



\* Using share price as at 31.12

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

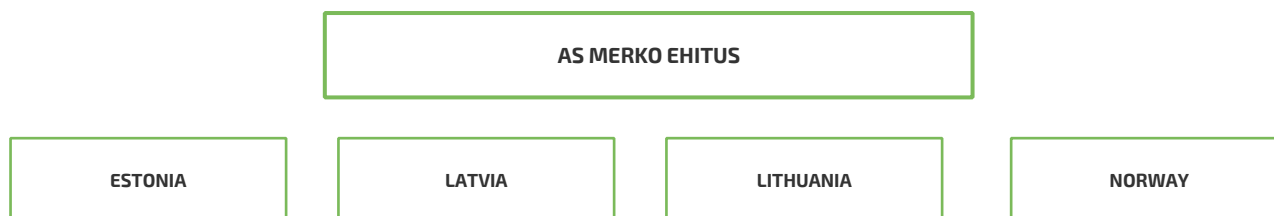
## CORPORATE GOVERNANCE AND STRUCTURE

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 will be 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 in pages 25-26 and Note 16 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at [group.merko.ee](http://group.merko.ee).

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 30 June 2017, the management structure is as follows:



## GROUP'S LEGAL STRUCTURE

As at 30 June 2017, the group comprises 41 companies (30.06.2016: 46; 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 will be made in the second half of 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 will be completed and the deletion entry to the Commercial Register is expected to be made during second half of 2017.

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 will be completed and the final merger entry in the Commercial Register will be done during the third quarter of 2017.

On 25 June 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 merge agreement, the acquiring company is Tallinna Teede AS. Because of the merge AS Vooremaa Teed will wind up without liquidation proceedings. The merge 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 will be made in the second half of 2017.

After the balance sheet date, on 31th 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 approximately 4.5 million euros and the completion of transaction took place on 4th August 2017 after the payment of purchase price. 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.

## 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) 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 October 31st 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 Kükim (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 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 at 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 30 June 2017, the Supervisory Board of AS Merko Ehitus had three members of whom, in accordance with the requirements of the Good Governance Code, is Indrek Neivelt 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 all shareholders and ensures 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.

The Management Board AS 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 30 June 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 Voorema Teed	Jüri Läll (Chairman), Jüri Helila, Edna Roosik	Toomas Tootsi
AS Merko Tartu	Jaan Mäe (Chairman), Veljo Viitmann, Alar Lagus	Juhan Varik, Mihkel Mugur
OÜ Merko Investments	-	Andres Trink, Signe Kukin
SIA Merks	Andres Trink (Chairman), Tõnu Toomik, Signe Kukin	Oskars Ozoliņš (Chairman), Jānis Šperbergs
SIA Merko Investments	-	Andres Trink (Chairman), Oskars Ozoliņš
UAB Merko Statyba	Andres Trink (Chairman), Tõnu Toomik, Signe Kukin	Saulius Putrimas (Chairman), Jaanus Rästas
OÜ Merko Property	-	Andres Trink, Signe Kukin
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. 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.

## 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	=	$\frac{\text{Share price 30.06}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 30.06}}{\text{Equity per share (average of the current 4 quarters)}}$
Market capitalisation	=	Share price 30.06 x Number of shares

## 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

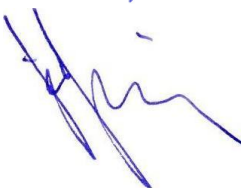
Chairman of the Management Board



10.08.2017

Tõnu Toomik

Member of the Management Board



10.08.2017



# CONSOLIDATED FINANCIAL STATEMENT

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2017 6 months	2016 6 months	2017 II quarter	2016 II quarter	2016 12 months
Revenue	2	128,807	105,563	70,660	58,743	251,970
Cost of goods sold	3	(118,627)	(97,066)	(64,601)	(53,308)	(232,961)
<b>Gross profit</b>		<b>10,180</b>	<b>8,497</b>	<b>6,059</b>	<b>5,435</b>	<b>19,009</b>
Marketing expenses		(1,638)	(1,669)	(778)	(901)	(3,281)
General and administrative expenses		(4,918)	(4,868)	(2,400)	(2,451)	(10,076)
Other operating income		1,226	1,244	659	596	2,466
Other operating expenses		(133)	(124)	(76)	(82)	(399)
<b>Operating profit</b>		<b>4,717</b>	<b>3,080</b>	<b>3,464</b>	<b>2,597</b>	<b>7,719</b>
Finance income/costs		(362)	(341)	(206)	(161)	(440)
incl. finance income/costs from joint ventures		(2)	(46)	(30)	(29)	163
finance income/costs from other long-term investments		-	1	-	1	2
interest expense		(347)	(299)	(174)	(143)	(610)
foreign exchange gain (loss)		(1)	(7)	(3)	1	(6)
other financial income (expenses)		(12)	10	1	9	11
<b>Profit before tax</b>		<b>4,355</b>	<b>2,739</b>	<b>3,258</b>	<b>2,436</b>	<b>7,279</b>
Corporate income tax expense		(1,113)	(942)	(995)	(668)	(1,275)
<b>Net profit for financial year</b>		<b>3,242</b>	<b>1,797</b>	<b>2,263</b>	<b>1,768</b>	<b>6,004</b>
incl. net profit attributable to equity holders of the parent		3,211	1,823	2,182	1,711	6,122
net profit attributable to non-controlling interest		31	(26)	81	57	(118)
<b>Other comprehensive income, which can subsequently be classified in the income statement</b>						
Currency translation differences of foreign entities		(30)	8	(27)	10	19
<b>Comprehensive income for the period</b>		<b>3,212</b>	<b>1,805</b>	<b>2,236</b>	<b>1,778</b>	<b>6,023</b>
incl. net profit attributable to equity holders of the parent		3,182	1,830	2,157	1,720	6,140
net profit attributable to non-controlling interest		30	(25)	79	58	(117)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.18	0.10	0.12	0.09	0.35

The notes set out on pages 34-46 are an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	30.06.2017	30.06.2016	31.12.2016
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	5	25,864	21,702	33,544
Trade and other receivables	6	63,775	46,025	45,566
Prepaid corporate income tax		625	356	617
Inventories	7	120,256	110,737	123,364
		<b>210,520</b>	<b>178,820</b>	<b>203,091</b>
<b>Non-current assets</b>				
Long-term financial assets	8	12,881	17,316	15,805
Deferred income tax assets		1,325	1,424	1,325
Investment property	9	3,979	4,239	4,108
Property, plant and equipment	10	11,715	13,609	12,838
Intangible assets	11	571	985	673
		<b>30,471</b>	<b>37,573</b>	<b>34,749</b>
<b>TOTAL ASSETS</b>		<b>240,991</b>	<b>216,393</b>	<b>237,840</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Borrowings	12	4,067	5,994	21,485
Payables and prepayments	13	66,079	52,295	56,259
Income tax liability		161	343	278
Short-term provisions	14	3,885	4,137	5,637
		<b>74,192</b>	<b>62,769</b>	<b>83,659</b>
<b>Non-current liabilities</b>				
Long-term borrowings	12	41,158	28,970	24,516
Deferred income tax liability		1,165	1,025	1,122
Other long-term payables	15	2,039	1,434	2,061
		<b>44,362</b>	<b>31,429</b>	<b>27,699</b>
<b>TOTAL LIABILITIES</b>		<b>118,554</b>	<b>94,198</b>	<b>111,358</b>
<b>EQUITY</b>				
Non-controlling interests		3,722	3,715	3,692
<b>Equity attributable to equity holders of the parent</b>				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	793	793
Currency translation differences		(674)	(656)	(645)
Retained earnings		110,667	110,414	114,713
		<b>118,715</b>	<b>118,480</b>	<b>122,790</b>
<b>TOTAL EQUITY</b>		<b>122,437</b>	<b>122,195</b>	<b>126,482</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>240,991</b>	<b>216,393</b>	<b>237,840</b>

The notes set out on pages 34-46 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		
<b>Balance as at 31.12.2015</b>	<b>7,929</b>	<b>1,200</b>	<b>(663)</b>	<b>117,232</b>	<b>125,698</b>	<b>3,268</b>	<b>128,966</b>
Profit (loss) for the reporting period	-	-	-	1,823	1,823	(26)	1,797
Other comprehensive income	-	-	7	-	7	1	8
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>1,823</b>	<b>1,830</b>	<b>(25)</b>	<b>1,805</b>
<b>Transactions with owners</b>							
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)	-	-	-	-	-	277	277
Option over shares relating to non-controlling interests (Note 16)	-	-	-	-	-	(277)	(277)
Reserve capital reduction	-	(407)	-	407	-	-	-
Dividends (Note 4)	-	-	-	(9,027)	(9,027)	-	(9,027)
<b>Total transactions with owners</b>	<b>-</b>	<b>(407)</b>	<b>-</b>	<b>(8,641)</b>	<b>(9,048)</b>	<b>472</b>	<b>(8,576)</b>
<b>Balance as at 30.06.2016</b>	<b>7,929</b>	<b>793</b>	<b>(656)</b>	<b>110,414</b>	<b>118,480</b>	<b>3,715</b>	<b>122,195</b>
<b>Balance as at 31.12.2016</b>	<b>7,929</b>	<b>793</b>	<b>(645)</b>	<b>114,713</b>	<b>122,790</b>	<b>3,692</b>	<b>126,482</b>
Profit (loss) for the reporting period	-	-	-	3,211	3,211	31	3,242
Other comprehensive income	-	-	(29)	-	(29)	(1)	(30)
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>(29)</b>	<b>3,211</b>	<b>3,182</b>	<b>30</b>	<b>3,212</b>
<b>Transactions with owners</b>							
Dividends (Note 4)	-	-	-	(7,257)	(7,257)	-	(7,257)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,257)</b>	<b>(7,257)</b>	<b>-</b>	<b>(7,257)</b>
<b>Balance as at 30.06.2017</b>	<b>7,929</b>	<b>793</b>	<b>(674)</b>	<b>110,667</b>	<b>118,715</b>	<b>3,722</b>	<b>122,437</b>

The share capital of AS Merko Ehitus consists of 17,700,000 shares with non-par value.

The notes set out on pages 34-46 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2017 6 months	2016 6 months	2016 12 months
<b>Cash flows from operating activities</b>				
Operating profit		4,717	3,080	7,719
Adjustments:				
Depreciation		1,325	1,482	3,488
(Profit)/loss from sale of non-current assets		(232)	(231)	(444)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		(574)	(273)	3,711
Interest income from operating activities		(920)	(988)	(1,856)
Change in provisions		(2,778)	(2,747)	(520)
Change in trade and other receivables related to operating activities		(7,612)	(18,791)	(17,954)
Change in inventories		3,187	(1,584,)	(14,128,)
Change in trade and other payables related to operating activities		3,982	7,650	8,945
Interest received		630	766	1,515
Interest paid		(442)	(331)	(732)
Other finance income and costs		(13)	(12)	(32)
Corporate income tax (paid)/reclaimed		(1,181)	(1,265)	(1,733)
<b>Total cash flows from operating activities</b>		<b>89</b>	<b>(13,244)</b>	<b>(12,021)</b>
<b>Cash flows from investing activities</b>				
Acquisition of subsidiaries	16	-	1,258	1,276
Purchase of investment property		(3)	-	-
Purchase of property, plant and equipment		(869)	(1,560)	(2,834)
Proceeds from sale of property, plant and equipment		1,134	380	1,098
Purchase of intangible assets		(82)	(112)	(191)
Interest received		5	24	47
<b>Total cash flows from investing activities</b>		<b>185</b>	<b>(10)</b>	<b>(604)</b>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings		29,061	10,662	36,839
Repayments of borrowings		(29,317)	(6,149)	(20,807)
Finance lease principal payments		(444)	(434)	(855)
Contributions to the subsidiary's share capital from non-controlling shareholder		-	-	108
Dividends paid		(7,257)	(9,027)	(9,027)
<b>Total cash flows from financing activities</b>		<b>(7,957)</b>	<b>(4,948)</b>	<b>6,258</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>(7,683)</b>	<b>(18,202)</b>	<b>(6,367)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	5	<b>33,544</b>	<b>39,905</b>	<b>39,905</b>
<b>Effect of exchange rate changes</b>		<b>3</b>	<b>(1)</b>	<b>6</b>
<b>Cash and cash equivalents at the end of the period</b>	5	<b>25,864</b>	<b>21,702</b>	<b>33,544</b>

The notes set out on pages 34-46 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 6 months and II 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 6 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 6 months and II 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 6 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.

<b>2017 6 months</b>	<b>Estonian construction service</b>	<b>Other home markets construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	60,890	31,283	47,025	139,198
Internal revenue	(33)	(33)	(10,325)	(10,391)
<b>Revenue from clients</b>	<b>60,857</b>	<b>31,250</b>	<b>36,700</b>	<b>128,807</b>
<b>Operating profit (-loss)</b>	<b>1,693</b>	<b>(691)</b>	<b>4,619</b>	<b>5,621</b>
<b>Profit (-loss) before tax</b>	<b>1,680</b>	<b>(744)</b>	<b>4,398</b>	<b>5,334</b>
incl. interest income from operating activities	11	-	815	826
depreciation (Note 3)	(907)	(20)	(144)	(1,071)
recognition of provisions (Note 3)	(352)	(365)	(124)	(841)
reversal of provisions (Note 3)	103	-	-	103
profit from joint ventures	-	-	(2)	(2)
other finance income (costs)	(10)	2	(199)	(207)
incl. interest expenses	(11)	2	(186)	(195)
<b>Assets 30.06.2017</b>	<b>37,510</b>	<b>25 534</b>	<b>148,741</b>	<b>211,785</b>
incl. joint ventures (Note 8)	-	-	432	432

<b>2016 6 months</b>	<b>Estonian construction service</b>	<b>Other home markets construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	53,183	23,597	43,753	120,533
Internal revenue	(92)	(63)	(14,815)	(14,970)
<b>Revenue from clients</b>	<b>53,091</b>	<b>23,534</b>	<b>28,938</b>	<b>105,563</b>
<b>Operating profit (-loss)</b>	<b>1,967</b>	<b>(410)</b>	<b>2,465</b>	<b>4,022</b>
<b>Profit (-loss) before tax</b>	<b>1,938</b>	<b>(446)</b>	<b>2,273</b>	<b>3,765</b>
incl. interest income from operating activities	-	-	875	875
depreciation (Note 3)	(1,041)	(20)	(150)	(1,211)
impairment of inventories (Note 3)	-	-	(103)	(103)
recognition of provisions (Note 3)	(204)	(134)	(160)	(498)
loss from joint ventures	-	-	(46)	(46)
other finance income (costs)	(21)	(1)	(126)	(148)
incl. interest income	-	-	1	1
interest expenses	(21)	(1)	(122)	(144)
<b>Assets 30.06.2016</b>	<b>44,981</b>	<b>16,386</b>	<b>136,638</b>	<b>198,005</b>
incl. joint ventures (Note 8)	-	-	225	225

2017 II quarter	Estonian construction service	Latvian and Lithuanian construction service	Real estate development	Total segments
Revenue	34,123	20,087	21,324	75,534
Internal revenue	(19)	(23)	(4,832)	(4,874)
<b>Revenue from clients</b>	<b>34,104</b>	<b>20,064</b>	<b>16,492</b>	<b>70,660</b>
<b>Operating profit (-loss)</b>	<b>2,152</b>	<b>(103)</b>	<b>1,927</b>	<b>3,976</b>
<b>Profit (-loss) before tax</b>	<b>2,147</b>	<b>(137)</b>	<b>1,800</b>	<b>3,810</b>
incl. interest income from operating activities	-	-	420	420
depreciation (Note 3)	(470)	(10)	(72)	(552)
setting up of provisions (Note 3)	(215)	(136)	94	(257)
loss on joint ventures	-	-	(30)	(30)
other finance income (costs)	(4)	1	(91)	(94)
incl. interest expenses	(5)	1	(91)	(95)
<b>Assets change in II quarter</b>	<b>6,760</b>	<b>7,326</b>	<b>(6,842)</b>	<b>7,244</b>
incl. joint ventures	-	-	(30)	(30)

2016 II quarter	Estonian construction service	Latvian and Lithuanian construction service	Real estate development	Total segments
Revenue	34,111	15,592	18,357	68,060
Internal revenue	(47)	(32)	(9,238)	(9,317)
<b>Revenue from clients</b>	<b>34,064</b>	<b>15,560</b>	<b>9,119</b>	<b>58,743</b>
<b>Operating (-loss)</b>	<b>1,860</b>	<b>(30)</b>	<b>1,255</b>	<b>3,085</b>
<b>Profit (-loss) before tax</b>	<b>1,846</b>	<b>(56)</b>	<b>1,167</b>	<b>2,957</b>
incl. interest income from operating activities	-	-	405	405
depreciation (Note 3)	(557)	(13)	(74)	(644)
impairment of inventories (Note 3)	-	-	29	29
setting up of provisions (Note 3)	(61)	(76)	144	7
loss on joint ventures	-	-	(29)	(29)
other finance income (costs)	(11)	(1)	(54)	(66)
incl. interest income	-	-	(1)	(1)
interest expenses	(11)	(1)	(53)	(65)
<b>Assets change in II quarter</b>	<b>9,438</b>	<b>7,225</b>	<b>7,974</b>	<b>24,637</b>
incl. joint ventures	-	-	(29)	(29)



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)
<b>Revenue from clients</b>	<b>122,375</b>	<b>52,731</b>	<b>76,864</b>	<b>251,970</b>
<b>Operating profit (-loss)</b>	<b>3,398</b>	<b>(1,341)</b>	<b>7,479</b>	<b>9,536</b>
<b>Profit (-loss) before tax</b>	<b>3,349</b>	<b>(1,425)</b>	<b>7,322</b>	<b>9,246</b>
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)
<b>Assets 31.12.2016</b>	<b>32,636</b>	<b>12,137</b>	<b>158,128</b>	<b>202,901</b>
incl. joint ventures (Note 8)	-	-	434	434

In addition to the segment assets, as at 30.06.2017 the group holds assets in the amount of EUR 29,206 thousand (30.06.2016: EUR 18,388 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 6 months	2016 6 months	2017 II quarter	2016 II quarter	2016 12 months
<b>Pre-tax profit from reporting segments</b>	<b>5,334</b>	<b>3,765</b>	<b>3,810</b>	<b>2,957</b>	<b>9,246</b>
Other operating profit (-loss)	(904)	(942)	(512)	(488)	(1,817)
incl. recognition of provisions	(75)	-	-	-	(76)
finance income (costs)	(75)	(84)	(40)	(33)	(150)
incl. interest income	-	20	-	11	41
interest expenses	(74)	(93)	(37)	(47)	(178)
<b>Total profit before tax</b>	<b>4,355</b>	<b>2,739</b>	<b>3,258</b>	<b>2,436</b>	<b>7,279</b>

Other income and expenses, which not directly divided to segments are related with holdings companies.

#### REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2017 6 months		2016 6 months		2017 II quarter		2016 II quarter		2016 12 months	
Estonia	89,042	69%	71,678	68%	47,893	68%	40,335	68%	172,656	68%
Latvia	22,851	18%	19,606	19%	12,025	17%	9,835	17%	44,924	18%
Lithuania	14,505	11%	9,615	9%	9,085	13%	5,280	9%	24,801	10%
Finland	20	0%	2,577	2%	-	0%	1,768	3%	5,110	2%
Norway	2,389	2%	2,087	2%	1,657	2%	1,525	3%	4,479	2%
<b>Total</b>	<b>128,807</b>	<b>100%</b>	<b>105,563</b>	<b>100%</b>	<b>70,660</b>	<b>100%</b>	<b>58,743</b>	<b>100%</b>	<b>251,970</b>	<b>100%</b>

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

in thousand euros

	30.06.2017	30.06.2016	31.12.2016
Estonia	15,658	18,235	17,054
Latvia	500	471	443
Lithuania	6	12	10
Norway	101	115	112
<b>Total</b>	<b>16,265</b>	<b>18,833</b>	<b>17,619</b>

**NOTE 3 COST OF GOODS SOLD**

in thousand euros

	2017 6 months	2016 6 months	2017 II quarter	2016 II quarter	2016 12 months
Construction services and properties purchased for resale	73,988	56,838	40,526	28,993	145,079
Materials	21,459	19,043	12,038	12,658	40,911
Labour costs	10,763	10,365	5,318	5,764	20,703
Construction mechanisms and transport	3,847	3,540	2,438	2,226	8,161
Design	1,684	1,351	810	700	2,987
Real estate management costs	134	115	56	45	221
Depreciation	1,071	1,211	552	644	2,962
Impairment of inventories	-	103	-	(29)	37
Provisions	738	498	257	(7)	2,885
Other expenses	4,943	4,002	2,606	2,314	9,015
<b>Total cost of goods sold</b>	<b>118,627</b>	<b>97,066</b>	<b>64,601</b>	<b>53,308</b>	<b>232,961</b>

**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 6 months	2016 6 months	2017 II quarter	2016 II quarter	2016 12 months
Net profit(-loss) attributable to shareholders (in thousand EUR)	3,211	1,823	2,182	1,711	6,122
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700	17,700	17,700
<b>Earnings (loss) per share (in euros)</b>	<b>0.18</b>	<b>0.10</b>	<b>0.12</b>	<b>0.09</b>	<b>0.35</b>

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), and the accompanying income tax liability would amount to 20/80 on the amount to be paid out, i.e. EUR 1,814 thousand, which will be 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 30.06.2017, the parent company AS Merko Ehitus has EUR 67 thousand (30.06.2016: EUR 0 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 30.06.2017, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 88,008 thousand (30.06.2016: EUR 87,806 thousand; 31.12.2016: EUR 91,255 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 17 thousand (30.06.2016: EUR 0 thousand; 31.12.2016: EUR 0 thousand), the corresponding income tax on dividends would amount to EUR 21,985 thousand (30.06.2016: EUR 21,952 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

	30.06.2017	30.06.2016	31.12.2016
Cash on hand	2	3	2
Bank accounts	25,825	12,871	33,291
Overnight deposits	37	8,828	251
<b>Total cash and cash equivalents</b>	<b>25,864</b>	<b>21,702</b>	<b>33,544</b>

## NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	30.06.2017	30.06.2016	31.12.2016
Trade receivables			
Accounts receivable	36,924	32,395	31,735
Allowance for doubtful receivables	(264)	(326)	(265)
	<b>36,660</b>	<b>32,069</b>	<b>31,470</b>
Tax prepayments excluding corporate income tax			
Value added tax	1,394	1,287	3,318
Other taxes	11	19	-
	<b>1,405</b>	<b>1,306</b>	<b>3,318</b>
Accrued income from construction services	7,269	6,093	4,606
Other short-term receivables			
Short-term loans	9,313	-	1,560
Interest receivables	617	112	218
Other short-term receivables	334	587	347
	<b>10,264</b>	<b>699</b>	<b>2,125</b>
Prepayments for services			
Prepayments for construction services	7,179	5,110	3,155
Prepaid insurance	402	362	348
Other prepaid expenses	596	386	544
	<b>8,177</b>	<b>5,858</b>	<b>4,047</b>
<b>Total trade and other receivables</b>	<b>63,775</b>	<b>46,025</b>	<b>45,566</b>
incl. short-term loan receivables from related parties (Note 16)	7,728	-	-
other short-term receivables and prepayments to related parties (Note 16)	3,946	1,201	4,333

## NOTE 7 INVENTORIES

in thousand euros

	30.06.2017	30.06.2016	31.12.2016
Materials	446	501	422
Work-in-progress	21,059	42,995	39,537
Finished goods	30,764	14,838	18,918
Goods for resale			
Registered immovables purchased for resale	66,937	50,273	63,150
Other goods purchased for resale	767	772	746
	<b>67,704</b>	<b>51,045</b>	<b>63,896</b>
Prepayments for inventories			
Prepayments for real estate properties	-	1,086	-
Prepayments for other inventories	283	272	591
	<b>283</b>	<b>1,358</b>	<b>591</b>
<b>Total inventories</b>	<b>120,256</b>	<b>110,737</b>	<b>123,364</b>

## NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

	30.06.2017	30.06.2016	31.12.2016
Investments joint ventures	432	225	434
Long-term loans	750	5,736	3,952
Long-term bank deposit	-	37	36
Long-term interest	-	246	261
Long-term receivables from customers of construction services	11,699	11,072	11,122
<b>Total other long-term loans and receivables</b>	<b>12,881</b>	<b>17,316</b>	<b>15,805</b>
incl. long-term loan receivables from related parties (Note 16)	-	4,185	3,952
other long-term receivables from related parties (Note 16)	-	246	261

## NOTE 9 INVESTMENT PROPERTY

in thousand euros

	30.06.2017	30.06.2016	31.12.2016
Land	51	51	51
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(11)	(11)	(11)
	<b>18</b>	<b>18</b>	<b>18</b>
Buildings at carrying amount			
Cost	5,248	5,245	5,245
Accumulated depreciation	(1,338)	(1,075)	(1,206)
	<b>3,910</b>	<b>4,170</b>	<b>4,039</b>
<b>Total investment property</b>	<b>3,979</b>	<b>4,239</b>	<b>4,108</b>

## NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	30.06.2017	30.06.2016	31.12.2016
Land	821	824	821
Buildings at carrying amount			
Cost	5,652	5,725	5,650
Accumulated depreciation	(2,039)	(1,898)	(1,948)
	<b>3,613</b>	<b>3,827</b>	<b>3,702</b>
Machinery and equipment at carrying amount			
Cost	16,378	18,901	17,625
Accumulated depreciation	(10,442)	(11,341)	(11,164)
	<b>5,936</b>	<b>7,560</b>	<b>6,461</b>
Other fixtures at carrying amount			
Cost	5,469	5,238	5,190
Accumulated depreciation	(4,461)	(4,260)	(4,429)
	<b>1,008</b>	<b>978</b>	<b>761</b>
Prepayments for property, plant and equipment	337	420	1,093
<b>Total property, plant and equipment</b>	<b>11,715</b>	<b>13,609</b>	<b>12,838</b>

## NOTE 11 INTANGIBLE ASSETS

in thousand euros

	30.06.2017	30.06.2016	31.12.2016
<b>Goodwill</b>			
Cost	967	969	970
Impairment	(774)	(312)	(656)
	<b>193</b>	<b>657</b>	<b>314</b>
<b>Software at carrying amount</b>			
Cost	1,352	1,156	1,137
Accumulated depreciation	(1,038)	(974)	(991)
	<b>314</b>	<b>182</b>	<b>146</b>
Prepayments for intangible assets	64	146	213
<b>Total intangible assets</b>	<b>571</b>	<b>985</b>	<b>673</b>

## NOTE 12 BORROWINGS

in thousand euros

	30.06.2017	30.06.2016	31.12.2016
<b>Finance lease payables</b>			
Present value of lease payments	<b>1,251</b>	<b>2,251</b>	<b>1,769</b>
incl. current portion	950	909	1,282
non-current portion 1...4 years	301	1,342	487
<b>Bank loans</b>			
Loan balance	<b>37,948</b>	<b>25,683</b>	<b>25,703</b>
incl. current portion	2,110	4,078	7,696
non-current portion 1...5 years	35,838	21,605	18,007
<b>Loan from parent company</b>			
Loan balance	-	-	<b>12,500</b>
incl. current portion (Note 16)	-	-	12,500
<b>Loans from entities under common control</b>			
Loan balance	<b>6,000</b>	<b>7,000</b>	<b>6,000</b>
incl. current portion (Note 16)	1,000	1,000	-
non-current portion 1...5 years (Note 16)	5,000	6,000	6,000
<b>Loans from other entities</b>			
Loan balance	<b>26</b>	<b>30</b>	<b>29</b>
incl. current portion	7	7	7
non-current portion 1...5 years	19	23	22
<b>Total loans</b>			
Loans balance	<b>43,974</b>	<b>32,713</b>	<b>44,232</b>
incl. current portion	3,117	5,085	20,203
non-current portion 1...5 years	40,857	27,628	24,029
<b>Total borrowings</b>	<b>45,225</b>	<b>34,964</b>	<b>46,001</b>
incl. current portion	4,067	5,994	21,485
non-current portion 1...5 years	41,158	28,970	24,516

## NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	30.06.2017	30.06.2016	31.12.2016
Trade payables	29,746	26,853	25,035
Payables to employees	6,247	6,510	7,106
Tax liabilities, except for corporate income tax			
Value added tax	1,343	2,128	4,122
Personal income tax	562	552	513
Social security tax	1,031	1,006	993
Unemployment insurance tax	53	56	55
Contributions to mandatory funded pension	45	47	46
Other taxes	150	166	122
	<b>3,184</b>	<b>3,955</b>	<b>5,851</b>
Prepayments for construction services	11,050	6,448	8,943
Other liabilities			
Interest liabilities	13	24	21
Other liabilities	236	374	508
	<b>249</b>	<b>398</b>	<b>529</b>
Prepayments received	15,603	8,131	8,795
<b>Total payables and prepayments</b>	<b>66,079</b>	<b>52,295</b>	<b>56,259</b>
incl. payables to related parties (Note 16)	32	822	38

## NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	30.06.2017	30.06.2016	31.12.2016
Provision for warranty obligation for construction	2,503	2,449	2,476
Provision for costs of projects sold	1,103	1,453	2,788
Provision for onerous construction contracts	127	134	79
Provision for legal costs and claims filed	120	100	273
Other provisions	32	1	21
<b>Total short-term provisions</b>	<b>3,885</b>	<b>4,137</b>	<b>5,637</b>

## NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	30.06.2017	30.06.2016	31.12.2016
Trade payables	1,362	1,157	1,317
Other long-term liabilities	677	277	744
<b>Other long-term payables total</b>	<b>2,039</b>	<b>1,434</b>	<b>2,061</b>
incl. other long-term payables to related parties (Note 16)	305	277	322

## NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

In compiling group the 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 30.06.2017, 30.06.2016 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
	30.06.2017	30.06.2016	31.12.2016		
<b>Subsidiaries</b>					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
AS Vooremaa Teed	100	100	100	Estonia, Jõgeva	Road construction
AS Merko Infra	100	100	100	Estonia, Tallinn	Construction
AS Gustaf	-	100	100	Estonia, Pärnu	Construction
AS Merko Tartu	100	100	100	Estonia, Tartu	Construction
OÜ Fort Ehitus	76	76	76	Estonia, Viimsi	Construction
OÜ Mineraal	100	100	100	Estonia, Tallinn	Mining
OÜ Heamaja	-	100	100	Estonia, Tallinn	Real estate
OÜ Rannamõisa Kinnisvara	-	100	100	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Statinių priežiūra ir administravimas	100	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikšte	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP1	-	100	100	Lithuania, Vilnius	Real estate
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
UAB Rinktinės projektai	100	100	100	Lithuania, Vilnius	Real estate
OÜ Jõgeva Haldus	100	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	100	100	100	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
Väike-Paekalda OÜ	100	100	100	Estonia, Tallinn	Real estate
Suur-Paekalda OÜ	100	100	100	Estonia, Tallinn	Real estate
SIA Merko Investments	100	100	100	Latvia, Riga	Holding
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate
SIA Merks Investīcijas	100	100	100	Latvia, Riga	Real estate
SIA Industrijas Parks	100	100	100	Latvia, Riga	Real estate
SIA Elniko	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	75	Latvia, Riga	Real estate

	Ownership and voting rights %			Location	Area of operation
	30.06.2017	30.06.2016	31.12.2016		
PS Merks-Ostas celtnieks	65	-	65	Latvia, Riga	Construction
Merko Finland Oy	100	100	100	Finland, Helsinki	Construction
Hartian Oy	75	75	75	Finland, Helsinki	Real estate
As.Oy Helsingin Pestikuja 1	-	100	-	Finland, Helsinki	Real estate
Lenko Stroi LLC	100	100	100	Russia, St. Petersburg	Holding
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	56	Norway, Sofiemyr	Construction
<b>Joint ventures</b>					
OÜ Unigate	50	50	50	Estonia, Tallinn	Real estate
Poolkoksime Sulgemise OÜ	50	50	50	Estonia, Tallinn	Construction
Kivimäe 32 OÜ	50	50	50	Estonia, Tallinn	Real estate
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate

Additional information of the changes in reported period is provided in chapter Corporate governance in Management report on page 24.

### GOODS AND SERVICES

in thousand euros

	2017 6 months	2016 6 months	2016 12 months
<b>Provided services and goods sold</b>			
Parent company	7	7	15
Joint ventures	5,431	1,711	7,471
Entities under common control	3,711	3,386	5,641
Members of the management	22	90	108
Other related parties	-	-	617
<b>Total services provided and goods sold</b>	<b>9,171</b>	<b>5,194</b>	<b>13,852</b>
<b>Interest income</b>			
Joint ventures	188	131	280
<b>Purchased services and goods</b>			
Parent company	45	45	90
Joint ventures	-	67	20
Entities under common control	31	-	126
<b>Total purchased services and goods</b>	<b>76</b>	<b>112</b>	<b>236</b>
<b>Interest expense</b>			
Parent company	34	-	38
Entities under common control	73	92	177
<b>Total interest expense</b>	<b>107</b>	<b>92</b>	<b>215</b>

### BALANCES WITH RELATED PARTIES

in thousand euros

	30.06.2017	30.06.2016	31.12.2016
<b>Receivables from related parties</b>			
Loans granted (Notes 6, 8)			
Joint ventures	7,728	4,185	3,952
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Joint ventures	3,055	1,039	3,896
Entities under common control	887	158	433
Other related parties	-	-	-



	30.06.2017	30.06.2016	31.12.2016
Total receivables and prepayments	3,946	1,201	4,333
Other long-term receivables (Note 8)			
Joint ventures	-	246	261
<b>Total receivables from related parties</b>	<b>11,674</b>	<b>5,632</b>	<b>8,546</b>
<b>Payables to related parties</b>			
Short-term loans received (Note 12)			
Parent company	-	-	12,500
Entities under common control	1,000	1,000	-
Total short-term loans received	1,000	1,000	12,500
Payables and prepayments (Note 13)			
Parent company	9	9	9
Joint ventures	2	-	-
Entities under common control	21	203	29
Other related parties	-	610	-
Total payables and prepayments	32	822	38
Long-term loans received (Note 12)			
Entities under common control	5,000	6,000	6,000
Other long-term payables (Note 12)			
Other related parties	305	277	322
<b>Total payables to related parties</b>	<b>6,337</b>	<b>8,099</b>	<b>18,860</b>

#### 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 6 months of 2017 was EUR 971 thousand (6 months of 2016: EUR 1,160 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 whom no termination benefits are paid to them upon termination of the contract. In the 6 months of 2017, the Management Board members of major subsidiaries received EUR 79 thousand in compensation (6 months of 2016: EUR 22 thousand; 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](http://group.merko.ee).

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 30.06.2017:

		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 Roopalu	Member of the Supervisory Board	-	0.00%
		<b>8,354,549</b>	<b>47.20%</b>

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 30.06.2017:

		NO OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	500	0.00%
Tõnu Toomik (AS Riverito)	Member of the Management Board	1,607,185	9.08%
		<b>1,607,685</b>	<b>9.08%</b>

## 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.

	30.06.2017	30.06.2016	31.12.2016
Performance period's warranty to the customer	26,194	12,513	21,036
Tender warranty	1,730	957	767
Guarantee warranty period	21,022	23,148	20,470
Prepayment guarantee	15,224	1,527	4,411
Payment guarantee	30,500	30,500	30,500
Contracts of surety	3,835	1,416	3,902
Letter of credit	-	-	-
<b>Total contingent liabilities</b>	<b>98,505</b>	<b>70,061</b>	<b>81,086</b>

As at 31.12.2016 and 31.12.2015 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 completed.

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

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

**Payment guarantee** – guarantor guarantees repayments of the customer's/developer's loan and/or warranty 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 opening 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 6 months of 2017, which are set out on pages 5-46.

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

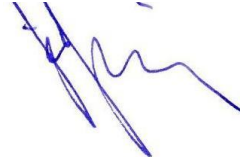
- The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as adopted by the European Union;
- the financial statements give a true and fair view of the Group's financial position and the results of its operations and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

Andres Trink                      Chairman of the Management Board



10.08.2017

Tõnu Toomik                      Member of the Management Board



10.08.2017