



# AS MERKO EHITUS

## GROUP

### 2017 9 months and III 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 – 30.09.2017
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	LATVIA	LITHUANIA	NORWAY
General construction Civil engineering Electrical construction Road construction Residential real estate development and investments	General construction Civil engineering Electrical construction Residential real estate development and investments	General construction Residential real estate development and investments	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%



IN OCTOBER, THE DEFFENCE FORCE BASE COMPLEX WAS OPENED IN TAPA, HOME TO TWO MODERN BARRACKS BUILT BY MERKO TO SERVE THE NEEDS OF 600 CONSCRIPTS.

# MANAGEMENT REPORT

## COMMENTARY FROM MANAGEMENT

Merko Ehitus's revenue for both Q3 of 2017 and the first 9 months of the year grew by close to one-quarter – Q3 revenue was EUR 86 million and 9 month revenue was EUR 214.8 million. The group's net profit in Q3 was EUR 3.4 million and the 9 month figure was EUR 6.6 million.

The growth of group revenue in the first nine months of this year has been supported by several major construction contracts in progress. Merko Ehitus currently building large shopping centres in Tallinn and Riga, three hotels in Vilnius and a number of office buildings in Tallinn. In the opinion of the group's management, all of the construction contracts have a tight time schedule; moreover, the Merko Ehitus must operate in a market situation where a shortage of resources in the form of design engineers and capable subcontractors is increasingly problematic. This puts great demands on our project teams when it comes to organising the work process, finding optimum solutions and adopting new technologies. According to the group's management, company has a considerable portfolio of construction contracts, but it is not an easy task to realise it in a profitable manner, as company is exposed to both market risks and contract risks. Group has had very rapid growth in Latvia, and there it is particularly important to manage the risks. The developments in terms of volumes of engineering construction have been below expectations, as group has not been able to land new construction contracts in the expected volume.

**2017 9M**  
**REVENUE**  
**215 MILLION EUROS**  
**PROFIT BEFORE TAX**  
**8.2 MILLION EUROS**

In Q3, Merko Ehitus sold 47 apartments for a total of 286; the 9 month revenue figures are EUR 6.9 million and EUR 33.8 million, respectively (figures do not include VAT). In nine months, Merko has launched construction of approximately 500 apartments, having invested EUR 39 million into the development projects launched this year and projects already under way. According to the group's management, the sales of apartments have generally gone according to plan this year, although considering the favourable market situation, the sales tempo could be even faster on some projects. In addition, the pace of proceedings on building permits and planning documents are dissatisfied. In the framework of group long-term apartment development strategy, Merko Ehitus has acquired a total of EUR 8.6 million in new registered immovables. In Q3, bought out our co-investor in the immovable properties located on the Maarjamäe limestone cliff in the Lasnamäe district of Tallinn, which hold long-term potential for developing more than 1,000 apartments.

In Q3 of 2017, Merko Ehitus posted revenue of EUR 86.0 million, EBITDA of 5.0 million, profit before taxes of 3.9 million and net profit of EUR 3.4 million. The group's figures for the first nine months of 2017 were revenue of EUR 214.8 million, EBITDA of EUR 11.0 million, profit before taxes of EUR 8.2 million and net profit of EUR 6.6 million. In the first 9 months of 2017, the group has entered into new contracts with a total value of EUR 304 million, and EUR 87 million in Q3 alone, including the construction of the Alfa shopping centre expansion in Riga, renovation of Neringa Hotel in Vilnius, the Embassy of the People's Republic of China in Estonia, and the renovation and reconstruction of the office building of the Norwegian chancellor of justice in Oslo.

As of 30 September 2017, Merko Ehitus had a contract portfolio of EUR 396.4 million compared to EUR 256.4 million in the same period in the previous year. Among major projects in progress in Q3 in Estonia there were the construction of T1 Mall of Tallinn shopping centre, Maakri Kvartal, Õpiku Maja's building B, Noblessner residential quarter, Pärnu mnt 22 office building, the Tapa military base barracks, and infrastructure for the airport tram line and the Tallinn ring road's Juuliku junction. In Latvia, the biggest projects in progress were the Akropole and Alfa shopping centres, the Z Towers complex and the Ventspils music school and concert hall; in Lithuania, the Radisson Blu Hotel Lietuva expansion, the Philip Morris plant, the Narbuto 5 office building and the Rinktines Urban development project. In Norway, the biggest projects in progress in Q3 were the addition to the Blakstad hospital building and the Akersgata 8 office building.

## OVERVIEW OF THE III QUARTER AND 9 MONTHS RESULTS



### PROFITABILITY

Q3 2017 net profit was EUR 3.4 million (Q3 2016: EUR 2.9 million) and net profit margin 3.9% (Q3 2016: 4.3%). Net profit in 9M 2017 was EUR 6.6 million (9M 2016: EUR 4.7 million), having increased by 39.2% compared to the same period last year and net profit margin increased to 3.1% (9M 2016: 2.7%). Profit before tax in 9M 2017 was EUR 8.2 million (9M 2016: EUR 5.7 million), which is equivalent to a profit before tax margin of 3.8% (9M 2016: 3.3%).

### REVENUE

Q3 2017 revenue was EUR 86.0 million (Q3 2016: EUR 67.8 million) and 9M 2017 revenue was EUR 214.8 million (9M 2016: EUR 173.4 million), has increased by 23.9% compared to last year. The share of revenue earned outside Estonia in 9M 2017 was 35.8% (9M 2016: 31%). The number of apartments (286 units) sold in 9 months of 2017 has increased by 6.7% compared to last year (9 months of 2016: 268 units) and the revenue from apartment sales (EUR 33.8 million) has increased by 13.8% (9 months of 2016: EUR 29.7 million).

### CASH POSITION

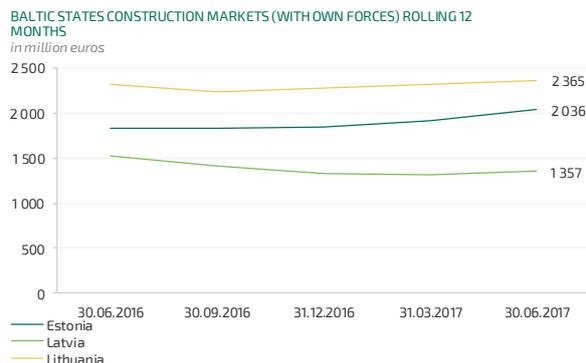
At the end of the reporting period, the group had EUR 18.6 million in cash and cash equivalents and equity EUR 122.1 million (46.4% of total assets). Comparable figures as at 30 September 2016 were accordingly EUR 20.8 million and EUR 121.4 million (56.5% of total assets). As at 30 September 2017 the group had net debt of EUR 29.1 million (30 September 2016: EUR 11.1 million).

### SECURED ORDER BOOK

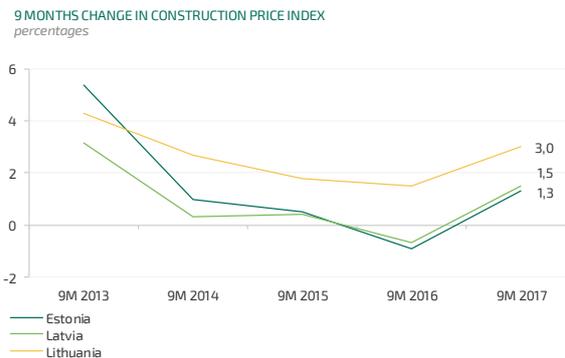
As at 30 September 2017, the group's secured order book had grown to EUR 396.4 million (30 September 2016: EUR 256.4 million). In 9M 2017, group companies signed new contracts in the amount of EUR 303.6 million (9M 2016: EUR 140.5 million). Q3 2017 new contracts signed in amount of EUR 87.0 million (Q3 2016: EUR 31.5 million).

# THE CONSTRUCTION AND REAL ESTATE MARKET PERSPECTIVES

## CONSTRUCTION SERVICES



Source: Local national statistical offices.



Source: Local national statistical offices.

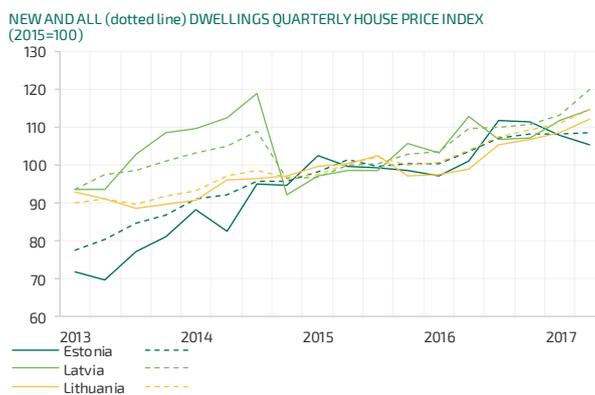
The Baltic states' construction sector was characterised in Q3 by continuing upward pressure on input prices; there is a problem with the availability of liquid resources, and of design development specialists and capable subcontractors is also problematic. At the same time, bidding competition among general contractors remains stiff, pressure on deadlines is great, and as a whole, the risk to return ratio has worsened for construction companies. It continues to be vital for the group to reach internal efficiency through better planning, optimal solutions and using new technological applications.

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

- In **Estonia**, residential construction is still active due to the favourable real estate market cycle. The new office building development pace is stabilizing compared to recent years. Individual larger construction sites in retail and industry are being planned. New road and infrastructure procurements, both for highways and within Tallinn, have been launched. Public sector procurements in the field of buildings continue at a moderate pace.
- In **Latvia**, a number of construction procurements for office buildings and public sector buildings are on the market, and the number of capable general contractors participating at tender has decreased somewhat. Many large-scale engineering works are still being planned, including in relation to establishing railway infrastructure.
- In **Lithuania**, market demand for new commercial buildings – in particular, office buildings – is stabilising. Many new industrial and logistics buildings in the private sector are in the planning stage and procurements for public sector buildings are in preparation, including for schools, hospitals and national defence sites. The general contractors price competition is very tight.
- The construction market in **Norway** is moderately active for both new building construction and renovation, though there can be regional variation in market activity level. Large-scale public sector investments into infrastructure are planned.

## DEVELOPMENT OF APARTMENTS

The rate of growth seen in the Tallinn and Vilnius apartment markets in recent years is settling down. The increased supply of apartments has led to a certain amount of lengthening of sales periods in some projects and the rise in the price of new developments, above all in Estonia, is levelling off (see graph). In Riga, the apartment market activity is still relatively low compared to Tallinn and Vilnius, but there is the potential for increasing demand, in light of increased economic growth in Latvia. In all three Baltic states, the macroeconomic environment continues to be favourable for supporting apartment buyers' position – faster economic growth, growth of income and savings, low interest rates and relatively good availability of bank loans.



Source: Eurostat.

On the Norwegian housing market, something of a price correction and lengthening of sales periods has taken place since spring 2017 after the rapid price rise of recent years. The new trend is partially due to measures applied by financial regulators to limit loan growth, especially in the capital Oslo.

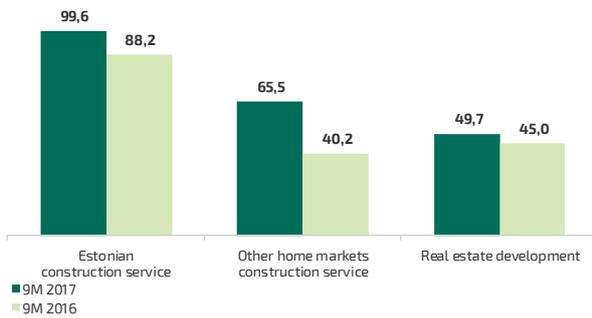
# BUSINESS ACTIVITIES

The group business reporting is divided into three business segments:

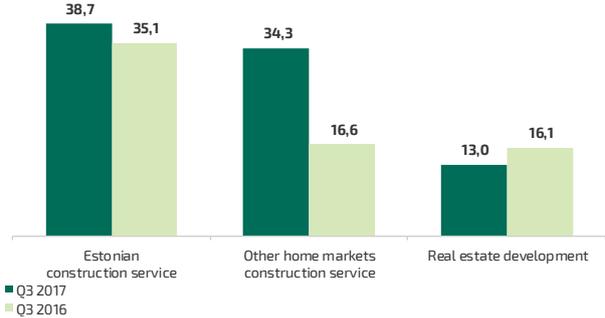
- Estonian construction service;
- other home markets construction service;
- real estate development.

See additionally the detailed management structure on page 23.

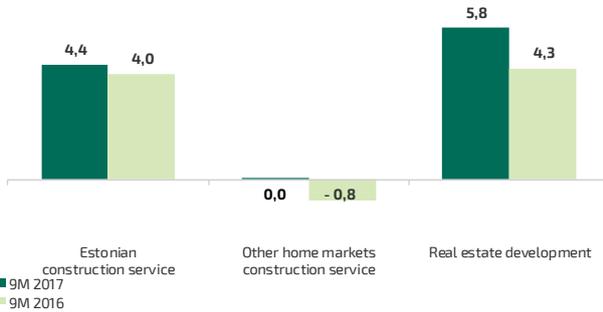
**GROUP REVENUE BY SEGMENTS**  
in million euros



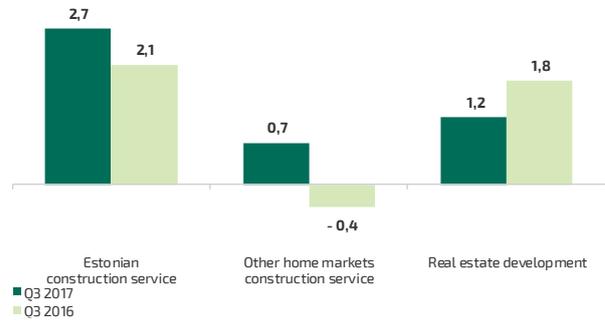
**GROUP QUARTERLY REVENUE BY SEGMENTS**  
in million euros



**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

	9M 2017	9M 2016	VARIANCE	Q3 2017	Q3 2016	VARIANCE	12M 2016
Revenue	99.6	88.2	+12.9%	38.7	35.1	+10.3%	122,4
% of total revenue	46.4%	50.9%		45.0%	51.8%		48,6%
Operating profit	4.4	4.0	-4.0%	2.7	2.1	+29.6%	3,4
Operating profit margin	4.4%	4.6%		6.9%	5.9%		2,8%

In the 9 months of 2017, the revenue of the Estonian construction service segment was EUR 99.6 million (9 months of 2016: EUR 88.2 million), having increase by 12.9% from the same period last year. The 9 months revenue includes revenue from Finnish projects in the amount of EUR 0.02 million (9 months of 2016: EUR 0.5 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 9 months 2017 were 46.4% 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 4.4 million for 9 months (9 months of 2016: EUR 4.0 million). In 9 months of 2017, the operating profit margin of the Estonian construction service segment was 4.4%, which decreased by 0.2 pp compared to the 9 months of 2016 (4.6%). 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 third quarter in Tallinn included the construction works of Maakri Kvartal business complex, T1 shopping centre, Öpiku office building B, Pärnu mnt 22 office building, construction of the airport tram line infrastructure, extension works of Wendre production building and construction works for clean up the residual pollution of the Maadevahe and Priimetsa asphalt concrete plants. 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 city 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 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

	9M 2017	9M 2016	VARIANCE	Q3 2017	Q3 2016	VARIANCE	12M 2016
Revenue	65.5	40.2	+63.1%	34.3	16.6	+106.1%	52.7
% of total revenue	30.5%	23.2%		39.9%	24.5%		20.9%
Operating loss	0.0	(0.8)	-103.8%	0.7	(0.4)	-281.4%	(1.3)
Operating profit margin	0.0%	-2.0%		2.1%	-2.4%		-2.5%

The revenue of the other home markets construction service segment amounted to EUR 65.5 million in the 9 months of 2017 (9 months of 2016: EUR 40.2 million), which is 63.1% more than in the 9 months of 2016. If the other home markets construction service segment revenues of 9 months of 2016 formed 23.2% of the group's revenue, then during 9 months of the current year the segments revenues increased to 30.5%.

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, group has signed two major construction contracts this year, in the amount of EUR 4.3 million and EUR 6.4 million, as well as performing several smaller-scale agreements.

The 9 months operating profit of the other home market construction service segment amounted to EUR 0.0 million (9 months of 2016: operating loss EUR 0.8 million) and the operating profit margin was 0.0% (9 months of 2016: negative 2.0%). The revenue of

other home market construction service segment has increased by 106.1% in Q3 compared to the same period last year and the operating profit was EUR 0.7 million (Q3 2016: operating loss EUR 0.4 million).

In the third quarter of 2017, the main ongoing projects included in the other home markets construction service segment were in Riga the construction works of Multifunctional Centre Akropole, construction works of warehouse complex at Katlakalna street 6D and engineering and finishing works of Z-Towers complex. In Jurmala the construction works of Jasmīnu 10 residential complex and in Ventpils the construction works of music school and concert hall and design. In Vilnius the construction works of Narbuto 5 office building, construction works of Radisson Blu Hotel Lietuva extension and reconstruction and in Klaipeda the reconstruction and extension construction works of Philip Morris plant. In Oslo construction works of an extension of a building at Blakstad Hospital and renovation and re-building project for Akersgata 8 office building.

## 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.

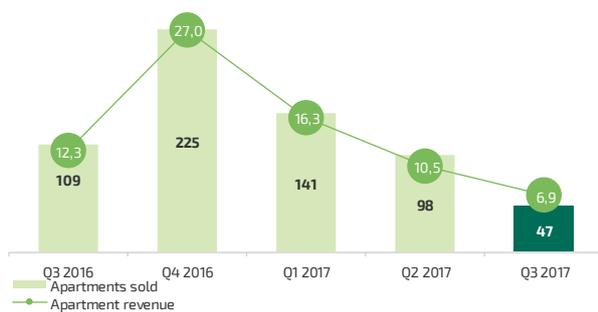
million EUR

	9M 2017	9M 2016	VARIANCE	Q3 2017	Q3 2016	VARIANCE	12M 2016
Revenue	49.7	45.0	+10.4%	13.0	16.1	-19.1%	76.9
Incl. apartments revenue	33.8	29.7		6.9	12.3		56.6
Incl. construction service to joint venture projects	13.2	5.4		5.8	3.2		7.7
Incl. revenue from immovable properties	-	8.8		-	0.2		9.2
% of total revenue	23.1%	25.9%		15.1%	23.7%		30.5%
Operating profit	5.8	4.3	+35.9%	1.2	1.8	-35.1%	7.5
Operating profit margin	11.6%	9.4%		8.9%	11.1%		9.7%

The group sold a total of 286 apartments (incl. 1 apartment in a joint venture) in 9 months of 2017 at the total value of EUR 33.8 million (excl. VAT) comparing 2016 9 months sold 268 apartments at total value of EUR 29.7 million. In 9 months of 2017 real estate development segment revenues have increased by 10.4% compared to the same period last year. In the 9 months of 2017 the share of revenue from the real estate development segment formed 23.1% of the group's total revenue (9 months of 2016: 25.9%). In Q3 of 2017 a total of 47 apartments were sold at the total value of EUR 6.9 million (excl. VAT), compared to Q3 of 2016 109 apartments were sold at the total value of EUR 12.3 million.

The 9 months operating profit of the segment amounted to EUR 5.8 million (9 months of 2016: EUR 4.3 million) and the operating profit margin was 11.6% (9 months of 2016: 9.4%), which increased by 2.2 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 293 apartments where a preliminary agreement had been signed: 76 completed apartments (50 in Estonia, 25 in Latvia and 1 in Lithuania) and 217 apartments under construction (137 in Estonia, 17 in Latvia and 63 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 September 2017, the group had a total of 450 apartments for active sale (as at 30 September 2016: 388 apartments), for which there are no pre-sale agreements and of which 105 have been completed (35 in Estonia, 59 in Latvia and 11 in Lithuania) and 345 are under construction (209 in Estonia, 79 in Latvia and 57 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 21	Riga, Latvia	Completed	1	-
Fiziku 8	Vilnius, Lithuania	Completed	4	-
Tartu road 52 stage I & II	Tallinn, Estonia	Completed	33	1
Sõpruse avenue 33	Tallinn, Estonia	Completed	1	-
Krokvos 73	Vilnius, Lithuania	Completed	8	1
Grostonas 12 stage I (Skanstes Parks)	Riga, Latvia	Completed	6	-
Grostonas 12 stage II (Skanstes Parks)	Riga, Latvia	Completed	77	25
Paepargi 53 (Paepargi towers)	Tallinn, Estonia	Completed	51	49
			<b>181</b>	<b>76</b>
Staapli 4 (Noblessner Homeport) ***	Tallinn, Estonia	End of 2017	66	35
			<b>66</b>	<b>35</b>
<b>Started in 2017</b>				
Gaiļezers stage I (Gaiļezers nami)	Riga, Latvia	Beginning of 2018	96	17
Ceikiniu 3 (Rinktinės Urban) **	Vilnius, Lithuania	Second half of 2018	120	63
Staapli 3 (Noblessner Homeport) *** / **	Tallinn, Estonia	End of 2018	103	39
Staapli 8 (Noblessner Homeport) ***	Tallinn, Estonia	End of 2018	18	-
Paepargi 43 and 47 (Paepargi)	Tallinn, Estonia	Summer of 2018	66	59
Paepargi 39,41 and 45 (Paepargi)	Tallinn, Estonia	Autumn of 2018	93	4
			<b>496</b>	<b>182</b>
<b>Total</b>			<b>743</b>	<b>293</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 been corrected due to the changes in the 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 9 months of 2017, the group launched the construction of a total of 496 new apartments in the Baltic states (9 months of 2016: 284 apartments). In the 9 months of this year, the group has invested a total of EUR 39.2 million (9 months of 2016: EUR 39.1 million) in new development projects launched in 2017 as well as projects already in progress.

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 September 2017, the group's inventories included land plots with the development potential, where the construction works have not started, of EUR 70.4 million (30.09.2016: EUR 50.5 million).

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

million EUR

	30.09.2017	30.09.2016	31.12.2016
Estonia	29.9	8.8	26.6
Latvia	31.9	32.6	28.1
Lithuania	8.6	9.1	8.5
<b>Total</b>	<b>70.4</b>	<b>50.5</b>	<b>63.2</b>

In the 9 months of 2017, the group has purchased new land plot, at an acquisition cost of EUR 8.6 million, for real estate development purposes (9 months of 2016: no new land plot acquisitions). In Q1 of 2017, the group acquired an approximately 1.5-hectare development area in the heart of Riga, allowing to build nearly 350 apartments in the upcoming years.

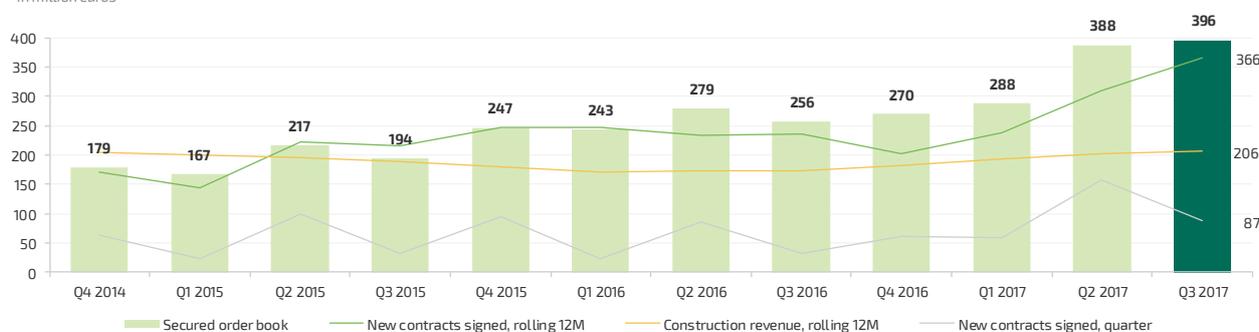
In Q3 AS Merko Ehitus purchased immovable properties located on the Maarjamäe limestone cliff in the Lasnamäe district of Tallinn. Considering the registered immovables in this area that were already owned by the group, there is now potential to establish more than 1,000 apartments. The development has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

Post balance sheet date the group has disposed non-strategic land plots in a sales value of EUR 3 million.

## SECURED ORDER BOOK

As at 30 September 2017, the group's secured order book amounted to EUR 396.4 million as compared to EUR 256.4 million as at 30 September 2016, having increased by approximately 54,6% 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 9 months of 2017, EUR 303.6 million worth of new contracts were signed (without own developments) as compared to EUR 140.5 million in same period last year. The value of new contracts signed (without own developments) in the third quarter of 2017 amounted to EUR 87.0 million (Q3 2016: EUR 31.5 million).

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

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	COST MILLION EUR
Construction contract for the constructing an extension to the Alfa Shopping Centre in Riga	Latvia	July of 2019	34.0
Construction contract for the reconstruction and renovation to the Neringa hotel building in Vilnius	Lithuania	December of 2018	7.0
Construction contract for the renovation and re-building to the office building in Oslo	Norway	March of 2018	6.4
Construction contract for the design and constructing an extension to the production building in Pärnu	Estonia	August of 2018	6.0
Construction contract for renovation to the Embassy of the People's Republic of China official embassy residence in Tallinn	Estonia	September of 2018	6.0

Of the contracts signed in the 9 months of 2017, private sector orders accounted for the majority proportion, which is also represented in the group's secured order book, where private sector orders from projects in progress constitute approximately 86% (30.09.2016: approximately 80%).

After the balance sheet date the group concluded two large construction contract:

- AS Merko Infra and Riigi Kinnisvara AS entered into a contract for the construction of Viimsi State Gymnasium. The contract value is EUR 5.1 million and the works are scheduled to be completed in autumn 2018.
- AS Merko Ehitus Eesti and OÜ Hansa Hotell entered into a contract for the construction of the first stage of an office building. The contract value is approximately EUR 4 million and the works are scheduled to be completed in August 2018.

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 monitoring the development and opportunities both in the Baltic states and Nordic countries.

## CASH FLOWS

As at 30 September 2017 the group had cash equivalents in the amount of EUR 18.6 million (30.09.2016: EUR 20.8 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 11.0 was unused (30.09.2016: EUR 11.2 million, all amount was unused). In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million (30.09.2016: 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 9 month cash flow from operating activity was negative at EUR 10.2 million (9 months of 2016: negative EUR 11.1 million), cash flow from investing activity was positive at EUR 0.8 million (9 months of 2016: EUR 0.0 million) and the cash flow from financing activity was negative at EUR 5.5 million (9 months of 2016: negative EUR 8.0 million). The cash flow from operating activities has had significant impact on investment to immovable properties in amount EUR 8.6 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 (17.7% as at 30.09.2017; 14.8% as at 30.09.2016; 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 1.2 million (9 months of 2016: EUR 1.9 million) and the positive cash flow from the sale of non-current assets in the amount of EUR 1.9 million (9 months of 2016: EUR 0.6 million). The acquisitions and disposals of non-current assets was made in the road construction activity.

The largest single negative item in cash flows from financing was the dividend payment of EUR 7.3 million (9 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. The group has partly financed current year immovable properties acquisition by bank loan.

QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



The Q3 2017 cash flow from operating activity was negative at EUR 10.3 million (Q3 2016: positive EUR 2.2 million), which was significantly affected by the acquisition of immovable properties in the Q3. The cash flow from investing activity was positive at EUR 0.6 million (Q3 2016: negative EUR 0.0 million) and the cash flow from financing activity was positive at EUR 2.4 million (Q3 2016: negative EUR 3.1 million).

The Q3 cash flows from investing activities include negative cash flow from the acquisition of non-current asset in the amount of EUR 0.3 million (Q3 2016: EUR 0.3 million) and the positive cash flow from the sale of non-current assets in the amount of EUR 0.8 million (Q3 2016: EUR 0.2 million).

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

## RATIOS

(attributable to equity holders of the parent)

		9M 2017	9M 2016	9M 2015	Q3 2017	Q3 2016	Q3 2015	12M 2016
<b>Income statement summary</b>								
Revenue	million EUR	214.8	173.4	184.6	86.0	67.8	68.4	252.0
Gross profit	million EUR	16.7	14.0	15.3	6.5	5.5	6.3	19.0
Gross profit margin	%	7.8	8.1	8.3	7.6	8.1	9.3	7.5
Operating profit	million EUR	8.8	6.1	7.6	4.1	3.0	3.7	7.7
Operating profit margin	%	4.1	3.5	4.1	4.8	4.4	5.4	3.1
Profit before tax	million EUR	8.2	5.7	7.0	3.9	3.0	3.5	7.3
PBT margin	%	3.8	3.3	3.8	4.5	4.4	5.1	2.9
Net profit	million EUR	6.8	4.7	5.6	3.6	2.9	3.2	6.0
attributable to equity holders of the parent	million EUR	6.6	4.7	5.6	3.4	2.9	3.1	6.1
attributable to non-controlling interest	million EUR	0.2	(0.0)	0.0	0.2	(0.0)	0.1	(0.1)
Net profit margin	%	3.1	2.7	3.0	3.9	4.3	4.6	2.4
<b>Other income statement indicators</b>								
EBITDA	million EUR	11.0	8.4	9.9	5.0	3.9	4.4	11.2
EBITDA margin	%	5.1	4.9	5.4	5.8	5.7	6.4	4.4
General expense ratio	%	4.8	5.5	4.8	4.2	4.4	4.4	5.3
Labour cost ratio	%	10.9	12.7	12.1	9.7	10.8	12.4	11.7
Revenue per employee	thousand EUR	284	220	239	114	86	89	325

<b>OTHER SIGNIFICANT INDICATORS</b>		30.09.2017	30.09.2016	30.09.2015	31.12.2016
Return on equity	%	6.5	7.5	8.3	5.0
Return on assets	%	3.3	4.3	4.4	2.8
Return on invested capital	%	6.3	7.2	8.3	5.1
Equity ratio	%	46.4	56.5	53.4	51.6
Debt ratio	%	17.7	14.8	13.2	19.3
Current ratio	times	2.8	3.1	2.4	2.9
Quick ratio	times	1.1	1.1	0.9	1.1
Accounts receivable turnover	days	42	33	43	37
Accounts payable turnover	days	39	36	40	38
Average number of employees	people	757	787	771	776
Secured order book	million EUR	396.4	256.4	193.6	269.6

Ratio definitions are provided on page 47 of the report.

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

## RISK MANAGEMENT

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

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

### *Legal risk*

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

As at 30 September 2017, a provision has been set up at the group in the amount of EUR 0.1 million (30.09.2016: 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 30.09.2017 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 accepted both cassations.

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, which refused on 11 of September 2017.

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 OÜ (amount to be determined) as well as late interest at the rate specified in subsection 113 (1) of the Law of Obligations Act starting from 2 February 2016 until due compliance with the demand for compensation. The claims consist of direct patrimonial damage (reduction in the value of immovable property and expenditures made on development activity) and claims for revenue foregone (failed development activity in 2005-2007). The possible positive impact of the claim submitted has not been recognized by the group in its financial statements.

## Latvia

### Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. Previously, on 2 March 2015, SIA Merks had filed a petition to secure the action in the same amount, which was duly granted by the court. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The possible effect of the potential positive outcome of this suit has not been taken into account in the group's financial reporting. On 6 April 2016 the case was transferred to Ogre District Court in order to expedite the reviewing of the case. The 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, the investigation in this process finished and will be submitted to the prosecutor's office during November.

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

### Starptautiskā lidosta "Rīga"

On 21 September 2017, SIA Merks has initiated court proceedings against VAS "Starptautiskā lidosta "Rīga"" (Riga International Airport). The basis of the court proceeding is dispute with Riga International Airport on the terms and conditions of signing the final completion certificate of the new passenger terminal of Riga International Airport. SIA Merks seeks court decision requiring Riga International Airport to sign the final completion certificate and thus entitling SIA Merks for payment of EUR 414 thousand for the works and EUR 920 thousand for the warranty period retention. SIA Merks is of an opinion that the works are fully and properly performed and should be duly accepted by Riga International Airport, releasing the final payment and exchanging the retention moneys for the warranty time guarantee. The date of the first court hearing is not yet announced. No additional provisions are recognised in relation to the potential outcome of this suit.

## Lithuania

### Vilniaus vandenys

On 18 May 2016, AS Merko Ehitus and UAB Merko Statyba, acting pursuant to the joint venture agreement, filed an action against UAB Vilniaus vandenys (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 22 November 2017.

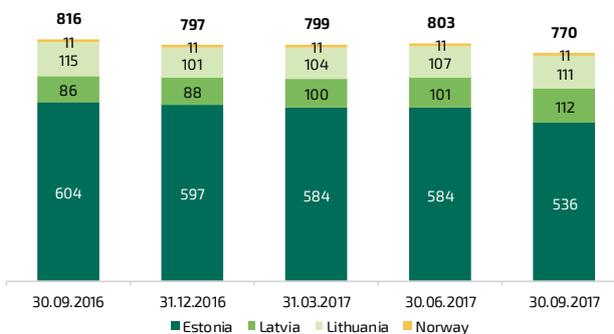
## EMPLOYEES AND LABOUR COSTS

As of 30 September 2017, Merko Ehitus Group employed 770 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 46 (-5.6%). The number of employees has increased mainly due to increase of construction volumes in Latvia and decreased due to partial disposals of road maintenance activity in Estonia.

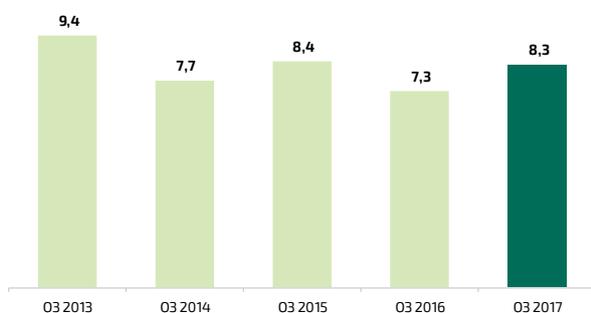
Professionals in the corresponding specialities who possess longstanding experience – this is the company's key value. The group's objective is to pay its employees competitive salary. The interests of employees and the company are balanced by performance-based remuneration.

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 9 months 2017, the labour cost was EUR 23.4 million (9 months 2016: EUR 22.0 million), which has increased by 5.9% compared to the same period previous year, while the labour cost ratio decreased by 1.8 pp from 12.7% to 10.9%.

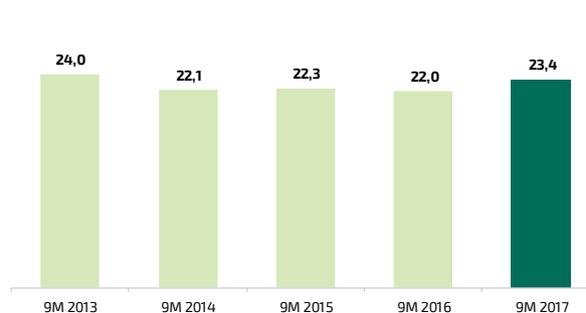
NUMBER OF EMPLOYEES BY COUNTRY  
people



QUARTERLY LABOUR COST  
in million euros



LABOUR COST  
in million euros



AS Merko Ehitus Eesti, the largest Estonian construction company belonging to the Merko Ehitus group, has paid 4.7 million euros labour taxes in Estonia in 2017 9 months and is the largest labour tax payer in the construction sector in the 9 months 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.

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

The topic of business ethics has been thoroughly covered on the group's website <http://group.merko.ee/en/corporate-governance-2/responsibility/ethical-business-practices/>.

## RECOGNITIONS IN 2017

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

- At Baltic Market Awards 2016 received third place in the main category "The Best Investor Relations in the Baltic Countries" for the third year in a row and third place in the category "The Best Annual and Corporate Governance Report"
- SIA Merks project [Exupery International School in Pinki](#) received the grand prize from awards in the "Newly erected public building" category of the "The Year's Best in Latvia 2016" competition and second prize from the Riga-based [congregation house](#) (Church of Jesus Christ of Latter-day Saints).
- The Rode altarpiece technical investigation and conservation project "Rode Altarpiece in Close-up", which was supported by Merko Ehitus in 2014–2016, received the most reputable heritage award in Europe – the European Union Prize for Cultural Heritage and Europa Nostra Award for 2017.
- SIA Merks project manager Sergejs Periņecs was awarded the title of project manager of the year at the Latvian construction industry's Grand Prix ceremony for the on-time completion of the Exupery International School, which met high quality standards.
- A job expectation survey conducted by the employer branding agency Instar among students at higher education and vocational education institutions found that Merko placed third out of 184 employers in terms of attractiveness as a place to work.
- In its 2017 Real Estate Survey, Euromoney business and investment magazine named AS Merko Ehitus as Estonia's best real estate developer and subsidiary SIA Merks was named Latvia's best residential real estate developer.
- In 2017, Merko Ehitus was again declared Estonia's most competitive construction company. It was the 11th time the company had been tapped for the honour.



OFFICE BUILDING NARBUTO 5 IN VILNIUS

## SHARE AND SHAREHOLDERS

### INFORMATION ON SECURITY

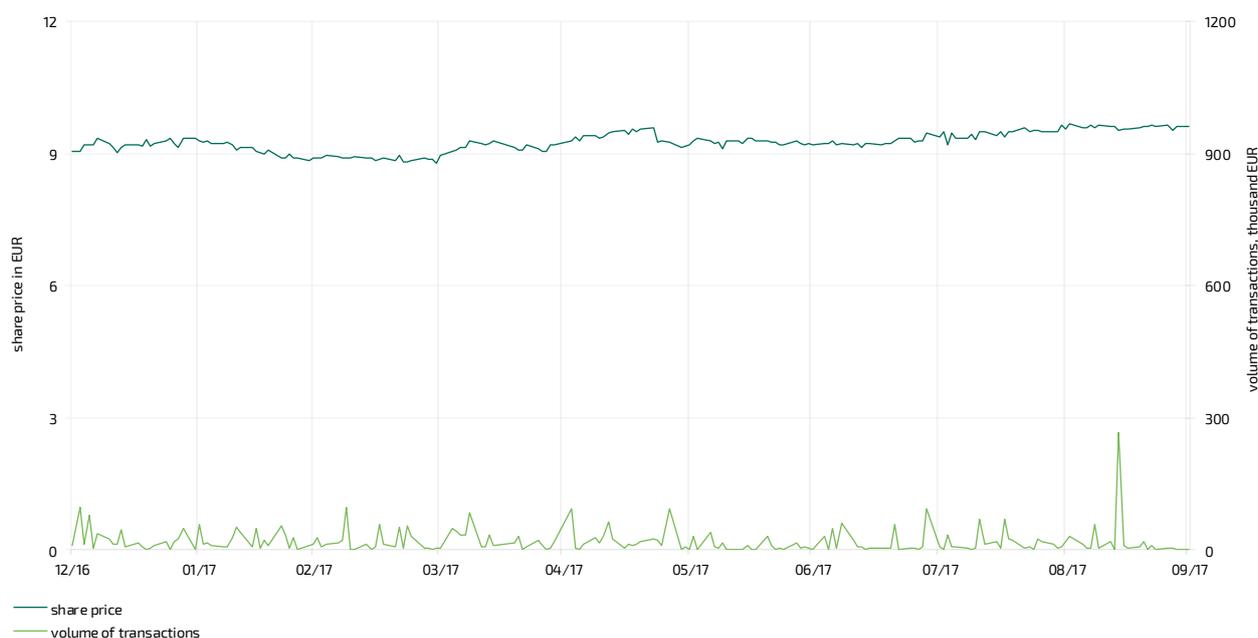
Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRK1T
Residency of issuer	Estonia
Stock Exchange List	NASDAQ Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	without nominal value
Number of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR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

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

A total of 1,603 transactions were conducted with the shares of Merko Ehitus in 9 months of 2017, with 0.40 million shares (2.3% of total shares) traded, generating a turnover of EUR 3.70 million (comparable figures in 9 months 2016 were accordingly: 1,822 transactions with 0.47 million shares traded (2.7% of total shares) and generating a turnover of EUR 3.94 million). The lowest share price amounted to EUR 8.75 and the highest to EUR 9.69 per share (9 months of 2016: EUR 7.60 and EUR 9.22). The closing price of the share was EUR 9.62 on 30 September 2017 (30.09.2016: EUR 8.30; 31.12.2016: EUR 9.05). As at 30 September 2017, the market value of AS Merko Ehitus amounted to EUR 170.3 million, which has increased by 15.9% compared to the same period end last year (30.09.2016: EUR 146.9 million; 31.12.2016: EUR 160.2 million).

	30.09.2017	30.09.2016	30.09.2015	31.12.2016
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.37	0.27	0.31	0.35
Equity per share, euros	6.88	6.94	7.09	6.90
P/B ratio	1.40	1.20	1.10	1.31
P/E ratio	21.37	16.04	13.23	26.17
Market value, million EUR	170.3	146.9	137.0	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 30.09.2017

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	0.55%	2,769,299	15.65%
10,001 – 100,000	38	1.90%	1,070,070	6.05%
1,001-10,000	258	12.89%	700,195	3.96%
101-1,000	993	49.60%	381,262	2.15%
1-100	701	35.01%	36,488	0.20%
<b>Total</b>	<b>2,002</b>	<b>100%</b>	<b>17,700,000</b>	<b>100%</b>

## SHAREHOLDERS OF AS MERKO EHITUS AS AT 30.09.2017 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 30.09.2017	% OF TOTAL 30.06.2017	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	974,126	5.50%	5.50%	-
Firebird Republics Fund Ltd	363,094	2.05%	2.05%	-
SEB S.A. UCITS client assets	232,222	1.31%	1.31%	-
Firebird Aurora Fund Ltd	220,519	1.25%	1.25%	-
Skandinaviska Enskilda Banken AB, Swedish customers	211,260	1.19%	1.22%	(4,400)
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	143,887	0.81%	0.81%	-
Firebird Fund L.P.	131,331	0.74%	0.74%	-
OÜ Midas Invest	125,525	0.71%	0.84%	(24,000)
<b>Total largest shareholders</b>	<b>15,297,668</b>	<b>86.43%</b>	<b>86.59%</b>	<b>(28,400)</b>
Total other shareholders	2,402,332	13.57%	13.41%	28,400
<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 24-25 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 September 2017, the management structure is as follows:



## GROUP'S LEGAL STRUCTURE

As at 30 September 2017, the group comprises 45 companies (30.09.2016: 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 made on 5 September 2017.

On March 17 2017, AS Merko Ehitus and AS Ehitusfirma Rand ja Tuulberg initiated a process to dissolve joint venture Poolkoksimäe Sulgemise OÜ, in which each joint owner has a 50% share. The liquidation of the company will be completed and the deletion entry to the Commercial Register is expected to be made at the end 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 year of 2017.

On 25 July 2017, Tallinna Teede AS, part of Merko Ehitus group, and its 100% subsidiary, AS Vooremaa Teed have signed a merger agreement with the intention to improve the internal efficiency. According to the 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 made on 29 September 2017.

After the balance sheet date, on 31st 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 acquisition of the subsidiaries is recognized at the group level as acquisition of inventories and starting from the moment of acquisition is recorded under inventory entries Work-in-progress and Registered

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

After the balance sheet date, a demerge of OÜ Metsailu was approved by decision of sole shareholder to simplify the development project management. According to the demerge plan, the OÜ Metsailu registered immovables located on Kiviaia tee in Tallinn, will be distributed to OÜ Kiviaia Kinnisvara. The demerge is planned to be completed by the end of 2017.

## 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 Kukin (Group Chief Financial Officer) and Ago Vilu (Auditor).

## SUPERVISORY BOARD

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

According to the Articles of Association of 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 September 2017:

COMPANY	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti	Andres Trink (Chairman), Teet Roopalu, Tõnu Toomik	Keit Paal (Chairman), Jaan Mäe, Alar Lagus, Veljo Viitmann
AS Merko Infra	Keit Paal (Chairman), Veljo Viitmann, Mihkel Mugur	Boris Tehnikov (Chairman), Marek Hergauk, Leino Lootus
Tallinna Teede AS	Tõnu Toomik (Chairman), Keit Paal, Alar Lagus, Veljo Viitmann	Jüri Läll (Chairman), Jüri Helila
AS Merko Tartu	Jaan Mäe (Chairman), Veljo Viitmann, Alar Lagus	Juhan Varik, Mihkel Mugur
OÜ Merko Investments	-	Andres Trink, 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), Janus Rāstas
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.

## AUDIT COMMITTEE

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

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

## 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

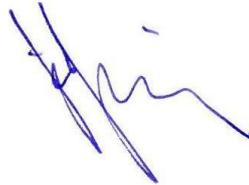
Chairman of the Management Board



09.11.2017

Tõnu Toomik

Member of the Management Board



09.11.2017

# CONSOLIDATED FINANCIAL STATEMENT

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2017 9 months	2016 9 months	2017 III quarter	2016 III quarter	2016 12 months
Revenue	2	214,807	173,377	86,000	67,814	251,970
Cost of goods sold	3	(198,109)	(159,406)	(79,482)	(62,340)	(232,961)
<b>Gross profit</b>		<b>16,698</b>	<b>13,971</b>	<b>6,518</b>	<b>5,474</b>	<b>19,009</b>
Marketing expenses		(2,420)	(2,377)	(782)	(708)	(3,281)
General and administrative expenses		(7,789)	(7,116)	(2,871)	(2,248)	(10,076)
Other operating income		2,645	1,798	1,419	554	2,466
Other operating expenses		(324)	(198)	(191)	(74)	(399)
<b>Operating profit</b>		<b>8,810</b>	<b>6,078</b>	<b>4,093</b>	<b>2,998</b>	<b>7,719</b>
Finance income/costs		(594)	(361)	(232)	(20)	(440)
incl. finance income/costs from joint ventures		(12)	66	(10)	112	163
finance income/costs from other long-term investments		-	1	-	-	2
interest expense		(553)	(438)	(206)	(139)	(610)
foreign exchange gain (loss)		(2)	(7)	(1)	-	(6)
other financial income (expenses)		(27)	17	(15)	7	11
<b>Profit before tax</b>		<b>8,216</b>	<b>5,717</b>	<b>3,861</b>	<b>2,978</b>	<b>7,279</b>
Corporate income tax expense		(1,395)	(1,034)	(282)	(92)	(1,275)
<b>Net profit for financial year</b>		<b>6,821</b>	<b>4,683</b>	<b>3,579</b>	<b>2,886</b>	<b>6,004</b>
incl. net profit attributable to equity holders of the parent		6,561	4,714	3,350	2,891	6,122
net profit attributable to non-controlling interest		260	(31)	229	(5)	(118)
<b>Other comprehensive income, which can subsequently be classified in the income statement</b>						
Currency translation differences of foreign entities		(27)	30	3	22	19
<b>Comprehensive income for the period</b>		<b>6,794</b>	<b>4,713</b>	<b>3,582</b>	<b>2,908</b>	<b>6,023</b>
incl. net profit attributable to equity holders of the parent		6,538	4,741	3,356	2,911	6,140
net profit attributable to non-controlling interest		256	(28)	226	(3)	(117)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.37	0.27	0.19	0.16	0.35

The notes set out on pages 32-45 are an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	30.09.2017	30.09.2016	31.12.2016
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	5	18,590	20,782	33,544
Short-term deposits		-	1	-
Trade and other receivables	6	80,289	42,337	45,566
Prepaid corporate income tax		716	467	617
Inventories	7	130,991	114,528	123,364
		<b>230,586</b>	<b>178,115</b>	<b>203,091</b>
<b>Non-current assets</b>				
Long-term financial assets	8	16,758	17,132	15,805
Deferred income tax assets		1,325	1,423	1,325
Investment property	9	3,915	4,173	4,108
Property, plant and equipment	10	10,043	12,939	12,838
Intangible assets	11	468	970	673
		<b>32,509</b>	<b>36,637</b>	<b>34,749</b>
<b>TOTAL ASSETS</b>		<b>263,095</b>	<b>214,752</b>	<b>237,840</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Borrowings	12	4,911	2,697	21,485
Payables and prepayments	13	82,380	50,927	56,259
Income tax liability		404	392	278
Short-term provisions	14	3,471	4,019	5,637
		<b>91,166</b>	<b>58,035</b>	<b>83,659</b>
<b>Non-current liabilities</b>				
Long-term borrowings	12	42,777	29,164	24,516
Deferred income tax liability		1,201	1,075	1,122
Other long-term payables	15	1,932	1,375	2,061
		<b>45,910</b>	<b>31,614</b>	<b>27,699</b>
<b>TOTAL LIABILITIES</b>		<b>137,076</b>	<b>89,649</b>	<b>111,358</b>
<b>EQUITY</b>				
Non-controlling interests		3,948	3,712	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		(668)	(636)	(645)
Retained earnings		114,017	113,305	114,713
		<b>122,071</b>	<b>121,391</b>	<b>122,790</b>
<b>TOTAL EQUITY</b>		<b>126,019</b>	<b>125,103</b>	<b>126,482</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>263,095</b>	<b>214,752</b>	<b>237,840</b>

The notes set out on pages 32-45 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				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
<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	-	-	-	4,714	4,714	(31)	4,683
Other comprehensive income	-	-	27	-	27	3	30
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>27</b>	<b>4,714</b>	<b>4,741</b>	<b>(28)</b>	<b>4,713</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)	-	-	-	-	-	286	286
Option over shares relating to non-controlling interests (Note 16)	-	-	-	-	-	(286)	(286)
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 30.09.2016</b>	<b>7,929</b>	<b>793</b>	<b>(636)</b>	<b>113,305</b>	<b>121,391</b>	<b>3,712</b>	<b>125,103</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	-	-	-	6,561	6,561	260	6,821
Other comprehensive income	-	-	(23)	-	(23)	(4)	(27)
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>(23)</b>	<b>6,561</b>	<b>6,538</b>	<b>256</b>	<b>6,794</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 30.09.2017</b>	<b>7,929</b>	<b>793</b>	<b>(668)</b>	<b>114,017</b>	<b>122,071</b>	<b>3,948</b>	<b>126,019</b>

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

The notes set out on pages 32-45 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2017 9 months	2016 9 months	2016 12 months
<b>Cash flows from operating activities</b>				
Operating profit		8,810	6,078	7,719
Adjustments:				
Depreciation		2,183	2,335	3,488
(Profit)/loss from sale of non-current assets		(535)	(321)	(444)
(Profit) loss from sale of a business unit		(474)	-	-
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		(3,591)	(2,364)	3,711
Interest income from operating activities		(1,440)	(1,425)	(1,856)
Change in provisions		(1,950)	(2,731)	(520)
Change in trade and other receivables related to operating activities		(21,154)	(12,006)	(17,954)
Change in inventories		(5,655)	(5,332)	(14,128)
Change in trade and other payables related to operating activities		14,250	5,485	8,945
Interest received		1,327	1,101	1,515
Interest paid		(668)	(513)	(732)
Other finance income and costs		(14)	(15)	(32)
Corporate income tax (paid)/reclaimed		(1,273)	(1,379)	(1,733)
<b>Total cash flows from operating activities</b>		<b>(10,184)</b>	<b>(11,087)</b>	<b>(12,021)</b>
<b>Cash flows from investing activities</b>				
Acquisition of subsidiaries	16	-	1,264	1,276
Purchase of investment property		(4)	-	-
Purchase of property, plant and equipment		(1,111)	(1,807)	(2,834)
Proceeds from sale of property, plant and equipment		1,902	618	1,098
Purchase of intangible assets		(121)	(140)	(191)
Sale of a business unit		113	-	-
Interest received		5	36	47
<b>Total cash flows from investing activities</b>		<b>784</b>	<b>(29)</b>	<b>(604)</b>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings		32,083	16,852	36,839
Repayments of borrowings		(29,763)	(15,216)	(20,807)
Finance lease principal payments		(618)	(631)	(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>(5,555)</b>	<b>(8,022)</b>	<b>6,258</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>(14,955)</b>	<b>(19,138)</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>1</b>	<b>15</b>	<b>6</b>
<b>Cash and cash equivalents at the end of the period</b>	5	<b>18,590</b>	<b>20,782</b>	<b>33,544</b>

The notes set out on pages 32-45 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 9 months and III 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 9 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 9 months and III 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 9 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 9 months</b>	<b>Estonian construction service</b>	<b>Other home markets construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	99,616	65,590	67,314	232,520
Internal revenue	(57)	(45)	(17,611)	(17,713)
<b>Revenue from clients</b>	<b>99,559</b>	<b>65,545</b>	<b>49,703</b>	<b>214,807</b>
<b>Operating profit (-loss)</b>	<b>4,381</b>	<b>32</b>	<b>5,779</b>	<b>10,192</b>
<b>Profit (-loss) before tax</b>	<b>4,349</b>	<b>(87)</b>	<b>5,449</b>	<b>9,711</b>
incl. interest income from operating activities	15	-	1,231	1,246
depreciation (Note 3)	(1,565)	(33)	(216)	(1,814)
recognition of provisions (Note 3)	(476)	(486)	(197)	(1,159)
reversal of provisions (Note 3)	105	-	-	105
profit from joint ventures	-	-	(12)	(12)
other finance income (costs)	(28)	9	(290)	(309)
incl. interest expenses	(15)	9	(277)	(283)
<b>Assets 30.09.2017</b>	<b>38,469</b>	<b>35,893</b>	<b>163,368</b>	<b>237,730</b>
incl. joint ventures (Note 8)	-	-	331	331

<b>2016 9 months</b>	<b>Estonian construction service</b>	<b>Other home markets construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	88,325	40,273	67,879	196,477
Internal revenue	(131)	(96)	(22,873)	(23,100)
<b>Revenue from clients</b>	<b>88,194</b>	<b>40,177</b>	<b>45,006</b>	<b>173,377</b>
<b>Operating profit (-loss)</b>	<b>4,041</b>	<b>(808)</b>	<b>4,253</b>	<b>7,486</b>
<b>Profit (-loss) before tax</b>	<b>4,003</b>	<b>(867)</b>	<b>4,106</b>	<b>7,242</b>
incl. interest income from operating activities	-	-	1,279	1,279
depreciation (Note 3)	(1,678)	(30)	(222)	(1,930)
impairment of inventories (Note 3)	-	-	(147)	(147)
recognition of provisions (Note 3)	(276)	(229)	(478)	(983)
loss from joint ventures	-	-	66	66
other finance income (costs)	(27)	(2)	(188)	(217)
incl. interest income	-	-	1	1
interest expenses	(27)	(2)	(183)	(212)
<b>Assets 30.09.2016</b>	<b>39,439</b>	<b>13,813</b>	<b>142,887</b>	<b>196,139</b>
incl. joint ventures (Note 8)	-	-	337	337

<b>2017 III quarter</b>	<b>Estonian construction service</b>	<b>Latvian and Lithuanian construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	38,726	34,307	20,289	93,322
Internal revenue	(24)	(12)	(7,286)	(7,322)
<b>Revenue from clients</b>	<b>38,702</b>	<b>34,295</b>	<b>13,003</b>	<b>86,000</b>
<b>Operating profit (-loss)</b>	<b>2,688</b>	<b>723</b>	<b>1,160</b>	<b>4,571</b>
<b>Profit (-loss) before tax</b>	<b>2,669</b>	<b>657</b>	<b>1,051</b>	<b>4,377</b>
incl. interest income from operating activities	4	-	416	420
depreciation (Note 3)	(658)	(13)	(72)	(743)
recognition of provisions (Note 3)	(124)	(121)	(73)	(318)
reversal of provisions (Note 3)	2	-	-	2
loss on joint ventures	-	-	(10)	(10)
other finance income (costs)	(18)	7	(91)	(102)
incl. interest expenses	(4)	7	(91)	(88)
<b>Assets change in III quarter</b>	<b>959</b>	<b>10,359</b>	<b>14,627</b>	<b>25,945</b>
incl. joint ventures	-	-	(101)	(101)

<b>2016 III quarter</b>	<b>Estonian construction service</b>	<b>Latvian and Lithuanian construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	35,142	16,676	24,126	75,944
Internal revenue	(39)	(33)	(8,058)	(8,130)
<b>Revenue from clients</b>	<b>35,103</b>	<b>16,643</b>	<b>16,068</b>	<b>67,814</b>
<b>Operating (-loss)</b>	<b>2,074</b>	<b>(398)</b>	<b>1,788</b>	<b>3,464</b>
<b>Profit (-loss) before tax</b>	<b>2,065</b>	<b>(421)</b>	<b>1,833</b>	<b>3,477</b>
incl. interest income from operating activities	-	-	404	404
depreciation (Note 3)	(637)	(10)	(72)	(719)
impairment of inventories (Note 3)	-	-	(44)	(44)
recognition of provisions (Note 3)	(72)	(95)	(318)	(485)
loss on joint ventures	-	-	112	112
other finance income (costs)	(6)	(1)	(62)	(69)
incl. interest income	-	-	-	-
interest expenses	(6)	(1)	(61)	(68)
<b>Assets change in III quarter</b>	<b>(5,542)</b>	<b>(2,573)</b>	<b>6,249</b>	<b>(1,866)</b>
incl. joint ventures	-	-	112	112

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 30.09.2017 the group holds assets in the amount of EUR 25,365 thousand (30.09.2016: EUR 18,613 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 9 months	2016 9 months	2017 III quarter	2016 III quarter	2016 12 months
<b>Pre-tax profit from reporting segments</b>	<b>9,711</b>	<b>7,242</b>	<b>4,377</b>	<b>3,478</b>	<b>9,246</b>
Other operating profit (-loss)	(1,382)	(1,408)	(478)	(466)	(1,817)
incl. recognition of provisions	(75)	-	-	-	(76)
finance income (costs)	(113)	(117)	(38)	(33)	(150)
incl. interest income	1	31	1	11	41
interest expenses	(110)	(138)	(36)	(45)	(178)
<b>Total profit before tax</b>	<b>8,216</b>	<b>5,717</b>	<b>3,861</b>	<b>2,978</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 9 months		2016 9 months		2017 III quarter		2016 III quarter		2016 12 months	
Estonia	137,888	65%	119,481	69%	48,846	57%	47,803	71%	172,656	68%
Latvia	45,748	21%	32,783	19%	22,897	27%	13,177	19%	44,924	18%
Lithuania	24,353	11%	14,545	8%	9,848	11%	4,930	7%	24,801	10%
Finland	21	0%	3,135	2%	1	0%	558	1%	5,110	2%
Norway	6,797	3%	3,433	2%	4,408	5%	1,346	2%	4,479	2%
<b>Total</b>	<b>214,807</b>	<b>100%</b>	<b>173,377</b>	<b>100%</b>	<b>86,000</b>	<b>100%</b>	<b>67,814</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

	30.09.2017	30.09.2016	31.12.2016
Estonia	13,775	17,506	17,054
Latvia	517	448	443
Lithuania	5	11	10
Norway	129	117	112
<b>Total</b>	<b>14,426</b>	<b>18,082</b>	<b>17,619</b>

**NOTE 3 COST OF GOODS SOLD**

in thousand euros

	2017 9 months	2016 9 months	2017 III quarter	2016 III quarter	2016 12 months
Construction services and properties purchased for resale	122,291	95,286	48,303	38,448	145,079
Materials	38,339	30,717	16,880	11,674	40,911
Labour costs	16,535	15,679	5,772	5,314	20,703
Construction mechanisms and transport	6,942	6,245	3,095	2,705	8,161
Design	3,063	1,917	1,379	566	2,987
Real estate management costs	185	163	51	48	221
Depreciation	1,814	1,930	743	719	2,962
Impairment of inventories	-	147	-	44	37
Provisions	1,054	983	316	485	2,885
Other expenses	7,886	6,339	2,943	2,337	9,015
<b>Total cost of goods sold</b>	<b>198,109</b>	<b>159,406</b>	<b>79,482</b>	<b>62,340</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 9 months	2016 9 months	2017 III quarter	2016 III quarter	2016 12 months
Net profit(-loss) attributable to shareholders (in thousand EUR)	6,561	4,714	3,350	2,891	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>0.37</b>	<b>0.27</b>	<b>0.19</b>	<b>0.16</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 30.09.2017, the parent company AS Merko Ehitus has EUR 67 thousand (30.09.2016: 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 30.09.2017, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 90,693 thousand (30.09.2016: EUR 90,136 thousand; 31.12.2016: EUR 91,255 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 17 thousand (30.09.2016: EUR 0 thousand; 31.12.2016: EUR 0 thousand), the corresponding income tax on dividends would amount to EUR 22,656 thousand (30.09.2016: EUR 22,533 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

	30.09.2017	30.09.2016	31.12.2016
Cash on hand	3	5	2
Bank accounts	18,552	11,938	33,291
Overnight deposits	35	8,839	251
<b>Total cash and cash equivalents</b>	<b>18,590</b>	<b>20,782</b>	<b>33,544</b>

## NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	30.09.2017	30.09.2016	31.12.2016
Trade receivables			
Accounts receivable	43,893	26,303	31,735
Allowance for doubtful receivables	(349)	(266)	(265)
	<b>43,544</b>	<b>26,037</b>	<b>31,470</b>
Tax prepayments excluding corporate income tax			
Value added tax	1,845	1,050	3,318
Other taxes	2	14	-
	<b>1,847</b>	<b>1,064</b>	<b>3,318</b>
Accrued income from construction services	14,975	8,753	4,606
Other short-term receivables			
Short-term loans	9,807	560	1,560
Interest receivables	436	230	218
Other short-term receivables	505	410	347
	<b>10,748</b>	<b>1,200</b>	<b>2,125</b>
Prepayments for services			
Prepayments for construction services	8,319	4,564	3,155
Prepaid insurance	297	340	348
Other prepaid expenses	559	379	544
	<b>9,175</b>	<b>5,283</b>	<b>4,047</b>
<b>Total trade and other receivables</b>	<b>80,289</b>	<b>42,337</b>	<b>45,566</b>
incl. short-term loan receivables from related parties (Note 16)	8,217	560	-
other short-term receivables and prepayments to related parties (Note 16)	4,845	2,687	4,333

## NOTE 7 INVENTORIES

in thousand euros

	30.09.2017	30.09.2016	31.12.2016
Materials	297	476	422
Work-in-progress	29,391	50,325	39,537
Finished goods	30,033	11,248	18,918
Goods for resale			
Registered immovables purchased for resale	70,408	50,505	63,150
Other goods purchased for resale	744	760	746
	<b>71,152</b>	<b>51,265</b>	<b>63,896</b>
Prepayments for inventories			
Prepayments for real estate properties	-	1,086	-
Prepayments for other inventories	118	128	591
	<b>118</b>	<b>1,214</b>	<b>591</b>
<b>Total inventories</b>	<b>130,991</b>	<b>114,528</b>	<b>123,364</b>

As at 30.09.2017, the OÜ Unigate, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9 inventories are presented in at fair value of EUR 6,415 thousand (Note 16) in report line Work-in-progress and Registered immovables purchased for resale.

## NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

	30.09.2017	30.09.2016	31.12.2016
Investments joint ventures	331	337	434
Long-term loans	3,550	5,275	3,952
Long-term bank deposit	-	36	36
Long-term interest	-	231	261
Long-term receivables from customers of construction services	12,877	11,253	11,122
<b>Total other long-term loans and receivables</b>	<b>16,758</b>	<b>17,132</b>	<b>15,805</b>
incl. long-term loan receivables from related parties (Note 16)	-	3,719	3,952
other long-term receivables from related parties (Note 16)	-	231	261

## NOTE 9 INVESTMENT PROPERTY

in thousand euros

	30.09.2017	30.09.2016	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	5,250	5,245	5,245
Accumulated depreciation	(1,404)	(1,141)	(1,206)
	<b>3,846</b>	<b>4,104</b>	<b>4,039</b>
<b>Total investment property</b>	<b>3,915</b>	<b>4,173</b>	<b>4,108</b>

## NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	30.09.2017	30.09.2016	31.12.2016
Land	817	824	821
Buildings at carrying amount			
Cost	5,557	5,725	5,650
Accumulated depreciation	(2,061)	(1,944)	(1,948)
	<b>3,496</b>	<b>3,781</b>	<b>3,702</b>
Machinery and equipment at carrying amount			
Cost	14,705	18,457	17,625
Accumulated depreciation	(10,148)	(11,381)	(11,164)
	<b>4,557</b>	<b>7,076</b>	<b>6,461</b>
Other fixtures at carrying amount			
Cost	5,564	5,236	5,190
Accumulated depreciation	(4,712)	(4,445)	(4,429)
	<b>852</b>	<b>791</b>	<b>761</b>
Prepayments for property, plant and equipment	321	467	1,093
<b>Total property, plant and equipment</b>	<b>10,043</b>	<b>12,939</b>	<b>12,838</b>

## NOTE 11 INTANGIBLE ASSETS

in thousand euros

	30.09.2017	30.09.2016	31.12.2016
Goodwill			
Cost	77	971	970
Impairment	-	(334)	(656)
	<b>77</b>	<b>637</b>	<b>314</b>
Software at carrying amount			
Cost	1,361	1,126	1,137
Accumulated depreciation	(1,064)	(967)	(991)
	<b>297</b>	<b>159</b>	<b>146</b>
Prepayments for intangible assets	94	174	213
<b>Total intangible assets</b>	<b>468</b>	<b>970</b>	<b>673</b>

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

## NOTE 12 BORROWINGS

in thousand euros

	30.09.2017	30.09.2016	31.12.2016
<b>Finance lease payables</b>			
Present value of lease payments	1,137	2,024	1,769
incl. current portion	760	981	1,282
non-current portion 1...4 years	377	1,043	487
<b>Bank loans</b>			
Loan balance	40,544	22,807	25,703
incl. current portion	3,144	709	7,696
non-current portion 1...5 years	37,400	22,098	18,007
<b>Loan from parent company</b>			
Loan balance	-	-	12,500
incl. current portion (Note 16)	-	-	12,500
<b>Loans from entities under common control</b>			
Loan balance	6,000	7,000	6,000
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	7	30	29
incl. current portion	7	7	7
non-current portion 1...5 years	-	23	22
<b>Total loans</b>			
Loans balance	46,551	29,837	44,232
incl. current portion	4,151	1,716	20,203
non-current portion 1...5 years	42,400	28,121	24,029
<b>Total borrowings</b>			
incl. current portion	4,911	2,697	21,485
non-current portion 1...5 years	42,777	29,164	24,516

## NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	30.09.2017	30.09.2016	31.12.2016
Trade payables	38,591	26,429	25,035
Payables to employees	7,448	6,688	7,106
Tax liabilities, except for corporate income tax			
Value added tax	1,510	617	4,122
Personal income tax	527	566	513
Social security tax	978	1,017	993
Unemployment insurance tax	49	56	55
Contributions to mandatory funded pension	44	48	46
Other taxes	151	171	122
	<b>3,259</b>	<b>2,475</b>	<b>5,851</b>
Prepayments for construction services	15,750	7,016	8,943
Other liabilities			
Interest liabilities	13	29	21
Other liabilities	167	234	508
	<b>180</b>	<b>263</b>	<b>529</b>
Prepayments received	17,152	8,056	8,795
<b>Total payables and prepayments</b>	<b>82,380</b>	<b>50,927</b>	<b>56,259</b>
incl. payables to related parties (Note 16)	24	80	38

## NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	30.09.2017	30.09.2016	31.12.2016
Provision for warranty obligation for construction	2,549	2,422	2,476
Provision for costs of projects sold	739	1,436	2,788
Provision for onerous construction contracts	63	61	79
Provision for legal costs and claims filed	120	100	273
Other provisions	-	-	21
<b>Total short-term provisions</b>	<b>3,471</b>	<b>4,019</b>	<b>5,637</b>

## NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	30.09.2017	30.09.2016	31.12.2016
Trade payables	1,290	1,089	1,317
Other long-term liabilities	642	286	744
<b>Other long-term payables total</b>	<b>1,932</b>	<b>1,375</b>	<b>2,061</b>
incl. other long-term payables to related parties (Note 16)	311	286	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 30.09.2017, 30.09.2016 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
	30.09.2017	30.09.2016	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	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 aikštele	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
OÜ Unigate	100	-	-	Estonia, Tallinn	Real estate
OÜ Paekalda 2	100	-	-	Estonia, Tallinn	Real estate
OÜ Paekalda 3	100	-	-	Estonia, Tallinn	Real estate
OÜ Paekalda 7	100	-	-	Estonia, Tallinn	Real estate
OÜ Paekalda 9	100	-	-	Estonia, Tallinn	Real estate
SIA Merko Investments	100	100	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 Investicijas	100	100	100	Latvia, Riga	Real estate

	Ownership and voting rights %			Location	Area of operation
	30.09.2017	30.09.2016	31.12.2016		
SIA Industrias 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
PS Merks-Ostas celnieks	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	Estonia, Tallinn	Real estate
Poolkoksimäe 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 23.

## GOODS AND SERVICES

in thousand euros

	2017 9 months	2016 9 months	2016 12 months
<b>Provided services and goods sold</b>			
Parent company	11	11	15
Joint ventures	10,400	4,144	7,471
Entities under common control	5,031	4,616	5,641
Members of the management	39	98	108
Other related parties	-	617	617
<b>Total services provided and goods sold</b>	<b>15,481</b>	<b>9,486</b>	<b>13,852</b>
<b>Interest income</b>			
Joint ventures	302	210	280
<b>Purchased services and goods</b>			
Parent company	68	68	90
Joint ventures	-	-	20
Entities under common control	45	123	126
<b>Total purchased services and goods</b>	<b>113</b>	<b>191</b>	<b>236</b>
<b>Interest expense</b>			
Parent company	34	-	38
Entities under common control	110	136	177
<b>Total interest expense</b>	<b>144</b>	<b>136</b>	<b>215</b>

**BALANCES WITH RELATED PARTIES**

in thousand euros

	30.09.2017	30.09.2016	31.12.2016
<b>Receivables from related parties</b>			
Loans granted (Notes 6, 8)			
Joint ventures	8,217	4,279	3,952
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Joint ventures	4,466	2,421	3,896
Entities under common control	375	262	433
Other related parties	-	-	-
<b>Total receivables and prepayments</b>	<b>4,845</b>	<b>2,687</b>	<b>4,333</b>
Other long-term receivables (Note 8)			
Joint ventures	-	231	261
<b>Total receivables from related parties</b>	<b>13,062</b>	<b>7,197</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	-
<b>Total short-term loans received</b>	<b>1,000</b>	<b>1,000</b>	<b>12,500</b>
Payables and prepayments (Note 13)			
Parent company	9	9	9
Joint ventures	2	7	-
Entities under common control	13	64	29
<b>Total payables and prepayments</b>	<b>24</b>	<b>80</b>	<b>38</b>
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	311	286	322
<b>Total payables to related parties</b>	<b>6,335</b>	<b>7,366</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 9 months of 2017 was EUR 1,634 thousand (9 months of 2016: EUR 1,688 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 9 months of 2017, the Management Board members of major subsidiaries received EUR 118 thousand in compensation (9 months of 2016: EUR 33 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 30.09.2017:

		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 30.09.2017:

		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.

	30.09.2017	30.09.2016	31.12.2016
Performance period's warranty to the customer	31,528	10,510	21,036
Tender warranty	1,112	788	767
Guarantee warranty period	19,357	22,861	20,470
Prepayment guarantee	16,080	1,491	4,411
Payment guarantee	30,634	30,500	30,500
Contracts of surety	4,386	3,753	3,902
<b>Total contingent liabilities</b>	<b>103,097</b>	<b>69,903</b>	<b>81,086</b>

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 9 months of 2017, which are set out on pages 5-45.

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



09.11.2017

Tõnu Toomik                      Member of the Management Board



09.11.2017

## 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 (%)	=	$\frac{\text{(Profit before tax + interest expense - foreign exchange gain (loss) + other financial income) of the current 4 quarters}}{\text{(Shareholders equity (average) + interest-bearing liabilities (average)) of the current 4 quarters}}$
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	=	$\frac{\text{Current assets - inventories}}{\text{Current liabilities}}$
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 (%)	=	$\frac{\text{Operating profit + depreciation}}{\text{Revenue}}$
General expense ratio (%)	=	$\frac{\text{Marketing expenses + General and administrative expenses}}{\text{Revenue}}$
Labour cost ratio (%)	=	$\frac{\text{Labour costs}}{\text{Revenue}}$
Revenue per employee (EUR)	=	$\frac{\text{Revenue}}{\text{Number of employees (average)}}$
Earnings per share, EPS (EUR)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$
Equity/share (EUR)	=	$\frac{\text{Shareholders equity (average of the current 4 quarters)}}{\text{Number of shares}}$
Dividend per share (EUR)	=	$\frac{\text{Payable dividends}}{\text{Number of shares}}$
Dividend rate (%)	=	$\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$
Dividend yield (%)	=	$\frac{\text{Dividends payable per share}}{\text{Share price 31.12}}$
P/E	=	$\frac{\text{Earnings per share of the current 4 quarters}}{\text{Share price 30.09}}$
P/B	=	$\frac{\text{Equity per share (average of the current 4 quarters)}}{\text{Share price 30.09}}$
Market capitalisation	=	Share price 30.09 x Number of shares