



## AS MERKO EHITUS GROUP

### 2013 12 months and IV quarter consolidated unaudited interim report

Business name: AS Merko Ehitus

Primary activities: activities of holding companies  
general contracting in construction sector  
real estate development

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Financial year: 01.01.2013 – 31.12.2013

Reporting period: 01.01.2013 – 31.12.2013

Supervisory Board: Toomas Annus, Teet Roopalu,  
Indrek Neivelt, Olari Taal

Management Board: Andres Trink, Tõnu Toomik

Auditor: AS PricewaterhouseCoopers

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## **BRIEF OVERVIEW OF THE GROUP**

AS Merko Ehitus, a company founded in 1990, currently operates as a holding company. Group companies in Estonia, Latvia and Lithuania offer complete solutions in the field of construction and real estate development. Major construction companies incorporated under the holding company include AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%), as well as the AS Merko Ehitus Eesti group companies Tallinna Teede AS (100%) and AS Merko Infra (100%).

The main activity of the holding company is development and implementation of the strategies of Merko Ehitus group's separate business areas primarily through long-term planning of resources. The shares of Merko are listed on Tallinn Stock Exchange since 1997. As at the year-end 2013, the Group employed more than 850 people.

Merko Ehitus has the highest owners' equity in the Estonian construction sector and is able to finance projects by itself. Our objective is to maintain liquidity. We have been conservative in involving debt capital. We observe that we would have sufficient necessary resources to continuously invest in attractive projects.

Merko Ehitus Eesti group is the market leader of the Estonian construction sector with about 7% of the total volume of the Estonian construction market as at the end of third quarter 2013.

In Latvia and Lithuania, Merko Ehitus operates through its subsidiaries SIA Merks and UAB Merko Statyba, focusing selectively on projects where the competitive advantage is perceivable as compared to other market players.

Long-term experience in different markets, a wide scope of construction services, flexibility, reliability and meeting of deadlines and primarily quality have helped Merko Ehitus group companies to achieve and maintain the position of the market leader in the Baltics. Depending on the expectations of contracting entities, the group companies perform both small-scale construction works as well as large scale, complicated and innovative projects, with a focus on general contracting and project management.

International quality, environmental protection and occupational safety certificates ISO 9001, ISO 14001 and OHSAS 18001 have been assigned to the group's larger construction companies.

## VISION

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

## VALUES

**RESPONSIBILITY** - We decide based on business thinking/awareness and ethical beliefs. We offer continuous and environment-friendly solutions.

**KEEPING PROMISES** - We give realistic promises to the shareholders, contracting entities, cooperation partners, employees and we keep our promises. Good solutions are born in cooperation; the keeping of one's promises is mutual.

**COMPETENCE** - We value quality and professionalism. We constantly develop our professional knowledge and skills.

**INITIATIVE** - We manage processes and we are result-oriented. We accept the challenges which presume more.

**CREATIVITY** - We are open, innovative and creative in working out and implementing the solutions. We are willing to carry out our thoughts.

## STRATEGY

The business strategy of AS Merko Ehitus subsidiaries focuses 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 home markets Estonia, Latvia and Lithuania. The group's objective is to remain the leader in the Baltic construction market.

## LONG-TERM FINANCIAL OBJECTIVES UNTIL 2018

At the meeting held on 8 April 2013, the Management Board and the Supervisory Board of AS Merko Ehitus reviewed the company's strategic development directions and approved long-term financial objectives until 2018.

Considering the weak growth perspective of the Baltic construction and real estate market in the coming few years, the overall low interest environment and the company's high equity base, the strategy and the financial objectives are focussed on improving the return on invested capital and increasing the efficiency of the balance structure.

The objectives are based on the following assumptions concerning the external environment:

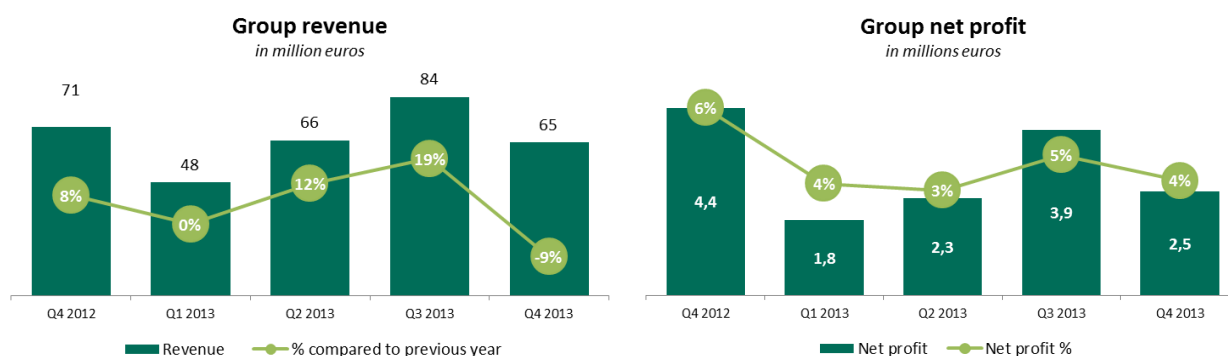
- The Baltic construction market will not experience considerable growth in the coming two years;
- The share of public procurements in construction contracts will remain high, but their volume will temporarily decrease as of the second half of 2013 due to the end of the current EU funding period. On the whole, the financial resources allocated to economy will remain at the same level in the new EU funding period (2014-2020), but the structure thereof will change. The activity of private clients in developing and launching larger construction projects will recover slowly.
- The number of service providers in the construction sector exceeds the demand and there is still a surplus capacity of property, plant and equipment. The tightening competition in the construction market puts increasing pressure on the profit margins of construction companies.
- The Baltic apartment market will continue to see a moderate growth in transaction activity and prices, particularly in capital cities.

The long-term financial objectives of AS Merko Ehitus cover the period until 2018 and will be reviewed annually based on the market situation, the company's financial standing and strategy:

- The minimum period average return on equity (ROE): 10%
- Dividend pay-out ratio: 50-70% of the annual profit
- Equity ratio: at least 40%

## MANAGEMENT REPORT

### Overview of the 12 months and Q4 results



- ❖ **Profitability:** net profit in 12M 2013 was EUR 10.4 million (12M 2012: EUR 7.6 million), which has increased 36.3% compared to the same period last year. Net profit in Q4 was EUR 2.5 million (Q4 2012: EUR 4.4 million).
- ❖ **Revenue has increased:** 12M 2013 revenue was EUR 262.7 million (12M 2012: EUR 249.1 million), which has increased 5.5% compared to the same period last year. Revenue in Q4 was EUR 64.9 million (Q4 2012: EUR 71.4 million), which is mainly influenced by the decrease of revenues in engineering and road construction segments.
- ❖ **Strong cash position:** by the end of the reporting period, the group had EUR 46.6 million in cash and cash equivalents and equity EUR 121.9 million (50.9% of total assets). Comparable figures in 2012 were accordingly EUR 35.3 million and EUR 116.9 million (52.0% of total assets).
- ❖ **Secured order book:** In Q4 2013, EUR 48.6 million worth of new contracts were signed (Q4 2012: EUR 49.4 million) and as at 31 December 2013, the group's secured order book amounted to EUR 213.7 million (31 December 2012: EUR 189.9 million).
- ❖ **Dividend proposal:** the Management Board proposes to pay the shareholders EUR 7.3 million as dividends from the total net profits brought forward (EUR 0.41 per share), that gives dividend rate of 70% for 2013.

|                     |             | 12M '13 | 12M '12 | Variance | Q4 '13 | Q4 '12 | Variance |
|---------------------|-------------|---------|---------|----------|--------|--------|----------|
| Revenue             | million EUR | 262.7   | 249.1   | +5.5%    | 64.9   | 71.4   | -9.1%    |
| Gross profit        | million EUR | 22.7    | 17.9    | +26.9%   | 5.4    | 7.3    | -26.2%   |
| Gross profit margin | %           | 8.6     | 7.2     | +20.3%   | 8.3    | 10.2   | -18.8%   |
| Net profit (parent) | million EUR | 10.4    | 7.6     | +36.3%   | 2.5    | 4.4    | -44.6%   |
| Net profit margin   | %           | 4.0     | 3.1     | +29.3%   | 3.8    | 6.2    | -39.0%   |
| EPS                 | EUR         | 0.59    | 0.43    | +36.4%   | 0.14   | 0.25   | -44.5%   |

|                       |             | 31.12.13 | 31.12.12 | Variance |
|-----------------------|-------------|----------|----------|----------|
| ROE (on yearly basis) | %           | 8.8      | 6.8      | +28.7%   |
| Equity ratio          | %           | 50.9     | 52.0     | -2.0%    |
| Secured order book    | million EUR | 213.7    | 189.9    | +12.5%   |
| Total assets          | million EUR | 239.2    | 225.0    | +6.3%    |
| Number of employees   | people      | 860      | 915      | -6.0%    |

Calculations of ratios are provided on page 34 of the report.

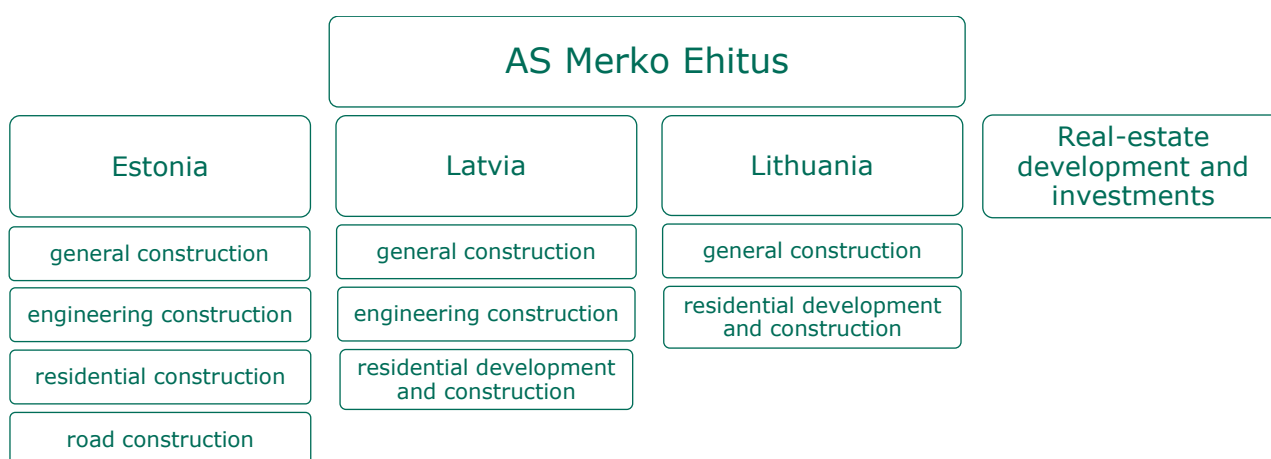
## Background information and major changes introduced in the corporate structure

AS Merko Ehitus is a holding company incorporating construction and real estate development companies offering integrated construction solutions in Estonia, Latvia and Lithuania. Major construction companies incorporated under the holding company include AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%), as well as the AS Merko Ehitus Eesti group companies Tallinna Teede AS (100%) and AS Merko Infra (100%).

The main activity of the holding company is development and implementation of the strategies of Merko Ehitus group's separate business areas primarily through long-term planning of resources. The Management Board of the holding company AS Merko Ehitus has two members: Andres Trink and Tõnu Toomik.

The profiles of the members of the Management Board and Supervisory Board have been presented in pages 26-30 and Note 15 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at [www.merko.ee](http://www.merko.ee).

The structure of the group's business areas as at 31 December 2013 has been presented below:



## Annual General Meeting and changes in the management structure of AS Merko Ehitus

The general meeting of the shareholders was held on 5 June 2013. The general meeting resolved to approve the annual report and the profit allocation proposal for 2012. The dividends in the sum of EUR 5.3 million (EUR 0.3 per share) were paid out to shareholders on 3 July 2013.

In addition, the annual general meeting resolved to recall Member of the Supervisory Board Tõnu Toomik in connection with the Supervisory Board's resolution to appoint Tõnu Toomik as Member of the Management Board of AS Merko Ehitus. The Supervisory Board of AS Merko Ehitus resolved to recall Member of the Management Board Viktor Mõisja from 5 June 2013, with Mr Mõisja continuing service in the engineering division of the company's subsidiary AS Merko Ehitus Eesti, and to appoint the former member of the Supervisory Board Tõnu Toomik as a new member of the Management Board.

## Changes in the legal structure of the group

In the first quarter of 2013, OÜ Paepargi 57 was established as a 100% subsidiary of AS Merko Ehitus group. The share capital of the private limited company is EUR 2,500. The company was founded for the purpose of ensuring company-based accounting for development projects.

In the second quarter of 2013, OÜ Baltic Electricity Engineering, a 100% subsidiary of AS Merko Ehitus, was renamed OÜ Merko Investments. The private limited company has a share capital of EUR 10,000.

On 22 May 2013, AS Merko Ehitus concluded an intra-group transaction, disposing a 100% stake in SIA Merks, a subsidiary engaged in construction, to OÜ Merko Investments, which is fully owned by AS Merko Ehitus. The transaction served the technical purpose of reorganising the legal structure of the group.

By 4 July 2013, the liquidation of Merko Ukraine LLC, initiated in the autumn of 2012, was completed, with the company deleted from the registers.

On 10 June 2013, the shareholders of OÜ Unigate, a 50%-owned joint venture of AS Merko Ehitus, resolved to increase the nominal value of the share of the joint venture by EUR 887.07 to EUR 6,000 with the aim of bringing the company's share capital into line with the requirements arising from the Commercial Code. A monetary contribution of EUR 350,000 was made by both shareholders, with the nominal value of the share capital amounting to EUR 444 and the share premium to EUR 349,556.

On 17 July 2013, UAB Merko Bustas, a 100% subsidiary of AS Merko Ehitus, established a 100% subsidiary UAB Kražiu Projektas in Lithuania, with a share capital of LTL 10,000 (EUR 2,896). The subsidiary was established with the aim of acquiring registered immovables for development purposes in Lithuania.

On 16 August 2013, OÜ Paepargi, a 100% subsidiary of AS Merko Ehitus 100% subsidiary OÜ Constancia, was sold at a sales price of EUR 2,500 to Capital Mill OÜ.

AS Merko infra branch in Latvia was registered on 10 September 2013. The branch was established with the aim of participating in large-scale infrastructure facilities construction tenders, including electrical engineering tenders, in order to supplement the competence and references of SIA Merks if necessary.

On 3 October 2013, AS Merko Ehitus Eesti, a 100% subsidiary of AS Merko Ehitus, established a 51% subsidiary OÜ Heamaja. The company was established with the aim of participating in the Suur-Ameerika 1, Tallinn building construction works concession contract tender organized by AS Riigi Kinnisvara.

AS Merko Ehitus has decided to make changes in the structure of the group companies in 2014 for the purpose of more effective management and saving on administrative costs. As part of the activity plan, holdings in non-significant subsidiaries will be reviewed and possible mergers or disposals of companies will be decided. The activity plan will not affect the significant subsidiaries, nor will they have a significant effect on the group's financial results. The first changes are in progress and the activity plan will continue to be implemented during 2014.

On 20 December 2013 AS Merko Ehitus initiated a process to merge real estate development companies in which it has a 100% holding – OÜ Woody, OÜ Metsailu and OÜ Käibevara – specifically for the purpose of reducing the administrative costs of managing the companies. The acquiring company will be OÜ Metsailu. The companies being acquired will be merged into OÜ Metsailu and as a result of the merger the companies being acquired will wind up without liquidation proceedings and OÜ Metsailu will become the legal successor of the companies being acquired. As a result of the merger, AS Merko Ehitus will remain the sole shareholder in OÜ Metsailu, the acquiring company. The balance sheet date of the merger – i.e., the date as of which all of the transactions of the companies being acquired are considered executed from the accounts of the acquiring company – is 1 January 2014. The final merger entry will be made in the Commercial Register during the first half of 2014.

AS Merko Ehitus Eesti, a subsidiary of AS Merko Ehitus group, signed an agreement on 15 January 2014 for the transfer of its entire 80% holding in the subsidiary Gustaf Tallinn OÜ to the previous co-shareholder and member of

the Management Board Tiit Pomerants. The share capital of Gustaf Tallinn OÜ is EUR 23,967 of which the holding of AS Merko Ehitus Eesti with a nominal value of EUR 19,174 comprises 80% and the holding of Tiit Pomerants with a nominal value of EUR 4,793 made up 20%. The holding was transferred with the purpose of re-arranging the structure of the group companies and reducing holdings in non-significant subsidiaries. The principal area of activity of the construction company Gustaf Tallinn OÜ is construction and finishing work and the company offers prime contractor service for smaller renovations and repair jobs, which are not one of the strategically significant principal areas of activity of the AS Merko Ehitus group.

On 15 January 2014, the buyer paid the seller a sum of EUR 20,000. The final sales price will be calculated in accordance with the audited 2013 annual report of Gustaf Tallinn OÜ on the basis of the share of equity held by AS Merko Ehitus Eesti, adjusted by dividend payment of EUR 960,000 paid to the seller before transfer of the share as well as by the income tax expense of EUR 255,190 related to the dividend. AS Merko Ehitus Group considers the additional influence of adjustments of sales price to be immaterial. The buyer is obliged to pay the adjusted part of the sales price to the seller's bank account by 1 May 2014.

As a result of the share disposal and future non-consolidation of Gustaf Tallinn OÜ line by line, the transaction will have an estimated EUR 0 influence on the consolidated profit of AS Merko Ehitus group, a decreasing influence on assets and liabilities of EUR 966,775 and EUR 945,274 respectively.

On 22 January 2014, UAB Merko Bustas, a 100% subsidiary of AS Merko Ehitus, established a 100% subsidiary UAB VPSP 1 in Lithuania, with a share capital of LTL 10,000 (EUR 2,896). The subsidiary was established with the aim to participate in the Lithuanian state organized public-private partnership (PPP) procurement tenders.

### **Recognitions 2013**

#### **The Entrepreneurship Award 2013**

AS Merko Ehitus was granted the most competitive enterprise award in the field of construction for the second year in a row at the Entrepreneurship Award competition organised by Enterprise Estonia, the Estonian Chamber of Commerce and the Estonian Employers' Confederation.

#### **Construction company with the finest and tidiest construction site in Tallinn**

In December, the City of Tallinn recognised AS Merko Ehitus as a construction company with the finest and tidiest construction site in the city. The construction site in question is an apartment/commercial building located at Tedre 55. The purpose of the contest for the title of the finest and tidiest construction site was to inspect construction sites, draw the builders' attention to violations of legal acts and property maintenance rules with the aim of ensuring a safe and well-kept living environment for Tallinners. The commission consists of specialists from the Tallinn Municipal Engineering Services Department, Tallinn Municipal Police Department and North Prefecture of the Police and Border Guard Board.

#### **Recognition by the Labour Inspectorate in the best practice competition**

AS Merko Infra was recognised by the Labour Inspectorate, within the framework of the best working environment practice competition, for the design and implementation of the excavation trough during construction of the Tõrva municipal water and sewerage pipeline. The special-purpose troughs were designed and built with the aim of enhancing the safety and quality of work in the installation of pipes in limited drainage conditions. A total of 57 examples of best working environment practice participated in the competition.

#### **Builder of the Year competition**

One of the nominees for the title of the Builder of the Year 2013 was Siim Õispalu, project manager with the electrical works department of AS Merko Ehitus Eesti, who has successfully managed the complicated construction of the Aruküla substation and, previously, the construction of the runway lighting of the NATO airfield in Ämari, and the electrical works on the Puurmani multi-level interchange on the Tallinn-Tartu road.

The Builder of the Year competition is organised by the Estonian Association of Construction Entrepreneurs with the purpose of promoting the profession of a builder and recognising the best specialists in the field.



## **GREATEST CONTRIBUTORS TO THE CONSTRUCTION MARKET IN THE TWELVE MONTHS OF 2013**

The company's prediction of the greatest contributors to the construction market in the upcoming quarters has not changed since the 9 months interim report 2013.

While in 2012, a majority of large-scale contracts for construction in the Baltic States were initiated by the public sector and financed largely from the EU Structural Funds and also from the CO2 quota sales funds, these trends have been reversed in the first 12 months of 2013, with new life breathed into the private sector, which sees favourable terms to carry out their investments that the general weakness of the construction market provides. All in all, a decrease in construction volumes is expected in the Baltic States in 2013 and 2014. This can mostly be attributed to the decrease in public procurement volumes in connection with the expiry of the EU budget period 2007-2013 and continuing uncertainties regarding the distribution of funds for the budget period 2014-2020. As the new projects require thorough preparations, it can be predicted that new public procurements will once again be started in 2015 and 2016. With civil engineering works are still taking the majority of construction volumes, the year 2013 has seen a revitalization of building projects by private contracting entities in the sectors of trade, logistics and other commercial space. The total number of projects launched by the private sector has grown significantly over the last few months. As at 31 December 2013 about half of new contracts signed in the year 2013 are related to private contracting entities. Nevertheless the private contracting entities will surely fail to compensate in full the reduction in procurement by the public sector, especially in the field of external networks.

The Baltic construction market is still characterized by tight competition and aggressive pricing in construction procurements. Due to the contracting entities' persistent focus on the most favourable construction price, it is still difficult for the main contractors to maintain their competitive edge.

The contracting entities' high demands with regard to guarantees, and the long terms of payment lay a heavy burden on the current assets of construction companies. Cash flow management skills are required for companies to remain competitive. We therefore make an effort to maintain a stable equity base, and make use of the group's strong financial position as a competitive advantage when negotiating payment terms.

The apartment market has been gradually improving in all Baltic States. Despite the price-sensitive consumer, the demand for well-located, high-quality residential space remains high in all three Baltic capitals. Developers in all three Baltic countries and in particular the capitals are bolder when launching new projects, which will increase the supply of new apartments. We see that the demand continues to remain strong in 2014, but the bigger apartment offering in the future may bring about downward pressure on prices and the prolongation of sales periods. More and more apartment buyers are focusing on the quality of construction (energy efficiency, sound insulation) and base their purchase decisions on the availability of infrastructure (parking, services, logistics) in the area. The good availability of bank loans – due to the strong capitalization of banks as well as improved LTD ratio – continues to be supported, among other things, by the low Euribor level. Still, the customers' enthusiasm in applying for bank loans remains lower in both Latvia and Lithuania than in Estonia. In addition, demand on the apartment market is positively impacted by the low amount of alternative investment opportunities, the growth in incomes and general improvement in confidence.

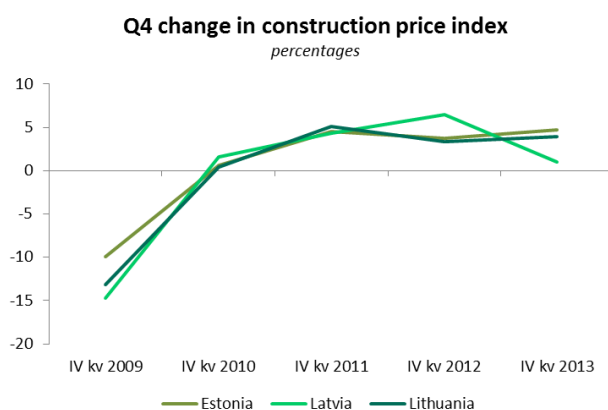
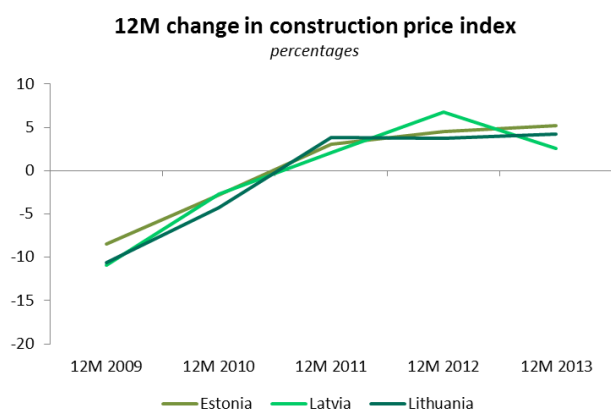
The banks, in turn, show no enthusiasm for financing the residential development projects of smaller-scale developers, and tend to demand greater self-financing and that a high proportion (up to 50% of total project volume) be covered by preliminary contracts. These trends provide the group with a competitive edge in the marketing of new development projects and endorse the launch of new development projects in the capitals of all Baltic States.

In Latvia, the apartment market continues to be supported by the involvement of foreign investors in the new apartments market, motivated by the prospects of acquiring an EU residence permit. Furthermore, the banks' more

active lending activities aimed at private customers could stimulate the apartment market even further; so far has the volume of new home loans been modest. The apartment market continues to be active in Vilnius, the capital of Lithuania, particularly in the lower price segment; also the sale of so called "grey box" apartments continues as an ongoing trend.

Considering the poor prospects for growth in the construction market, no wage pressures are foreseen. Neither are we expecting major changes in the input price level. Even though it might be expected that input prices drop due to the weakness of the construction market, but due to overall price inflation and labour market trends, a significant decrease is not expected. Depending on the speed and level of the recovery of Nordic economic growth – especially that of the construction sector, it could lead to an increase in the number of employees heading abroad, especially in Estonia, thus putting increased pressure on workforce expenses. The prices of subcontractors have not shown the same decrease as main contractors, which means that the pressure on margins remains in particular at the main contractors. Nonetheless, sudden fluctuations in input prices cannot be ruled out against the backdrop of global economic events.

|                                        | 12 months 2013 |        |           | IV quarter 2013 |        |           |
|----------------------------------------|----------------|--------|-----------|-----------------|--------|-----------|
|                                        | Estonia        | Latvia | Lithuania | Estonia         | Latvia | Lithuania |
| Construction price index change, y-o-y | 5.2%           | 2.6%   | 4.2%      | 4.7%            | 1.0%   | 3.9%      |
| Labour force                           | 13.4%          | 5.9%   | 7.5%      | 11.3%           | 2.4%   | 7.3%      |
| Building machines                      | 4.7%           | 2.2%   | 1.8%      | 5.4%            | 1.0%   | 1.6%      |
| Building materials                     | 1.2%           | 0.9%   | 2.9%      | 1.1%            | 0.5%   | 2.4%      |



AS Merko Ehitus's subsidiary AS Merko Ehitus Eesti – the number one main contractor in the Estonian construction market – is well-positioned and able to compete in all of the activities pursued. In Latvia, AS Merko Ehitus's subsidiary SIA Merks is among the 5-6 leading main contractors; we believe in our ability to maintain the position. In Lithuania, the activities of AS Merko Ehitus's subsidiary UAB Merko Statyba revolve, above all, around apartment development projects and the buildings (general construction) segment, which is witnessing a tight competition with regard to procurements. The position of the main contractors in the Lithuanian market continues to be affected by the activities of the so-called contracting entity consulting companies, who complicate the main contractors' pursuit of favourable construction orders. In Lithuania, it remains a huge challenge for foreign companies to participate in public procurements.

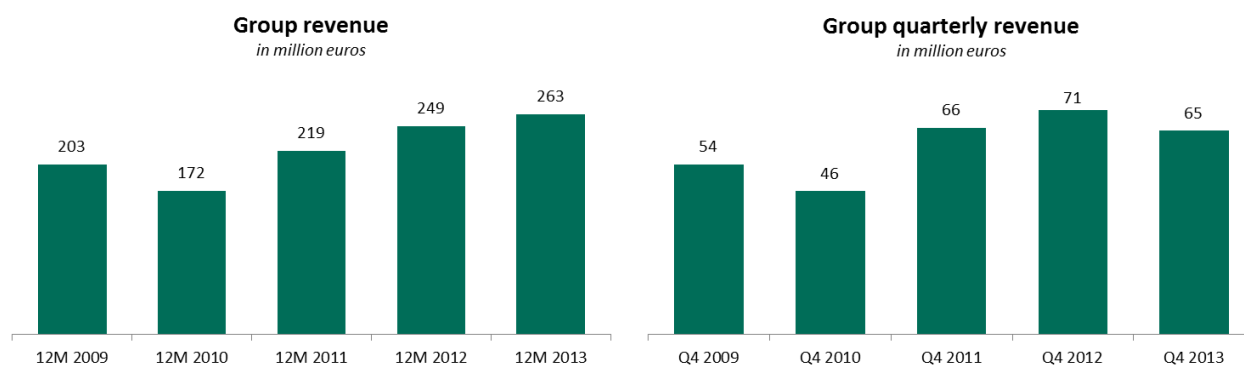
## OPERATING RESULTS

### Business activities

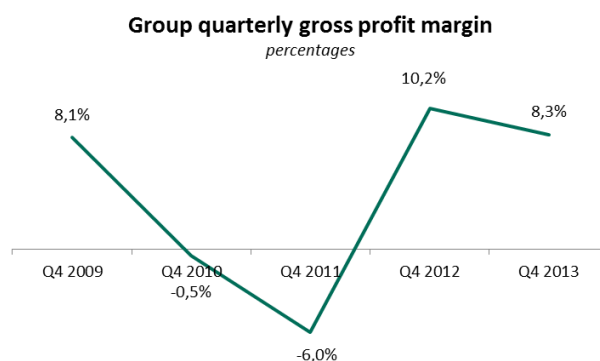
Key financial indicators (in million euros):

|                                                   | 12M 2013     | 12M 2012     | Q4 2013     | Q4 2012     |
|---------------------------------------------------|--------------|--------------|-------------|-------------|
| <b>Revenue</b>                                    |              |              |             |             |
| Estonia                                           | 211.9        | 202.1        | 48.6        | 49.3        |
| Latvia                                            | 44.4         | 38.3         | 14.9        | 19.4        |
| Lithuania                                         | 6.4          | 8.7          | 1.4         | 2.7         |
| <b>Revenue total</b>                              | <b>262.7</b> | <b>249.1</b> | <b>64.9</b> | <b>71.4</b> |
| <b>Gross profit</b>                               | <b>22.7</b>  | <b>17.9</b>  | <b>5.4</b>  | <b>7.3</b>  |
| <b>Operating profit (EBIT)</b>                    | <b>12.3</b>  | <b>8.8</b>   | <b>2.7</b>  | <b>4.7</b>  |
| attributable to equity holders of the parent      | 10.4         | 7.6          | 2.5         | 4.4         |
| attributable to non-controlling interest          | 0.0          | 0.0          | 0.0         | 0.1         |
| <b>Net profit</b>                                 | <b>10.4</b>  | <b>7.6</b>   | <b>2.5</b>  | <b>4.5</b>  |
| <b>Earnings per share (EPS), in euros</b>         | <b>0.59</b>  | <b>0.43</b>  | <b>0.14</b> | <b>0.25</b> |
| <b>Cash and cash equivalents closing position</b> | <b>46.6</b>  | <b>35.3</b>  | <b>46.6</b> | <b>35.3</b> |

### Revenue and gross profit

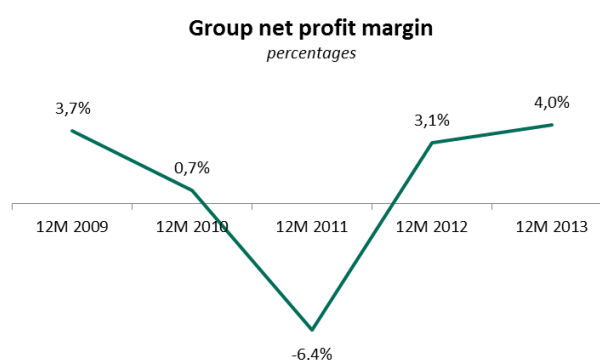
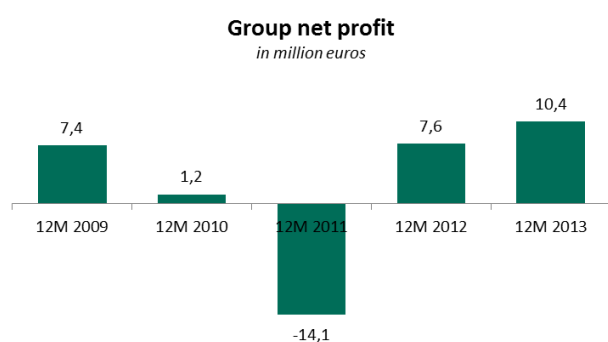


Merko Ehitus group generated a total of EUR 262.7 million in revenue in 12 months of 2013 (12 months of 2012: EUR 249.1 million). 80.7% of the revenue was generated in Estonia, 16.9% in Latvia and 2.4% in Lithuania (12 months of 2012: 81.1% in Estonia, 15.4% in Latvia and 3.5% in Lithuania). Compared to the first 12 months of 2012 the group revenue increased by 5.5%. During the reporting period, orders from the private sector have increased as an ongoing trend, but the majority of revenue is still related to projects financed with support from the EU structural funds – state orders. Revenue in Q4 2013 was EUR 64.9 million, which has decreased 9.1% compared to the previous year (Q4 2012: EUR 71.4 million). The increase in revenue, compared to last year, can be mainly attributed to projects pursued in the general construction, real estate development and road construction segment. There is a negative impact by a significant reduction in sales revenue from engineering construction segment, which is primarily due to the end of major projects financed from EU structural funds and the reduced project volumes.

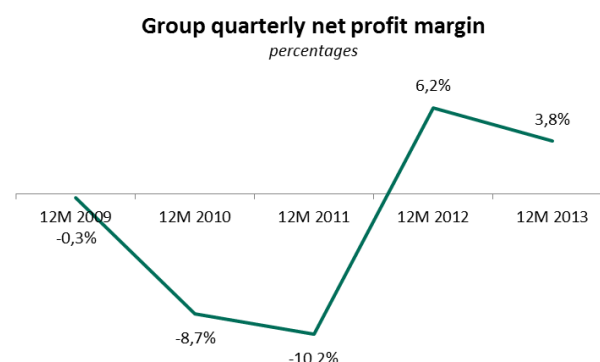
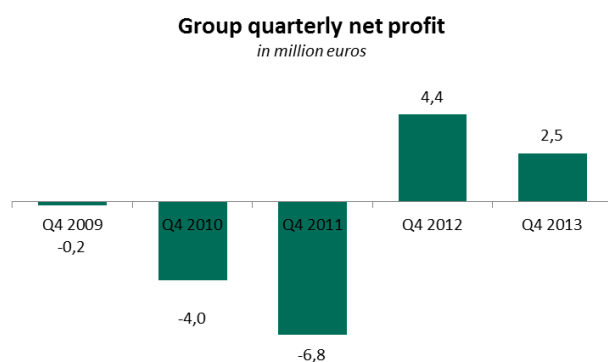


In 12 months of 2013 the group's gross profit from development and construction activities totalled EUR 22.7 million (12 months of 2012: EUR 17.9 million). The gross profit in Q4 2013 was EUR 5.4 million (Q4 2012: EUR 7.3 million). While the 12 month gross profit margin (8.6%) has improved, compared to the same period last year (12 months of 2012: 7.2%), then the fourth quarter gross profit margin (8.3%) has decreased, compared to the same period last year (Q4 2012: 10.2%). Key contributors to the rise in the profit margin are the road construction segment and the real estate development segment. At the same time, the margin has fallen at the expense of the profitability of the general construction segment. The scarcity of projects and the ever-tightening competition in the construction sector pose a huge challenge in the maintaining of the current gross profit margin for new procurements in all segments, but especially in general construction, where competition and the number of companies participating at the procurements is the highest.

### Net profit



In 12 months of 2013, the group's profit before tax totalled EUR 11.1 million and net profit attributable to equity holders of the parent was EUR 10.4 million as compared to the pre-tax profit of EUR 7.9 million and net profit attributable to equity holders of the parent of EUR 7.6 million in 12 months of 2012. Group's net profit margin was 4.0% (12 months of 2012: 3.1%).



In Q4 of 2013, the group's profit before tax totalled EUR 2.4 million and net profit attributable to equity holders of the parent was EUR 2.5 million as compared to the pre-tax profit of EUR 4.4 million and net profit attributable to equity holders of the parent of EUR 4.4 million in Q4 of 2012.

### Business segments

The group business activities are managed according to the following areas:

- General construction – includes the construction of buildings for different purposes including offices, hotels, museums, culture and business centres, social, production and service buildings as well as buildings of various industrial structures.
- Engineering construction – The engineering construction segment of Merko builds port structures, landfilling areas at landfills, various road structures (tunnels, overpasses, bridges), water and sewerage pipelines, water treatment plants, up to 330 kV electrical construction projects and other complex engineering and environmental projects.
- Road construction – In this segment, Merko carries out road construction and builds the associated infrastructure. In addition, we carry out road maintenance works and maintenance repair.
- Real estate development – including development of apartment projects, long-term financial investments and commercial real estate projects;
- Other – covers sales of materials from quarries, equipment rental, consultations, construction supervision and other transactions not related to the main area of activity.

### General construction

| <b>General construction</b><br><i>million EUR</i> | <b>12M 2013</b> | <b>12M 2012</b> | <b>Variance</b> | <b>Q4 2013</b> | <b>Q4 2012</b> | <b>Variance</b> |
|---------------------------------------------------|-----------------|-----------------|-----------------|----------------|----------------|-----------------|
| Revenue                                           | 86.6            | 61.7            | +40.3%          | 26.7           | 18.6           | +43.7%          |
| % of revenue                                      | 32.9%           | 24.8%           | +33.1%          | 41.1%          | 26.0%          | +58.2%          |
| Gross profit (loss)                               | (0.5)           | 5.0             | -110.0%         | (2.0)          | 1.8            | -211.9%         |
| Gross profit margin                               | -0.6%           | 8.1%            | -107.1%         | -7.6%          | 9.8%           | -177.9%         |

In the first 12 months of 2013, the revenue of the general construction segment increased by 40.3% from the same period last year. The segments overall gross loss for the year is EUR 0.5 million, which represents a decrease by 110.0% compared to the previous year. The segment continues to be mainly influenced by the pressure on the margins exerted by tightening competition. The loss recognized in the fourth quarter is mainly due to risks – unforeseen in earlier phases – materialising with regard to one reconstruction project in progress. On the basis of the realisation of the said risks, the total loss from the project has been recognised by the group in the current period. Measures are being implemented by the Group subsidiaries to prevent similar project management risks and losses in the future.

While in 2012 the market was primarily dominated by public sector projects, the 2013 has seen an increase also in private sector orders and at the end of the year the private sector projects make up more than half of general construction segment projects in work.

Our major projects in the fourth quarter included reconstruction work at the North-Estonia Medical Centre in Mustamäe, the launch of construction of Polipaks NT manufacturing and logistics centre in Marupe and the multifunctional concert hall in Liepaja and the continuation of Tondiraba ice arena construction.

**Engineering or infrastructure construction****Civil engineering***million EUR*

|                     | <b>12M 2013</b> | <b>12M 2012</b> | <b>Variance</b> | <b>Q4 2013</b> | <b>Q4 2012</b> | <b>Variance</b> |
|---------------------|-----------------|-----------------|-----------------|----------------|----------------|-----------------|
| Revenue             | 94.5            | 113.3           | -16.6%          | 20.4           | 27.0           | -24.4%          |
| % of revenue        | 36.0%           | 45.5%           | -20.9%          | 31.5%          | 37.8%          | -16.8%          |
| Gross profit        | 12.5            | 9.0             | +39.1%          | 4.9            | 3.5            | +39.8%          |
| Gross profit margin | 13.2%           | 7.9%            | +66.7%          | 24.1%          | 13.0%          | +85.0%          |

The revenue of the civil engineering segment amounted to EUR 94.5 million in the first 12 months of 2013 (12 months of 2012: EUR 113.3 million), which is 16.6% less than in 2012. The decrease from the previous year is mainly due to a drop in the volume of pipeline projects. In the fourth quarter of 2013, our main projects included the reconstruction of pipelines in Vääna-Jõesuu, the reconstruction of pipelines in Narva-Jõesuu and the closing of industrial waste and semi-coke landfill in Kohtla-Järve.

The civil engineering segment continues to form the largest proportion in the group's revenue (12 months of 2013: 36.0%), even so, the drop in the volumes in the field during the last 12 months has been the highest (12 months: -16.6%).

The gross profit of the civil engineering segment amounted to EUR 12.5 million (12 months of 2012: EUR 9.0 million) and the gross profit margin was 13.2% (12 months of 2012: 7.9%) which gives a positive shift compared to last year. This is related to efficient project management in the segment. Certain stages of Vääna-Jõesuu water and sewerage pipelines reconstruction project were completed almost 18 months earlier than foreseen by the contract.

The civil engineering segment includes challenges, primarily in connection with the end of the 2007-2013 EU budgeting period and due to the fact that the pace of launching new projects has decreased. This applies particularly to water management projects.

**Road construction****Road construction***million EUR*

|                     | <b>12M 2013</b> | <b>12M 2012</b> | <b>Variance</b> | <b>Q4 2013</b> | <b>Q4 2012</b> | <b>Variance</b> |
|---------------------|-----------------|-----------------|-----------------|----------------|----------------|-----------------|
| Revenue             | 49.5            | 45.1            | +9.6%           | 6.0            | 12.5           | -52.5%          |
| % of revenue        | 18.8%           | 18.1%           | +3.9%           | 9.2%           | 17.6%          | -47.7%          |
| Gross profit        | 5.9             | 1.7             | +246.4%         | 0.3            | 0.5            | -27.6%          |
| Gross profit margin | 12.0%           | 3.8%            | +216.1%         | 5.7%           | 3.8%           | +52.3%          |

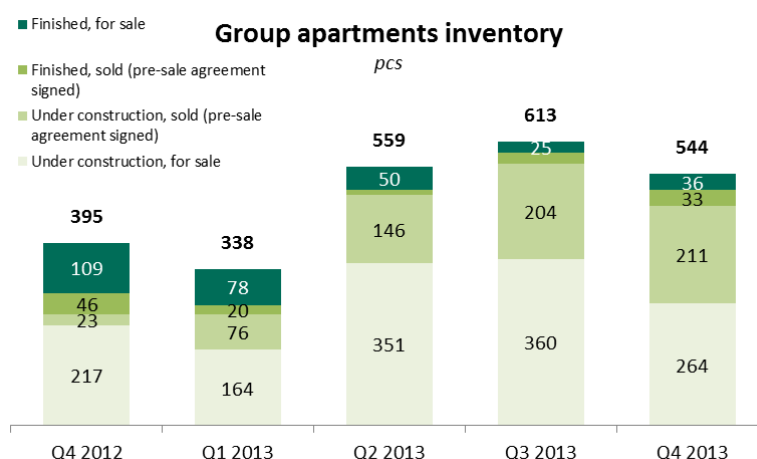
The revenue of the road construction segment amounted to EUR 49.5 million in the first 12 months of 2013, which means a 9.6% increase from 2012. In the first 12 months of 2013, the segment earned a gross profit of EUR 5.9 million, which yields a gross profit margin of 12.0%. The increase in both revenue and profit was supported by the increase in road construction and maintenance volumes in the second and third quarter of 2013.

The largest construction projects in the fourth quarter were the maintenance works done under the service agreement with Tallinn. In addition, we completed the constructing at the Ülemiste traffic junction in October, which was the largest project in the segment during the last year.

**Real estate development**

| <b>Real estate development</b><br><i>million EUR</i> | <b>12M 2013</b> | <b>12M 2012</b> | <b>Variance</b> | <b>Q4 2013</b> | <b>Q4 2012</b> | <b>Variance</b> |
|------------------------------------------------------|-----------------|-----------------|-----------------|----------------|----------------|-----------------|
| Revenue                                              | 31.0            | 27.1            | +14.3%          | 11.6           | 12.8           | -9.4%           |
| % of revenue                                         | 11.8%           | 10.9%           | +8.4%           | 17.9%          | 17.9%          | -0.3%           |
| Gross profit                                         | 5.1             | 2.4             | +113.3%         | 2.2            | 1.5            | +43.9%          |
| Gross profit margin                                  | 16.5%           | 8.9%            | +86.5%          | 19.0%          | 12.0%          | +58.8%          |

A total of 263 apartments were sold in 12 months of 2013 at the total value of EUR 28.3 million (excl. VAT), (12 months of 2012: 235 apartments and EUR 25.0 million, respectively). At the end of the period, Merko Ehitus group's inventory comprised 36 completed but not yet sold apartments (23 in Estonia, 7 in Latvia and 6 in Lithuania) and 33 completed and pre-sold apartments (2 in Estonia, 30 in Latvia and 1 in Lithuania).



As at 31 December 2013, Merko Ehitus group had 300 apartments on active sale (as at 31 December 2012: 326 apartments), meaning apartments that had no signed pre-sale agreement.

The following table lists the apartment projects in progress and their indicative completion time:

| <b>Project</b>                | <b>City/Country</b>   | <b>Completion time</b> | <b>No of apartments*</b> |
|-------------------------------|-----------------------|------------------------|--------------------------|
| Pärna Avenue 5 and 6          | Tartu county, Estonia | Completed              | 8                        |
| Eha 4 / Paldiski 17           | Tallinn, Estonia      | Completed              | 8                        |
| Pärna Avenue 8                | Tartu county, Estonia | Completed              | 9                        |
| Skanstes Virsotnes 4th thower | Riga, Latvia          | Completed              | 6                        |
| Grostonas 17                  | Riga, Latvia          | Completed              | 31                       |
| Mokslininku I stage           | Vilnius, Lithuania    | Completed              | 7                        |
|                               |                       |                        | 69                       |
| Pallasti 48                   | Tallinn, Estonia      | 2014 beginning         | 23                       |
| Pallasti 50                   | Tallinn, Estonia      | 2014 spring            | 23                       |
| Tedre 55                      | Tallinn, Estonia      | 2014 spring            | 47                       |
| Grostonas 19                  | Riga, Latvia          | 2014 autumn            | 82                       |
| Mokslininku II stage          | Vilnius, Lithuania    | 2014 autumn            | 54                       |
| Kentmanni 6                   | Tallinn, Estonia      | 2014 year-end          | 93                       |
| Grostonas 21                  | Riga, Latvia          | 2015 spring            | 125                      |
|                               |                       |                        | 447                      |
| <b>Started in Q4 2013</b>     |                       |                        |                          |
| Pärna Avenue 7                | Tartu county, Estonia | 2014 autumn            | 28                       |
|                               |                       |                        | 28                       |
| <b>Total</b>                  |                       |                        | <b>544</b>               |

\* Included under completed apartments is the number of apartments that are unsold and not delivered to the customers

During 2013 construction of 409 apartments was initiated in Baltic States (12 months of 2012 respectively: 308 apartments).

Two previously frozen development projects were re-launched in the second quarter of 2013. In Tallinn, the company launched construction of the Kentmanni 6 residential and commercial building (number of apartments in the new design: 93), a project frozen in 2008. The first two floors of the building have been designed as commercial space, with the remaining 12 floors allocated for apartments. Two underground parking lots had been constructed for the building by the end of 2008. The building is scheduled to be completed at the end of 2014. In addition we partially re-launched in the second quarter of 2013, the Pärna Avenue 8 development project (number of apartments for sale according to the new design: 27 apartments, of which 9 apartments remain unsold as at the balance sheet date) in Raadi district, Tartu.

We launched new development projects in both Riga and Vilnius in the second quarter of 2013. In Riga we launched a 82 apartment development project at Grostonas 17 and in Vilnius 54 apartment in the second stage of the Mokslininku project.

In the third quarter of 2013 we launched a new development projects in Riga. The development project launched constitutes a continuation of the apartment building block in the Skanstese district where we will build a residential building with 125 apartments at Grostonas 21. The building is scheduled to be completed in the spring of 2015.

In the fourth quarter of 2013 we partially re-launched the second development project at Pärna Avenue 7 (number of apartments for sale according to the new design: 28 apartments) in Raadi district, Tartu. As at 31 December 2013, the company thus has a single frozen project in Tartu – the 130-apartment project shelved in 2007 (the comparable number in Tallinn and Tartu as at 31 December 2012 was 311 apartments).

One of our objectives is to keep a moderate portfolio of land plots to ensure stable implementation of property development projects considering the market conditions. At the same time the real estate market has become more selective – key aspects considered in the evaluation of risks prior to the launch of each project are the location, scale of development, design solutions and the target group. In view of the low mortgage interest rates and the limited supply on the market of new apartments over the last three years, demand and transaction activity in the apartment market has grown moderately.

## Other

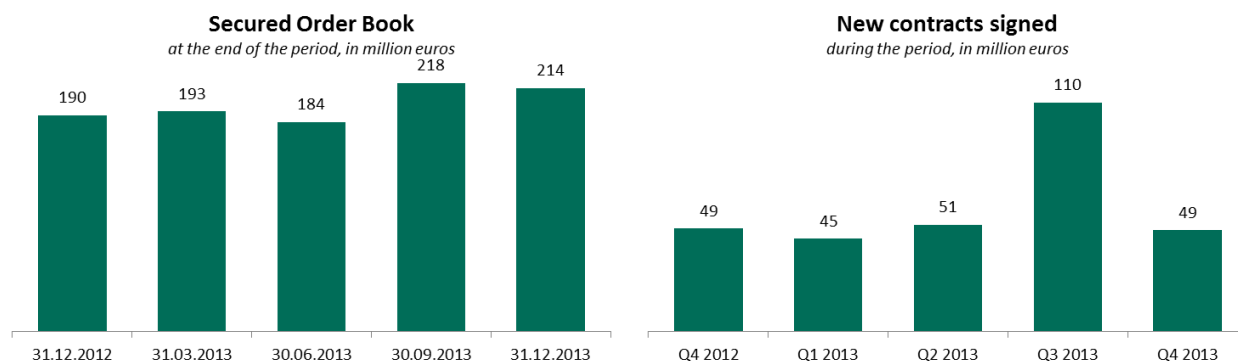
| <b>Other</b><br><i>million EUR</i> | <b>12M 2013</b> | <b>12M 2012</b> | <b>Variance</b> | <b>Q4 2013</b> | <b>Q4 2012</b> | <b>Variance</b> |
|------------------------------------|-----------------|-----------------|-----------------|----------------|----------------|-----------------|
| Revenue                            | 1.1             | 1.9             | -39.1%          | 0.2            | 0.5            | -57.2%          |
| % of revenue                       | 0.5%            | 0.7%            | -42.3%          | 0.3%           | 0.7%           | -52.9%          |
| Gross profit (loss)                | (0.3)           | (0.2)           | +59.3%          | 0.0            | 0.0            | 0.0%            |
| Gross profit margin                | -29.9%          | -11.4%          | +161.6%         | -46.1%         | -19.3%         | +139.1%         |

Revenue for the segment other amounted to EUR 1.1 million in 2013, which was 39.1% lower than in 2012. All in all, 2013 ended with a gross loss of EUR 0.3 million, which is primarily due to impairment of mined inventory.



## Secured Order Book

As at 31 December 2013, the group's secured order book amounted to EUR 213.7 million as compared to EUR 189.9 million as at 31 December 2012. The group does not include residential building projects developed by the group and development of the investment property in the order book.



In fourth quarter of 2013, EUR 48.6 million worth of new contracts were signed (without own developments) as compared to EUR 49.4 million in same period previous year. The table below shows the largest construction contracts that were signed in the fourth quarter of 2013:

| Brief description of contract                                                | Cost<br>million EUR | Completion<br>time | Country |
|------------------------------------------------------------------------------|---------------------|--------------------|---------|
| Long-term contract to carry out road repair and maintenance works in Tallinn | 17.5*               | October 2018*      | Estonia |
| Valmiera's Professional School construction                                  | 5.9                 | April 2015         | Latvia  |
| Dzintaru 28, Jurmala apartment buildings construction                        | 13.7                | July 2015          | Latvia  |

\* The contract value is approximately 3.5 million per year

After the balance sheet date, a contract was concluded on 23 January 2014 between the AS Merko Ehitus group company AS Merko Ehitus Eesti, KMG Insenerihituse AS and Ratatek OY, and the city's transport operator Tallinna Linnatranspordi AS entered into a contract to perform the design and renovation work on the infrastructure of Tallinn tram line no. 4. The contract value is EUR 26.0 million. The works will be performed during 2014 and 2015.

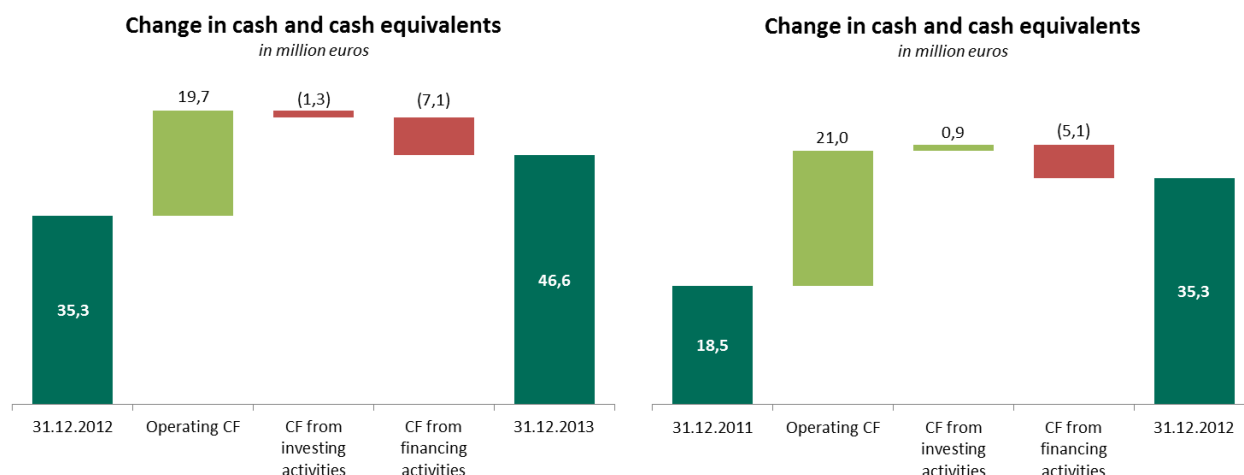
On 7 February 2014, SIA Merks – a Latvian-based subsidiary of AS Merko Ehitus – concluded a contract with Riga State Technical School to perform the construction works of several buildings in the school campus. The contract value is EUR 4.8 million, with the work scheduled to be delivered in June 2015.

Furthermore, on 10 February 2014, SIA Merks concluded a contract with Riga City Council City Development Department to perform the re-cultivation and construction works of waste recycling site in Riga. The contract value is EUR 6.5 million, with the work scheduled to be delivered in January 2016.

As at 31 December 2013 the secured order book is still dominated by public orders, which show a clear tendency of decreasing when compared with new private sector orders. If the public procurements made up the bulk of construction orders in the end of 2012 and the beginning of 2013, then the private sector has recovered in all three Baltic States during the second half of 2013. As at 31 December about half of the new contracts entered into during the year 2013 are in connection with the private sector. We are expecting a steady decrease in the volume of public procurements in 2014 due to the expiry of the current EU budget period. Consequently, it will prove quite challenging during the next 12 months to keep the volume of new contracts at its current level.

## Cash flows

The cash position of the group is stable. As at the end of the reporting period, the cash and cash equivalents of Merko Ehitus group amounted to EUR 46.6 million (as at 31 December 2012: EUR 35.3 million). The strategic cash position and investment capability of AS Merko Ehitus has improved during the year.

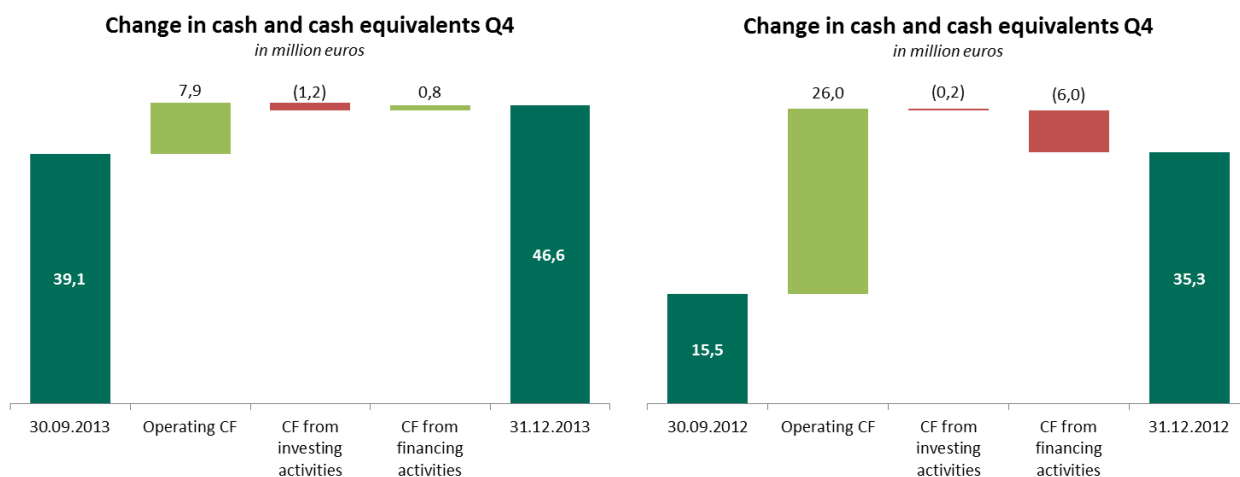


The 12-month cash flow from operating activity was positive at EUR 19.7 million (12 months of 2012: positive EUR 21.0 million), cash flow from investing activity was negative at EUR 1.3 million (12 months of 2012: positive EUR 0.9 million) and the cash flow from financing activity was negative at EUR 7.1 million (12 months of 2012: positive EUR 5.1 million). The cash flow from operating activity was mostly influenced by the operating profit EUR 12.3 million, by the negative change in trade and other receivables related to operating activities EUR 6.1 million, by the negative change in inventory EUR 4.9 million, and by the positive change in trade and other payables related to operating activities EUR 10.2 million (incl. significant positive inflow from the advances for real estate development projects).

The share of public orders remains high in the consolidated cash flows, with long terms of payment (an average of 56 days after registered delivery of the work) and a persistent burden on current assets, including cash flow management. To support cash flows arising from operating activity, the group has been prudent in raising additional external capital, including factoring. At the same time, the debt ratio has remained at a moderate level (14.8% as at 12 months of 2013, 15.8% as at 12 months of 2012).

The balance of acquisitions and improvement of investment property – included under cash flow from investing activities – amounted to EUR -1.1 million, the balance of other investments amounted to EUR -0.3 million, the balance of acquisition of PPE amounted to EUR -0.8 million and the balance of sales of PPE to EUR +0.9 million. The balance of purchase of investment property primarily includes apartments in the Pärna allee 8 development project that were leased out to Tartu county for childcare. Additional explanations are described in Note 9 of the consolidated financial statements.

The largest single item in cash flows from financing was the dividend payment in the amount of EUR -5.3 million. The other contributors in the cash flow from financing activities were net of loans received and loans repaid in connection with development projects that amounted to EUR -1.0 million, net of loans received and loans repaid in connection with investment property projects amounted to EUR +1.9 million, factoring to EUR -1.5 million and financial lease repayments to EUR -1.2 million.



The Q4 2013 cash flow from operating activity was positive at EUR 7.9 million (Q4 2012: positive EUR 26.0 million), cash flow from investing activity was negative at EUR 1.2 million (Q4 2012: negative EUR 0.2 million) and the cash flow from financing activity was positive at EUR 0.8 million (Q4 2012: negative EUR 6.0 million). Due to the seasonal nature of construction activity, the quarterly cash flows from operating activities were positive in both 2013 and 2012 primarily due to a drop in receivables from construction work customers and of receivables calculated using the percentage of completion method.

Cash flow from investing activities in the fourth quarter of 2013 includes the acquisition of investment property in the amount of EUR -1.0 million.

Cash flow from financing activities was positive in the fourth quarter of 2013 EUR 0.8 million, which is primarily due to balance of loans received and loans repaid in connection with development projects in the amount of EUR 1.1 million.

**Financial ratios**

(per share attributable to equity holders of the parent company)

|                                       |              | <b>12M<br/>2013</b> | <b>12M<br/>2012</b> | <b>12M<br/>2011</b> | <b>Q4<br/>2013</b> | <b>Q4<br/>2012</b> | <b>Q4<br/>2011</b> |
|---------------------------------------|--------------|---------------------|---------------------|---------------------|--------------------|--------------------|--------------------|
| <b>Income statement summary</b>       |              |                     |                     |                     |                    |                    |                    |
| Revenue                               | million EUR  | 262.7               | 249.1               | 219.3               | 64.9               | 71.4               | 65.9               |
| Gross profit                          | million EUR  | 22.7                | 17.9                | (3.6)               | 5.4                | 7.3                | (4.0)              |
| Gross profit margin                   | %            | 8.6                 | 7.2                 | -1.6                | 8.3                | 10.2               | -6.0               |
| Operating profit                      | million EUR  | 12.3                | 8.8                 | (12.3)              | 2.7                | 4.7                | (5.6)              |
| Operating profit margin               | %            | 4.7                 | 3.5                 | -5.6                | 4.2                | 6.6                | -8.6               |
| Profit before tax                     | million EUR  | 11.1                | 7.9                 | (14.0)              | 2.4                | 4.4                | (6.9)              |
| EBT margin                            | %            | 4.2                 | 3.2                 | -6.4                | 3.8                | 6.2                | -10.5              |
| Net profit                            | million EUR  | 10.4                | 7.6                 | (14.2)              | 2.5                | 4.5                | (6.8)              |
| equity holders of the parent          | million EUR  | 10.4                | 7.6                 | (14.1)              | 2.5                | 4.4                | (6.8)              |
| non-controlling interest              | million EUR  | 0.0                 | 0.0                 | (0.1)               | 0.0                | 0.1                | 0.0                |
| Net profit margin                     | %            | 4.0                 | 3.1                 | -6.4                | 3.8                | 6.2                | -10.2              |
| <b>Other income statement figures</b> |              |                     |                     |                     |                    |                    |                    |
| EBITDA                                | million EUR  | 15.1                | 11.4                | (10.1)              | 3.5                | 5.4                | (5.0)              |
| EBITDA margin                         | %            | 5.7                 | 4.6                 | -4.6                | 5.4                | 7.6                | -7.6               |
| General expense ratio                 | %            | 4.7                 | 4.5                 | 4.6                 | 4.7                | 4.5                | 3.7                |
| Labour cost ratio                     | %            | 11.8                | 11.2                | 10.2                | 10.7               | 11.7               | 9.2                |
| Revenue per employee                  | thousand EUR | 308                 | 278                 | 235                 | 76                 | 80                 | 71                 |

**31.12.13   31.12.12   31.12.11****Other key figures**

|                              |             |       |       |       |
|------------------------------|-------------|-------|-------|-------|
| ROE                          | %           | 8.8   | 6.8   | -12.2 |
| ROA                          | %           | 4.4   | 3.4   | -6.6  |
| ROIC                         | %           | 8.0   | 6.0   | -9.0  |
| Equity ratio                 | %           | 50.9  | 52.0  | 49.6  |
| Debt ratio                   | %           | 14.8  | 15.8  | 18.3  |
| Current ratio                | times       | 2.0   | 2.1   | 2.0   |
| Quick ratio                  | times       | 1.1   | 1.1   | 1.0   |
| Accounts receivable turnover | days        | 58    | 58    | 56    |
| Accounts payable turnover    | days        | 43    | 47    | 45    |
| Average number of employees  | people      | 853   | 895   | 934   |
| Secured Order Book           | million EUR | 213.7 | 189.9 | 166.5 |

*Calculations of ratios are provided on page 34 of the report.*

## 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 larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial objectives. The company considers it important to assess aggregate group's risks, instead of the impact factors of individual risks. Turning constant attention to risk management enables to exclude or minimise a possible financial loss. For the company, the most important risks are market risk, operating risk and financial risks. The latter including interest rate risk, foreign currency risk, credit risk, liquidity risk, equity risk and legal risks.

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

**Market risk.** One of the peculiarities of construction activities is the fact that the execution of the contracts concluded is a long-term process, making the sector inert to changes in the economic environment. Due to this, both positive and negative changes in the economic environment reach the construction industry with a lag of approximately 12-18 months. This time lag enables the sector to arrange its activities to be prepared for potential setbacks as well as booms.

Significantly more attention is being paid to potentially major volatility of input prices in the construction sector that could complicate the budgeting process, completion of projects at planned costs, cause additional risks in carrying out fixed-price construction contracts and weaken projects' profitability. Therefore, the overall economic development is being closely monitored and taking excessive price risks already in the bidding phase is avoided.

The residential development area is one of the main sources of market risk arising from the value of real estate for Merko Ehitus group. The real estate market has become more selective and in pre-launch risk assessment, consideration is given to such important aspects as the project's location, development volume, planning solutions and the target group. Taking into account low interest rates on loans and limited supply on the market of new apartments, in the last three years the demand and transaction activity on the apartment market has grown moderately. Because of the selectiveness of the real estate market, setting the right sale price for new development projects in the given region have become very important. For hedging the area's price risk, price statistics collected by the group and available from other public sources is being constantly analysed.

**Interest risk** arises from interest rate changes in the financial markets as a result of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor or the interbank rates of the countries of incorporation of the entities.

Management considers the share of interest-bearing liabilities in the group's capital structure to be moderate (as at 31.12.2013, 14.8% of the balance sheet total) and effect of changes in the interest rate environment to be insignificant for the group's results over the next 12-month.

**Foreign exchange risk.** The group's economic activities are conducted mainly in the currencies of the countries of location of the companies: euros in Estonia, Latvian lats in Latvia and Lithuanian litas in Lithuania. From 1 January 2014, Latvia adopted the euro as its national currency. Lithuanian litas are pegged to the euro. The exchange rate of the Lithuanian litas is 1 EUR = LTL 3.4528 and currently it is anticipated that Lithuania is adopting the euro at 1 January 2015. In order to eliminate foreign exchange risk, the proportions of assets and liabilities denominated in different currencies are monitored and key foreign contracts and the preferred currency for conclusion of long-term loan contracts is the euro. As Estonia uses the euro, Latvia adopted the euro at 1 January 2014 and the need and

probability for devaluation of the Lithuanian national currency is low, then the situation as a whole is stable in the Baltic States.

**Operating risk.** The group concludes total risk insurance contracts with insurance companies in order to hedge the risk of unanticipated loss events occurring in the construction process. The general policy is entered into for one year and it compensates the customer, subcontractors and third parties for any losses caused by Merko Ehitus or its subcontractor for up to EUR 9.6 million. The risks of the projects which cost exceeds EUR 9.6 million or the annual policy does not cover (water construction, railroad construction, bridges, etc.) are additionally mapped out and an insurance contract is concluded separately for each object taking into consideration its peculiarities. In concluding contracts for services involving design work, an insurance contract for professional liability is required from subcontractors or an insurance contract at own expense is concluded, covering the damage arising from design, erroneous measurement, advice and instructions. The services of insurance brokers are used in mapping out risks, concluding insurance contracts and handling loss events.

A warranty provision has been provided at the company to cover for the construction errors which have become evident during the warranty period. As at the period-end, the group's warranty provision amounted to EUR 1.8 million. With regard to work performed by subcontractors, the subcontractor is responsible for elimination of defects that became evident during the warranty period. With regard to critically significant contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank guarantees to be paid upon first demand.

One important part of managing operating risks is the mapping out of the situation and anticipation of risks. ISO 9001/14001 management systems have been set up the largest group entities and the occupational health and safety system OHSAS 18001 has been set up at Merko Ehitus Eesti, Merko Infra, Merko Tartu as well as the Latvian and Lithuanian subsidiaries. Full-time quality control specialists work at the group whose work responsibilities include ensuring the development and functioning of quality, occupational safety and management systems.

**Credit risk** relates to a potential damage which would occur if the parties to the contract are unable to fulfil their contractual obligations. For mitigating credit risk, the payment behaviour of clients is constantly monitored, their financial position is analysed and if necessary, third persons are engaged as a guarantor in transactions. Construction activities are partially financed by customer prepayments. As a rule, a precondition for receiving a prepayment is a bank guarantee for the prepayment submitted to the customer. Free cash is mostly held in overnight deposits or term deposits at Swedbank, LHV, SEB and Nordea bank groups. The management estimates that the group is not exposed to significant credit risk.

**Liquidity risk.** The company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31.12.2013, the group's current ratio was 2.0 (31.12.2012: 2.1) and the quick ratio 1.1 (31.12.2012: 1.1). To complement available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at period-end, the group entities had concluded overdraft contracts with banks in the total amount of EUR 6.5 million, which had not been withdrawn in the amount of EUR 6.3 million (as at 31.12.2012: EUR 6.5 million, which had not been withdrawn in the amount of EUR 6.3 million). In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million from AS Riverito, which had not been withdrawn in full as at the period-end (as at 31.12.2012: EUR 3.5 million, which had not been withdrawn in full).

The management estimates that the group's capital structure – a solid proportion of equity at 50.9% of the balance sheet total and a moderate proportion of interest bearing liabilities at 14.8% of the balance sheet total – ensures the company's trustworthiness for creditors in the changing economic climate and significantly improves the feasibility of the extension of existing financial liabilities and raising of additional debt.

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

As at 31 December 2013, a provision has been set up at the group in the amount of EUR 0.2 million for covering potential claims and legal costs.

An overview of the key legal disputes of group entities as at 31 December 2013 is presented below:

#### **Estonia**

On 30 March 2012 Harju County Court proclaimed the judgment on criminal case 1-09-20251. According to the judgement AS Merko Ehitus, OÜ Metsailu, OÜ Woody, OÜ Constancia were convicted based on Penal Code section 297 subsection 3 (granting or promising a gratuity by a legal person) imposing a pecuniary punishment to AS Merko Ehitus in the amount of EUR 300,000, to OÜ Woody and OÜ Constancia each in the amount of EUR 200,000 and to OÜ Metsailu in the amount of EUR 100,000.

At 21 January 2013, Tallinna District Court upheld the judgement of Harju County Court and dismissed the appeals of AS Merko Ehitus, OÜ Metsailu, OÜ Woody and OÜ Constancia. On 8 May 2013, the Supreme Court resolved not to accept the appeal in cassation submitted by OÜ Metsailu, OÜ Woody, AS Merko Ehitus and OÜ Constancia in criminal matter No 1-09-20251. This means that the judgement of Tallinn District Court of 21 January 2013, by which the judgement of conviction by Harju County Court of 30 March 2012 was not amended, entered into force.

AS Merko Ehitus and the convicted subsidiaries paid the fines ordered in the amount of EUR 800,000 in the second quarter of 2013.

#### Merko Tartu

On 23 August 2013, Harju County Court made the judgement, which partially satisfied OÜ Sanitex IM (in liquidation) claim and ordered AS Merko Tartu to pay principal debt in the amount of EUR 95,867, interest in the amount of EUR 641 and starting from 1 June 2011 interest on principal debt of 15% p.a. until the payment of the principal debt (the accruing interest charge was EUR 33,449 as at 27 September 2013). The claim resulted from disputes held over the quality and deadline of construction works performed in Ringtee Selver Tartu in the year 2008. AS Merko Tartu decided not to appeal the case and the judgement entered into force on 24 September 2013. The total claim in the sum of EUR 129,957 has been paid in September by AS Merko Tartu.

#### **Latvia**

On 27 September 2013 SIA Merks submitted a Request for Arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce thereby commencing the arbitration proceedings against Tritan Group AS for failure to fulfil obligations, under Share Purchase Agreement and its annexes, in the joint venture SIA Zakusala Estates where Merko Ehitus group owns 50%.

The relief sought from Titan Group AS by SIA Merks with the claim is payment of compensation in the amount of EUR 1,400,000 and late payment penalty in the form of annual interest Euribor+1% from 10 January 2009. The claim has not been recognized on the balance sheet of the group based on the principal of conservatism.

SIA Merks has paid its share of the arbitration costs, while Tritan Group AS has only given a brief review regarding the circumstances of the case, but hasn't paid its share of the arbitration costs. In order to continue the arbitration process, SIA Merks paid EUR 53,525 on 30 January 2014, consisting of expenses of the arbitration not paid by Tritan Group AS. Pursuant to the payment of the advance of the arbitration costs, SIA Merks will now be able to submit an official statement of claim and the claim will move on to arbitration proceedings.

## **Lithuania**

### Vakaru

At 25 May 2012, RUAB Vakaru inžineriniai tinklai (hereinafter „Vakaru“) filed a claim against the Lithuanian branch of AS Merko Ehitus in the amount of LTL 680 thousand (EUR 197 thousand), related to the repeal of the joint venture contract concerning the sewerage and wastewater pipeline project (project „Construction of Sewerage and Wastewater Pipelines in Seda, Plinkšiai and Bugeniai“). AS Merko Ehitus does not believe that the joint venture contract was terminated illegally, but rather that it was related to the breach of the contract by the partner.

At the end of 2012, bankruptcy proceedings were launched with regard to Vakaru. In this connection, AS Merko Ehitus filed creditor's claims under bankruptcy proceedings (including claim for damage) totalling LTL 4,213,915 (EUR 1,220,434). This claim (including the claim for damage) is not recognized in the group's balance sheet and the claims that arose earlier are completely covered by provisions already as of 2012. The next court hearings are scheduled in February 2014.

### Šiaulių Vandenys

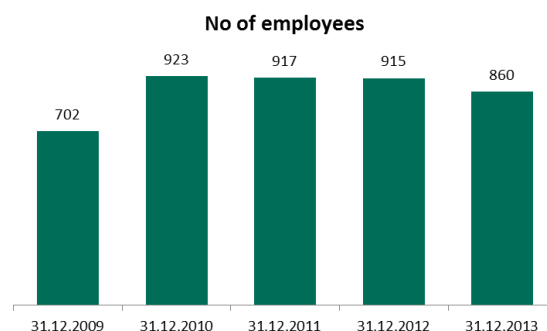
At 10 October 2012, UAB Šiaulių Vandenys filed a claim against UAB Merko Statyba, because according to UAB Šiaulių Vandenys, UAB Merko Statyba failed to meet the deadline for works. The claim included a fine for delay, 7,75% interest and state fees in the amount of LTL 237 thousand (EUR 69 thousand). At 11 January 2013, UAB Merko Statyba filed a counterclaim in the amount of LTL 537 thousand (EUR 155 thousand) and extension of the deadline for works by 154 days, primarily due to the refusal by the counterparty to pay for the additional works contracted by UAB Šiaulių Vandenys and to extend the deadline for works. The pre-court institution – the Dispute Settlement Council – decided to satisfy the claim of UAB Merko Statyba regarding payment for additional works and extension of the deadline for works. The dispute will continue in the court. The hearings of the Court of First Instance started on 27 June 2013 and continued on 3 July 2013 and on 10 September 2013. The court made a decision to commission an expert analysis to ascertain the facts and, in late 2013, appointed a person responsible for carrying out the expert analysis. The expert analysis could take two to six months and the date of the next hearing will be decided within an estimated one month of the submission of the expert opinion to the court.



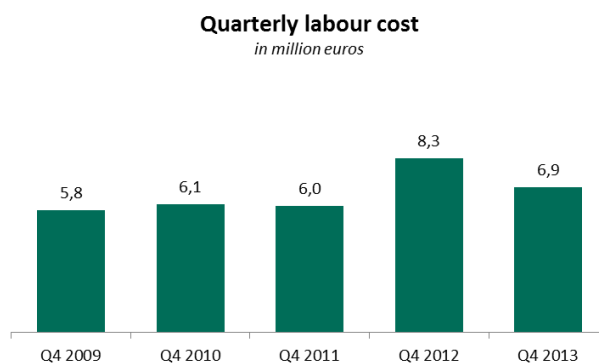
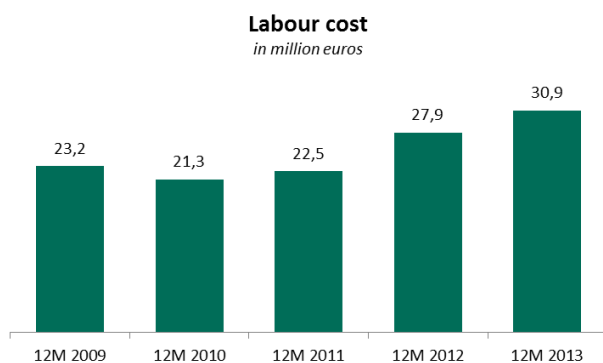
## Employees and labour costs

Compared to the same period end last year the number of the group's employees has decreased by 55 employees (-6.0%) and as at 31 December 2013, the group had a total of 860 employees (including fixed-term and part-time employees).

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



Labour cost is recognized by the group as being salary (basic salary, additional remuneration (night hours, overtime and public holidays), holiday pay, and bonuses), taxes on salaries, fringe benefits and taxes on fringe benefits. Labour costs accounted for in the 12 months of 2013 amounted EUR 30.9 million (12 months of 2012: EUR 27.9 million), a growth of 10.8% compared to the same period last year. This increase mainly occurred due to the additional performance bonuses in the conditions of higher profitability and minor impact of selective basic salary increases. In Q4 2013 the labour costs were EUR 6.9 million, which is 16.7% lower than the previous year (Q4 2012: EUR 8.3 million). The comparison base is greater above all due to additional performance pay accounted for at the end of 2012 in connection with the good economic results posted by the company in Q4 2012.



## **CORPORATE GOVERNANCE**

### **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 annual general meeting of shareholders of AS Merko Ehitus held at 5 June 2013 approved the consolidated annual report for the financial year 2012, decided on the distribution of profit and the recalling of a Supervisory Board member. The Management Board made a presentation about the operating results and outlook of the company.

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 means of communication equipment electronic since the deployment of reliable solutions for the identification of shareholders some of whom live abroad and the ensurance of 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 2013, 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 and the Chairman of the Supervisory 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. If necessary, the company's auditor shall participate.

The annual general meeting of shareholders of AS Merko Ehitus held in 2013 was attended by Andres Trink (Chairman of the Management Board), Toomas Annus (Chairman of the Supervisory Board) 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 will inform the general meeting of the results of the inspection. 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 June 2011, it was decided to extend the term of office of Supervisory Board members Tõnu Toomik, Teet Roopalu, Indrek Neivelt and Olari Taal until 28 June 2014, i.e. for

three years and, in addition, to elect Toomas Annus as the additional member of the Supervisory Board of AS Merko Ehitus with a term of office until 28 June 2014.

The annual general meeting held on 5 June 2013 resolved to recall Member of the Supervisory Board Tõnu Toomik in connection with the Supervisory Board's request of appointing Mr Toomik as Member of the Management Board of AS Merko Ehitus. The authority of Tõnu Toomik as a member of the Supervisory Board expired on 5 June 2013.

The Supervisory Board of AS Merko Ehitus has 4 members of whom, in accordance with the requirements of the Good Governance Code, two - Indrek Neivelt and Olari Taal - are independent members:

| Toomas Annus (53)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Teet Roopalu (64)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Chairman of the Supervisory Board                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Member of the Supervisory Board                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|  <p><b>Positions held:</b></p> <p>2011-... Merko Ehitus AS, Chairman of the Supervisory Board.<br/> 2009-... E.L.L.Kinnisvara AS, Member of the Management Board.<br/> 2008-... Järvevana AS, Chairman of the Management Board.<br/> 1999-2009 E.L.L.Kinnisvara, Chairman of the Supervisory Board.<br/> 1997-2008 Merko Ehitus AS, Chairman of the Supervisory Board.<br/> 1996-... Riverito AS, Chairman of the Management Board.<br/> 1991-1996 EKE MRK, Chairman of the Management Board.<br/> 1989-1991 EKE MRK, director of the company.</p> <p><b>Education:</b></p> <p>Tallinn University of Technology, industrial and civil engineering.<br/> Tallinn Technical School of Building and Mechanics (TEMT; presently known as the University of Applied Sciences), industrial and civil engineering.</p> <p><b>Number of shares: 8,322,914</b></p> |  <p><b>Positions held:</b></p> <p>2004-... Merko Ehitus AS, Member of the Supervisory Board.<br/> 2010-... Riverito AS, Member of the Management Board.<br/> 2002-2004 Merko Ehitus AS, Adviser to the Management Board.<br/> Has worked for different construction companies, including as a director of finance.<br/> Has been in charge of economic activities in the EKE (Estonian Collective Farm Construction) as a chief economist; worked as a bank director; and has also worked in building design.<br/> Member of Supervisory Boards of subsidiaries and associated companies.</p> <p><b>Education:</b></p> <p>Tallinn University of Technology construction economics and organisation.</p> <p><b>Number of shares: –</b></p> |
| Indrek Neivelt (46)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Olari Taal (60)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Member of the Supervisory Board                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Member of the Supervisory Board                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|  <p><b>Positions held:</b></p> <p>2008-... Merko Ehitus AS, Member of the Supervisory Board.<br/> 2005-... Bank Saint Petersburg, Chairman of the Supervisory Board.<br/> 1999-2005 Hansabank, Director General of the Group, Chairman of the Management Board.<br/> 1991-1999 Hansabank, various positions.<br/> Belongs to Supervisory Boards of various companies.</p> <p><b>Education:</b></p> <p>Tallinn University of Technology civil engineering economics and management.<br/> Stockholm University, banking and finance, MBA.</p> <p><b>Number of shares: 31,635</b></p>                                                                                                                                                                                                                                                                      |  <p><b>Positions held:</b></p> <p>2008-... Merko Ehitus AS, Member of the Supervisory Board.<br/> Has been the head of the Tartu Elamuehituskombinaat (Tartu Housing Plant; Tartu Maja) and Eesti Hoiupank (Estonian Savings Bank).<br/> Has served the Republic of Estonia as Minister of Construction, Minister of Economic Affairs, Minister of the Interior and as a Member of the 10th Riigikogu (Parliament of Estonia).</p> <p><b>Education:</b></p> <p>Tallinn University of Technology, civil engineering.</p> <p><b>Number of shares: 2,500</b></p>                                                                                                                                                                           |

## 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 month, 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.

The Supervisory Board of AS Merko Ehitus resolved to recall Member of the Management Board Viktor Mõisja from 5 June 2013, with Mr Mõisja continuing service in the engineering division of the company's subsidiary AS Merko Ehitus Eesti, and to appoint the former member of the Supervisory Board Tõnu Toomik as a new member of the Management Board. The Management Board of the holding company AS Merko Ehitus will continue with two members: Andres Trink (Chairman of the Management Board) and Tõnu Toomik (Member of the Management Board).

| Andres Trink (46)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Tõnu Toomik (52)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Charmain of the Management Board<br>Appointed: 1 January 2012<br>Term ends: 31 December 2014                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Member of the Management Board<br>Appointed: 6 June 2013<br>Term ends: 5 June 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|  <p><b>Positions held:</b><br/>           2012-... Merko Ehitus AS, Chairman of the Management Board.<br/>           Chairman of the Supervisory Board of Merko Ehitus Eesti AS, SIA Merks and UAB Merko Statyba.<br/>           Has held various executive positions in the private and public sector.<br/>           Before being hired at Merko Ehitus, worked for 15 years in the financial sector, including as a member of the Management Board of Baltic banking at Hansabank (now Swedbank).</p> <p><b>Education:</b><br/>           Tallinn University of Technology, automated management systems engineering (summa cum laude)<br/>           Estonian Business School, international business administration<br/>           Graduate of the INSEAD University (France), executive management programme.</p> <p><b>Number of shares: –</b></p> |  <p><b>Positions held:</b><br/>           2013-... Merko Ehitus AS, Member of the Management Board<br/>           2011-2013 Merko Ehitus AS, Member of the Supervisory Board<br/>           2008-2011 Merko Ehitus AS, Chairman of the Supervisory Board<br/>           1997-2008 Merko Ehitus AS, Chairman of the Management Board<br/>           1993-1997 Merko Ehitus AS, Project Manager<br/>           Member of the Supervisory Boards of the group's subsidiaries and associated companies.</p> <p><b>Education:</b><br/>           Tallinn University of Technology industrial and civil engineering.</p> <p><b>Number of shares: 1,607,185</b></p> |

Among other things, Chairman of the Management Board Andres Trink has been charged with the task of performing the daily duties of the CEO of AS Merko Ehitus, managing and representing the company, ensuring compliance with

the articles of association, organising the work of the Management Board and the key subsidiaries, coordinating strategies and their implementation, and taking responsibility for business development and finances. Tõnu Toomik is responsible for management of the real estate portfolio and coordination of the development of the construction area across the group companies.

### 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 most significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 31 December 2013:

| Company               | Supervisory Board                                               | Management Board                                                           |
|-----------------------|-----------------------------------------------------------------|----------------------------------------------------------------------------|
| AS Merko Ehitus Eesti | Andres Trink (Chairman), Teet Roopalu, Tõnu Toomik, Taavi Ojala | Tiit Roben (Chairman), Andres Agukas, Jaan Mäe, Alar Lagus, Veljo Viitmann |
| AS Merko Infra        | Andres Agukas (Chairman), Veljo Viitmann, Mihkel Mugur          | Tarmo Pohlak, Arno Elias                                                   |
| Tallinna Teede AS     | Tiit Roben (Chairman), Andres Agukas, Alar Lagus                | Jüri Läll (Chairman), Jüri Helila                                          |
| OÜ Merko Investments  | -                                                               | Andres Trink, Signe Kukin                                                  |
| SIA Merks             | Andres Trink (Chairman), Tõnu Toomik, Jaan Mäe                  | Oskars Ozoliņš (Chairman), Jānis Šperbergs                                 |
| UAB Merko Statyba     | Andres Trink (Chairman), Tõnu Toomik, Jaan Mäe                  | Saulius Putrimas (Chairman), Jaanus Rästas                                 |

The authority of Richard Viies, Member of the Management Board of Tallinna Teede AS, expired on 5 January 2013 in connection with the lapse of the contract of service. The authority of Richard Viies as a member of the Management Board was not extended. The Management Board of Tallinna Teede AS will continue with two members: Jüri Läll (Chairman) and Jüri Helila.

On 22 May 2013, the Supervisory Board of OÜ Merko Investments resolved to recall members of the Management Board Jaanus Ojangu and Boris Tehnikov, and appoint Andres Trink and Signe Kukin as new members of the Management Board from 23 May 2013 onwards.

In conjunction with a review of the management structure, there was a change in the composition of the Supervisory Board of UAB Merko Statyba, a 100% subsidiary of AS Merko Ehitus. Gediminas Tursa, the Chairman of the Supervisory Board was recalled as of 1 October 2013 and the Board will continue with three members: Andres Trink (Chairman), Tõnu Toomik and Jaan Mäe.

## Share and shareholders

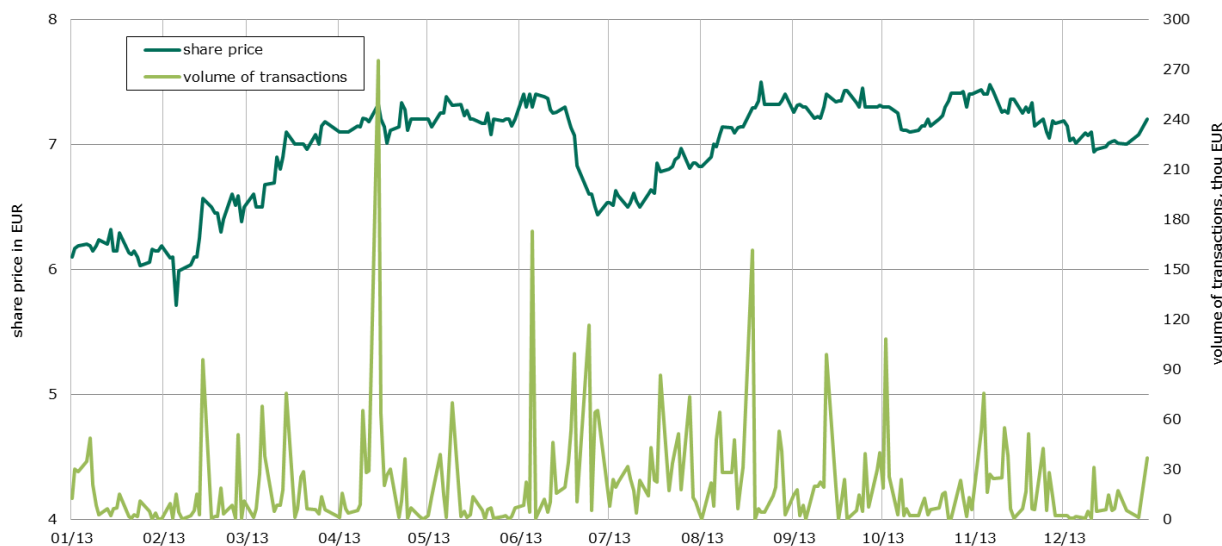
## Information on security

|                     |                       |
|---------------------|-----------------------|
| Issuer              | AS Merko Ehitus       |
| Name of security    | Share of Merko Ehitus |
| Residency of issuer | Estonia               |
| Stock Exchange List | Main List             |
| ISIN                | EE3100098328          |
| Nominal value       | without nominal value |
| No of securities    | 17,700,000            |
| Volume of issue     | 12,000,000            |
| Currency            | EUR                   |
| Date of listing     | 11 August 2008        |

The shares of Merko Ehitus have been listed in the main list of NASDAQ OMX Tallinn. A total of 2,183 transactions were conducted with the shares of Merko Ehitus in 12 months of 2013, with 0.73 million shares (4.1% of total shares) traded, generating a turnover of EUR 5.08 million (comparable figures in 2012 were accordingly: 1,662 transactions with 0.94 million shares traded (5.3% of total shares) and generating a turnover of EUR 5.47 million). The lowest share price amounted to EUR 5.71 and the highest to EUR 7.70 per share (12 months of 2012: EUR 5.37 and EUR 7.30). The closing price of the share was EUR 7.20 on 31 December 2013 (31.12.2012: EUR 5.90). As at 31 December 2013, the market value of AS Merko Ehitus amounted to EUR 127.4 million, which has risen 22.0% compared to the same period end last year (as at 31 December 2012: EUR 104.4 million).

|                                    | 31.12.2013 | 31.12.2012 | 31.12.2011 |
|------------------------------------|------------|------------|------------|
| No of shares                       | 17,700,000 | 17,700,000 | 17,700,000 |
| Earnings per share (EPS), in euros | 0.59       | 0.43       | -0.80      |
| Equity per share, in euros         | 6.71       | 6.34       | 6.51       |
| P/B (price to book ratio)          | 1.07       | 0.93       | 0.83       |
| P/E (price / earnings ratio)       | 12.25      | 13.69      | -6.79      |
| Market value, million EUR          | 127.4      | 104.4      | 95.6       |

Performance of Merko Ehitus share at NASDAQ OMX Tallinn Stock Exchange in 2013



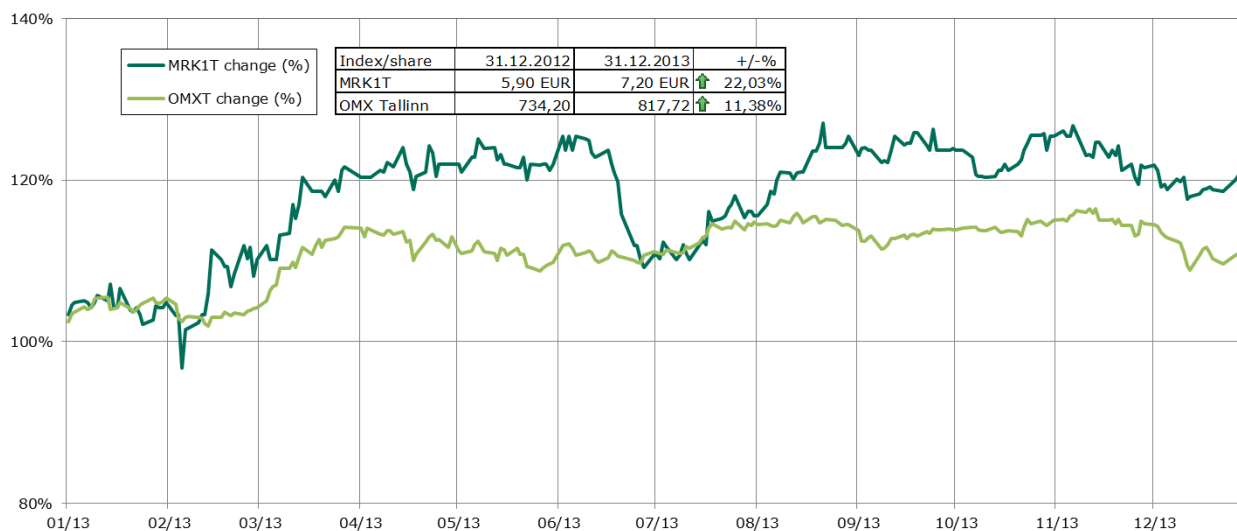
## Structure of shareholders as at 31.12.2013

| No. of shares       | No. of shareholders | % of shareholders | No. of shares     | % of shares |
|---------------------|---------------------|-------------------|-------------------|-------------|
| 1,000,001 - ...     | 1                   | 0.07%             | 12,742,686        | 71.99%      |
| 100,001 – 1,000,000 | 10                  | 0.70%             | 2,965,189         | 16.75%      |
| 10,001 – 100,000    | 31                  | 2.18%             | 959,085           | 5.42%       |
| 1,001-10,000        | 253                 | 17.75%            | 708,793           | 4.01%       |
| 101-1,000           | 732                 | 51.37%            | 302,775           | 1.71%       |
| 1-100               | 398                 | 27.93%            | 21,472            | 0.12%       |
| <b>Total</b>        | <b>1,425</b>        | <b>100%</b>       | <b>17,700,000</b> | <b>100%</b> |

## Shareholders of AS Merko Ehitus as of 31 December 2013 and the change compared to the previous quarter

|                                                            | No of shares      | % of total 31.12.2013 | % of total 30.09.2013 | Variance      |
|------------------------------------------------------------|-------------------|-----------------------|-----------------------|---------------|
| AS Riverito                                                | 12,742,686        | 71.99%                | 71.99%                | -             |
| ING Luxembourg S.A. AIF Account                            | 974,126           | 5.50%                 | 5.50%                 | -             |
| Skandinaviska Enskilda Banken S.A.                         | 481,379           | 2.72%                 | 0.00%                 | +481,379      |
| Skandinaviska Enskilda Banken Ab, Swedish clients          | 330,060           | 1.86%                 | 4.58%                 | -481,379      |
| Firebird Republics Fund Ltd                                | 302,395           | 1.71%                 | 1.71%                 | -             |
| Gamma Holding OÜ                                           | 188,762           | 1.07%                 | 1.05%                 | +3,200        |
| State Street Bank and Trust Omnibus Account a Fund No OM01 | 153,018           | 0.86%                 | 0.86%                 | -             |
| Clearstream Banking Luxembourg S.A. clients                | 141,262           | 0.80%                 | 0.80%                 | -             |
| Skandinaviska Enskilda Banken Ab, Finnish clients          | 134,982           | 0.76%                 | 0.81%                 | -8,209        |
| OÜ Midas Invest                                            | 131,185           | 0.74%                 | 0.68%                 | +10,000       |
| <b>Main shareholders total</b>                             | <b>15,579,855</b> | <b>88.01%</b>         | <b>87.98%</b>         | <b>+4,991</b> |
| <b>Minority shareholders total</b>                         | <b>2,120,145</b>  | <b>11.99%</b>         | <b>12.02%</b>         | <b>-4,991</b> |
| <b>Total</b>                                               | <b>17,700,000</b> | <b>100%</b>           | <b>100%</b>           |               |

## Performance of the share of Merko Ehitus and comparison index OMX Tallinn in 2013





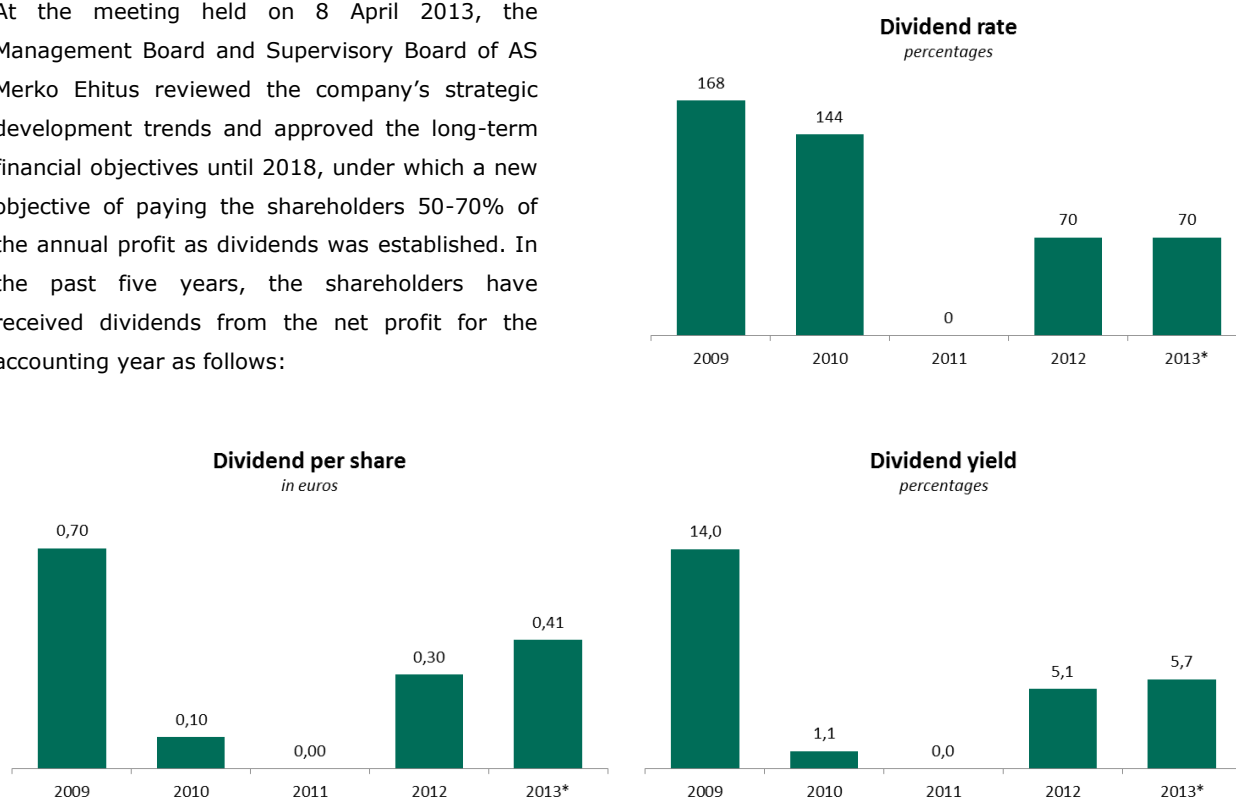
### Dividend policy

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.

Dividends in the amount of EUR 5.3 million (EUR 0.3 per share) were paid out to shareholders on 3 July 2013. AS Merko Ehitus did not have to pay any income tax on dividend pay-out due to previously received and taxed distribution of profits from subsidiaries. In the year 2012 no dividends were paid. Additional explanations are described in Note 4 of the consolidated financial statements.

The Management Board proposes to pay the shareholders EUR 7.3 million as dividends from net profits brought forward (EUR 0.41 per share) in 2014. According to the Estonian Income Tax Law §50 section 1<sup>1</sup> AS Merko Ehitus can pay these dividends without any additional income tax expense and liabilities accruing due to previously received and taxed distribution of profits from subsidiaries.

At the meeting held on 8 April 2013, the Management Board and Supervisory Board of AS Merko Ehitus reviewed the company's strategic development trends and approved the long-term financial objectives until 2018, under which a new objective of paying the shareholders 50-70% of the annual profit as dividends was established. In the past five years, the shareholders have received dividends from the net profit for the accounting year as follows:



\* 2013 figures based on Management Board proposal.

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

**DEFINITIONS OF THE KEY FINANCIAL FIGURES**

|                                     |                                                                                                                                                                                                           |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Gross profit margin (%)             | = $\frac{\text{Gross profit}}{\text{Revenue}}$                                                                                                                                                            |
| Operating profit margin (%)         | = $\frac{\text{Operating profit}}{\text{Revenue}}$                                                                                                                                                        |
| EBT margin (%)                      | = $\frac{\text{Profit before tax}}{\text{Revenue}}$                                                                                                                                                       |
| Net profit margin (%)               | = $\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$                                                                                                               |
| Return on equity (%)                | = $\frac{\text{Rolling last 4 quarter net profit (attributable to equity holders of the parent)}}{\text{Shareholders equity (average)}}$                                                                  |
| Return on assets (%)                | = $\frac{\text{Rolling last 4 quarter net profit (attributable to equity holders of the parent)}}{\text{Total assets (average)}}$                                                                         |
| Return on invested capital (%)      | = $\frac{\text{Rolling last 4 quarter (EBT + interest income - foreign exchange gain (losses) + other financial income)}}{\text{Shareholders equity (average) + interest-bearing liabilities (average)}}$ |
| Equity ratio (%)                    | = $\frac{\text{Shareholders equity}}{\text{Total assets}}$                                                                                                                                                |
| Debt to equity 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) | = $\frac{\text{Rolling last 4 quarter trade receivables (average)} \times 365}{\text{Rolling last 4 quarter revenue}}$                                                                                    |
| Accounts payable turnover (days)    | = $\frac{\text{Rolling last 4 quarter payables to suppliers (average)} \times 365}{\text{Rolling last 4 quarter cost of goods sold}}$                                                                     |
| EBITDA (million EUR)                | = Operating profit + depreciation                                                                                                                                                                         |
| EBITDA margin (%)                   | = $\frac{\text{Operating profit + depreciation}}{\text{Revenue}}$                                                                                                                                         |
| General expense ratio (%)           | = $\frac{\text{Marketing expenses + Administrative and general expenses}}{\text{Revenue}}$                                                                                                                |
| 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)                | = $\frac{\text{Shareholders equity (last 4 quarter average)}}{\text{Number of shares}}$                                                                                                                   |
| 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 (%)                  | = $\frac{\text{Payable dividends per share}}{\text{Share price 31.12}}$                                                                                                                                   |
| Price per earnings ratio, P/E       | = $\frac{\text{Share price 31.12}}{\text{Rolling last 4 quarter earnings per share}}$                                                                                                                     |
| Price to book ratio, P/B            | = $\frac{\text{Share price 31.12}}{\text{Equity per share (last 4 quarter average)}}$                                                                                                                     |
| Market capitalisation               | = Share price 31.12 x Number of shares                                                                                                                                                                    |

## CONSOLIDATED FINANCIAL STATEMENT

*in thousand euros*

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

|                                                                                                                 | note | 2013<br>12 months | 2012<br>12 months |
|-----------------------------------------------------------------------------------------------------------------|------|-------------------|-------------------|
| Revenue                                                                                                         | 2    | 262,719           | 249,131           |
| Cost of goods sold                                                                                              | 3    | (239,996)         | (231,220)         |
| <b>Gross profit (loss)</b>                                                                                      |      | 22,723            | 17,911            |
| Marketing expenses                                                                                              |      | (3,041)           | (2,107)           |
| Administrative and general expenses                                                                             |      | (9,260)           | (9,173)           |
| Other operating income                                                                                          |      | 2,264             | 2,961             |
| Other operating expenses                                                                                        |      | (425)             | (834)             |
| <b>Operating profit (loss)</b>                                                                                  |      | 12,261            | 8,758             |
| Finance income/costs                                                                                            |      | (1,116)           | (856)             |
| incl. finance income/costs from investments in associates and joint ventures                                    |      |                   | (138)             |
| finance income/costs from other long-term investments                                                           | 2    | 2                 | 2                 |
| interest expense                                                                                                |      | (814)             | (1,156)           |
| foreign exchange gain                                                                                           |      | (202)             | (44)              |
| other financial income (expenses)                                                                               |      | 36                | 179               |
| <b>Profit (loss) before tax</b>                                                                                 |      | 11,145            | 7,902             |
| Corporate income tax expense                                                                                    |      | (791)             | (289)             |
| <b>Net profit (loss) for current period</b>                                                                     |      | 10,354            | 7,613             |
| incl. net profit (loss) attributable to equity holders of the parent                                            |      | 10,399            | 7,627             |
| net profit (loss) attributable to non-controlling interest                                                      |      | (45)              | (14)              |
| <b>Other comprehensive income (loss)</b>                                                                        |      |                   |                   |
| Currency translation differences of foreign entities                                                            |      | (157)             | 58                |
| <b>Comprehensive income (loss) for the period</b>                                                               |      | 10,197            | 7,671             |
| incl. net profit (loss) attributable to equity holders of the parent                                            |      | 10,242            | 7,685             |
| net profit (loss) attributable to non-controlling interest                                                      |      | (45)              | (14)              |
| Earnings per share for profit (loss) attributable to equity holders of the parent (basic and diluted, in euros) | 4    | 0.59              | 0.43              |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

unaudited

*in thousand euros*

|                                                                                                                    | <b>2013<br/>IV quarter</b> | <b>2012<br/>IV quarter</b> |
|--------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Revenue                                                                                                            | 64,875                     | 71,402                     |
| Cost of goods sold                                                                                                 | (59,517)                   | (64,143)                   |
| <b>Gross profit (loss)</b>                                                                                         | 5,358                      | 7,259                      |
| Marketing expenses                                                                                                 | (812)                      | (722)                      |
| Administrative and general expenses                                                                                | (2,219)                    | (2,485)                    |
| Other operating income                                                                                             | 493                        | 1,342                      |
| Other operating expenses                                                                                           | (107)                      | (654)                      |
| <b>Operating profit (loss)</b>                                                                                     | 2,713                      | 4,740                      |
| Finance income/costs                                                                                               | (264)                      | (302)                      |
| incl. finance income/costs from investments in associates<br>and joint ventures                                    | (35)                       | (26)                       |
| finance income/costs from other long-term investments                                                              | (30)                       | 1                          |
| interest expense                                                                                                   | (199)                      | (235)                      |
| foreign exchange gain                                                                                              | (17)                       | (81)                       |
| other financial income (expenses)                                                                                  | 17                         | 39                         |
| <b>Profit (loss) before tax</b>                                                                                    | 2,449                      | 4,438                      |
| Corporate income tax expense                                                                                       | 56                         | 51                         |
| <b>Net profit (loss) for current period</b>                                                                        | 2,505                      | 4,489                      |
| incl. net profit (loss) attributable to equity holders of the parent                                               | 2,452                      | 4,425                      |
| net profit (loss) attributable to non-controlling interest                                                         | 53                         | 64                         |
| <b>Other comprehensive income (loss)</b>                                                                           |                            |                            |
| Currency translation differences of foreign entities                                                               | (2)                        | (49)                       |
| <b>Comprehensive income (loss) for the period</b>                                                                  |                            |                            |
| incl. net profit (loss) attributable to equity holders of the parent                                               | 2,503                      | 4,440                      |
| net profit (loss) attributable to non-controlling interest                                                         | 2,450                      | 4,376                      |
| <b>Other comprehensive income (loss)</b>                                                                           | 53                         | 64                         |
| Earnings per share for profit (loss) attributable to<br>equity holders of the parent (basic and diluted, in euros) | 0.14                       | 0.25                       |

*in thousand euros*

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

unaudited

|                                                              | note | 31.12.2013     | 31.12.2012     |
|--------------------------------------------------------------|------|----------------|----------------|
| <b>ASSETS</b>                                                |      |                |                |
| <b>Current assets</b>                                        |      |                |                |
| Cash and cash equivalents                                    | 5    | 46,633         | 35,316         |
| Trade and other receivables                                  | 6    | 57,172         | 60,343         |
| Prepaid corporate income tax                                 |      | 21             | 478            |
| Inventories                                                  | 7    | 87,451         | 82,830         |
| <b>Total current assets</b>                                  |      | <u>191,277</u> | <u>178,967</u> |
| <b>Non-current assets</b>                                    |      |                |                |
| Long-term financial assets                                   | 8    | 27,415         | 24,378         |
| Deferred income tax assets                                   |      | 1,590          | 1,919          |
| Investment property                                          | 9    | 4,672          | 3,566          |
| Property, plant and equipment                                | 10   | 13,117         | 14,853         |
| Intangible assets                                            | 11   | 1,167          | 1,365          |
| <b>Total non-current assets</b>                              |      | <u>47,961</u>  | <u>46,081</u>  |
| <b>TOTAL ASSETS</b>                                          |      | <u>239,238</u> | <u>225,048</u> |
| <b>LIABILITIES AND EQUITY</b>                                |      |                |                |
| <b>Current liabilities</b>                                   |      |                |                |
| Borrowings                                                   | 12   | 15,614         | 16,299         |
| Payables and prepayments                                     | 13   | 72,162         | 63,209         |
| Income tax liability                                         |      | 62             | -              |
| Short-term provisions                                        | 14   | 5,906          | 6,165          |
| <b>Total current liabilities</b>                             |      | <u>93,744</u>  | <u>85,673</u>  |
| <b>Non-current liabilities</b>                               |      |                |                |
| Long-term borrowings                                         | 12   | 19,771         | 19,205         |
| Long-term interest liabilities                               |      | 8              | 3              |
| Long-term trade payables                                     |      | 2,123          | 1,553          |
| Other long-term liabilities                                  |      | 31             | -              |
| Deferred corporate income tax liability                      |      | 505            | 327            |
| Long-term provisions                                         |      | -              | 20             |
| <b>Total non-current liabilities</b>                         |      | <u>22,438</u>  | <u>21,108</u>  |
| <b>Total liabilities</b>                                     |      | <u>116,182</u> | <u>106,781</u> |
| <b>Equity</b>                                                |      |                |                |
| Non-controlling interest                                     |      | 1,193          | 1,342          |
| Equity attributable to equity holders of the parent          |      |                |                |
| Share capital                                                |      | 12,000         | 12,000         |
| Statutory reserve capital                                    |      | 1,200          | 1,200          |
| Currency translation differences                             |      | (669)          | (512)          |
| Retained earnings                                            |      | 109,332        | 104,237        |
| <b>Total equity attributable to equity holders of parent</b> |      | <u>121,863</u> | <u>116,925</u> |
| <b>Total equity</b>                                          |      | <u>123,056</u> | <u>118,267</u> |
| <b>TOTAL LIABILITIES AND EQUITY</b>                          |      | <u>239,238</u> | <u>225,048</u> |

in thousand euros

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

unaudited

|                                                                   | Equity attributable to equity holders of the parent |                           |                                  |                                      |         | Non-controlling interest | Total   |
|-------------------------------------------------------------------|-----------------------------------------------------|---------------------------|----------------------------------|--------------------------------------|---------|--------------------------|---------|
|                                                                   | Share capital                                       | Statutory reserve capital | Currency translation differences | Retained earnings/accumulated losses | Total   |                          |         |
| <b>Balance as at 31.12.2011</b>                                   | 12,000                                              | 1,131                     | (570)                            | 96,679                               | 109,240 | 1,356                    | 110,596 |
| Profit (loss) for the reporting period                            | -                                                   | -                         | -                                | 7,627                                | 7,627   | (14)                     | 7,613   |
| Other comprehensive income                                        | -                                                   | -                         | 58                               | -                                    | 58      | -                        | 58      |
| <b>Total comprehensive income (loss) for the reporting period</b> | -                                                   | -                         | 58                               | 7,627                                | 7,685   | (14)                     | 7,671   |
| Transfer to statutory reserve capital                             | -                                                   | 69                        | -                                | (69)                                 | -       | -                        | -       |
| <b>Balance as at 31.12.2012</b>                                   | 12,000                                              | 1,200                     | (512)                            | 104,237                              | 116,925 | 1,342                    | 118,267 |
| <b>Balance as at 31.12.2012</b>                                   | 12,000                                              | 1,200                     | (512)                            | 104,237                              | 116,925 | 1,342                    | 118,267 |
| Profit (loss) for the reporting period                            | -                                                   | -                         | -                                | 10,399                               | 10,399  | (45)                     | 10,354  |
| Other comprehensive income                                        | -                                                   | -                         | (157)                            | -                                    | (157)   | -                        | (157)   |
| <b>Total comprehensive income (loss) for the reporting period</b> | -                                                   | -                         | (157)                            | 10,399                               | 10,242  | (45)                     | 10,197  |
| Purchase of minority share                                        | -                                                   | -                         | -                                | 6                                    | 6       | (104)                    | (98)    |
| Dividends                                                         | -                                                   | -                         | -                                | (5,310)                              | (5,310) | -                        | (5,310) |
| <b>Total transactions with owners</b>                             | -                                                   | -                         | -                                | (5,304)                              | (5,304) | (104)                    | (5,408) |
| <b>Balance as at 31.12.2013</b>                                   | 12,000                                              | 1,200                     | (669)                            | 109,332                              | 121,863 | 1,193                    | 123,056 |

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

*in thousand euros*
**CONSOLIDATED CASH FLOW STATEMENT**

unaudited

|                                                                                  | <b>2013</b>      | <b>2012</b>      |
|----------------------------------------------------------------------------------|------------------|------------------|
| <i>note</i>                                                                      | <b>12 months</b> | <b>12 months</b> |
| <b>Cash flows used in operating activities</b>                                   |                  |                  |
| Operating profit (loss)                                                          | 12 261           | 8 758            |
| Adjustments:                                                                     |                  |                  |
| depreciation and impairment charge                                               | 2 828            | 2 608            |
| (profit) loss from sales of non-current assets                                   | (214)            | (123)            |
| change in construction contracts recognised under the stage of completion method | 4 717            | (729)            |
| interest income from business activities                                         | (1 479)          | (2 173)          |
| change in provisions                                                             | 1 634            | 1 974            |
| Change in trade and other receivables related to operating activities            | (6 103)          | 7 334            |
| Change in inventories                                                            | (4 943)          | 5 420            |
| Change in trade and other payables related to operating activities               | 10 171           | (3 039)          |
| Interest received                                                                | 1 803            | 1 953            |
| Interest paid                                                                    | (841)            | (1 281)          |
| Other finance costs/income                                                       | (165)            | 90               |
| Corporate income tax (paid)/reclaimed                                            | (12)             | 209              |
| <b>Total cash flows used in operating activities</b>                             | <b>19 657</b>    | <b>21 001</b>    |
| <b>Cash flows from investing activities</b>                                      |                  |                  |
| Purchase of joint venture                                                        | (350)            | -                |
| Proceeds from sale of associate                                                  | -                | 2,750            |
| Purchase/proceeds from deposits with maturities greater than 3 months            | -                | 140              |
| Purchase/proceeds from long-term deposits                                        | -                | 131              |
| Purchase of investment property                                                  | (1,080)          | (1,463)          |
| Purchase of property, plant and equipment                                        | (784)            | (890)            |
| Proceeds from sale of property, plant and equipment                              | 900              | 186              |
| Purchase of intangible assets                                                    | (29)             | (23)             |
| Interest received                                                                | 41               | 14               |
| Dividends received                                                               | -                | 88               |
| <b>Total cash flows from investing activities</b>                                | <b>(1,302)</b>   | <b>933</b>       |
| <b>Cash flows from (used in) financing activities</b>                            |                  |                  |
| Proceeds from borrowings                                                         | 12,862           | 12,974           |
| Repayments of borrowings                                                         | (11,810)         | (18,640)         |
| Factorings                                                                       | (1,544)          | 1,544            |
| Finance lease principal payments                                                 | (1,165)          | (902)            |
| Dividends paid                                                                   | (5,310)          | -                |
| <b>Total cash flows from financing activities</b>                                | <b>(6,967)</b>   | <b>(5,024)</b>   |
| <b>Net increase/decrease in cash and cash equivalents</b>                        | <b>11,388</b>    | <b>16,910</b>    |
| Change in deposits with maturities greater than 3 months                         | -                | (140)            |
| Total change                                                                     | <b>11,388</b>    | <b>16,770</b>    |
| <b>Cash and cash equivalents at the beginning of the period</b>                  | <b>35,316</b>    | <b>18,510</b>    |
| Deposits with maturities greater than 3 months at the beginning of period        | -                | 140              |
| Total at the beginning of the period                                             | <b>35,316</b>    | <b>18,650</b>    |
| <b>Effect of exchange rate changes</b>                                           | <b>(71)</b>      | <b>(104)</b>     |
| <b>Cash and cash equivalents at the end of the period</b>                        | <b>5 46,633</b>  | <b>35,316</b>    |

**NOTES****Note 1 Accounting policies used**

The consolidated interim financial statements of the AS Merko Ehitus group for 12 months 2013 and IV quarter 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 2012 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. 2012 audited comparative figures are presented in the present financial report, which are different from figures presented in the 2012 12 months and IV quarter unaudited interim report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 12 months and IV quarter of 2013 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 2 Operating segments**

*in thousand euros*

The highest instance of business decision-making in the group – the Management Board of the parent AS Merko Ehitus, keeps track of the group's operating activity by each field of activity. The result of the business segments is evaluated by the highest decision-maker on the basis of the revenue from outside the group and profit before taxes. The pre-tax profit of the segments is essentially made up of their revenue and costs of goods sold; other expense and income are not divided into segments, as they are monitored at the group level as a whole and they lack a direct connection with the business segments.

The amount of each cost item in segment reporting is a figure presented to management for making decision about allocation of resources to segments and valuation of segment operating results. The costs that come after the profit of reporting segments are recognised in segment reporting using the same principles as in the financial statements and they are not used for evaluation of the results of operating segments by the company's management. In segment reporting, all intra-group transactions with income, expenses and assets and unrealised gains and losses between reportable segments have been eliminated unless the loss is due to impairment.

| <b>2013 12 months</b>                           | <b>General<br/>construc-<br/>tion</b> | <b>Enginee-<br/>ring const-<br/>ruction</b> | <b>Road<br/>construc-<br/>tion</b> | <b>Real estate<br/>develop-<br/>ment</b> | <b>Other</b> | <b>Total<br/>segments</b> |
|-------------------------------------------------|---------------------------------------|---------------------------------------------|------------------------------------|------------------------------------------|--------------|---------------------------|
| Segment revenue                                 | 86,686                                | 98,151                                      | 49,476                             | 46,098                                   | 1,253        | 281,664                   |
| Inter-segment revenue                           | (122)                                 | (3,616)                                     | -                                  | (15,104)                                 | (103)        | (18,945)                  |
| <b>Revenue from external clients</b>            | <b>86,564</b>                         | <b>94,535</b>                               | <b>49,476</b>                      | <b>30,994</b>                            | <b>1,150</b> | <b>262,719</b>            |
| <b>Gross profit (loss)</b>                      | <b>(503)</b>                          | <b>12,512</b>                               | <b>5,937</b>                       | <b>5,121</b>                             | <b>(344)</b> | <b>22,723</b>             |
| <b>Segment pre-tax profit (loss)</b>            | <b>(542)</b>                          | <b>12,565</b>                               | <b>5,839</b>                       | <b>6,122</b>                             | <b>(340)</b> | <b>23,644</b>             |
| incl. interest income from operating activities | -                                     | -                                           | -                                  | 1,472                                    | -            | 1,472                     |
| depreciation                                    | (88)                                  | (592)                                       | (1,080)                            | (186)                                    | (515)        | (2,461)                   |
| write-down of inventory                         | -                                     | -                                           | -                                  | (330)                                    | -            | (330)                     |
| cancellation of inventory write-down            | -                                     | -                                           | -                                  | 337                                      | -            | 337                       |
| recognition of provisions                       | (2,557)                               | (304)                                       | (81)                               | (329)                                    | -            | (3,271)                   |
| gain (loss) on joint ventures                   | -                                     | -                                           | -                                  | (138)                                    | -            | (138)                     |
| other finance income (costs)                    | (9)                                   | (20)                                        | (57)                               | (322)                                    | -            | (408)                     |
| incl. interest income                           | -                                     | -                                           | -                                  | 39                                       | -            | 39                        |
| incl. interest expenses                         | (9)                                   | (20)                                        | (57)                               | (321)                                    | -            | (407)                     |
| <b>Segment assets 31.12.2013</b>                | <b>29,513</b>                         | <b>24,899</b>                               | <b>10,577</b>                      | <b>138,189</b>                           | <b>1,143</b> | <b>204,321</b>            |
| incl. associates and joint ventures             | -                                     | 18                                          | -                                  | 7,331                                    | -            | 7,349                     |



| <b>2012 12 months</b>                           | <b>General<br/>construc-<br/>tion</b> | <b>Enginee-<br/>ring const-<br/>ruction</b> | <b>Road<br/>construc-<br/>tion</b> | <b>Real estate<br/>develop-<br/>ment</b> | <b>Other</b> | <b>Total<br/>segments</b> |
|-------------------------------------------------|---------------------------------------|---------------------------------------------|------------------------------------|------------------------------------------|--------------|---------------------------|
| Segment revenue                                 | 61,953                                | 113,586                                     | 45,152                             | 37,493                                   | 2,527        | 260,711                   |
| Inter-segment revenue                           | (263)                                 | (293)                                       | -                                  | (10,386)                                 | (638)        | (11,580)                  |
| <b>Revenue from external clients</b>            | <b>61,690</b>                         | <b>113,293</b>                              | <b>45,152</b>                      | <b>27,107</b>                            | <b>1,889</b> | <b>249,131</b>            |
| <b>Gross profit (loss)</b>                      | <b>5,017</b>                          | <b>8,995</b>                                | <b>1,714</b>                       | <b>2,401</b>                             | <b>(216)</b> | <b>17,911</b>             |
| <b>Segment pre-tax profit (loss)</b>            | <b>5,040</b>                          | <b>8,569</b>                                | <b>1,671</b>                       | <b>3,404</b>                             | <b>21</b>    | <b>18,705</b>             |
| incl. interest income from operating activities | 4                                     | -                                           | -                                  | 1 357                                    | -            | 1,361                     |
| depreciation                                    | (76)                                  | (502)                                       | (1,035)                            | (131)                                    | (491)        | (2,235)                   |
| recognition of provisions                       | (422)                                 | (926)                                       | (148)                              | (374)                                    | (1)          | (1,871)                   |
| gain (loss) on associates and joint ventures    | -                                     | -                                           | -                                  | (71)                                     | 234          | 163                       |
| other finance income (costs)                    | (38)                                  | (27)                                        | (87)                               | (263)                                    | (2)          | (417)                     |
| incl. interest income                           | -                                     | -                                           | -                                  | 51                                       | -            | 51                        |
| interest expenses                               | (38)                                  | (27)                                        | (87)                               | (314)                                    | (2)          | (468)                     |
| <b>Segment assets 31.12.2012</b>                | <b>13,092</b>                         | <b>27,091</b>                               | <b>24,651</b>                      | <b>120,248</b>                           | <b>1,572</b> | <b>186,654</b>            |
| incl. associates and joint ventures             | -                                     | 18                                          | -                                  | 7,172                                    | -            | 7,190                     |

Besides segments' assets, the group's assets as at 31 December 2013 were EUR 34,917 thousand (31 December 2012: EUR 38,394 thousand) that are not possible or expedient to associate with a specific segment. The following are recognized as the group's undistributed assets: cash and cash equivalents, deposits, loans, not including loans to associated companies or joint ventures, prepayments of taxes, other receivables and the undistributed non-current assets.

#### Reconciliation of the pre-tax profit (loss) of segments and the group

|                                                 | <b>2013 12 months</b> | <b>2012 12 months</b> |
|-------------------------------------------------|-----------------------|-----------------------|
| Pre-tax profit (loss) from reporting segments   | 23,644                | 18,705                |
| Unallocated expense (income)                    |                       |                       |
| marketing expenses                              | (3,041)               | (2,107)               |
| general and administrative expenses             | (9,260)               | (9,173)               |
| incl. recognition of provisions                 | (27)                  | (32)                  |
| other operating income (expense)                | 372                   | 1,079                 |
| incl. interest income from operating activities | 7                     | 812                   |
| finance income (costs)                          | (570)                 | (602)                 |
| incl. interest income                           | 45                    | 39                    |
| interest expense                                | (407)                 | (688)                 |
| <b>Total profit (loss) before tax</b>           | <b>11,145</b>         | <b>7,902</b>          |

Unallocated finance costs and income include income from bank deposits, foreign exchange gains (losses), uncapitalised loan interest expenses and other finance income and costs.

**Revenue by client location**

|              | 2013 12 months | 2012 12 months |
|--------------|----------------|----------------|
| Estonia      | 211,958        | 202,149        |
| Latvia       | 44,378         | 38,305         |
| Lithuania    | 6,383          | 8,677          |
| <b>Total</b> | <b>262,719</b> | <b>249,131</b> |

**Non-current assets (except for financial assets and deferred income tax assets) by location of assets:**

|              | 31.12.2013    | 31.12.2012    |
|--------------|---------------|---------------|
| Estonia      | 18,473        | 19,168        |
| Latvia       | 413           | 523           |
| Lithuania    | 70            | 93            |
| <b>Total</b> | <b>18,956</b> | <b>19,784</b> |

**Note 3 Cost of goods sold**

*in thousand euros*

|                                       | 2013 12 months | 2012 12 months |
|---------------------------------------|----------------|----------------|
| Construction services                 | 133,251        | 130,456        |
| Materials                             | 40,585         | 38,266         |
| Properties purchased for resale       | 14,355         | 14,392         |
| Staff costs                           | 22,636         | 20,770         |
| Construction mechanisms and transport | 12,409         | 11,871         |
| Design                                | 1,839          | 1,273          |
| Real estate management costs          | 219            | 193            |
| Depreciation and impairment charge    | 2,461          | 2,235          |
| Write-down of inventory               | 330            | -              |
| Cancellation of inventory write-down  | (337)          | -              |
| Provisions                            | 3,271          | 1,871          |
| Other expenses                        | 8,977          | 9,893          |
| <b>Total cost of goods sold</b>       | <b>239,996</b> | <b>231,220</b> |

**Note 4 Earnings per share**

EPS (earnings per share) is derived as a ratio of the net profit belonging to shareholders and the weighted average number of ordinary shares.

|                                                                               | 2013 12 months | 2012 12 months |
|-------------------------------------------------------------------------------|----------------|----------------|
| Net profit (loss) attributable to shareholders <i>(in thousands of euros)</i> | 10,399         | 7,627          |
| Weighted average number of ordinary shares <i>(thousand pcs)</i>              | 17,700         | 17,700         |
| <b>Earnings (loss) per share <i>(in euros)</i></b>                            | <b>0.59</b>    | <b>0.43</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.

In the third quarter of 2013 the parent company AS Merko Ehitus paid out dividends in the amount of EUR 5,310 thousand (EUR 0.30 per share). AS Merko Ehitus did not have to pay any income tax on dividend pay-out in light of previously received and taxed dividends from subsidiaries. In the year 2012 no dividends were paid.

As at 31 December 2013, a total of EUR 87,464 thousand (as at 31 December 2012: EUR 83,558 thousand) can be paid as dividends to shareholders from retained earnings. Considering the dividends received and the taxes withheld on income received abroad as at 31 December 2013 in the amount of EUR 2,051 thousand (as at 31 December 2012: EUR 2,045 thousand), the respective income tax expense in case of dividend payment would amount to EUR 21,199 thousand (as at 31 December 2012: EUR 20,167 thousand).

## Note 5 Cash and cash equivalents

*in thousand euros*

|                                                  | 31.12.2013    | 31.12.2012    |
|--------------------------------------------------|---------------|---------------|
| Cash on hand                                     | 12            | 16            |
| Bank accounts                                    | 18,749        | 5,808         |
| Overnight deposits                               | 26,372        | 17,492        |
| Bank deposits with maturities less than 3 months | 1,500         | 12,000        |
| <b>Total cash and cash equivalents</b>           | <b>46,633</b> | <b>35,316</b> |

**Note 6 Trade and other receivables**  
*in thousand euros*

|                                                | <b>31.12.2013</b> | <b>31.12.2012</b> |
|------------------------------------------------|-------------------|-------------------|
| Trade receivables                              |                   |                   |
| accounts receivable                            | 38,202            | 34,967            |
| allowance for doubtful receivables             | (742)             | (864)             |
|                                                | <u>37,460</u>     | <u>34,103</u>     |
| Tax prepayments excluding corporate income tax |                   |                   |
| value added tax                                | 657               | 791               |
| other taxes                                    | 17                | 10                |
|                                                | <u>674</u>        | <u>801</u>        |
| Amounts due from customers of contract works   | 12,940            | 18,981            |
| Other short-term receivables                   |                   |                   |
| short-term loans                               | 1,399             | 1,887             |
| interest receivables                           | 656               | 948               |
| receivable from buyer of subsidiary            | -                 | 96                |
| other short-term receivables                   | 51                | 1,256             |
|                                                | <u>2,106</u>      | <u>4,187</u>      |
| Prepayments for services                       |                   |                   |
| prepayments for construction services          | 3,153             | 1,388             |
| prepaid insurance                              | 359               | 416               |
| other prepaid expenses                         | 480               | 467               |
|                                                | <u>3,992</u>      | <u>2,271</u>      |
| <b>Total trade and other receivables</b>       | <u>57,172</u>     | <u>60,343</u>     |

**Note 7 Inventories**  
*in thousand euros*

|                                            | <b>31.12.2013</b> | <b>31.12.2012</b> |
|--------------------------------------------|-------------------|-------------------|
| Materials                                  | 731               | 563               |
| Work-in-progress                           | 28,614            | 18,528            |
| Finished goods                             | 16,625            | 21,499            |
| Goods for resale                           |                   |                   |
| registered immovables purchased for resale | 39,055            | 39,548            |
| other goods purchased for resale           | 978               | 1,000             |
|                                            | <u>40,033</u>     | <u>40,548</u>     |
| Prepayments for inventories                |                   |                   |
| prepayments for real estate properties     | 1,086             | 1,097             |
| prepayments for other inventories          | 362               | 595               |
|                                            | <u>1,448</u>      | <u>1,692</u>      |
| <b>Total inventories</b>                   | <u>87,451</u>     | <u>82,830</u>     |

**Note 8 Long-term financial assets**  
*in thousand euros*

|                                                               | <b>31.12.2013</b> | <b>31.12.2012</b> |
|---------------------------------------------------------------|-------------------|-------------------|
| Investments in associates and joint ventures                  | 7,349             | 7,190             |
| Long-term loans                                               | 3,633             | 3,666             |
| Long-term bank deposit                                        | 49                | 49                |
| Long-term receivables from customers of construction services | 16,384            | 13,473            |
| <b>Total long-term financial assets</b>                       | <b>27,415</b>     | <b>24,378</b>     |

**Note 9 Investment property**  
*in thousand euros*

|                                         | <b>31.12.2013</b> | <b>31.12.2012</b> |
|-----------------------------------------|-------------------|-------------------|
| Land                                    | 51                | 136               |
| Right of superficies at carrying amount |                   |                   |
| cost                                    | 29                | 29                |
| accumulated depreciation                | (9)               | (9)               |
|                                         | <b>20</b>         | <b>20</b>         |
| Buildings at carrying amount            |                   |                   |
| cost                                    | 5,067             | 3,662             |
| accumulated depreciation                | (466)             | (252)             |
|                                         | <b>4,601</b>      | <b>3,410</b>      |
| <b>Total investment property</b>        | <b>4,672</b>      | <b>3,566</b>      |

In the fourth quarter of 2013 Pärna Avenue 8 development project was reclassified from inventory to investment property in the amount of EUR 1,267 thousand to be leased out to Tartu county for childcare premises.

**Note 10 Property, plant and equipment**  
*in thousand euros*

|                                               | <b>31.12.2013</b> | <b>31.12.2012</b> |
|-----------------------------------------------|-------------------|-------------------|
| Land                                          | 824               | 825               |
| Buildings at carrying amount                  |                   |                   |
| cost                                          | 5,784             | 5,788             |
| accumulated depreciation                      | (1,454)           | (1,268)           |
|                                               | <b>4,330</b>      | <b>4,520</b>      |
| Machinery and equipment at carrying amount    |                   |                   |
| cost                                          | 15,723            | 16,963            |
| accumulated depreciation                      | (9,263)           | (9,624)           |
|                                               | <b>6,460</b>      | <b>7,339</b>      |
| Other fixtures at carrying amount             |                   |                   |
| cost                                          | 5,445             | 5,518             |
| accumulated depreciation                      | (3,942)           | (3,360)           |
|                                               | <b>1,503</b>      | <b>2,158</b>      |
| Prepayments for property, plant and equipment | -                 | 11                |
| <b>Total property, plant and equipment</b>    | <b>13,117</b>     | <b>14,853</b>     |

**Note 11 Intangible assets**  
*in thousand euros*

|                                   | 31.12.2013   | 31.12.2012   |
|-----------------------------------|--------------|--------------|
| Goodwill                          |              |              |
| cost                              | 891          | 891          |
| impairment                        | (89)         | -            |
|                                   | 802          | 891          |
| Software at carrying amount       |              |              |
| cost                              | 1,252        | 1,231        |
| accumulated depreciation          | (887)        | (809)        |
|                                   | 365          | 422          |
| Prepayments for intangible assets | -            | 52           |
| <b>Total intangible assets</b>    | <b>1,167</b> | <b>1,365</b> |

**Note 12 Borrowings**  
*in thousand euros*

|                                                 | 31.12.2013 | 31.12.2012 |
|-------------------------------------------------|------------|------------|
| <b>Finance lease payables</b>                   |            |            |
| Present value of lease payments                 | 2,872      | 2,441      |
| incl. current portion                           | 928        | 782        |
| non-current portion 1...4 years                 | 1,944      | 1,659      |
| <b>Bank loans</b>                               |            |            |
| Loan balance                                    | 23,953     | 22,957     |
| incl. current portion                           | 6,228      | 5,513      |
| non-current portion 1...5 years                 | 17,725     | 17,444     |
| <b>Factoring liability</b>                      |            |            |
| Factoring balance                               | -          | 1,544      |
| incl. current portion                           | -          | 1,544      |
| <b>Loans from entities under common control</b> |            |            |
| Loan balance                                    | 8,145      | 8,145      |
| incl. current portion                           | 8,145      | 8,145      |
| <b>Loans from related parties</b>               |            |            |
| Loan balance                                    | 102        | 102        |
| incl. non-current portion 1...5 years           | 102        | 102        |
| <b>Loans from other entities</b>                |            |            |
| Loan balance                                    | 313        | 315        |
| incl. current portion                           | 313        | 315        |
| <b>Total loans</b>                              |            |            |
| Loans balance                                   | 32,513     | 33,063     |
| incl. current portion                           | 14,686     | 15,517     |
| non-current portion 1...5 years                 | 17,827     | 17,546     |

|                                 |        |        |
|---------------------------------|--------|--------|
| <b>Total borrowings</b>         | 35,385 | 35,504 |
| incl. current portion           | 15,614 | 16,299 |
| non-current portion 1...5 years | 19,771 | 19,205 |

**Note 13 Payables and prepayments**  
*in thousand euros*

|                                                  | <b>31.12.2013</b> | <b>31.12.2012</b> |
|--------------------------------------------------|-------------------|-------------------|
| Trade payables                                   | 18,753            | 21,602            |
| Payables to employees                            | 7,465             | 5,541             |
| Tax liabilities, except for corporate income tax |                   |                   |
| value added tax                                  | 1,721             | 2,186             |
| personal income tax                              | 524               | 533               |
| social security tax                              | 994               | 989               |
| unemployment insurance tax                       | 65                | 88                |
| contributions to mandatory funded pension        | 40                | 40                |
| other taxes                                      | 50                | 240               |
|                                                  | 3,394             | 4,076             |
| Amounts due to customers for contract works      | 11,226            | 12,550            |
| Other liabilities                                |                   |                   |
| interest liabilities                             | 120               | 113               |
| payable for registered immovables from demerger  | 5,288             | 5,380             |
| other liabilities                                | 1,499             | 2,639             |
|                                                  | 6,907             | 8,132             |
| Prepayments received                             | 24,417            | 11,308            |
| <b>Total payables and prepayments</b>            | <b>72,162</b>     | <b>63,209</b>     |

**Note 14 Short-term provisions**  
*in thousand euros*

|                                                    | <b>31.12.2013</b> | <b>31.12.2012</b> |
|----------------------------------------------------|-------------------|-------------------|
| Provision for warranty obligation for construction | 1,810             | 1,619             |
| Provision for onerous construction contracts       | 2,752             | 2,067             |
| Provision for legal costs and claims filed         | 192               | 1,342             |
| Other provisions                                   | 1,152             | 1,137             |
| <b>Total short-term provisions</b>                 | <b>5,906</b>      | <b>6,165</b>      |

**Note 15 Related party transactions**

In compiling 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, so-called 'entities controlled by the parent';
- associates and joint ventures;
- key members of the management, 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.  
Transactions among related parties are executed on equivalent terms as transactions among independent parties.

The parent of AS Merko Ehitus is AS Riverito. As at 31.12.2013 and 31.12.2012, AS Riverito owned 72% 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 % |            | Location               | Area of operation |
|-------------------------|-------------|------------|------------------------|-------------------|
|                         | 31.12.2013  | 31.12.2012 |                        |                   |
| <b>Subsidiaries</b>     |             |            |                        |                   |
| AS Merko Ehitus Eesti   | 100         | 100        | Estonia, Tallinn       | construction      |
| Tallinna Teede AS       | 100         | 100        | Estonia, Tallinn       | road construction |
| OÜ Tevener              | 100         | 100        | Estonia, Tallinn       | mining            |
| AS Vooremaa Teed        | 100         | 100        | Estonia, Jõgeva        | road construction |
| AS Merko Infra          | 100         | 100        | Estonia, Tallinn       | construction      |
| AS Gustaf               | 92,5        | 85         | Estonia, Pärnu         | construction      |
| OÜ Gustaf Tallinn****   | 80          | 80         | Estonia, Tallinn       | construction      |
| AS Merko Tartu          | 66          | 66         | Estonia, Tartu         | construction      |
| OÜ Raadi Kortermaja     | 100         | 100        | Estonia, Tartu         | real estate       |
| OÜ Fort Ehitus          | 75          | 75         | Estonia, Viimsi        | construction      |
| OÜ Mineraal             | 100         | 100        | Estonia, Tallinn       | mining            |
| OÜ Heamaja              | 51          | -          | Estonia, Tallinn       | Real estate       |
| UAB Merko Statyba       | 100         | 100        | Lithuania, Vilnius     | construction      |
| UAB Merko Inžinerija    | 100         | 100        | Lithuania, Vilnius     | construction      |
| OÜ Merko Property       | 100         | 100        | Estonia, Tallinn       | real estate       |
| UAB Balsiu mokyklos SPV | 100         | 100        | Lithuania, Vilnius     | real estate       |
| UAB Merko Bustas        | 100         | 100        | Lithuania, Vilnius     | real estate       |
| UAB MN Projektas        | 100         | 100        | Lithuania, Vilnius     | real estate       |
| UAB Jurininku aikštele  | 100         | 100        | Lithuania, Vilnius     | real estate       |
| UAB Kražiu Projektas    | 100         | -          | Lithuania, Vilnius     | real estate       |
| Ringtee Tehnopark OÜ    | 100         | 100        | Estonia, Tallinn       | construction      |
| OÜ Jõgeva Haldus        | 100         | 100        | Estonia, Tallinn       | real estate       |
| OÜ Metsailu***          | 100         | 100        | Estonia, Tallinn       | real estate       |
| OÜ Woody***             | 100         | 100        | Estonia, Tallinn       | real estate       |
| OÜ Maryplus             | 100         | 100        | Estonia, Tallinn       | real estate       |
| OÜ Constancia           | 100         | 100        | Estonia, Tallinn       | real estate       |
| OÜ Käibevara***         | 100         | 100        | Estonia, Tallinn       | real estate       |
| OÜ Merko Investments    | 100         | 100        | Estonia, Tallinn       | holding           |
| SIA Merks*              | 100         | 100        | Latvia, Riga           | construction      |
| SIA SK Viesturdarzs     | 100         | 100        | Latvia, Riga           | real estate       |
| SIA Merks Investicijas  | 100         | 100        | Latvia, Riga           | real estate       |
| SIA Industrias Parks    | 100         | 100        | Latvia, Riga           | real estate       |
| SIA Elniko              | 100         | 100        | Latvia, Riga           | real estate       |
| SIA Ropažu Priedes      | 100         | 100        | Latvia, Riga           | real estate       |
| SIA Skanstes Virsotnes  | 100         | 100        | Latvia, Riga           | real estate       |
| SIA Polystar            | 100         | 99,96      | Latvia, Riga           | real estate       |
| PS Merko-Merks          | 100         | 100        | Latvia, Riga           | construction      |
| OÜ Tähelinna Kinnisvara | 100         | 100        | Estonia, Tallinn       | real estate       |
| Väike-Paekalda OÜ       | 100         | 100        | Estonia, Tallinn       | real estate       |
| Suur-Paekalda OÜ        | 100         | 100        | Estonia, Tallinn       | real estate       |
| Merko Ukraine LLC**     | 100         | 100        | Ukraine, Kharkiv       | construction      |
| Merko Finland OY        | 100         | 100        | Finland, Helsinki      | construction      |
| Lenko Stroi LLC         | 100         | 100        | Russia, St. Petersburg | construction      |



### Joint ventures

|                           |    |    |                  |              |
|---------------------------|----|----|------------------|--------------|
| OÜ Unigate                | 50 | 50 | Estonia, Tallinn | real estate  |
| Poolkoksimeä Sulgemise OÜ | 50 | 50 | Estonia, Tallinn | construction |
| OÜ Kortermaja             | 50 | 50 | Estonia, Tartu   | real estate  |
| SIA Zakusala Estates      | 50 | 50 | Latvia, Riga     | real estate  |

\* On 22 May 2013 AS Merko Ehitus concluded an intra-group transaction, selling a 100% stake in its subsidiary SIA Merks to OÜ Merko Investments.

\*\* In the second quarter of 2013, the liquidation of AS Merko Ehitus's 100% subsidiary Merko Ukraine LLC was completed. The company was deleted from the Commercial Register as at 4 July 2013.

\*\*\* On 20 December 2013 AS Merko Ehitus initiated a process to merge real estate development companies in which it has a 100% holding – OÜ Woody, OÜ Metsailu and OÜ Käibevara – specifically for the purpose of reducing the administrative costs of managing the companies. The final merger entry will be made in the Commercial Register during the first half of 2014.

\*\*\*\* AS Merko Ehitus Eesti, a subsidiary of AS Merko Ehitus group, signed an agreement on 15 January 2014 for the transfer of its entire 80% holding in the subsidiary Gustaf Tallinn OÜ. The holding was transferred with the purpose of re-arranging the structure of the group companies and reducing holdings in non-significant subsidiaries. On 22 January 2014, UAB Merko Bustas, a 100% subsidiary of AS Merko Ehitus, established a 100% subsidiary UAB VPSP 1 in Lithuania, with a share capital of LTL 10,000 (EUR 2,896). The subsidiary was established with the aim to participate in the Lithuanian state organized PPP procurement tenders.

### Goods and services

*in thousand euros*

|                                               | 2013 12 months | 2012 12 months |
|-----------------------------------------------|----------------|----------------|
| <b>Construction services rendered</b>         |                |                |
| Parent company                                | 12             | 6              |
| Associates and joint ventures                 | 262            | 251            |
| Entities under common control                 | 1,594          | 29             |
| Management members                            | 68             | 2              |
| Other related parties                         | 1              | 668            |
| <b>Total construction services rendered</b>   | <b>1,937</b>   | <b>956</b>     |
| <b>Services and materials purchased</b>       |                |                |
| Parent company                                | 102            | 115            |
| Entities under common control                 | 160            | 153            |
| Other related parties                         | 1              | 126            |
| <b>Total services and materials purchased</b> | <b>263</b>     | <b>394</b>     |
| <b>Interest income</b>                        |                |                |
| Associates and joint ventures                 | 114            | 111            |
| <b>Interest expense</b>                       |                |                |
| Parent company                                | -              | 79             |
| Entities under common control                 | 146            | 188            |
| Management members                            | 5              | 3              |
| <b>Total interest expense</b>                 | <b>151</b>     | <b>270</b>     |

### Balances with the related parties

*in thousand euros*

|                               | 31.12.2013 | 31.12.2012 |
|-------------------------------|------------|------------|
| <b>Short-term receivables</b> |            |            |
| Trade receivables             |            |            |
| Parent company                | 3          | 9          |
| Associates and joint ventures | 36         | 24         |
| Entities under common control | 394        | 13         |

## CONSOLIDATED FINANCIAL STATEMENT

|                                      |               |               |
|--------------------------------------|---------------|---------------|
| Other related parties                | -             | 1             |
| Total trade receivables              | 433           | 47            |
| Short-term loans                     |               |               |
| Associates and joint ventures        | 1,399         | 1,382         |
| Interest receivables                 |               |               |
| Associates and joint ventures        | 656           | 896           |
| Prepayments for services             |               |               |
| Entities under common control        | 5             | -             |
| Prepayments for inventories          |               |               |
| Entities under common control        | -             | 3,806         |
| <b>Total short-term receivables</b>  | <b>2,493</b>  | <b>6,131</b>  |
| <b>Long-term receivables</b>         |               |               |
| Long-term loans                      |               |               |
| Associates and joint ventures        | 3,611         | 3,610         |
| <b>Current liabilities</b>           |               |               |
| Short-term loans                     |               |               |
| Entities under common control        | 8,145         | 8,145         |
| Trade payables                       |               |               |
| Parent company                       | 9             | 12            |
| Entities under common control        | 2             | 5             |
| Total trade payables                 | 11            | 17            |
| Interest liabilities                 |               |               |
| Entities under common control        | 11            | 12            |
| Other liabilities                    |               |               |
| Entities under common control        | 5,288         | 5,380         |
| Prepayments received                 |               |               |
| Entities under common control        | 63            | -             |
| Management members                   | 1,522         | -             |
| Total prepayments received           | 1,585         | -             |
| <b>Total current liabilities</b>     | <b>15,040</b> | <b>13,554</b> |
| <b>Non-current liabilities</b>       |               |               |
| Long-term loans                      |               |               |
| Management members                   | 102           | 102           |
| Long-term interest liabilities       |               |               |
| Management members                   | 8             | 3             |
| <b>Total non-current liabilities</b> | <b>110</b>    | <b>105</b>    |

### Remuneration of the members of the Supervisory and Management Boards

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 12 months of 2013 was EUR 2,227 thousand (12 months of 2012: EUR 1,821 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 12 months of 2012, the Management

Board members of major subsidiaries received EUR 50 thousand in compensation (12 months of 2012: EUR 157 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: [www.merko.ee](http://www.merko.ee).

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31 December 2013

|                              |                                   | No. of shares | % of total |
|------------------------------|-----------------------------------|---------------|------------|
| 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%      |
| Olari Taal (OÜ Eggera)       | Member of the Supervisory Board   | 2,500         | 0.01%      |
| Teet Roopalü                 | Member of the Supervisory Board   | 0             | 0.00%      |
|                              |                                   | 8,357,049     | 47.21%     |

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31 December 2013

|                           |                                  | No. of shares | % of total |
|---------------------------|----------------------------------|---------------|------------|
| Andres Trink              | Chairman of the Management Board | 0             | 0.00%      |
| Tõnu Toomik (AS Riverito) | Member of the Management Board   | 1,607,185     | 9.08%      |
|                           |                                  | 1,607,185     | 9.08%      |

### Note 16 Contingent liabilities

The group has purchased the following guarantees from financial institutions to ensure the group's obligations to third parties. The said amounts constitute the maximum extent of the third-party claims against the group should the group fail to perform its contractual obligations. In the estimation of the Management Board, it is unlikely that expenditures will be incurred in connection with these guarantees.

| <i>in thousand euros</i>                      | <b>31.12.2013</b> | <b>31.12.2012</b> |
|-----------------------------------------------|-------------------|-------------------|
| Performance period's warranty to the customer | 29,201            | 26,731            |
| Tender warranty                               | 611               | 1,929             |
| Guarantee warranty period                     | 11,246            | 11,627            |
| Prepayment guarantee                          | 8,763             | 10,020            |
| Contracts of surety                           | 2,281             | 1,507             |
| Payment guarantee                             | 64                | -                 |
| <b>Total contingent liabilities</b>           | <b>52,166</b>     | <b>51,814</b>     |

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 – guarantor ensures to the bid organiser that the tenderer does not withdraw a tender during its validity period.

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

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

Payment guarantee – warranty provider guarantees to the customer a payment for goods or services.

## MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of AS Merko Ehitus has prepared the consolidated interim financial statements for the 12 months and IV quarter of 2013, which are set out on pages 5-51.

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.

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



13.02.2014

Tõnu Toomik                      Member of the Management Board



13.02.2014