



# AS MERKO EHITUS

## GROUP

### 2016 6 months and II quarter consolidated unaudited interim report

|                          |                                                                                     |
|--------------------------|-------------------------------------------------------------------------------------|
| Business name:           | AS Merko Ehitus                                                                     |
| Main activities:         | Holding companies<br>General contracting of construction<br>Real estate development |
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| Financial year:          | 01.01.2016 – 31.12.2016                                                             |
| Reporting period:        | 01.01.2016 – 30.06.2016                                                             |
| Supervisory Board:       | Toomas Annus, Teet Roopalu,<br>Indrek Neivelt, Olari Taal                           |
| Management Board:        | Andres Trink, Tõnu Toomik                                                           |
| Auditor:                 | AS PricewaterhouseCoopers                                                           |

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## BRIEF OVERVIEW OF THE GROUP

Merko Ehitus is active in offering general contracting services in the field of construction and in residential real estate development and on providing complete solutions in professional construction and real estate development in its home markets Estonia, Latvia and Lithuania. In Q1 2016, the group entered the Norwegian market as well through acquisition of a stake in a local construction company. Long-term experience in various countries, a wide scope of construction services, flexibility, reliability and meeting the deadlines and primarily quality have helped group companies to achieve a strong position in the Baltic construction market. Depending on the requirements of the contracting entities, the group companies perform both large scale, complicated and innovative projects as well as small-scale construction works, with a focus on general contracting and project management. Merko Ehitus is among the leading residential construction companies in the Baltic states.

Holding company AS Merko Ehitus is responsible for the development and implementation of the strategies of various group companies primarily through allocation and long-term planning of resources, as well as coordinating partner relations. The shares of Merko have been listed on the NASDAQ Tallinn Stock Exchange since 1997. The group employs 826 people.

The group comprises construction and property development companies providing complete construction solutions in Estonia, Latvia, Lithuania and Norway, among which the group's largest construction sector companies are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%) and the companies belonging to the AS Merko Ehitus Eesti group: Tallinna Teede AS (100%) and AS Merko Infra (100%).

Merko Ehitus is the company with the highest owners' equity in the Estonian construction sector and is able to finance projects by itself in long-term. We are conservative in involving debt capital. We ensure that we would have sufficient necessary resources for continuously investing in attractive projects.

Merko Ehitus Eesti group is the market leader of the Estonian construction sector with approximately 4% of the total volume of the Estonian construction market as of the end of 2015. In Latvia, Lithuania and Norway, Merko Ehitus operates through its subsidiaries SIA Merks, UAB Merko Statyba and Peritus Entreprenør AS focusing selectively on projects where the competitive advantage is perceivable as compared to other market players.

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.



IN JUNE, THE FIRST HILTON HOTEL IN THE BALTICS WAS OPENED. HILTON TALLINN PARK HAS A TOTAL OF 202 ROOMS, A CONFERENCE CENTRE WITH 10 MEETING ROOMS, ONE OF TALLINN'S BIGGEST BANQUET HALLS, A SPA WITH AN INDOOR POOL, AND A RESTAURANT WITH TERRACE. AS GENERAL CONTRACTOR, AS MERKO EHITUS EESTI WAS RESPONSIBLE FOR THE DESIGN, CONSTRUCTION AND FURNISHING OF THE HOTEL AND ENTERTAINMENT COMPLEX.

## VISION

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

## VALUES

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

## STRATEGY

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

## LONG-TERM FINANCIAL OBJECTIVES UNTIL 2018

The Management Board and Supervisory Board have approved the company's strategic development directions and long-term financial objectives for the period 2013 to 2018, which are:

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

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

equity ratio  
at least  
**40%**

Considering the weak growth prospects of the Baltic construction and real estate market in the coming few years, the low interest rate environment, as well as the company's high equity base, the strategy and financial objectives are focused towards improving return on invested capital and on increasing the efficiency of the balance sheet.

### FULFILLMENT OF LONG-TERM FINANCIAL OBJECTIVES 2013-2015

|                                         | 2015  | 2014  | 2013  | AVERAGE |
|-----------------------------------------|-------|-------|-------|---------|
| Return on equity, ROE (on yearly basis) | 8.0%  | 10.1% | 8.8%  | 9.0%    |
| Dividend rate                           | 90%   | 58%   | 70%   | 73%     |
| Equity ratio 31.12                      | 59.5% | 51.0% | 50.9% | 53.8%   |

# MANAGEMENT REPORT

## COMMENTARY OF THE CHAIRMAN OF THE MANAGEMENT BOARD

In Q2 of 2016, Merko Ehitus posted revenue of EUR 58.7 million, EBITDA of EUR 3.4 million and profit before taxes of EUR 2.4 million. Gross profit margin increased to 9% in the second quarter and the group's construction contract order book reached EUR 279 million. The Baltic construction market – in a slump with regard to new buildings and infrastructure construction contracts – continues to be supported by residential construction, and Merko is on track with its investment plan in the apartment development sector. In the 6 months of 2016, the company sold close to 160 apartments and launched the construction of 280 new flats.

The group's management is satisfied with the improved profitability – the second quarter gross profit margin of 9% outperforms the expectations to some degree and is better than it was a year ago. Considering the general depressed state of construction contracts on the market, the management also appreciates the volume of new contracts signed in the second quarter and the level of the secured order book. According to the management the integration of the Norwegian company acquired in the first quarter has also gone according to plan.

The sales revenue in the first half-year has been kept back by the slower than planned launch of construction work on several projects due to customer-side changes either related to the project design solutions or the completion timetable. The ratio of new contracts to sales revenue was also lower than expected as a result of the sluggish Baltic construction market in regard to buildings and infrastructure contracted for by the state – a trend that has lasted a couple of years now. The drop in the share of sales revenue from construction services in Latvia and Lithuania was as expected, as several large projects were completed last year in Latvia and the work volumes are lower this year. The construction market is largely supported by residential construction, yet the group companies are actively continuing to tender for contracts on all markets in which the group operates, including road construction and other infrastructure project procurements in Estonia.

The group's Q2 revenue was EUR 58.7 million, EBITDA was EUR 3.4 million, profit before taxes was EUR 2.4 and net profit was EUR 1.7 million. The respective figures for 6 months of 2016 were: revenue of EUR 105.6 million, EBITDA of EUR 4.6 million, profit before taxes of EUR 2.7 and net profit of EUR 1.8 million. The 6 months net profit was impacted by income tax expenses amounting to EUR 0.9 million, including EUR 0.6 million additional income tax expense on dividends in the second quarter.

**6 MONTHS 2016**  
**PROFIT BEFORE TAX**  
**2.7 MILLION EUROS**

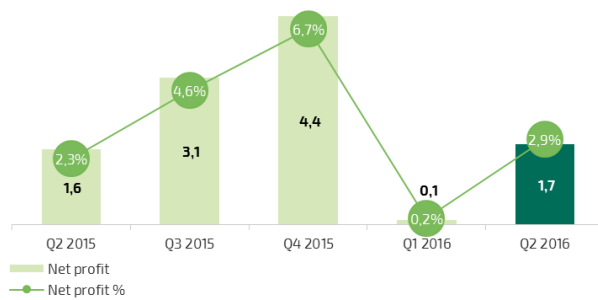
**REVENUE**  
**106 MILLION EUROS**

The development of the apartment market in the Baltic capital cities was in line with expectations in the second quarter, supply has increased and the price level has stabilised. The launch of the group's development projects and sale of apartments has conformed to plans and the group will continue fulfilling its investment plan. This year, Merko has launched construction of more than 280 new apartments, including 100 apartments in the Tallinn's Paepargi neighbourhood and 66 apartments in the first phase of Noblessner Homeport development and, in Riga, 137 flats in the Skanstes Parks development. In the six months of 2016, Merko sold 159 apartments for a total price of EUR 17.4 million (without VAT), including 58 apartments and EUR 6.0 million (without VAT) in Q2.

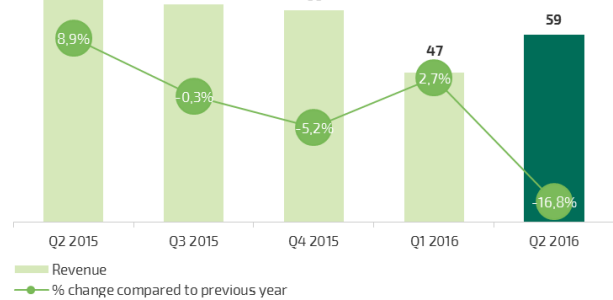
In Q2 of 2016, the group's companies entered into new construction contracts amounting to EUR 87 million. In Estonia, these included the Juuliku traffic junction and the Viru infantry battalion equipment depot; in Lithuania, the expansion of the Radisson Blu Hotel Lietuva; and a warehouse complex in Riga, Latvia. As at 30 June 2016, the group had a secured order book of EUR 279 million. Major projects in progress for Merko in Q2 in Estonia included the Hilton Tallinn Park in Tallinn, opened in early June, Maakri Quarter, an office building at Mustamäe tee 3, the Õpiku Maja office building, the T1 shopping centre, Tallink Tennis Centre, the Bauhaus DIY store in Rocca al Mare and the tram line that will serve the airport. In Latvia, the largest projects in progress were the kindergarten and school complex in Pinki near Riga and phase II of the passenger terminal at Riga Airport; in Lithuania, the Kauno/Algirdo residential complex with office space and the Narbuto 5 office building were ongoing.

## OVERVIEW OF THE 6 MONTHS AND II QUARTER RESULTS

GROUP NET PROFIT  
in millions euros



GROUP REVENUE  
in million euros



### PROFITABILITY

Q2 2016 profitability improved and the gross margin increased to 9.3% (comparable figure in Q2 2015: 7.6%). Q2 net profit was EUR 1.7 million (Q2 2015: EUR 1.6 million) and net profit margin increased to 2.9% (Q2 2015: 2.3%). Q2 net profit was influenced by additional income tax expense on dividends in the amount of EUR 0.6 million (Q2 2015: EUR 0.9 million). Profit before tax in 6M 2016 was EUR 2.7 million (6M 2015: EUR 3.6 million), which is equivalent to a profit before tax margin of 2.6% (6M 2015: 3.1%). Gross margin in 6M was 8.0% (6M 2015: 7.7%), which has increased by 4.6% compared to the same period last year. Q2 2016 profit before tax was EUR 2.4 million (Q2 2015: EUR 2.7 million). Net margin in 6M 2016 decreased to 1.7% (6M 2015: 2.1%) and net profit was EUR 1.8 million (6M 2015: EUR 2.4 million), having decreased by 24.6% compared to the same period last year.

### REVENUE

Revenue in 6M 2016 was EUR 105.6 million (6M 2015: EUR 116.2 million), which has decreased by 9.2% compared to last year. Q2 revenue was EUR 58.7 million (Q2 2015: EUR 70.6 million). The share of revenue earned outside Estonia has expectedly decreased in 6M 2016 to 32% (6M 2015: 38%) in connection with the slump in orders on the Latvian and Lithuanian construction market and the share of revenue earned in Estonia has accordingly increased to 68% (3M 2015: 62%). The number of apartments (159 units) sold in 6 months of 2016 has decreased by 5.4% and the revenue from apartment sales (EUR 17.4 million) by 45.2% (6 months of 2015: 168 units, revenues of EUR 31.7 million).

### CASH POSITION

At the end of the reporting period, the group had EUR 21.7 million in cash and cash equivalents and equity EUR 118.5 million (54.8% of total assets). Comparable figures as at 30 June 2015 were accordingly EUR 24.4 million and EUR 122.2 million (54.3% of total assets). As at 30 June 2016 the group had net debt of EUR 13.3 million (30 June 2015: EUR 10.7 million).

### SECURED ORDER BOOK

As at 30 June 2016, the group's secured order book had grown to EUR 279.4 million (30 June 2015: EUR 217.2 million). In 6M 2016, group companies signed new contracts in the amount of EUR 109.0 million (6M 2015: EUR 121.3 million). Q2 2016 new contracts signed in amount of EUR 86.6 million (Q2 2015: EUR 98.9 million).

|                     |             | 6M<br>2016 | 6M<br>2015 | VARIANCE | Q2<br>2016 | Q2<br>2015 | VARIANCE | 12M<br>2015 |
|---------------------|-------------|------------|------------|----------|------------|------------|----------|-------------|
| Revenue             | million EUR | 105.6      | 116.2      | -9.2%    | 58.7       | 70.6       | -16.8%   | 251.0       |
| Gross profit        | million EUR | 8.5        | 8.9        | -4.9%    | 5.4        | 5.4        | +1.1%    | 23.0        |
| Gross profit margin | %           | 8.0        | 7.7        | +4.6%    | 9.3        | 7.6        | +21.5%   | 9.1         |
| EBITDA              | million EUR | 4.6        | 5.6        | -17.9%   | 3.4        | 3.7        | -8.3%    | 15.5        |
| EBITDA margin       | %           | 4.3        | 4.8        | -9.6%    | 5.8        | 5.2        | +10.2%   | 6.2         |
| Profit before tax   | million EUR | 2.7        | 3.6        | -23.3%   | 2.4        | 2.7        | -11.0%   | 11.7        |
| PBT margin          | %           | 2.6        | 3.1        | -15.6%   | 4.1        | 3.9        | +7.0%    | 4.7         |
| Net profit (parent) | million EUR | 1.8        | 2.4        | -24.6%   | 1.7        | 1.6        | +6.4%    | 10.0        |
| Net profit margin   | %           | 1.7        | 2.1        | -17.0%   | 2.9        | 2.3        | +27.9%   | 4.0         |
| EPS                 | EUR         | 0.10       | 0.14       | -24.6%   | 0.09       | 0.09       | +6.4%    | 0.56        |

|                       |             | 30.06.2016 | 30.06.2015 | VARIANCE | 31.12.2015 |
|-----------------------|-------------|------------|------------|----------|------------|
| ROE (on yearly basis) | %           | 7.7        | 8.4        | -8.7%    | 8.0        |
| Equity ratio          | %           | 54.8       | 54.3       | +0.9%    | 59.5       |
| Secured order book    | million EUR | 279.4      | 217.2      | +28.7%   | 246.9      |
| Total assets          | million EUR | 216.4      | 225.2      | -3.9%    | 211.1      |
| Number of employees   | people      | 826        | 825        | +0.1%    | 791        |

Ratio definitions are provided on page 37 of the report.



## THE MAIN FACTORS INFLUENCING THE CONSTRUCTION MARKET IN THE 6 MONTHS OF 2016

### CONSTRUCTION SERVICES

In 2016, we see that in the Baltics, volumes of construction orders will continue to be at a low, while the housing construction market is set to remain relatively active, which will keep the construction market as a whole at the level of last year. In 2015 the growth of the volume of construction orders of general contractors stabilised in the Baltic States. As indicated in the reports of previous periods, this can mainly be attributed to the decrease in EU-funded public procurements, especially with regard to civil engineering work. The outlook on the construction market has also been impacted by the overall slump in investor confidence, a large number of completed projects or construction-in-progress (e.g. office buildings and also retail premises), as well as the often insufficient equity. On the other hand the construction market volume as a whole has been supported by a relatively more active residential construction, especially in Tallinn and Vilnius, which partly offsets the decline in public investment in infrastructure, but doesn't mean significantly more work for general contractors, whose developments often compete in this field with their potential customers. From the point of view of the development of the construction sector in the near term, it is paramount to start preparing for construction projects being financed as part of the EU financial framework period and the call for tenders by the government, and the continuing of private capital investments in the field of manufacturing, logistics and other commercial real estate. The current EU budgetary period measures, through which funds will be allocated, are opening gradually – expectations that procurements will become more active in the first half of 2016 did not materialise. As new projects require thorough preparation, we estimate that the number of new public procurements will start gradually growing from the end of 2016. We therefore forecast EU-funded public work projects to be carried out from 2017 onwards.

Due to the decrease of public sector orders it is a group priority for all three Baltic countries to cooperate with private customers, to whom we wish to offer comprehensive design and construction services, quality and optimal construction solutions, effective construction process and certainty regarding timely completion of projects. The total number of projects launched and planned by private sector clients has grown somewhat in 2015, yet we do not anticipate continued growth but rather a stabilisation in the volume of private orders. Therefore it is important in all three Baltic countries for the state to resume its orders at a greater volume as soon as possible so as to avoid huge fluctuations on the construction market.



HILTON TALLINN PARK HOTEL IS DESIGNED BY ARCHITECT MEELIS PRESS AND THE INTERIOR DESIGN SOLUTIONS ARE CREATED BY VERTTI KIVI.

An overall decrease in construction volumes and a tightening price competition has put pressure on the general contractors tender pricing and forced to take bigger risks. Merko Ehitus has historically been a valued partner in the private sector market and a number of large new contracts with private customers have been concluded in 2015, especially in Estonia, which is why the proportion of Estonian construction service segment in the group's revenue is expected to increase. In Latvia, the volume of contracts entered into in 2015 was lower than the volumes in the last few years; this influences the group's sales revenue from Latvian market in 2016. We have observed that the price competition in the tenders has tightened even more which has led to increased risks for both, the general contractors as the customers. In today's market competitors are submitting aggressive offers, anticipating that the input prices will decrease, however which may not materialise. As a result from the above the direct and indirect risks have increased for the customers that are sometimes not perceived in the light of the favourable prices. Risks like receiving a building that doesn't meet the expectations, contractor's financial difficulties and project completion delays disputes between the parties arising from possible changes to the project and additional works etc. are all such potential risks which existence must be acknowledged. At the same time, we see that the savvy private sector clients on the market are increasingly opting to sign design-build contracts instead of mere construction contracts, as the end result a building that meets the expectations is more likely with a professional partner who is responsible for the whole.

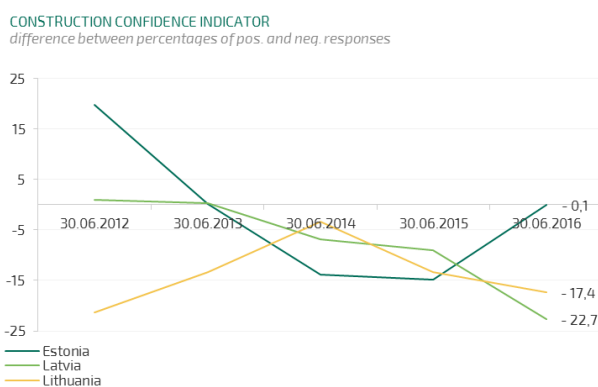
In 2015 the average profitability of new contracts signed by general contractor companies remained probably below last year's level depending on price competition and the increase of input prices and the continuation of the same trend is also visible in 2016. Competition between general contractors within the Baltic construction market will continue to be tough and bidding for construction tenders will be aggressive. This will provide a competitive edge to construction companies in the market that are efficient and have flexible cost base. Since customers remain focused on the lowest construction cost, often also at the expense of quality, it is still difficult to stand out in the competition with other general contractors, especially with regard to simpler and smaller construction projects; also the risks related to bids submitted below the actual cost price continue to be present.

Considering the customers demand with regard to guarantees and lengthy payment terms, the stress on construction companies' working capital continues to be high and capability for cash flow management is required to remain competitive. Merko companies use the group's strong financial position as a competitive advantage in negotiations over price and payment terms.

Taking into account the relatively weak outlook for growth in the construction market, we do not foresee major changes in the level of construction input prices, despite some wage pressure. Input prices may come under temporary pressure in a situation where multiple major construction sites are in progress simultaneously. This could result in a rise in prices of certain inputs (such as concrete elements). Also the level of Baltic states' construction price indices have remained relatively stable during the last year. Although one could assume that input prices decline due to the weakness in the construction market, as a result of the general price inflation and trends in the labour market, this is not to be expected. Depending on what the Scandinavian economic growth outcome is, in particular the development of construction sector, the corresponding effect could consequently influence the labour costs. Subcontractors' prices have this far not seen a decline similar to the drop in general contractors prices, which means that general contractors margins are particularly under pressure – customers are exerting strong pressure for a price decrease in connection with the lower overall volumes on the construction market. Nonetheless, sudden fluctuations in input prices cannot be ruled out against the backdrop of global economic events.

The level of indicators of confidence in the construction industry continues to be unfavourable in all three Baltic states, but is nevertheless moderately favourable than at the end of the first quarter 2016 due to the construction high season. On a larger scale, confidence is kept negative by the lack of demand – caused in turn by the expectation of reduced EU funds available for future construction market investments, which will have a major impact on infrastructure construction. At the same time some positive influence on sector confidence comes from construction of buildings, where today construction companies have presently more work ahead.

Compared to the same period last year, confidence in the construction sector in the Baltic countries in June 2016 fell in Latvia (down 13.6 points from -9.1 points to -22.7 points) and in Lithuania (down 4.0 points from -13.4 points to -17.4 points). In June 2016, the Estonian level of construction confidence indicators was -0.1 points (June 2015: -14.9 points), being the only one in the Baltic countries to have risen (by 14.8 points) in the year. The drop in confidence level in the construction sector in Latvia and Lithuania compared to the same period last year mainly shows that in spite of the ongoing construction season, construction contractors in those countries are not as optimistic as their Estonian counterparts about market developments and access to EU funding nor have the private customers in Latvia and Lithuania been as successful as in Estonia in filling the hole caused by fewer government contracts.

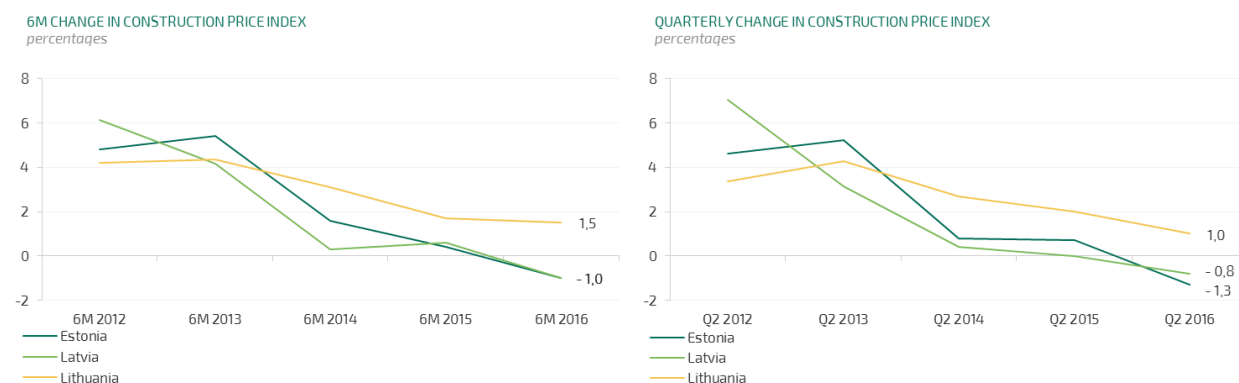


Source: European Commission Directorate-General for Economic and Financial Affairs

The construction price index continued to fall in 6 months of 2016 with respect to the average of the same period last year both in Estonia (-1.0%) and Latvia (-1.0%), while in Lithuania the construction price index turned to growth (+1.5%). Of the construction price components, the workforce component continued rising in all Baltic states, with Estonian and Latvian figures being



somewhat higher than Lithuanian. Construction material price components dropped in all Baltic states, while construction machinery price components moved in different directions, decreasing in Estonia, staying the same in Lithuania and rising in Latvia.



Source: Local national statistical offices.

|                                        | 6 MONTHS 2016 |        |           | II QUARTER 2016 |        |           |
|----------------------------------------|---------------|--------|-----------|-----------------|--------|-----------|
|                                        | Estonia       | Latvia | Lithuania | Estonia         | Latvia | Lithuania |
| Construction price index annual change | -1.0%         | -1.0%  | +1.5%     | -1.3%           | -0.8%  | +1.0%     |
| Labour force                           | +2.0%         | +5.3%  | +4.9%     | +2.1%           | +4.7%  | +3.3%     |
| Construction machines                  | -1.7%         | +0.8%  | +0.1%     | -1.8%           | +1.1%  | +0.0%     |
| Building materials                     | -2.5%         | -4.1%  | -0.7%     | -3.0%           | -3.7%  | -0.6%     |

Source: Local national statistical offices.

As one of the largest general contractors, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus, is well positioned in the Estonian construction market and is capable of competing in all activity segments, although there are many general contractors in general construction market segment and there is a tight price competition, often at the expense of quality and contractual risks. In Latvia, SIA Merks, a subsidiary of AS Merko Ehitus, belongs to among the leading general contractors. In Lithuania, UAB Merko Statyba, a subsidiary of AS Merko Ehitus, has focused its construction activities mainly on apartment development and building (general construction) segment that continue to experience tough competition in tenders. In the Lithuanian market, the position of general contractors is also impacted by the activities of the so-called advisers that represent contracting authorities and complicate the possibilities of general contractors to win construction contracts. Considering the volume of agreements concluded in Lithuania, we hope to increase our revenues and market share.

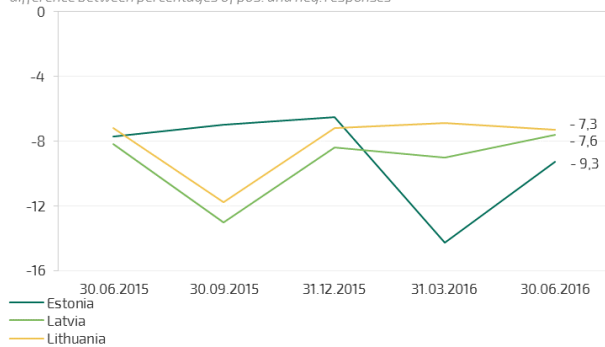
#### APARTMENT DEVELOPMENT

In Tallinn and Vilnius, the situation in the apartment market has continued to stabilise. In Riga the apartment market continues to be relatively less active. We do not forecast a steep change in prices in the next 6-12 months in the capitals of Baltic countries. The increased supply of apartments has been expressed above all in clients' desire for discounts, and a certain amount of lengthening of sales periods in some projects. In Vilnius's bedroom communities the supply has now clearly exceeded demand and due to that we are expecting a lengthening of sales periods there. Still, we anticipate that despite the active supply on the apartment housing market, demand will stay strong for the high-quality apartments developed by the Merko Group, in all three capitals of the Baltic states, and also in Tartu.

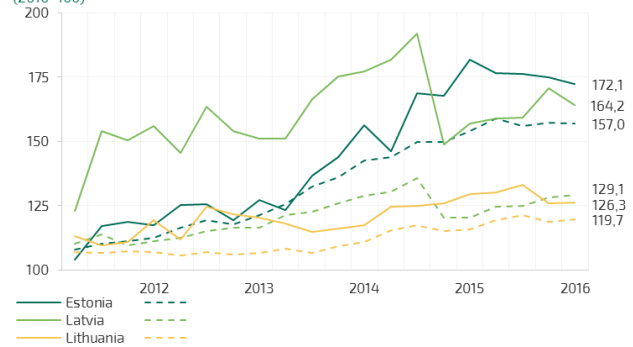
In the environment of increased supply and greater general awareness apartment buyers are even more focused on reliability (experience and reputation of the developer and contractor), construction quality (incl. floor plans, energy efficiency, sound insulation) and make their buying decisions based on infrastructure of the area (parking, services, logistics). In addition, the customers are focusing more on the living environment of a neighbourhood as a whole.

Good availability of bank loans due to the strong capitalisation of banks and loans-to-deposits ratios is also continuously supported by a low Euribor level, at the same time customers in Latvia are less inclined to take loans than in Estonia and Lithuania. Apartment market demand is also positively supported in addition to above by the lack of alternative investment opportunities, an increase in incomes and a general improvement of the level of consumer confidence. Although the availability of loans has increased, the proportion of borrowings in buying real estate or construction is substantially lower than in the boom years, which means that more investments are made on equity.

CONSUMER CONFIDENCE INDICATOR  
difference between percentages of pos. and neg. responses



NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX  
(2010=100)



Source: European Commission Directorate-General for Economic and Financial Affairs / Eurostat.

Apartment developers are continually starting new development projects in all three Baltic capitals (though relatively less in Riga), which has increased the supply of new apartments. The increase in risks for some developers who may not make good on their business plans could quietly begin to create expectations on the market for lower prices. The apartment prices of new dwellings, mainly in Estonia but also in Lithuania, have stabilised, which is reflected by the corresponding price index curves for new dwellings in the respective countries (see previous graph). Yet we cannot state this in regard to the apartments supplied by Merko. It is also important to emphasise that the volatility in prices of new developments in the Baltics has been somewhat greater and often fluctuated in opposite directions than the change in prices on the apartment market in general, as the change in the price of apartments depends directly on the time at which individual development projects were completed and delivered to customers as well as on their price level.

The larger developers often finance the construction on new projects from their own funds and pre-payments made by customers. As in the current market situation the banks continue to be reluctant to finance residential development projects of smaller developers without a proven track record or require a large number of preliminary sales contracts (30-50% of total project volume) and a higher own equity contribution, which increases the confidence that there will be no major fluctuations in the market. The trend also gives the Merko group, being a real estate developer with a long history and extensive references, a competitive edge in launching new development projects to market.

As indicated in the reports of previous periods, a new trend that has become popular in Estonia is raising capital through crowdfunding. This is because there are few alternative investment alternatives and the yields on crowdfunded projects are relatively aggressive. This funding scheme is novel and it is possible that investors who join it do not have enough experience to assess risks related to the development projects, which is also reflected by the fact that to this point the funded projects have been filled up very rapidly. To sum up, this means of funding has given smaller developers better opportunities for entering the market, and launching such new projects has an impact on the market above all through increasing supply, which in turn impacts the general price level and expectations on the market.

The Latvian apartment market continues to be less active. In the recent years the Latvian apartment market has been supported by foreign investors who invest in real estate with the objective of acquiring a residence permit for the European Union. At the same time, legislative amendments passed in Latvia in 2014 regarding the procedure for issuing residence permits made it harder for non-residents to gain residency through acquiring real estate - the cost of real estate in order to obtain a residence permit rose to EUR 250 thousand. As seen today, the effect of the change is that non-resident homebuyers have disappeared from Latvian real estate market, which has a particular impact on the high-end segment real estate and particularly in Jurmala. Furthermore, the Latvian real estate market is influenced more than those of the other Baltic states by the economic downturn in Russia and the weaker rouble, as to this point a majority of the people buying real estate for the purpose of gaining an EU residence permit are from Russia. In the Latvian capital Riga, Merko continues to focus on local homebuyers in the medium-priced segment.

Vilnius has seen rapid growth in the supply of apartments above all in the cheaper price segments where there is a certain amount of oversupply, which has already led to longer sales periods. On this backdrop, the bedroom community market has developed a new trend: apartments built by some developers have started to be leased out long-term, up to three years, with the obligation of later purchase. In addition, the Lithuanian central bank has approved the new terms of housing loans issued by commercial banks to individuals, which will make loans harder to access for buyers with lower purchasing power. Merko group is focusing on the medium-range or more expensive segment located in the city centre of Vilnius.



THE NOBLESSNER KODUSADAM DEVELOPMENT ENCOMPASSES A TOTAL OF FOUR APARTMENT BUILDINGS, WHICH WILL HAVE 208 APARTMENTS AND CLOSE TO 3,700 M<sup>2</sup> OF OFFICE AND RETAIL SPACE. IN THE FIRST STAGE, A SIX-STOREY, 66-UNIT APARTMENT BUILDING LOCATED AT STAAPLI 4 WILL BE COMPLETED RIGHT ON THE SEAFRONT NEXT TO THE NOBLESSNER MARINA, ALONG WITH A 225-SPACE UNDERGROUND GARAGE CONNECTING THE ENTIRE RESIDENTIAL COMPLEX.

## OPERATING RESULTS

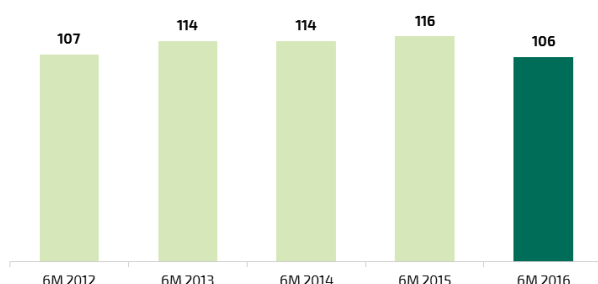
### BUSINESS ACTIVITIES

Key financial indicators (in million euros)

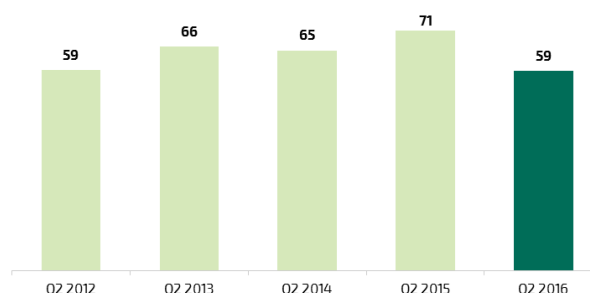
|                                                   | 6M 2016      | 6M 2015      | Q2 2016     | Q2 2015     | 12M 2015     |
|---------------------------------------------------|--------------|--------------|-------------|-------------|--------------|
| <b>Revenue</b>                                    |              |              |             |             |              |
| Estonian construction service                     | 53.1         | 47.2         | 34.1        | 30.1        | 108.6        |
| Latvian and Lithuanian construction service       | 23.5         | 36.5         | 15.5        | 19.1        | 72.0         |
| Real estate development                           | 29.0         | 32.5         | 9.1         | 21.4        | 70.4         |
| <b>Revenue total</b>                              | <b>105.6</b> | <b>116.2</b> | <b>58.7</b> | <b>70.6</b> | <b>251.0</b> |
| <b>Gross profit</b>                               | <b>8.5</b>   | <b>8.9</b>   | <b>5.4</b>  | <b>5.4</b>  | <b>23.0</b>  |
| <b>EBITDA</b>                                     | <b>4.6</b>   | <b>5.6</b>   | <b>3.4</b>  | <b>3.7</b>  | <b>15.5</b>  |
| <b>Operating profit (EBIT)</b>                    | <b>3.1</b>   | <b>4.0</b>   | <b>2.6</b>  | <b>3.0</b>  | <b>12.5</b>  |
| <b>Profit before tax (PBT)</b>                    | <b>2.7</b>   | <b>3.6</b>   | <b>2.4</b>  | <b>2.7</b>  | <b>11.7</b>  |
| <b>Net profit</b>                                 |              |              |             |             |              |
| attributable to equity holders of the parent      | 1.8          | 2.4          | 1.7         | 1.6         | 10.0         |
| attributable to non-controlling interest          | (0.0)        | (0.0)        | 0.1         | 0.0         | (0.2)        |
| <b>Net profit total</b>                           | <b>1.8</b>   | <b>2.4</b>   | <b>1.8</b>  | <b>1.6</b>  | <b>9.8</b>   |
| <b>Earnings per share (EPS), euros</b>            | <b>0.10</b>  | <b>0.14</b>  | <b>0.09</b> | <b>0.09</b> | <b>0.56</b>  |
| <b>Cash and cash equivalents closing position</b> | <b>21.7</b>  | <b>24.4</b>  | <b>21.7</b> | <b>24.4</b> | <b>39.9</b>  |

### REVENUE AND GROSS PROFIT

GROUP REVENUE  
in million euros

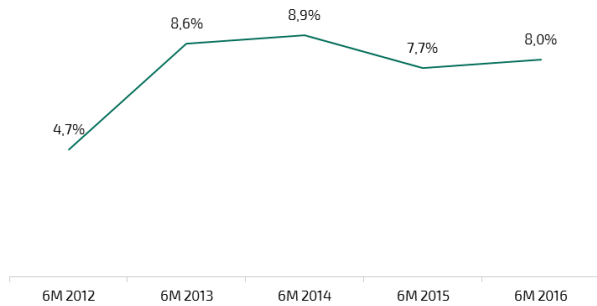


GROUP QUARTERLY REVENUE  
in million euros

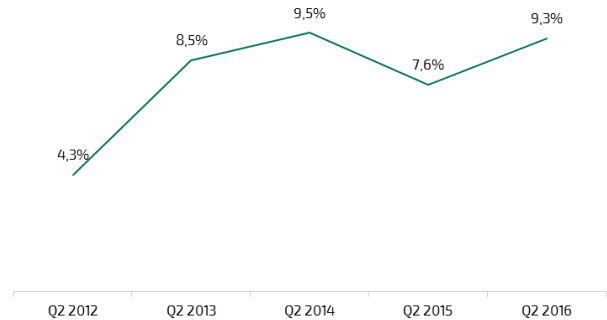


Merko Ehitus group generated a total of EUR 105.6 million in revenue in 6 months of 2016 (6 months of 2015: EUR 116.2 million). 50.3% of the revenue was generated in Estonian construction service, 22.3% in Latvian and Lithuanian construction service and 27.4% in real estate development segment (6 months of 2015: 40.6% in Estonian construction service, 31.4% in Latvian and Lithuanian construction service and 28.0% in real estate development segment). Compared to the 6 months of 2015 the group revenue has decreased by 9.2%, which is mainly due to the slower than expected launch of several large-scale sites in the first half of the year – above all due to circumstances related to the customer's side. Compared to the 6 months of the previous year in the 6 months of 2016 the share of Latvian and Lithuanian construction service revenue in the group's revenue has decreased from 31.4% to 22.3% and the share of Estonian construction service has increased from 40.6% to 50.3%. Revenue in Q2 2016 was EUR 58.7 million, which has decreased by 16.8% compared to the previous year (Q2 2015: EUR 70.6 million). The main changes in the revenue structure compared to the same period last year lie in the growth in revenue from Estonian construction services' general construction projects and in one-off increase in the sales revenue from immovable properties in the real estate development segment and. At the same time, revenue is down in the Latvian and Lithuanian constructions service segment. This trend has been in line with the group's expectations, considering the slump in new construction orders in Latvia and Lithuania in 2015 and the distribution of the secured order book as at the end of 2015. The Latvian and Lithuanian subsidiaries are actively continuing to secure new orders.

GROUP GROSS PROFIT MARGIN  
percentages



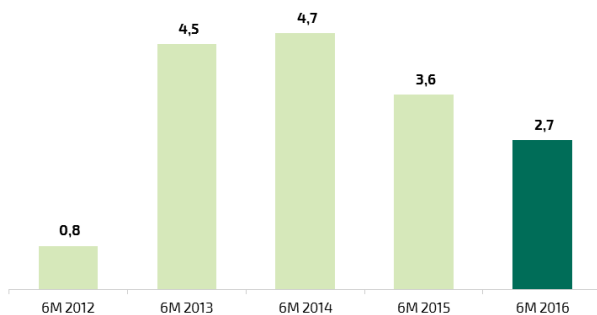
GROUP QUARTERLY GROSS PROFIT MARGIN  
percentages



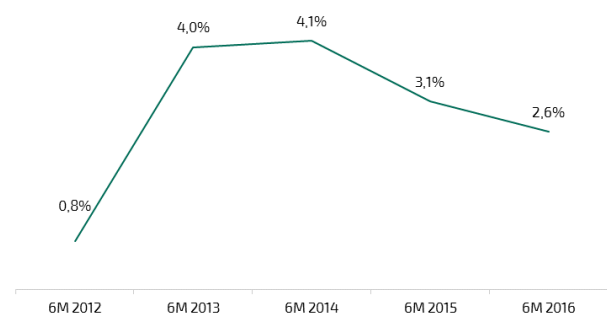
In 6 months of 2016 the group's gross profit from development and construction activities totalled EUR 8.5 million (6 months of 2015: EUR 8.9 million) and in Q2 2016 EUR 5.4 million (Q2 2015: EUR 5.4 million). The 6 months gross profit margin (8.0%) has increased by 0.3 pp compared to the same period last year (6 months of 2015: 7.7%). The group's aim is to preserve the profitability both in the Estonian but also Latvian and Lithuanian construction service domain in spite of the prevailing competition situation on the construction market and the decrease in sales volumes in regard to previously higher-margin civil engineering projects, which was supported by somewhat of a drop in input prices, but which may not continue in 2016. Considering the small size of the Estonian market, the current situation – where 4-6 large-scale building construction projects have been launched simultaneously – means occasionally limited capability for subcontractors to carry out work or to do so under reasonable conditions, which in turn puts pressure on the general contractors' margins. Gross profit margin has also been impacted to some extent by the recovery in profitability in the real estate development segment, which depends largely on the price of the land as part of the total specific project expenses and is thus different on a project basis. The scarcity of projects and the ever-tightening competition in the construction sector poses a great challenge in the maintaining of the current gross profit margin for new procurements in all segments. The number of companies participating in tenders and the risk of low pricing bids is high in all three Baltic states.

## PROFIT BEFORE TAX AND NET PROFIT

GROUP PROFIT BEFORE TAX  
in million euros

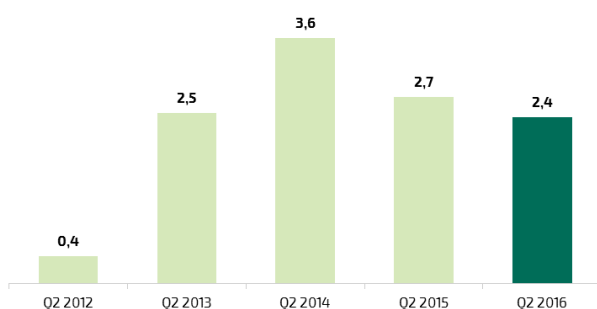


GROUP PROFIT BEFORE TAX MARGIN  
percentages

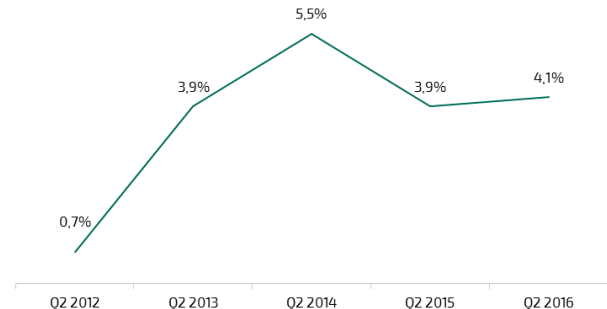


In 6 months of 2016, the group's profit before tax totalled EUR 2.7 million and net profit attributable to equity holders of the parent was EUR 1.8 million as compared to the pre-tax profit of EUR 3.6 million and net profit attributable to equity holders of the parent of EUR 2.4 million in 6 months of 2015. Group's profit before tax margin was 2.6% (6 months of 2015: 3.1%) and the net profit margin was 1.7% (6 months of 2015: 2.1%). Both the group's profit before tax (EUR 2.7 million) and the profit before tax margin (2.6%) have decreased compared to the same period last year (6 months of 2015: EUR 3.6 million and 3.1%, respectively).

GROUP QUARTERLY PROFIT BEFORE TAX  
in million euros



GROUP QUARTERLY PROFIT BEFORE TAX MARGIN  
percentages

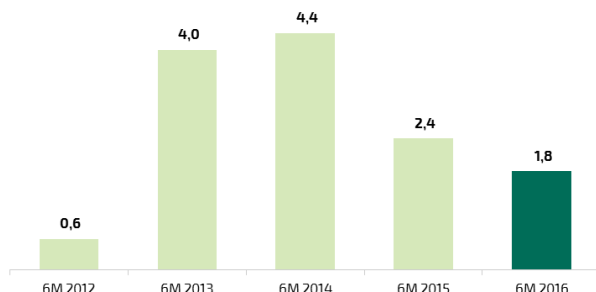




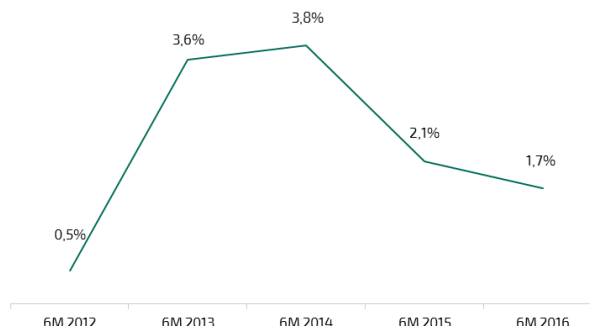
In Q2 of 2016, the group's pre-tax profit totalled EUR 2.4 million and net profit was EUR 1.7 million as compared to the pre-tax profit of EUR 2.7 million and net profit of EUR 1.6 million in Q2 of 2015. Contrary to the 6 months of 2016 group's quarterly profit before tax (EUR 2.4 million) has decreased compared to the same period last year (Q2 2015: EUR 2.7 million), while the quarterly profit before tax margin (4.1%) increased 3.9%.

In the second quarter of 2016, the group paid EUR 9.0 million in dividends, which incurred additional income tax expense in the amount of EUR 0.6 million. The situation in the second quarter of 2015 was alike, when the group paid EUR 7.3 million in dividends, with the exception that then the group incurred additional income tax expense in the amount of EUR 0.9 million.

GROUP NET PROFIT  
in million euros



GROUP NET PROFIT MARGIN  
percentages



## BUSINESS SEGMENTS

The group operates mainly in Estonian, Latvian and Lithuanian market through its subsidiaries. By purchasing a majority shareholding the group has formed the basis for entering the Norwegian market starting from Q1 2016. Depending on the country the group provides construction services and real estate development services across the following business segments: Estonian construction service (incl. construction services on project basis in Finland), Latvian and Lithuanian construction service (incl. construction services in Norway) and real estate development. The group's segment structure is aligned with group's management structure, see additionally the detailed management structure on page 32.

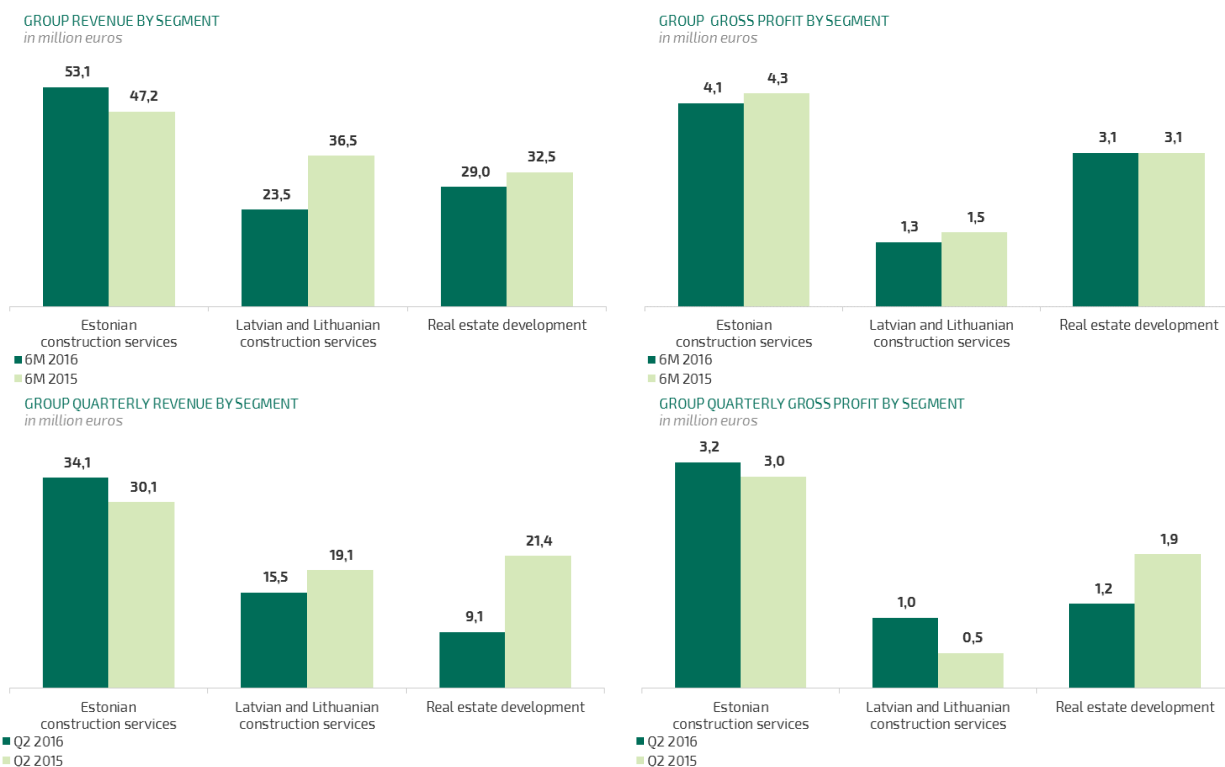


Estonian construction service (incl. construction services on project basis in Finland) and Latvian and Lithuanian construction service (incl. construction services in Norway) segments include all projects of the respective countries pertaining to construction services:

- General construction consists of the construction of different buildings, from commercial and office buildings, retail and entertainment centres to public sector and residential and specialised industrial buildings. Group companies provide strategic consulting and quality complete solutions as part of the general contracting service of construction according to the customer's requirements: preparation, design, construction, interior and warranty service. In the field of general construction the group operates in all three Baltic countries and starting from Q1 2016 also in Norway.
- The civil engineering projects the group constructs include port, waste management and road structures (bridges, tunnels, overpasses, roads), electrical construction of up to 330 kV, various environmental protection structures, water treatment plants, both open-cut and trenchless construction of water and sewerage pipelines and other various engineering projects. Complex and unique engineering projects require specialised knowledge and a good partnership with the customer and local authorities. In this area the group operates in Estonia and Latvia.
- In the road construction division, the group carries out road construction and builds the associated infrastructure, road maintenance and maintenance repair. In the area of road construction the group operates only in Estonia.

Real estate development is based on the development of real estate in the ownership of the group, encompassing development of apartment projects, long-term investments into real estate and real estate projects executed for business purposes, and to a minor extent also real estate maintenance and lease. In this segment, similarly to before, the group recognises projects being developed in all of the different countries.

## GROUP REVENUE AND GROSS PROFIT BY BUSINESS SEGMENTS



## ESTONIAN CONSTRUCTION SERVICE

The Estonian construction services segment consists of various services in the field of general construction, civil engineering (including construction of electrical and external networks) and road construction and construction services on project basis in Finland.

million EUR

|                     | 6M 2016 | 6M 2015 | VARIANCE | Q2 2016 | Q2 2015 | VARIANCE | 12M 2015 |
|---------------------|---------|---------|----------|---------|---------|----------|----------|
| Revenue             | 53.1    | 47.2    | +12.5%   | 34.1    | 30.1    | +13.2%   | 108.6    |
| % of total revenue  | 50.3%   | 40.6%   | +23.9%   | 58.0%   | 42.6%   | -36.1%   | 43.3%    |
| Gross profit        | 4.1     | 4.3     | -4.1%    | 3.2     | 3.0     | +9.8%    | 10.4     |
| Gross profit margin | 7.8%    | 9.2%    | -14.8%   | 9.4%    | 9.7%    | -3.1%    | 9.6%     |

In the 6 months of 2016, the revenue of the Estonian construction service segment was EUR 53.1 million (6 months of 2015: EUR 47.2 million), having increased by 12.5% from the same period last year. The 6 months revenue also includes revenue from Finnish projects in the amount of EUR 0.4 million (6 months of 2015: EUR 0.4 million). The revenues have clearly decreased in the field of civil engineering and increased in the field of general construction. The increase in revenue in the field is primarily due to the fact that large-scale general construction projects launched in 2015 – where previously design development took place – are starting to reach a stage of more extensive construction activity. The Estonian construction service segment revenues for 6 months 2016 were 50.3% of the group's revenue, forming the largest proportion in the group's revenue, having increased by 23.9% in the yearly comparison.

In this segment, the group earned a gross profit of EUR 4.1 million for 6 months (6 months of 2015: EUR 4.3 million). In 6 months of 2016, the gross margin of the Estonian construction service segment was 7.8%, which decreased by 1.4 pp compared to the 6 months of 2015 (9.2%), mainly due to the scarcity of projects in the field of civil engineering. In light of the close competition on the Estonian construction services market and the drop in volumes of work for nearly all market participants, we consider this as a good result. Due to the decrease in the volume of public procurements, we are critically monitoring any changes in the volume of work-in-progress and also constantly improving the efficiencies of internal project management processes. We have reduced and re-allocated staff within the group and, in order to maintain the efficiency of the cost base, made preparations for responding to further market changes.

Our major projects in the second quarter in Tallinn included the construction works of Hilton Tallinn Park hotel, the design and construction works of Öpik Office Building, BAUHAUS DIY store, Tallink Tennis Centre, Maakri Kvartal, Poordi st 1 residential and

commercial building and T1 shopping centre, the reconstruction work an office building located at Mustamäe tee 3 and the road maintenance works done under the service agreement with Tallinn.

## LATVIAN AND LITHUANIAN CONSTRUCTION SERVICE

The Latvian and Lithuanian construction service segment consists of general construction work in both of the aforementioned Baltic countries and starting from the first quarter of 2016 also in Norway and provision of civil engineering services in Latvia.

million EUR

|                     | 6M 2016 | 6M 2015 | VARIANCE | Q2 2016 | Q2 2015 | VARIANCE | 12M 2015 |
|---------------------|---------|---------|----------|---------|---------|----------|----------|
| Revenue             | 23.5    | 36.5    | -35.6%   | 15.5    | 19.1    | -18.5%   | 72.0     |
| % of total revenue  | 22.3%   | 31.4%   | -29.1%   | 26.5%   | 27.0%   | -2.0%    | 28.7%    |
| Gross profit        | 1.3     | 1.5     | -15.6%   | 1.0     | 0.5     | +84.9%   | 4.8      |
| Gross profit margin | 5.5%    | 4.2%    | +31.0%   | 6.3%    | 2.8%    | +126.8%  | 6.7%     |

The revenue of the Latvian and Lithuanian construction service segment amounted to EUR 23.5 million in the 6 months of 2016 (6 months of 2015: EUR 36.5 million), which is 35.6% less than in the 6 months of 2015. If the Latvian and Lithuanian construction service segment revenues of 6 months of 2015 formed 31.4% of the group's revenue, then during 6 months of the current year the segments revenues have decreased to 22.3%. The change in this percentage was in line with expectations, considering the lower level of new contracts signed in Latvia and Lithuania during 2015 and the 2015 comparison base, where large-scale projects were finished in Latvia, such as the construction of Liepaja Concert Hall and Polipaks NT manufacturing and logistics centre. The group's continued focus is on increasing the revenues outside Estonia.

The 6 month gross profit of the Latvian and Lithuanian construction service segment amounted to EUR 1.3 million (6 months of 2015: EUR 1.5 million) and the gross profit margin was 5.5% (6 months of 2015: 4.2%), which increased by 31.0% compared to the same period previous year.

In the second quarter of 2016, the main ongoing projects included were the construction of kindergarten and school buildings complex near Riga in Pinki, the construction works of the second phase of the passenger terminal in Riga International Airport and the construction works of Kauno/Algirdo residential complex with office premises in Vilnius.

## REAL ESTATE DEVELOPMENT

The real estate development segment includes residential construction, the development of apartment projects, long-term real estate investments and commercial real estate projects.

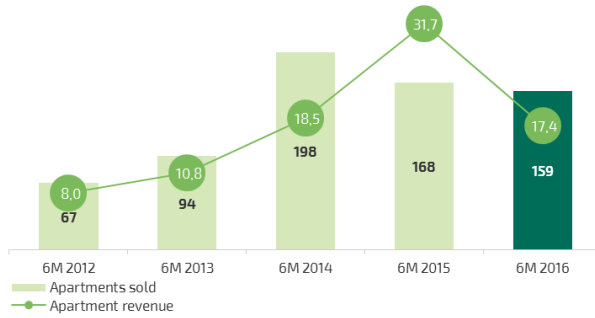
million EUR

|                     | 6M 2016 | 6M 2015 | VARIANCE | Q2 2016 | Q2 2015 | VARIANCE | 12M 2015 |
|---------------------|---------|---------|----------|---------|---------|----------|----------|
| Revenue             | 29.0    | 32.5    | -11.0%   | 9.1     | 21.4    | -57.4%   | 70.4     |
| % of total revenue  | 27.4%   | 28.0%   | -2.0%    | 15.5%   | 30.4%   | -48.9%   | 28.0%    |
| Gross profit        | 3.1     | 3.1     | -0.8%    | 1.2     | 1.9     | -35.4%   | 7.8      |
| Gross profit margin | 10.6%   | 9.5%    | +11.4%   | 13.6%   | 8.9%    | +51.8%   | 11.0%    |

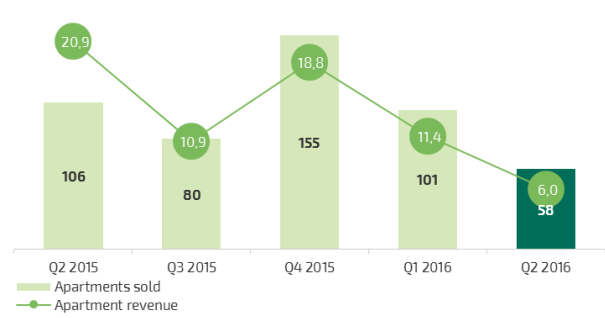
The group sold a total of 159 apartments in 6 months of 2016 at the total value of EUR 17.4 million (excl. VAT), compared to 168 apartments and EUR 31.7 million in 6 months of 2015. In Q2 of 2016 a total of 58 apartments were sold at the total value of EUR 6.0 million (excl. VAT), (Q2 2015: 106 apartments and EUR 20.9 million). In 6 months of 2016, the group has earned EUR 8.6 million of revenue from the sale of immovable properties (6 months of 2015: EUR 0.2 million). Q2 2016 revenue from the sale of immovable properties was EUR 1.1 million (Q2 2015: EUR 0.2 million). In 6 months of 2016 real estate development segment revenues have decreased 11.0% compared to the same period last year. The decline is primarily influenced by sales of apartments in more exclusive developments in the reference period where the sales price per apartment was higher than the apartments sold during the current year. In the 6 months of 2016 the share of revenue from the real estate development segment formed as anticipated 27.4% of the group's total revenue (6 months of 2015: 28.0%), having decreased in a year by 2.0%.

The 6 month gross profit of the segment amounted to EUR 3.1 million (6 months of 2015: EUR 3.1 million) and the gross profit margin was 10.6% (6 months of 2015: 9.5%), which increased by 11.4% compared to the same period previous year. The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, incl. the land acquisition price. The profitability of the apartments sold in the 6 months of 2016 was higher than in the reference period, but on the other hand the sector's gross profit of the first six months was also significantly influenced by the fact that the one-time effect of revenues from the sale of immovable properties that are strategically not needed by the group, the profitability of which is not comparable with a situation where the value of land is increased by passing through all phases of the development process made up a noteworthy share of total revenue in the segment.

APARTMENTS SOLD AND APARTMENT REVENUE  
pcs / in million euros



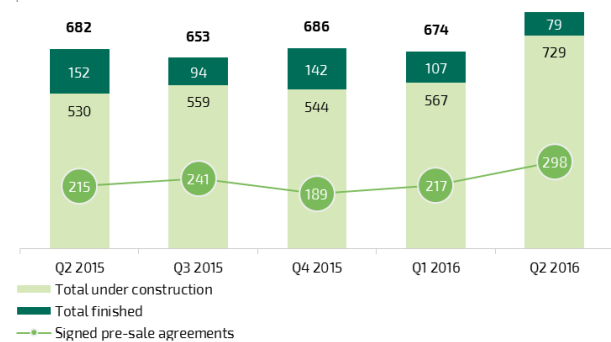
APARTMENTS SOLD AND APARTMENT REVENUE  
pcs / in million euros



At the end of the period, group's inventory comprised 298 apartments where a preliminary agreement had been signed: 21 completed apartments (15 in Estonia, 5 in Latvia and 1 in Lithuania) and 277 apartments under construction (200 in Estonia, 24 in Latvia and 53 in Lithuania). The sale of these apartments had not yet been finalised and delivered to customers, because the development site is still under construction or the site was completed at the end of the reporting period and the sales transactions have not all been finalised yet.

As at 30 June 2016, Merko Ehitus group had a total of 510 apartments for active sale (as at 30 June 2015: 467 apartments), for which there are no pre-sale agreements and of which 58 have been completed (16 in Estonia, 25 in Latvia, 12 in Lithuania and 5 in Finland) and 452 are under construction (293 in Estonia, 114 in Latvia and 45 in Lithuania). The number of apartments on sale as at 30 June 2016 has somewhat increased, compared to 30 June 2015, mainly due to the volume of projects launched in the first half of the current year.

GROUP APARTMENTS INVENTORY  
pcs



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

| PROJECT               | MUNICIPALITY/COUNTRY        | COMPLETION DATE   | NO OF UNSOLD APARTMENTS * | INCL. PRE-SOLD APARTMENTS |
|-----------------------|-----------------------------|-------------------|---------------------------|---------------------------|
| Grostonas 17          | Riga, Latvia                | Completed         | 1                         | -                         |
| Grostonas 19          | Riga, Latvia                | Completed         | 11                        | 1                         |
| Grostonas 21          | Riga, Latvia                | Completed         | 18                        | 4                         |
| Pärna avenue 12       | Tartu municipality, Estonia | Completed         | 2                         | -                         |
| Kaupmehe 7            | Tartu municipality, Estonia | Completed         | 2                         | -                         |
| Fizikų 8              | Vilnius, Lithuania          | Completed         | 11                        | -                         |
| Krazių 9              | Vilnius, Lithuania          | Completed         | 2                         | 1                         |
| Paepargi 29, 31, 33   | Tallinn, Estonia            | Completed         | 1                         | -                         |
| Pestikuja 1           | Helsinki, Finland           | Completed         | 5                         | -                         |
| Kaupmehe 5            | Tartu municipality, Estonia | Completed         | 26                        | 15                        |
|                       |                             |                   | <b>79</b>                 | <b>21</b>                 |
| Tartu mnt 52 stage I  | Tallinn, Estonia            | End of 2016       | 103                       | 73                        |
| Jahu 1a               | Tallinn, Estonia            | Autumn of 2016    | 37                        | 35                        |
| Krokuvos 73           | Vilnius, Lithuania          | Summer of 2016    | 98                        | 53                        |
| Sõpruse pst 33        | Tallinn, Estonia            | End of 2016       | 51                        | 24                        |
| Grostonas 12 stage I  | Riga, Latvia                | Beginning of 2017 | 52                        | 20                        |
| Kivimäe 32 ***        | Tallinn, Estonia            | Summer of 2016    | 22                        | 15                        |
| Tartu mnt 52 stage II | Tallinn, Estonia            | Autumn of 2017    | 82                        | 7                         |
| Paepargi 51 **        | Tallinn, Estonia            | Beginning of 2017 | 60                        | 32                        |
| Kaupmehe 5 **         | Tartu municipality, Estonia | Beginning of 2017 | 30                        | 6                         |
|                       |                             |                   | <b>535</b>                | <b>265</b>                |

| PROJECT                   | MUNICIPALITY/COUNTRY | COMPLETION DATE | NO OF UNSOLD APARTMENTS * | INCL. PRE-SOLD APARTMENTS |
|---------------------------|----------------------|-----------------|---------------------------|---------------------------|
| <b>Started in Q2 2016</b> |                      |                 |                           |                           |
| Grostonas 12 stage II **  | Riga, Latvia         | Summer of 2017  | 86                        | 4                         |
| Staapli 4 *** / **        | Tallinn, Estonia     | End of 2017     | 66                        | -                         |
| Paepargi 35, 37 **        | Tallinn, Estonia     | Spring of 2017  | 42                        | 8                         |
|                           |                      |                 | <b>194</b>                | <b>12</b>                 |
| <b>Total</b>              |                      |                 | <b>808</b>                | <b>298</b>                |

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

\*\* Project launched in 2016.

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

In 6 months of 2016, we launched the construction of a total of 284 new apartments in the Baltic states (6 months of 2015: 335 apartments). In the 6 months of this year, the group has invested a total of EUR 25.1 million (6 months of 2015: EUR 19.1 million) in new development projects launched in 2016 as well as projects already in progress from previous year.

We will continue to invest in residential real estate projects and depending on the apartment market developments in 2016, the group plans to launch the construction of approximately 500-550 new apartments in the Baltic states (2015: construction of 574 new apartments launched). In 2016, the group's plans investments in both development projects initiated in the previous years and new projects to be launched in 2016 in the range of EUR 40-45 million (2015: EUR 42.4 million invested).

One of our objectives is to keep a moderate portfolio of land plots to ensure stable inventory of property development projects considering the market conditions. At 30 June 2016, the group's inventories included land plots with the development potential, where the construction works have not started, of EUR 50.3 million (30.06.2015: EUR 59.4 million; 31.12.2015: EUR 58.0 million).

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

million EUR

|              | 30.06.2016  | 30.06.2015  | 31.12.2015  |
|--------------|-------------|-------------|-------------|
| Estonia      | 8.9         | 18.0        | 14.0        |
| Latvia       | 32.5        | 37.2        | 34.8        |
| Lithuania    | 8.9         | 4.2         | 9.2         |
| <b>Total</b> | <b>50.3</b> | <b>59.4</b> | <b>58.0</b> |

In the 6 months of 2016, the group has not purchased any new land plots for real estate development purposes (6 months of 2015: different new land plots in Tallinn, Estonia acquired at an acquisition cost of EUR 6.6 million). In Q1 2015, the group also signed a notarised contract of sale of registered immovables, under which all of the real estate governed by an option agreement in Tallinn were realised for total of EUR 4.0 million. In Q2 2015 AS Merko Ehitus group 50% joint venture Kodusadam OÜ additionally signed a contract for the acquisition of approximately 1.7 hectares of land in the Noblessner quarter, an historically prestigious industrial area in Tallinn with great potential, for development purpose to build approximately 200 apartments. The group is searching for new land plots for real estate development purposes primarily in Estonian and Lithuania.

In the second quarter of 2016, the group completed the competition for an international development and architectural concept for the Latvian Zakusala development area (close to 1,500 apartments). Entries came in from Estonia, Norway, Poland and Latvia. The competition was organised based on the regulations handed down by the Latvian Architects Union. Six entries from among the works submitted met the qualifications. A five-member jury picked an entry by RUUME arhitekti (<https://ruumearhitekti.wordpress.com/>), a practice of young Latvian architects, as the winner. The group will continue preparations in order to launch construction in the development area in 3-5 years' time.

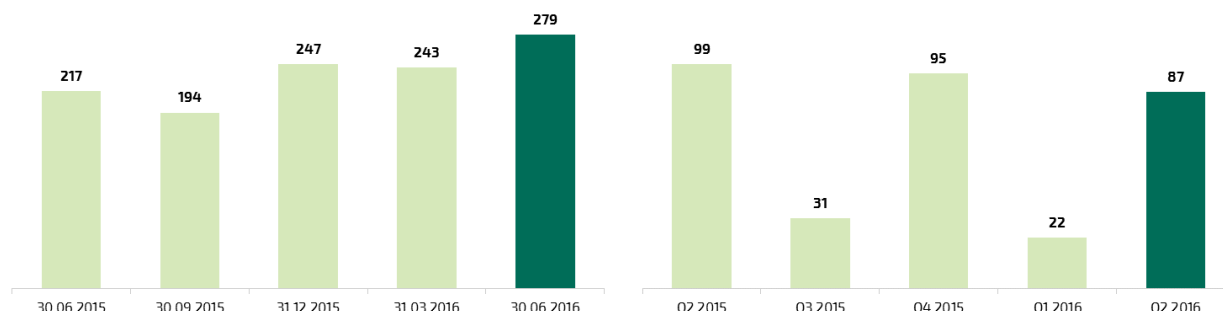


## SECURED ORDER BOOK

As at 30 June 2016, the group's secured order book (without own developments) amounted to EUR 279.4 million as compared to EUR 217.2 million as at 30 June 2015, having increased by approximately 30% in the annual comparison. The secured order book excludes the group's own residential development projects and construction work related to developing real estate investments.

SECURED ORDER BOOK  
at the end of the period, in million euros

NEW CONTRACTS SIGNED  
during the period, in million euros



In 6 months of 2016, EUR 109.0 million worth of new contracts were signed (without own developments) as compared to EUR 121.3 million in same period last year. The value of new contracts signed (without own developments) in the second quarter of 2016 amounted to EUR 86.6 million (Q2 2015: EUR 98.9 million, which included the T1 shopping centre contract in the amount of EUR 70.0 million).

### LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE SECOND QUARTER OF 2016

| BRIEF DESCRIPTION OF CONTRACT                                                                                                | COUNTRY   | COMPLETION TIME  | COST<br>MILLION EUR |
|------------------------------------------------------------------------------------------------------------------------------|-----------|------------------|---------------------|
| Design and construction works of warehouse complex consisting of three buildings in Riga                                     | Latvia    | June of 2017     | 4.8                 |
| Construction contract to perform Juuliku road junction and road section construction works                                   | Estonia   | Autumn of 2017   | 11.0                |
| Construction contract to perform construction works of Viru Infantry Battalion technology park roads and facilities in Jõhvi | Estonia   | February of 2017 | 4.0                 |
| Design and construction works of Radisson Blu Hotel Lietuva extension in Vilnius                                             | Lithuania | March of 2018    | 15.7                |

After the balance sheet date, the group concluded one large construction contract:

- On 21 July 2016, SIA Merks – a subsidiary of AS Merko Ehitus – signed a contract with SIA Jasminu residence to perform the construction works of a residential complex consisting of four houses, located at Jasminu st. 10, Jurmala, Latvia. The value of the contract is approximately EUR 4.9 million. The works are scheduled for completion by August of 2017.

In the second quarter of 2016, Merko Ehitus Eesti AS (a 100% owned Merko subsidiary) entered into a design-build contract worth EUR 19.7 million with the group's 50% joint venture Kodusadam OÜ for the establishment of the apartment building at Staapli 4 and the underground parking level connecting the entire Noblessner development area. The sales revenue and profit from the contract will become realised in the Estonian construction service segment pursuant to provision of construction service.

Of the contracts signed in the 6 months of 2016, private sector orders accounted for the majority proportion, which is also represented in the group's secured order book as at the end of the reporting period, where private sector orders from projects in progress constitute approximately 80% (30.06.2015: approximately 75%; 31.12.2015: approximately 80%). Apart from a few large-scale procurements where Merko companies were not as optimistic as our competitors in bidding at a low price, the share of government contracts in the 6 months of 2016 has been modest. The group continues to focus on comprehensive design and construction contracts. In this regard, four important contracts were signed in the 6 months of 2016 (incl. two in Q2 2016).

The portfolio of contracts stands strong, especially in Estonia. At the same time, the group has not managed to conclude new contracts in the estimated volume, especially in Latvia and Lithuania. This is due to a lower-than-estimated number of orders on the market, which will also affect the volumes for 2016. Considering the beginning phase of the current EU funding period, one can forecast the volume of public procurements to stay at the previous years level. We forecast that the volume of public procurements will start to increase in the end of 2016.

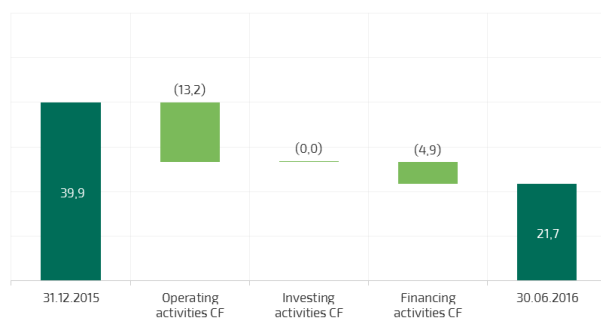
Traditionally the share of Estonian construction activity has been the highest in the group's revenues. Given the weak growth outlook of the Estonian construction market, the group's goal is to increase the volume of construction orders from outside Estonia. Thus, we will continue to identify and strengthen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

gain experience and regarding the conditions and requirements set out in these countries for qualifying for construction company procurements, as well as assess the risks so as to evaluate potential competitive advantages for entering these markets. In March 2016, the group concluded a transaction through which it acquired a controlling holding in Peritus Entreprenør AS, a Norwegian construction company that provides general construction services. In 2016, the group will continue implementing its chosen strategy with the goal of increasing revenue earned on new markets, focusing above all on the Norwegian market and taking part in a project-based manner in Finnish construction procurements as well.

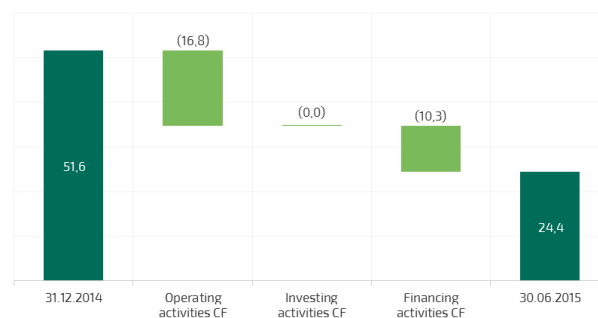
## CASH FLOWS

As at 30 June 2016 the group had cash equivalents in the amount of EUR 21.7 million (30.06.2015: EUR 24.4 million; 31.12.2015: EUR 39.9 million). The group's cash level is lower compared to the same period last year; still, the financial position is strong, as the group has not utilised its credit lines of existing overdrafts and loan agreements and has not concluded loan agreements for financing all of the projects in development.

6M CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



6M CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



The 6-month cash flow from operating activity was negative at EUR 13.2 million (6 months of 2015: negative EUR 16.8 million), cash flow from investing activity was at EUR 0.0 million (6 months of 2015: EUR 0.0 million) and the cash flow from financing activity was negative at EUR 4.9 million (6 months of 2015: negative EUR 10.3 million).

The cash flow from operating activity was mostly influenced by the EBITDA (operating profit adjusted with depreciation and amortisation) EUR 4.6 million (6 months of 2015: EUR 5.6 million), by the negative change in receivables and liabilities related to construction contracts recognised under the stage of completion method EUR 0.3 million (6 months of 2015: positive change of EUR 0.8 million), by the negative change in the provisions EUR 2.7 million (6 months of 2015: negative change of EUR 3.4 million), by the negative change in trade and other receivables related to operating activities EUR 18.8 million, incl. a positive change in financing co-financed projects of EUR 0.3 million (6 months of 2015: negative change of EUR 10.7 million, incl. a negative change in financing co-financed projects of EUR 3.6 million), by the negative change in inventory EUR 1.6 million, incl. positive cash flow from sale of immovable properties in the amount of EUR 8.4 million (6 months of 2015: positive change of EUR 6.3 million, incl. negative cash flow from purchase of new land plots in the amount of EUR 6.6 million and positive cash flow from sale of immovable properties in the amount of EUR 0.2 million), by the positive change in trade and other payables related to operating activities EUR 7.7 million (6 months of 2015: negative change of EUR 13.4 million, incl. significant negative outflow from the realization of an option agreement in the amount of EUR 4.0 million but also from the advances for real estate development projects) and by the corporate income tax paid EUR 1.3 million (6 months of 2015: EUR 1.4 million).

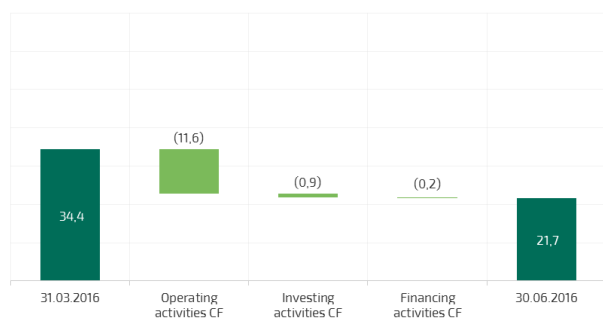
To support cash flows arising from operating activity, the group has been cautious in raising additional external capital, including factoring. At the same time, the debt ratio has remained at a moderate level (16.2% as at 30.06.2016; 15.6% as at 30.06.2015; 14.8% as at 31.12.2015).

Cash flows from investment activities include negative cash flow from the acquisition of non-current asset in the amount of EUR 1.7 million (6 months of 2015: EUR 0.3 million) and the positive cash flow from the sale of non-current assets in the amount of EUR 0.4 million (6 months of 2015: EUR 0.3 million). The group mainly invested in non-current assets for the purpose of renewing its fleet of machinery in the road construction segment. Cash flows from investment activities in 6 months of 2015 was also positively impacted by the acquisition of majority shareholding in subsidiary Peritus Entreprenør AS (related to the offering of construction services on Norwegian market) in the amount of EUR 1.2 million.

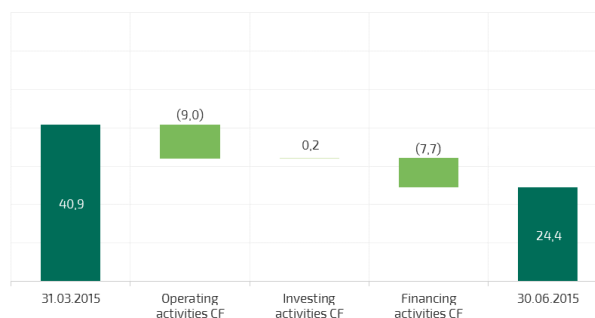
The largest single negative item in cash flows from financing was the dividend payment of EUR 9.0 million (6 months of 2015: EUR 7.3 million). Project specific loans obtained using investment property as collateral were repaid in the amount of EUR 0.3 million (6 months of 2015: negative cash flow in the amount of EUR 0.3 million). Net of loans received and loans repaid in connection with development projects amounted to positive cash flow of EUR 6.6 million (6 months of 2015: net negative cash flow of EUR 1.9 million) and finance lease principal repayments of EUR 0.4 million (6 months of 2015: EUR 0.8 million). In addition, over the first six months of 2016, the group made repayments in the amount of EUR 1.0 million to related party AS Järvevana pursuant to the terms and conditions of an overdraft agreement between the parties. The group has not used bank loans to finance all ongoing

development projects – and this is the case particularly in Estonia, where many advance sales were agreed in the early phase of construction.

QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



The Q2 2016 cash flow from operating activity was negative at EUR 11.6 million (Q2 2015: negative EUR 9.0 million), cash flow from investing activity was negative at EUR 0.9 million (Q2 2015: positive EUR 0.2 million) and the cash flow from financing activity was negative at EUR 0.2 million (Q2 2015: negative EUR 7.7 million).

The quarterly cash flows from operating activities were negative primarily as a result of the need for working capital for construction projects due to the start of the construction season and to cover investments in development projects. On the positive side the quarterly cash flows included a positive change in financing co-financed projects of EUR 2.0 million. Cash flows from operating activities was also negatively impacted by the corporate income tax paid EUR 1.1 million (Q2 2015: EUR 1.4 million).

The second quarter cash flows from investment activities was negative primarily due to the purchase of non-current asset in the amount of EUR 1.1 million, which is mainly related to the renewal of equipment in the road construction segment.

The quarterly cash flow from financing activities included the dividend payment of EUR 9.0 million as an one-time negative cash flow, which was supplemented on the positive side by the increased borrowings in the net amount of EUR 9.0 million.

## RATIOS

(attributable to equity holders of the parent)

|                                              |              | 6M<br>2016 | 6M<br>2015 | 6M<br>2014 | Q2<br>2016 | Q2<br>2015 | Q2<br>2014 | 12M<br>2015 |
|----------------------------------------------|--------------|------------|------------|------------|------------|------------|------------|-------------|
| <b>Income statement summary</b>              |              |            |            |            |            |            |            |             |
| Revenue                                      | million EUR  | 105.6      | 116.2      | 113.7      | 58.7       | 70.6       | 64.8       | 251.0       |
| Gross profit                                 | million EUR  | 8.5        | 8.9        | 10.1       | 5.4        | 5.4        | 6.1        | 23.0        |
| Gross profit margin                          | %            | 8.0        | 7.7        | 8.9        | 9.3        | 7.6        | 9.5        | 9.1         |
| Operating profit                             | million EUR  | 3.1        | 4.0        | 5.0        | 2.6        | 3.0        | 3.7        | 12.5        |
| Operating profit margin                      | %            | 2.9        | 3.4        | 4.4        | 4.4        | 4.2        | 5.7        | 5.0         |
| Profit before tax                            | million EUR  | 2.7        | 3.6        | 4.7        | 2.4        | 2.7        | 3.6        | 11.7        |
| PBT margin                                   | %            | 2.6        | 3.1        | 4.1        | 4.1        | 3.9        | 5.5        | 4.7         |
| Net profit                                   | million EUR  | 1.8        | 2.4        | 4.2        | 1.8        | 1.6        | 3.6        | 9.8         |
| attributable to equity holders of the parent | million EUR  | 1.8        | 2.4        | 4.4        | 1.7        | 1.6        | 3.6        | 10.0        |
| attributable to non-controlling interest     | million EUR  | (0.0)      | (0.0)      | (0.2)      | 0.1        | 0.0        | 0.0        | (0.2)       |
| Net profit margin                            | %            | 1.7        | 2.1        | 3.8        | 2.9        | 2.3        | 5.6        | 4.0         |
| <b>Other income statement indicators</b>     |              |            |            |            |            |            |            |             |
| EBITDA                                       | million EUR  | 4.6        | 5.6        | 6.1        | 3.4        | 3.7        | 4.3        | 15.5        |
| EBITDA margin                                | %            | 4.3        | 4.8        | 5.4        | 5.8        | 5.2        | 6.6        | 6.2         |
| General expense ratio                        | %            | 6.2        | 5.0        | 5.1        | 5.7        | 4.0        | 4.4        | 4.8         |
| Labour cost ratio                            | %            | 13.9       | 12.0       | 12.6       | 13.8       | 10.8       | 11.7       | 12.2        |
| Revenue per employee                         | thousand EUR | 138        | 154        | 144        | 77         | 93         | 82         | 322         |
| <b>Other significant indicators</b>          |              | 30.06.2016 | 30.06.2015 | 30.06.2014 | 31.12.2015 |            |            |             |
| Return on equity                             | %            | 7.7        | 8.4        | 8.9        | 8.0        |            |            |             |
| Return on assets                             | %            | 4.4        | 4.3        | 4.4        | 4.4        |            |            |             |
| Return on invested capital                   | %            | 7.5        | 8.0        | 7.8        | 7.9        |            |            |             |
| Equity ratio                                 | %            | 54.8       | 54.3       | 48.8       | 59.5       |            |            |             |
| Debt ratio                                   | %            | 16.2       | 15.6       | 14.0       | 14.8       |            |            |             |
| Current ratio                                | times        | 2.8        | 2.5        | 2.0        | 3.2        |            |            |             |
| Quick ratio                                  | times        | 1.1        | 1.0        | 1.0        | 1.2        |            |            |             |
| Accounts receivable turnover                 | days         | 36         | 47         | 57         | 39         |            |            |             |
| Accounts payable turnover                    | days         | 37         | 41         | 38         | 39         |            |            |             |
| Average number of employees                  | people       | 765        | 757        | 791        | 779        |            |            |             |
| Secured order book                           | million EUR  | 279.4      | 217.2      | 191.6      | 246.9      |            |            |             |

Calculation of ratios is provided on page 37 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. The following are deemed by the company to be the most significant risks: market risk, operational risk and financial risk, including interest rate risk, foreign currency risk, credit risk, liquidity risk, equity risk and legal risks.

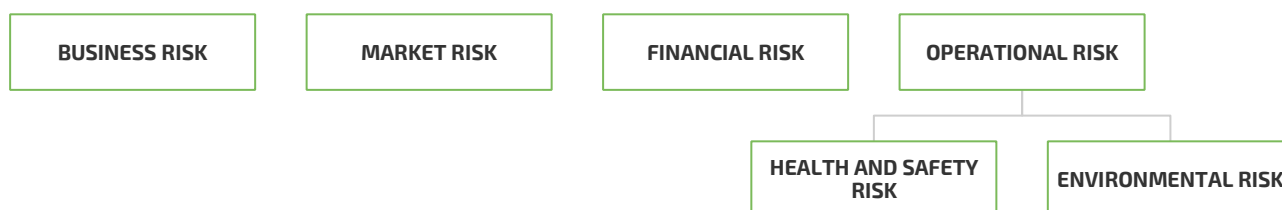
Because of the group's balance sheet structure and the market position, none of these risks has a significant impact as at the date of this report.



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

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

Merko Ehitus divides risks into four main categories:



### Business risk

The group takes calculated risks for the purpose of increasing revenue. The biggest business risks relate to the entry of Merko Ehitus to new markets and segments, the management of existing inventories and investments and the execution of awarded construction contracts. 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.

Operating in several different markets requires orientation in the environments of various countries. The main areas of attention are the different cyclicity attributes of different economies and legal, cultural and political differences. The main objective of Merko Ehitus is to expand into new segments in existing markets. When entering new markets, the company thoroughly studies local customs and peculiarities before making final investment decisions and makes sure that the environment is sufficiently stable and a competent team is assembled.

From the investments point of view, the main risks relate to the portfolio of properties and implementation of property development projects. Merko Ehitus carries out real estate development projects as an integrated process, comprising all activities from the acquisition of the property, proceedings related to the detailed plan, handling design and construction and finally sale of finished apartments to the customer and warranty service. The group uses standard policies for implementing real estate development projects in order to ensure the use of best practices that the entire group has accumulated over years. Merko Ehitus continuously analyses its existing inventory of land with development potential to ensure that the portfolio contains a sufficient number of properties to carry out developments suitable to the market. Investments in new properties of up to EUR 3 million are decided on the supervisory board level of subsidiaries and then further approved by the supervisory board of the group.

### Market risk

Significantly more attention is being paid to potential 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. Due to 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.

#### **Operational risk**

Operational risks are risks caused by inadequate or ineffective processes, people, equipment, systems or external events. The main goal of operational risk management is to reduce the effect of unwanted events. In order to meet the objective, the group is developing internal processes and control systems. In order to ensure the group's high level of project management, project teams are continuously trained, business processes are improved and results are monitored.

Considering the group's field of business, it is essential in operational risk management that the improvement and application of safety standards and regulations continues and that supervision of compliance with environmental requirements is increased. One measure for managing operational risks is the implementation of quality and environmental management systems. Risks related to occupational health and safety in construction are assessed and managed in all units and process stages of the group. The largest construction companies of the group have implemented ISO 9001/14001 management systems and Merko Ehitus Eesti, Merko Infra, Merko Tartu and Latvian and Lithuanian subsidiaries have implemented the occupational health and safety management system OHSAS 18001. The group employs full-time quality specialists who are responsible for developing quality, safety and management systems and ensuring their functioning.

Insurance is used as additional mitigation of operational risks, especially for risks that cannot otherwise be mitigated. 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 company's warranty provision amounted to EUR 2.4 million (30.06.2015: EUR 2.1 million). With regard to work performed by subcontractors, the subcontractors are 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.

#### **Financial risk**

Financial risks include risks related to adequate capitalisation level and financing, currency, interest rate and credit risk. Financial risks are managed through accounting and finance rules, as well as audit. The group's finance department is ultimately responsible for forecasting the cash flows of Merko Ehitus, continuously monitoring various subsidiaries' cash positions and forecasts. The group has enacted a regular budgeting procedure whereby the group's annual forecasts are updated as a minimum four times per year.

#### **Credit risk**

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, Nordea and DnB bank groups. The management estimates that the group is not exposed to significant credit risk.

#### **Interest risk**

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. The management considers the share of interest-bearing liabilities in the group's capital structure to be moderate (as at 30.06.2016, 16.2% of the balance sheet total; as at 30.06.2015, 15.6% 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.

#### **Currency risk**

The group's economic activities are conducted mainly in the currencies of the countries of location of the companies: euros in Estonia, Latvia and Lithuania and kroons in Norway. Transactions within the group are conducted in euros as a rule. To eliminate foreign currency risks, close track is kept of the proportions of the company's assets and liabilities held in different currencies and, when it comes to entering into long-term construction contracts, the euro is the preferred currency in the Baltics, and, in Norway, the krone. Considering the fact that the materials and services used in construction are generally from the local market or supplied from within the EU, the currency risk in the group is currently minimal.



### **Liquidity risk**

The company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 30.06.2016, the group's current ratio was 2.8 (30.06.2015: 2.5) and the quick ratio 1.1 (30.06.2015: 1.0). 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 end of the period, the group entities had concluded overdraft contracts with banks in the total amount of EUR 26.3 million, of which EUR 23.1 million was unused (incl. an overdraft contract to finance development projects in the amount of EUR 14.5 million, of which EUR 11.9 million was unused), (30.06.2015: EUR 10.3 million, of which EUR 9.7 was unused). In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million (30.06.2015: EUR 3.5 million) from AS Riverito, which has not been withdrawn at the end of current and previous financial periods.

The management estimates that the group's capital structure – a solid proportion of equity at 54.8% (30.06.2015: 54.3%) of the balance sheet total and a moderate proportion of interest bearing liabilities at 16.2% (30.06.2015: 15.6%) 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 30 June 2016, a provision has been set up at the group in the amount of EUR 0.1 million (30.06.2015: EUR 0.2 million) for covering potential claims and legal costs.

An overview of the key legal disputes of group entities ended during 2016 and ongoing as of 30.06.2016 is presented below:

#### **Estonia**

##### Lawsuit against former employee

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

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

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

On 7 April 2015, Suur-Paekalda OÜ and Väike-Paekalda OÜ, which are the subsidiaries of AS Merko Ehitus, filed an appeal to the Tallinn Administrative Court for the revocation of the Order of the Minister of the Environment No. 22 of 27 March 2015, by which the boundaries of the permanent habitat of protected plants, which were established by the Minister of the Environment Order No. 9 of 3 February 2006, were amended so that the disputed registered immovable properties at Paekalda St were excluded from protected area. The primary objective of the appeal is to prevent the release of the immovable properties from nature conservation restrictions, which would justify the refusal to acquire the immovable properties by the state. The appeal is in progress.

On 2 February 2016, AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ filed a complaint in Tallinn Administrative Court for compensation of damage. The plaintiffs are seeking a ruling ordering that the state pay damages of EUR 3,162,500 to Suur-Paekalda OÜ (amount to be determined) and EUR 1,587,500 to Väike-Paekalda (amount to be determined) as well as late interest at the rate specified in subsection 113 (1) of the Law of Obligations Act starting from 2 February 2016 until due compliance with the demand for compensation.

The claim is based on the fact that Minister of the Environment regulation no. 9 of 3 February 2006 established a species protection site to protect the habitat of alpine chickweed, ascending saxifrage and dianthus superbus on the Maarjamäe klint (limestone cliff), even though as late as in the 1998 detailed planning proceedings, the Tallinn Environment Department and the Ministry of the Environment did not consider the restrictions on the Paekalda immovable properties to be merited. The formation of the species protection site meant that construction was prohibited on the immovable properties owned by the plaintiffs. Although the state should have bought the immovable properties under nature protection from the plaintiffs after the species protection site was established, the state launched a review of the boundaries of the species protection site in order to evade the obligation of acquiring the plots. The plaintiffs thus lost the opportunity to implement the detailed plan in the favourable real estate market situation that prevailed in 2006-2007. As a result, the plaintiffs have incurred losses in regard to the revenue forgone and direct patrimonial damage caused by impossibility of realizing the right of superficies arising from the detailed plan.

## Latvia

### Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. Previously, on 2 March 2015, SIA Merks had filed a petition to secure the action in the same amount, which was duly granted by the court. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The possible effect of the potential positive outcome of this suit has not been taken into account in the group's financial reporting. On 6 April 2016 the case was transferred to Ogre District Court in order to expedite the reviewing of the case. The following court hearing is scheduled for 3 November 2016.

On 18 June 2015, SIA Merks filed an action against Rolands Mēnesis for termination of the employment contract due to entry into transactions and conduct of operations causing damage to SIA Merks as described above in accordance with the Latvian law, which provides for the corresponding procedure in cases where the trade union objects to the dismissal of an employee. The statement of claim has been accepted. On 12 January 2016, Rolands Mēnesis filed a counterclaim against SIA Merks, asking the court to declare unlawful the removal from work and order SIA Merks to pay damages in the amount of average remuneration, starting from the initial suspension of the employment contract (7 January 2015), as well as non-patrimonial damage in the amount of 12-month average remuneration. The next hearing is scheduled to take place on 23 August 2016.

### Maschinenbau

On 29 February 2016, SIA Merks filed a claim in Ogre Circuit Court against MS-Maschinenbau und Vertriebs GmbH (hereinafter "Maschinenbau") seeking EUR 228 thousand to compensate the value of defective equipment supplied by Maschinenbau and direct expenses incurred by Merks. The potential positive outcome of this court case is not recognised in the group's financial reporting. The action has been admitted by the court and the next court hearing is scheduled for 2 December 2016.

## Lithuania

### Vakaru

At 25 May 2012, BUAB Vakaru inžineriniai tinklai (hereinafter "Vakaru") filed a claim against the Lithuanian branch of AS Merko Ehitus in the amount of 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"). Although it was the view of AS Merko Ehitus that the joint venture agreement was terminated for cause due to breaches of the partner, not illegally the court ruled in the matter in favour of Vakaru on its decision from 29 April 2015. The said decision took effect on 7 February 2016 when the Lithuanian Supreme Court decided not to admit to proceedings the cassation appeal filed by AS Merko Ehitus.

In the end of 2012, bankruptcy proceedings were initiated against Vakaru. In relation to that, AS Merko Ehitus has filed creditor's claims (incl. claims for damages) in the bankruptcy proceedings totalling EUR 1,220 thousand. Said claim (incl. claim for damages) is not included on the group's balance sheet and claims that arose earlier were already provisioned in full in 2012.

On 4 April 2014, District Court of Plungė, made the judgement in the litigation with regard to declaring invoices partially unjustified, which fully satisfied the claim of AS Merko Ehitus. On 5 May 2014, Vakaru appealed the court decision to Klaipėda District Court, which decided to return the case back to District Court of Plungė. On 22 of April 2015 the court took the decision to commission expert analysis to establish whether the disputed work had been performed or not. The judicial proceedings on the action are suspended until completion of the expert analysis. The court hearing regarding the litigation to declaring invoices partially unjustified took place on 10 November 2015, where the court decided to appoint another expert to analyse the new matters raised. After rigorous negotiations between the parties, the Lithuanian branch of AS Merko Ehitus and BUAB Vakaru inžineriniai tinklai signed a settlement agreement, finalising all ongoing court cases and outstanding balances between the companies, on 17 June 2016. The court decision approving the conditions of the settlement agreement came into force on 12 July 2016. Due to AS Merko Ehitus having more unpaid invoices and other request to the counterparty than BUAB Vakaru inžineriniai tinklai, the parties agreed in the final payment by AS Merko Ehitus in the amount of EUR 49 thousand.

### Vilniaus vandenys

On 18 May 2016, AS Merko Ehitus and UAB Merko Statyba, acting pursuant to the joint venture agreement, filed an action against UAB Vilniaus vandenys (hereinafter "Vilniaus vandenys") in the total amount of EUR 183 thousand, encompassing the acceptance of additional works and the compensation of direct expenses incurred, interest on unpaid sums and the extension of the contract term of the sewerage and wastewater pipeline project carried out in Avižieniai region (project "Extension of water supply and waste water networks in Avižieniai Subdistrict"). The plaintiffs maintain that due to the actions of Vilniaus vandenys, both the construction period became longer and also additional works were carried out – works that the customer later refused to pay for. The potential positive outcome of this claim is not recognised in the group's financial reporting. By the end of July 2016, Vilniaus vandenys must submit its response to the action. At the current time, a court date has not yet been scheduled.

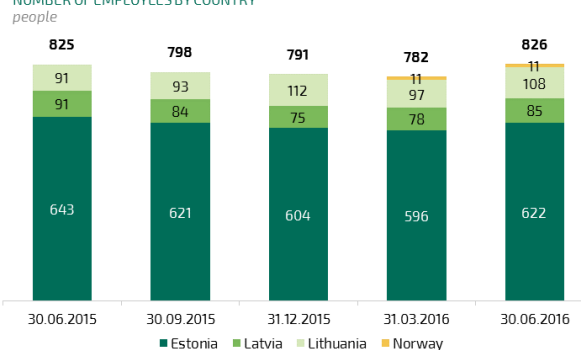
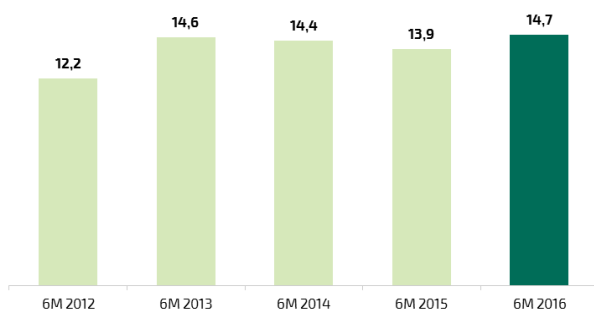
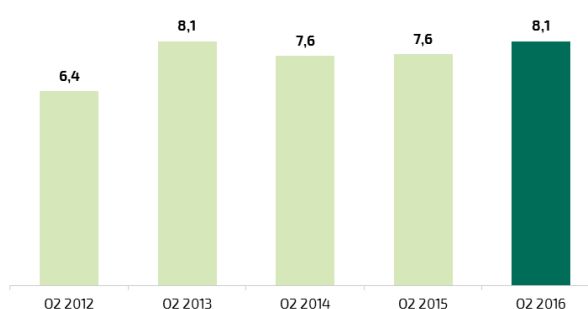
## EMPLOYEES AND LABOUR COSTS

Compared to the same period last year, the number of group's employees increased by one (+0.1%) and as at 30 June 2016, the group had a total of 826 employees (including fixed-term and part-time employees). The number of employees has increased mainly due to the acquisition of a 56% subsidiary Peritus Entreprenør AS in Norway with 11 employees and at the expense of seasonal workers in Lithuania. At the same time the number of employees has decrease in Estonia due to the decrease of civil engineering volumes.

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

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 6 months 2016, the labour cost was EUR 14.7 million (6 months 2015: EUR 13.9 million; 12 months 2015: EUR 30.6 million), which has increased by 5.9% compared to the same period previous year.

NUMBER OF EMPLOYEES BY COUNTRY

LABOUR COST  
in million eurosQUARTERLY LABOUR COST  
in million euros

## ETHICAL BUSINESS PRACTICES

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

The AS Merko Ehitus group does not tolerate any form of corruption. We have undertaken the obligation to engage in honest business and to be in compliance with anti-corruption laws in each country where we operate. We are guided by ethical principles in our actions. We make sure that our employees know these principles and adhere to them in their work. In order to facilitate this, the group has enacted a Code of Business Ethics.

The topic of business ethics has been thoroughly covered on the group's website <http://group.merko.ee/en/corporate-governance-2/responsibility/ethical-business-practices/>. As a new feature all employees, partners and customers can report clear or potential unethical conduct via various anonymous channels, to which the <http://group.merko.ee/en/corporate-governance-2/responsibility/reporting-channels/> website provides an overview. Each reported misconduct will be investigated by an independent cooperation partner, and will lead to appropriate action.

## RECOGNITIONS 2016

In 2016, the activities of AS Merko Ehituse have been recognised in the form of the following prizes:

### BALTIC MARKET AWARD 2015

At an award gala held in the first quarter of 2016 – the Baltic Market Awards 2015 – NASDAQ Baltic stock exchanges announced the companies of the year with the best investor relations. The goal of the competition was to raise the general level of investor relations among listed companies by recognizing the ones that stood out during the year with first-class investor relations. In 2015, the publicly listed companies received awards in five categories; in addition, the year's best stock exchange member was selected. AS Merko Ehitus received third place in the main category "The Best Investor Relations in the Baltic Countries" for the second year in a row and second place in the category "The Best Annual and Corporate Governance Report".



#### MERKO EHITUS

Best Annual and Corporate  
Governance Report  
**2<sup>ND</sup> PLACE**

Best Investor Relations  
in the Baltic Market  
**3<sup>RD</sup> PLACE**

## CHIEF FINANCIAL OFFICER OF THE YEAR 2016

Each year, under the auspices of Äripäev business daily, Estonia's best financial director is selected at the BIG4 finance conference. From several dozen candidates, the jury selected five nominees. 2016's candidates included also AS Merko Ehitus Group CFO Signe Kukin. The jury consisted of the representatives of four major audit firms – AS PricewaterhouseCoopers, Deloitte Audit Eesti AS, KPMG Baltics OÜ and Ernst & Young Baltic AS, and a representative from Äripäev.

The jury credited Signe Kukin for her key role in making Merko's reporting system more effective, speeding up significantly the availability of financial information both for regulative purposes and management reports. Signe Kukin has also led the introduction of many changes in the group's structure, making it more tax-efficient.

## CIVIL ENGINEER OF THE YEAR 2015

Roland Vaikmäe, project manager with AS Merko Ehitus Eesti, was declared the winner of the Civil Engineer of the Year 2015 competition held announced by the Estonian Association of Civil Engineers in the first quarter of 2016. The victory was an acknowledgement of Roland Vaikmäe's successful management of the reconstruction of the large-scale and complex Water treatment plant of City of Narva as a civil engineer. The competition is aimed at promoting the profession of a civil engineer, and acknowledging the engineers engaged in the field of construction for outstanding professional achievements.

## BEST INSTALLER OF ASPHALT PAVEMENT 2015

At the Road Administration annual conference held in Q2 2016, the work of Tallinna Teede AS was recognised with the first awarding of the title "Best Installer of Asphalt Pavements 2015". The winner was elected based on adherence to deadlines, the quality achieved, deductions made, communication with the customer, timely and complete submission of documents and supervision decision.

## LIEPĀJA CONCERT HALL WINS POPULAR CHOICE AWARD AT ARCHITIZER A+ AWARDS

Liepaja Concert Hall, the biggest concert hall in the Baltics, opened in November 2015 and boasting more than 1,000 seats, won the Popular Choice award at the prestigious architecture competition Architizer A+ Awards in the hall/theatre category. The building architect is Volker Giencke and the general contractor is SIA Merks, which is part of the Merko Ehitus Group. A+ Award is one of the most prestigious architecture competitions, with projects submitted from more than 100 countries. Liepaja Concert Hall was one of the nominees in the hall/theatre category and went up against four projects from China, Norway and Poland.

For more information about the competition and the winners, see: <http://awards.architizer.com/winners/list/>

More information and photographs of the project and its unique architecture: <http://architizer.com/projects/great-amber-concert-hall-liepajalatvia/>

## SHARE AND SHAREHOLDERS

### INFORMATION ON SECURITY

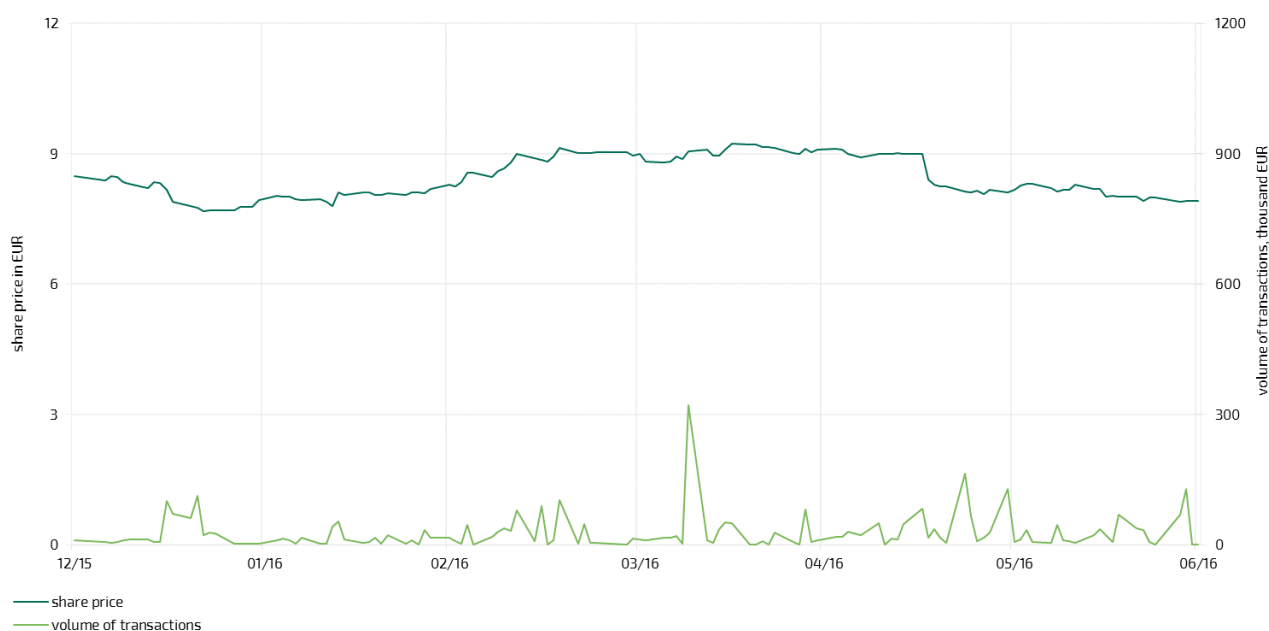
|                      |                                  |
|----------------------|----------------------------------|
| Issuer               | AS Merko Ehitus                  |
| Name of security     | Share of Merko Ehitus            |
| Ticker               | MRK1T                            |
|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

The shares of Merko Ehitus are listed in the Main List of NASDAQ Tallinn. As at 30 June 2016, the company has 17,700,000 shares. The number of shares has not changed during 2016.

A total of 1,403 transactions were conducted with the shares of Merko Ehitus in 6 months of 2016, with 0.40 million shares (2.2% of total shares) traded, generating a turnover of EUR 3.35 million (comparable figures in 6 months 2015 were accordingly: 1,687 transactions with 0.60 million shares traded (3.4% of total shares) and generating a turnover of EUR 5.33 million). The lowest share price amounted to EUR 7.06 and the highest to EUR 9.22 per share (6 months of 2015: EUR 7.06 and EUR 10.50). The closing price of the share was EUR 7.91 on 30 June 2016 (30.06.2015: EUR 8.40; 31.12.2015: EUR 8.48). As at 30 June 2016, the market value of AS Merko Ehitus amounted to EUR 140.0 million, which has decreased by 5.8% compared to the same period end last year (30.06.2015: EUR 148.7 million; 31.12.2015: EUR 150.1 million).

|                                 | 30.06.2016 | 30.06.2015 | 30.06.2014 | 31.12.2015 |
|---------------------------------|------------|------------|------------|------------|
| Number of shares                | 17,700,000 | 17,700,000 | 17,700,000 | 17,700,000 |
| Earnings per share (EPS), euros | 0.10       | 0.14       | 0.25       | 0.53       |
| Equity per share, euros         | 6.94       | 7.05       | 6.82       | 7.02       |
| P/B ratio                       | 1.14       | 1.19       | 1.05       | 1.21       |
| P/E ratio                       | 14.89      | 14.19      | 11.87      | 15.01      |
| Market value, million EUR       | 140.0      | 148.7      | 127.1      | 150.1      |

### CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2016



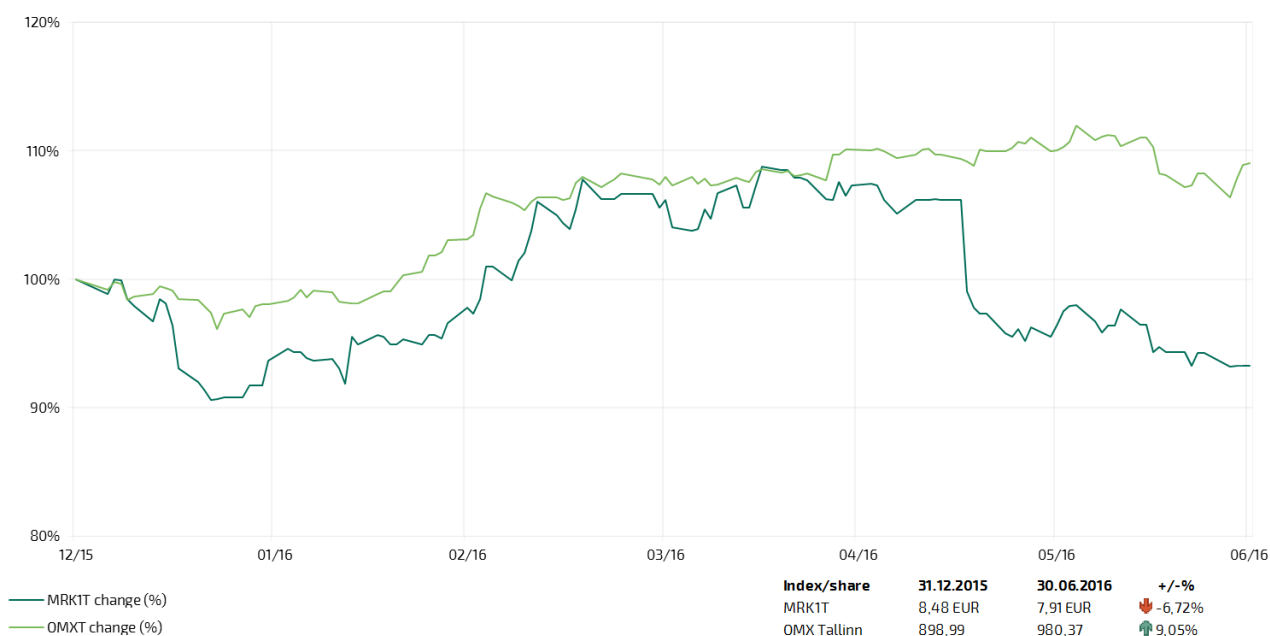
## STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 30.06.2016

| NUMBER OF SHARES    | NUMBER OF SHAREHOLDERS | % OF SHAREHOLDERS | NUMBER OF SHARES  | % OF SHARES |
|---------------------|------------------------|-------------------|-------------------|-------------|
| 1,000,001 - ...     | 1                      | 0.06%             | 12,742,686        | 71.99%      |
| 100,001 – 1,000,000 | 9                      | 0.51%             | 2,656,244         | 15.01%      |
| 10,001 – 100,000    | 38                     | 2.16%             | 1,215,608         | 6.87%       |
| 1,001-10,000        | 251                    | 14.28%            | 698,564           | 3.95%       |
| 101-1,000           | 900                    | 51.19%            | 356,854           | 2.01%       |
| 1-100               | 559                    | 31.80%            | 30,044            | 0.17%       |
| <b>Total</b>        | <b>1,758</b>           | <b>100%</b>       | <b>17,700,000</b> | <b>100%</b> |

## SHAREHOLDERS OF AS MERKO EHITUS AS AT 30.06.2016 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

|                                                            | NUMBER OF SHARES  | % OF TOTAL 30.06.2016 | % OF TOTAL 31.03.2016 | CHANGE         |
|------------------------------------------------------------|-------------------|-----------------------|-----------------------|----------------|
| AS Riverito                                                | 12,742,686        | 71.99%                | 71.99%                | -              |
| ING Luxembourg S.A. AIF Account                            | 974,126           | 5.50%                 | 5.50%                 | -              |
| Firebird Republics Fund Ltd                                | 395,704           | 2.24%                 | 2.24%                 | -              |
| Skandinaviska Enskilda Banken AB, Swedish customers        | 282,663           | 1.60%                 | 1.48%                 | +20,962        |
| SEB S.A. UCITS client assets                               | 232,222           | 1.31%                 | 1.48%                 | -29,000        |
| Firebird Avrora Fund Ltd                                   | 220,519           | 1.25%                 | 1.25%                 | -              |
| State Street Bank and Trust Omnibus Account a Fund No OM01 | 153,018           | 0.86%                 | 0.86%                 | -              |
| SEB Elu- ja Pensionikindlustus AS                          | 143,887           | 0.81%                 | 0.82%                 | -1,133         |
| Clearstream Banking Luxembourg S.A. customers              | 143,054           | 0.81%                 | 0.80%                 | +1,100         |
| Swedbank AS                                                | 111,051           | 0.63%                 | 0.74%                 | -19,247        |
| <b>Total largest shareholders</b>                          | <b>15,398,930</b> | <b>87.00%</b>         | <b>87.16%</b>         | <b>-27,318</b> |
| Total other shareholders                                   | 2,301,070         | 13.00%                | 12.84%                | +27,318        |
| <b>Total</b>                                               | <b>17,700,000</b> | <b>100%</b>           | <b>100%</b>           | <b>-</b>       |

## PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2016





## DIVIDENDS AND DIVIDEND POLICY

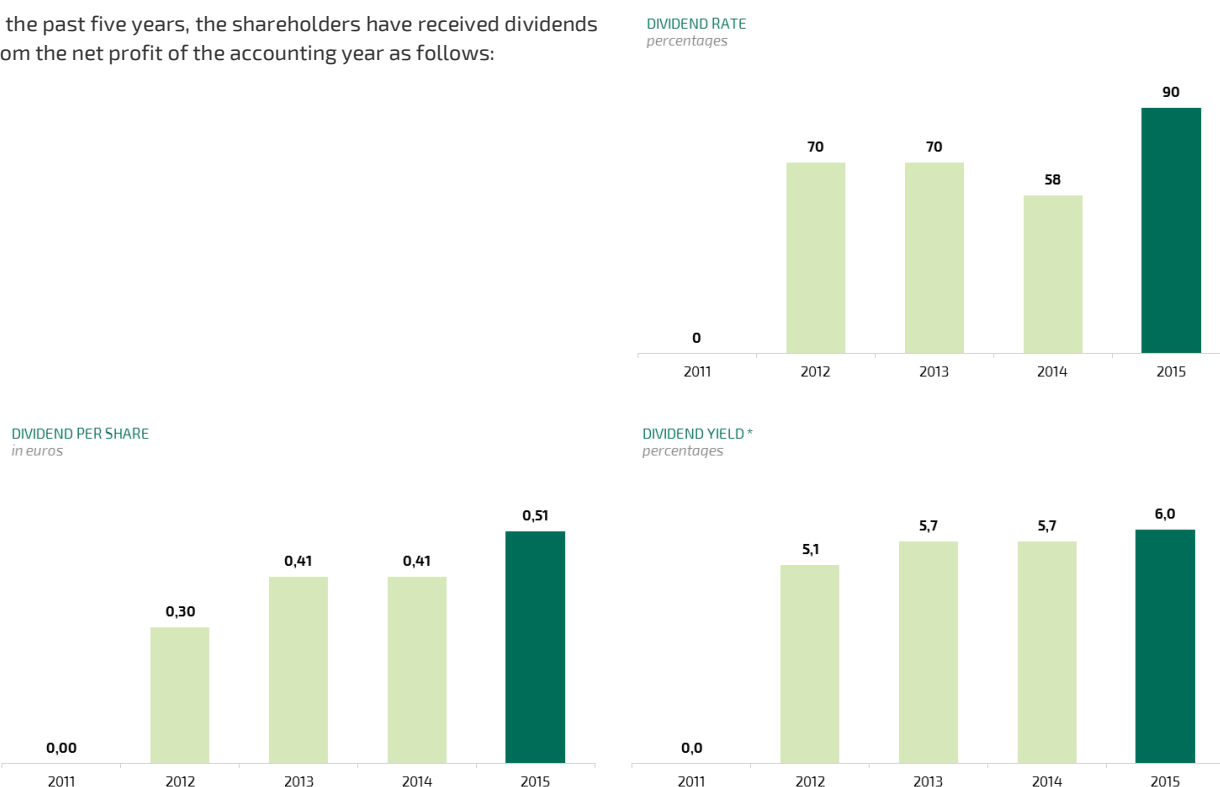
The distribution of dividends to the shareholders of the company is recorded as a liability in the financial statements as of the moment when the payment of dividends is approved by the company's shareholders.

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. The achievement of this objective is an important priority for the group.

The annual general meeting of shareholders of AS Merko Ehitus held at 27 April 2016 approved the Supervisory Board's proposal to pay the shareholders the total amount of EUR 9.0 million (EUR 0.51 per share) as dividends from net profit brought forward, which is equivalent to a 90% dividend rate and a 6.0% dividend yield for the year 2015 (using the share price as at 31 December 2015), (comparable figures in 2015 were accordingly: EUR 7.3 million (EUR 0.41 per share) as dividends, which is equivalent to a 58% dividend rate and a 5.7% dividend yield (using the share price as at 31 December 2014)).

According to the Estonian Income Tax Law §50 section 1<sup>1</sup> AS Merko Ehitus can pay certain portion of dividends without any additional income tax expense and liabilities occurring due to previously received and taxed distribution of profits from subsidiaries. Taking into account the dividends already paid to the parent company by the subsidiaries during 2016, the group incurred additional income tax expense in connection with the disbursement of dividends of EUR 0.6 million (Q2 2015: EUR 0.9 million) in Estonia in the second quarter of 2016. The dividend payment to the shareholders took place on 20 May 2016.

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



\* Using share price as at 31.12

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

# CORPORATE GOVERNANCE

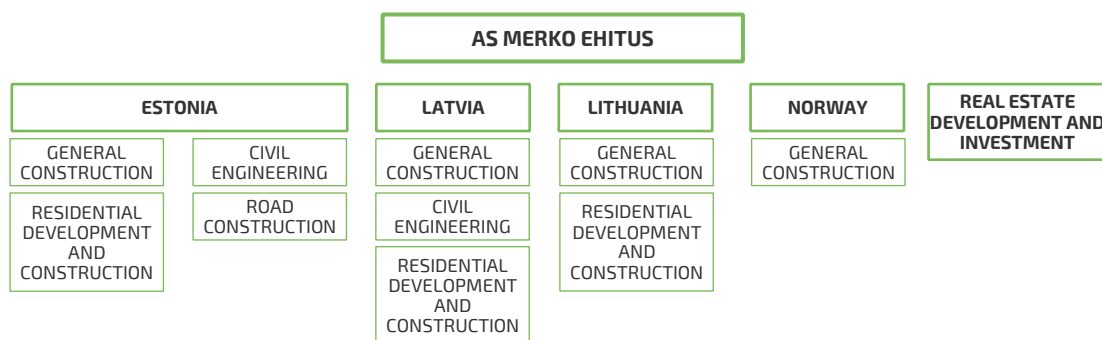
## CORPORATE GOVERNANCE AND STRUCTURE

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

The main 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 holding company AS Merko Ehitus has a two-member Management Board: Andres Trink and Tõnu Toomik.

The profiles of the members of the Management Board and Supervisory Board have been presented in pages 33-35 and Note 16 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at [group.merko.ee](http://group.merko.ee).

It is important to maintain a simple organisational structure in the group and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum efficiency in the group management, we in some cases differentiate the management structure and legal structure. The groups management is carried out on a country basis. The groups country and business area detailed management structure as at 30 June 2016 is the following:



## GROUP'S LEGAL STRUCTURE

As at 30 June 2016, the group comprises 46 companies (30.06.2015: 47; 31.12.2015: 43). The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 16 of the financial statements.

### *Changes in the legal structure of the group*

The 100% subsidiary in the Kingdom of Norway, Merko Investments AS (registry code 916 750 323) was founded in February 2016 and, on 17 February, entered into the register. Merko Investments AS, registered in Norway, is 100% subsidiary of AS Merko Ehitus. The first contribution of NOK 30 thousand was made to the new subsidiary's share capital on 3 February; the second contribution, of NOK 4,700 thousand, was made on 3 March (totalling approximately EUR 502 thousand). This is a technical step aimed at creating the legal platform for launching operations in Norway.

On 7 March 2016, Merko Investments AS, part of AS Merko Ehitus group, signed contracts with Norwegian companies SDV Holding AS and Aucon AS to acquire 56% stake in Norwegian construction company Peritus Entreprenør AS. The total purchase price was NOK 4,000 thousand (EUR 425 thousand). At the moment of purchase, the group developed an additional non-controlling stake in the amount NOK 2,572 thousand (EUR 273 thousand; as at 30.06.2016 EUR 277 thousand). Peritus Entreprenør AS ([www.peritus-entreprenor.no](http://www.peritus-entreprenor.no)) is a Norwegian construction company, offering general construction services, with the sales turnover of approximately 7 million euros in 2015. The former owners will continue to participate in the daily management of the company and they keep their 44% stake. The objective of the acquisition is to start offering construction services on Norwegian market.

On 7 March 2016, Merko Ehitus group subsidiary UAB Merko Bustas entered into an agreement with the company Venturecorp Property Holdings Ltd for acquiring a 100% ownership in the Lithuanian real estate developer UAB Rinktinės projektai with a total purchase price of EUR 2 thousand.

On 30 March 2016, AS Merko Ehitus's 100% subsidiary AS Merko Ehitus Eesti made a non-monetary contribution into subsidiary OÜ Fort Ehitus. The object of the non-monetary contribution was the ceding of claims arising from a loan agreement to OÜ Fort Ehitus totalling EUR 1,880 thousand. Among other things, AS Merko Ehitus ceded claims worth EUR 1,429 thousand and the non-

controlling interest in the amount of EUR 451 thousand. After executing the transaction, AS Merko Ehitus Eesti's stake in the subsidiary OÜ Fort Ehitus increased by 1% percentage to 76%.

## GENERAL MEETING OF SHAREHOLDERS

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

The general meeting of the shareholders was held on 27 April 2016. The general meeting resolved to approve the annual report and the profit allocation proposal for 2015. The dividends in the sum of EUR 9.0 million (EUR 0.51 per share) will be paid out to the shareholders on 20 May 2016.

In addition, it was decided at the general meeting of the shareholders to amend the articles of association. The articles of association were amended to enable electronic voting and web transmission of the general meeting, as well as for better organisation of management of AS Merko Ehitus.

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

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

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

General meetings can be attended by any shareholder or his or her authorised representative. AS Merko Ehitus does not allow participation in general meetings by electronic means of communication equipment since the deployment of reliable solutions for the identification of shareholders some of whom live abroad, while ensuring the privacy of participating shareholders, would be too complicated and costly. No picture taking or filming is allowed at the general meeting, because it may disturb the privacy of shareholders.

Annual and extraordinary general meeting of shareholders shall be chaired by an independent person. In 2016, 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 2016 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Signe Kukin (Group Chief Financial Officer) and Ago Vilu (Auditor).

## SUPERVISORY BOARD

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

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

At the annual general meeting of shareholders held at 30 April 2014, it was decided to extend the term of office of Supervisory Board members Toomas Annus, Teet Roopalü, Indrek Neivelt and Olari Taal until 30 April 2017, i.e. for three years from the decision of the extension.

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



**Toomas Annus (55)** *Chairman of the Supervisory Board*

**Positions held:**

2011-... AS Merko Ehitus, Chairman of the Supervisory Board  
 2014-... E.L.L. Kinnisvara AS, Chairman of the Supervisory Board  
 2009-2014 E.L.L. Kinnisvara AS, Member of the Management Board  
 2008-... AS Järvevana, Chairman of the Management Board  
 1999-2009 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board  
 1997-2008 AS Merko Ehitus, Chairman of the Supervisory Board  
 1996-... AS Riverito, Chairman of the Management Board  
 1991-1996 AS EKE Merko, Chairman of the Management Board  
 1989-1991 EKE MRK, director of the company

**Education:**

Tallinn University of Technology, industrial and civil engineering  
 Tallinn Technical School of Building and Mechanics, industrial and civil engineering

**Number of shares:** 8,322,914 (AS Riverito)



**Teet Roopalu (66)** *Member of the Supervisory Board*

**Positions held:**

2004-... AS Merko Ehitus, Member of the Supervisory Board  
 2010-... AS Riverito, Member of the Management Board  
 2003-... E.L.L. Kinnisvara AS, Member of the Supervisory Board  
 2008-... AS Järvevana, Member of the Supervisory Board  
 2002-2004 AS Merko Ehitus, Adviser to the Management Board  
 Has worked for different construction companies, including as a director of finance. Has been in charge of economic activities in the EKE system as a chief economist; worked as a bank director; and has also worked in building design.

Member of Supervisory Boards of group subsidiaries

**Education:**

Tallinn University of Technology, construction economics and organisation

**Number of shares:** -



**Indrek Neivelt (49)** *Member of the Supervisory Board*

**Positions held:**

2008-... AS Merko Ehitus, Member of the Supervisory Board  
 2015-... AS Pocopay, Member of the Management Board  
 Has held various executive positions in Hansapank (now Swedbank), incl. Director General of the Group, Chairman of the Management Board and also in Bank Saint Petersburg as the Chairman of the Supervisory Board.  
 Belongs to Supervisory Boards of various companies.

**Education:**

Tallinn University of Technology, civil engineering economics and management.  
 Stockholm University, banking and finance, MBA

**Number of shares:** 31,635 (Trust IN OÜ)



**Olari Taal (62)** *Member of the Supervisory Board*

**Positions held:**

2008-... AS Merko Ehitus, Member of the Supervisory Board  
 Has been the head of the Tartu Elamuehituskombinaat (Tartu Housing Plant; Tartu Maja) and Eesti Hoiupank (Estonian Savings Bank).  
 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).  
 Belongs to Supervisory Boards of various companies.

**Education:**

Tallinn University of Technology, civil engineering.

**Number of shares:** 2,500 (Eggera OÜ)

## 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.

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

The Management Board AS of AS Merko Ehitus has two members: Andres Trink (Chairman of the Management Board) and Tõnu Toomik (Member of the Management Board).



**Andres Trink (49)** *Chairman of the Management Board*  
Appointed: 1 January 2012  
Term ends: 1 January 2018

### Positions held:

2012-... AS Merko Ehitus, Chairman of the Management Board  
Chairman of the Supervisory Board of Merko Ehitus Eesti AS, SIA  
Merks and UAB Merko Statyba  
Has held various executive positions in the private and public sector. 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 Hansapank (now Swedbank).

### Education:

Tallinn University of Technology, automated management systems specialty (summa cum laude).  
Estonian Business School, international business administration.  
Graduate of the INSEAD University (France), executive management programme.

**Number of shares: 400**



**Tõnu Toomik (55)** *Member of the Management Board*  
Appointed: 6 June 2013  
Term ends: 6 June 2019

### Positions held:

2013-... AS Merko Ehitus, Member of the Management Board  
2014-... E.L.L. Kinnisvara AS, Member of the Supervisory Board  
2011-2013 AS Merko Ehitus, Member of the Supervisory Board  
2009-2014 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board  
2008-2011 AS Merko Ehitus, Chairman of the Supervisory Board  
2008-... AS Järvevana, Chairman of the Supervisory Board  
1999-2009 E.L.L. Kinnisvara AS, Member of the Supervisory Board  
1997-1999 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board  
1997-2008 AS Merko Ehitus, Chairman of the Management Board  
1996-... AS Riverito, Member of the Management Board  
1993-1996 AS EME Merko, Estonian Regional Director  
1993-1993 AS EKE Merko, Project Manager  
Member of the Supervisory Board of Merko Ehitus Eesti AS, SIA  
Merks and UAB Merko Statyba

### Education:

Tallinn University of Technology, industrial and civil engineering  
**Number of shares: 1,607,185** (AS Riverito)

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

### Changes in the management of AS Merko Ehitus

On 3 May 2016, the Supervisory Board of AS Merko Ehitus decided to extend the powers of the Member of the Management Board, Mr. Tõnu Toomik for three years, i.e. from 6 June 2016 until 6 June 2019. The Management Board of AS Merko Ehitus will continue with current two members: Mr. Andres Trink (The Chairman) and Mr. Tõnu Toomik.

## 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 30 June 2016:

| COMPANY               | SUPERVISORY BOARD                                   | MANAGEMENT BOARD                                            |
|-----------------------|-----------------------------------------------------|-------------------------------------------------------------|
| AS Merko Ehitus Eesti | Andres Trink (Chairman), Teet Roopalu, Tõnu Toomik  | Tiit Roben (Chairman), Jaan Mäe, Alar Lagus, Veljo Viitmann |
| AS Merko Infra        | Tiit Roben (Chairman), Veljo Viitmann, Mihkel Mugur | Arno Elias (Chairman), Tarmo Pohlak, Boris Tehnikov         |
| Tallinna Teede AS     | Tiit Roben (Chairman), Alar Lagus, Veljo Viitmann   | Jüri Läll (Chairman), Jüri Helila                           |
| OÜ Merko Investments  | -                                                   | Andres Trink, Signe Kukin                                   |
| SIA Merks             | Andres Trink (Chairman), Tõnu Toomik, Signe Kukin   | Oskars Ozoliņš (Chairman), Jānis Šperbergs                  |
| SIA Merko Investments | -                                                   | Andres Trink (Chairman), Oskars Ozoliņš                     |
| UAB Merko Statyba     | Andres Trink (Chairman), Tõnu Toomik, Signe Kukin   | Saulius Putrimas (Chairman), Jaanus Rästas                  |
| OÜ Metsailu           | -                                                   | Tiit Kuusik, Ines Prual                                     |

### *Changes in the management of group subsidiaries*

On 21 January 2016, the Supervisory Board of SIA Merks – part of AS Merko Ehitus group – decided to extend the powers of the Members of the Management Board, Mr. Oskars Ozoliņš and Mr. Janis Šperbergs for three years, i.e. from 2 February 2016 till 1 February 2019. The Management Board of SIA Merks will continue in a former two-member panel: Mr. Oskars Ozoliņš (The Chairman) and Mr. Janis Šperbergs.

On 10 March 2016, the Management Board of AS Merko Ehitus decided to change the composition of the Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group. Mr. Toomas Aak will leave the Supervisory Board of AS Merko Ehitus Eesti and the Supervisory Board will continue with three members: Mr. Andres Trink (The Chairman), Mr. Tõnu Toomik and Mr. Teet Roopalu.



## DEFINITION OF RATIOS

|                                      |   |                                                                                                                                                                                                                                                                                                 |
|--------------------------------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Gross profit margin (%)              | = | $\frac{\text{Gross profit}}{\text{Revenue}}$                                                                                                                                                                                                                                                    |
| Operating profit margin (%)          | = | $\frac{\text{Operating profit}}{\text{Revenue}}$                                                                                                                                                                                                                                                |
| EBT margin (%)                       | = | $\frac{\text{Earnings before tax}}{\text{Revenue}}$                                                                                                                                                                                                                                             |
| Net profit margin (%)                | = | $\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$                                                                                                                                                                                                       |
| Return on equity, ROE (%)            | = | $\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Shareholders equity (average of the current 4 quarters)}}$                                                                                                                             |
| Return on assets, ROA (%)            | = | $\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Total assets (average of the current 4 quarters)}}$                                                                                                                                    |
| Return on invested capital, ROIC (%) | = | $\frac{(\text{Profit before tax} + \text{interest expense} - \text{foreign exchange gain (loss)} + \text{other financial income}) \text{ of the current 4 quarters}}{(\text{Shareholders equity (average)} + \text{interest-bearing liabilities (average)}) \text{ of the current 4 quarters}}$ |
| Equity ratio (%)                     | = | $\frac{\text{Shareholders equity}}{\text{Total assets}}$                                                                                                                                                                                                                                        |
| Debt ratio (%)                       | = | $\frac{\text{Interest-bearing liabilities}}{\text{Total assets}}$                                                                                                                                                                                                                               |
| Current ratio                        | = | $\frac{\text{Current assets}}{\text{Current liabilities}}$                                                                                                                                                                                                                                      |
| Quick ratio                          | = | $\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$                                                                                                                                                                                                                 |
| Accounts receivable turnover(days)   | = | $\frac{\text{Trade receivables of the current 4 quarters (average)} \times 365}{\text{Revenue of the current 4 quarters}}$                                                                                                                                                                      |
| Accounts payable turnover (days)     | = | $\frac{\text{Payables to suppliers of the current 4 quarters (average)} \times 365}{\text{Cost of goods sold of the current 4 quarters}}$                                                                                                                                                       |
| EBITDA (million EUR)                 | = | Operating profit + depreciation                                                                                                                                                                                                                                                                 |
| EBITDA margin (%)                    | = | $\frac{\text{Operating profit} + \text{depreciation}}{\text{Revenue}}$                                                                                                                                                                                                                          |
| General expense ratio (%)            | = | $\frac{\text{Marketing expenses} + \text{General and administrative expenses}}{\text{Revenue}}$                                                                                                                                                                                                 |
| Labour cost ratio (%)                | = | $\frac{\text{Labour costs}}{\text{Revenue}}$                                                                                                                                                                                                                                                    |
| Revenue per employee (EUR)           | = | $\frac{\text{Revenue}}{\text{Number of employees (average)}}$                                                                                                                                                                                                                                   |
| Earnings per share, EPS (EUR)        | = | $\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$                                                                                                                                                                                              |
| Equity/share (EUR)                   | = | $\frac{\text{Shareholders equity (average of the current 4 quarters)}}{\text{Number of shares}}$                                                                                                                                                                                                |
| Dividend per share (EUR)             | = | $\frac{\text{Payable dividends}}{\text{Number of shares}}$                                                                                                                                                                                                                                      |
| Dividend rate (%)                    | = | $\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$                                                                                                                                                                                  |
| Dividend yield (%)                   | = | $\frac{\text{Dividends payable per share}}{\text{Share price 31.12}}$                                                                                                                                                                                                                           |
| P/E                                  | = | $\frac{\text{Share price 30.06}}{\text{Earnings per share of the current 4 quarters}}$                                                                                                                                                                                                          |
| P/B                                  | = | $\frac{\text{Share price 30.06}}{\text{Equity per share (average of the current 4 quarters)}}$                                                                                                                                                                                                  |
| Market capitalisation                | = | Share price 30.06 x Number of shares                                                                                                                                                                                                                                                            |

## MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

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

Andres Trink

Chairman of the Management Board



04.08.2016

Tõnu Toomik

Member of the Management Board



04.08.2016

# CONSOLIDATED FINANCIAL STATEMENT

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

|                                                                                                        | Note | 2016<br>6 months | 2015<br>6 months | 2016<br>II quarter | 2015<br>II quarter | 2015<br>12 months |
|--------------------------------------------------------------------------------------------------------|------|------------------|------------------|--------------------|--------------------|-------------------|
| Revenue                                                                                                | 2    | 105,563          | 116,204          | 58,743             | 70,605             | 251,012           |
| Cost of goods sold                                                                                     | 3    | (97,066)         | (107,265)        | (53,308)           | (65,227)           | (228,044)         |
| <b>Gross profit</b>                                                                                    |      | <b>8,497</b>     | <b>8,939</b>     | <b>5,435</b>       | <b>5,378</b>       | <b>22,968</b>     |
| Marketing expenses                                                                                     |      | (1,669)          | (1,521)          | (901)              | (742)              | (3,230)           |
| General and administrative expenses                                                                    |      | (4,868)          | (4,245)          | (2,451)            | (2,052)            | (8,907)           |
| Other operating income                                                                                 |      | 1,244            | 1,003            | 596                | 575                | 1,943             |
| Other operating expenses                                                                               |      | (124)            | (213)            | (82)               | (196)              | (278)             |
| <b>Operating profit</b>                                                                                |      | <b>3,080</b>     | <b>3,963</b>     | <b>2,597</b>       | <b>2,963</b>       | <b>12,496</b>     |
| Finance income/costs                                                                                   |      | (341)            | (392)            | (161)              | (228)              | (804)             |
| incl. finance income/costs from joint ventures                                                         |      | (46)             | (76)             | (29)               | (32)               | (138)             |
| finance income/costs from other long-term investments                                                  |      | 1                | 1                | 1                  | 1                  | 3                 |
| interest expense                                                                                       |      | (299)            | (366)            | (143)              | (216)              | (756)             |
| foreign exchange gain (loss)                                                                           |      | (7)              | 2                | 1                  | (1)                | (3)               |
| other financial income (expenses)                                                                      |      | 10               | 47               | 9                  | 20                 | 90                |
| <b>Profit before tax</b>                                                                               |      | <b>2,739</b>     | <b>3,571</b>     | <b>2,436</b>       | <b>2,735</b>       | <b>11,692</b>     |
| Corporate income tax expense                                                                           |      | (942)            | (1,206)          | (668)              | (1,111)            | (1,857)           |
| <b>Net profit for financial year</b>                                                                   |      | <b>1,797</b>     | <b>2,365</b>     | <b>1,768</b>       | <b>1,624</b>       | <b>9,835</b>      |
| incl. net profit attributable to equity holders of the parent                                          |      | 1,823            | 2,417            | 1,711              | 1,608              | 10,000            |
| net profit attributable to non-controlling interest                                                    |      | (26)             | (52)             | 57                 | 16                 | (165)             |
| <b>Other comprehensive income, which can subsequently be classified in the income statement</b>        |      |                  |                  |                    |                    |                   |
| Currency translation differences of foreign entities                                                   |      | 8                | (1)              | 10                 | 1                  | 2                 |
| incl. net profit attributable to equity holders of the parent                                          |      | 7                | (1)              | 9                  | 1                  | 1                 |
| net profit attributable to non-controlling interest                                                    |      | 1                | -                | 1                  | -                  | -                 |
| <b>Comprehensive income for the period</b>                                                             |      | <b>1,805</b>     | <b>2,364</b>     | <b>1,778</b>       | <b>1,625</b>       | <b>9,837</b>      |
| incl. net profit attributable to equity holders of the parent                                          |      | 1,830            | 2,416            | 1,720              | 1,609              | 10,002            |
| net profit attributable to non-controlling interest                                                    |      | (25)             | (52)             | 58                 | 16                 | (165)             |
| Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR) | 4    | 0.10             | 0.14             | 0.09               | 0.09               | 0.56              |

The notes set out on pages 43-57 are an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

|                                                            | Note | 30.06.2016     | 30.06.2015     | 31.12.2015     |
|------------------------------------------------------------|------|----------------|----------------|----------------|
| <b>ASSETS</b>                                              |      |                |                |                |
| <b>Current assets</b>                                      |      |                |                |                |
| Cash and cash equivalents                                  | 5    | 21,702         | 24,428         | 39,905         |
| Trade and other receivables                                | 6    | 46,025         | 50,505         | 24,854         |
| Prepaid corporate income tax                               |      | 356            | 139            | 421            |
| Inventories                                                | 7    | 110,737        | 113,656        | 109,090        |
|                                                            |      | <b>178,820</b> | <b>188,728</b> | <b>174,270</b> |
| <b>Non-current assets</b>                                  |      |                |                |                |
| Long-term financial assets                                 | 8    | 17,316         | 15,226         | 16,703         |
| Deferred income tax assets                                 |      | 1,424          | 1,580          | 1,423          |
| Investment property                                        | 9    | 4,239          | 4,495          | 4,371          |
| Property, plant and equipment                              | 10   | 13,609         | 14,321         | 13,442         |
| Intangible assets                                          | 11   | 985            | 865            | 879            |
|                                                            |      | <b>37,573</b>  | <b>36,487</b>  | <b>36,818</b>  |
| <b>TOTAL ASSETS</b>                                        |      | <b>216,393</b> | <b>225,215</b> | <b>211,088</b> |
| <b>LIABILITIES</b>                                         |      |                |                |                |
| <b>Current liabilities</b>                                 |      |                |                |                |
| Borrowings                                                 | 12   | 5,994          | 13,462         | 5,525          |
| Payables and prepayments                                   | 13   | 52,295         | 57,416         | 43,266         |
| Income tax liability                                       |      | 343            | 292            | 711            |
| Short-term provisions                                      | 14   | 4,137          | 4,930          | 5,013          |
|                                                            |      | <b>62,769</b>  | <b>76,100</b>  | <b>54,515</b>  |
| <b>Non-current liabilities</b>                             |      |                |                |                |
| Long-term borrowings                                       | 12   | 28,970         | 21,621         | 25,660         |
| Deferred income tax liability                              |      | 1,025          | 763            | 788            |
| Other long-term payables                                   | 15   | 1,434          | 1,167          | 1,159          |
|                                                            |      | <b>31,429</b>  | <b>23,551</b>  | <b>27,607</b>  |
| <b>TOTAL LIABILITIES</b>                                   |      | <b>94,198</b>  | <b>99,651</b>  | <b>82,122</b>  |
| <b>EQUITY</b>                                              |      |                |                |                |
| Non-controlling interests                                  |      | 3,715          | 3,381          | 3,268          |
| <b>Equity attributable to equity holders of the parent</b> |      |                |                |                |
| Share capital                                              |      | 7,929          | 12,000         | 7929           |
| Statutory reserve capital                                  |      | 793            | 1,200          | 1,200          |
| Currency translation differences                           |      | (656)          | (666)          | (663)          |
| Retained earnings                                          |      | 110,414        | 109,649        | 117,232        |
|                                                            |      | <b>118,480</b> | <b>122,183</b> | <b>125,698</b> |
| <b>TOTAL EQUITY</b>                                        |      | <b>122,195</b> | <b>125,564</b> | <b>128,966</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>                        |      | <b>216,393</b> | <b>225,215</b> | <b>211,088</b> |

The notes set out on pages 43-57 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

|                                                                                                       | Equity attributable to equity holders of the parent |                                 |                                        |                      |                | Non-<br>control-<br>ling<br>interest | Total          |
|-------------------------------------------------------------------------------------------------------|-----------------------------------------------------|---------------------------------|----------------------------------------|----------------------|----------------|--------------------------------------|----------------|
|                                                                                                       | Share<br>capital                                    | Statutory<br>reserve<br>capital | Currency<br>translation<br>differences | Retained<br>earnings | Total          |                                      |                |
| <b>Balance as at 31.12.2014</b>                                                                       | <b>12,000</b>                                       | <b>1,200</b>                    | <b>(665)</b>                           | <b>114,492</b>       | <b>127,027</b> | <b>4,455</b>                         | <b>131,482</b> |
| Profit (loss) for the reporting period                                                                | -                                                   | -                               | -                                      | 2,417                | 2,417          | (52)                                 | 2,365          |
| Other comprehensive income                                                                            | -                                                   | -                               | (1)                                    | -                    | (1)            | -                                    | (1)            |
| <b>Total comprehensive income (loss) for the reporting period</b>                                     | <b>-</b>                                            | <b>-</b>                        | <b>(1)</b>                             | <b>2,417</b>         | <b>2,416</b>   | <b>(52)</b>                          | <b>2,364</b>   |
| Issuance of additional share capital                                                                  | -                                                   | -                               | -                                      | -                    | -              | 1                                    | 1              |
| Net assets transferred by division (Note 16)                                                          | -                                                   | -                               | -                                      | (3)                  | (3)            | (1,023)                              | (1,026)        |
| Dividends (Note 4)                                                                                    | -                                                   | -                               | -                                      | (7,257)              | (7,257)        | -                                    | (7,257)        |
| <b>Total transactions with owners</b>                                                                 | <b>-</b>                                            | <b>-</b>                        | <b>-</b>                               | <b>(7,260)</b>       | <b>(7,260)</b> | <b>(1,022)</b>                       | <b>(8,282)</b> |
| <b>Balance as at 30.06.2015</b>                                                                       | <b>12,000</b>                                       | <b>1,200</b>                    | <b>(666)</b>                           | <b>109,649</b>       | <b>122,183</b> | <b>3,381</b>                         | <b>125,564</b> |
| <b>Balance as at 31.12.2015</b>                                                                       | <b>7,929</b>                                        | <b>1,200</b>                    | <b>(663)</b>                           | <b>117,232</b>       | <b>125,698</b> | <b>3,268</b>                         | <b>128,966</b> |
| Profit (loss) for the reporting period                                                                | -                                                   | -                               | -                                      | 1,823                | 1,823          | (26)                                 | 1,797          |
| Other comprehensive income                                                                            | -                                                   | -                               | 7                                      | -                    | 7              | 1                                    | 8              |
| <b>Total comprehensive income (loss) for the reporting period</b>                                     | <b>-</b>                                            | <b>-</b>                        | <b>7</b>                               | <b>1,823</b>         | <b>1,830</b>   | <b>(25)</b>                          | <b>1,805</b>   |
| Increase of share capital by non-monetary contribution and acquisition of minority interest (Note 16) | -                                                   | -                               | -                                      | (21)                 | (21)           | 472                                  | 451            |
| Minority interest of acquired subsidiary (Note 16)                                                    | -                                                   | -                               | -                                      | -                    | -              | 277                                  | 277            |
| Redemption option of minority holding (Note 16)                                                       | -                                                   | -                               | -                                      | -                    | -              | (277)                                | (277)          |
| Reserve capital reduction                                                                             | -                                                   | (407)                           | -                                      | 407                  | -              | -                                    | -              |
| Dividends (Note 4)                                                                                    | -                                                   | -                               | -                                      | (9,027)              | (9,027)        | -                                    | (9,027)        |
| <b>Total transactions with owners</b>                                                                 | <b>-</b>                                            | <b>(407)</b>                    | <b>-</b>                               | <b>(8,641)</b>       | <b>(9,048)</b> | <b>472</b>                           | <b>(8,576)</b> |
| <b>Balance as at 30.06.2016</b>                                                                       | <b>7,929</b>                                        | <b>793</b>                      | <b>(656)</b>                           | <b>110,414</b>       | <b>118,480</b> | <b>3,715</b>                         | <b>122,195</b> |

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

*The notes set out on pages 43-57 are an integral part of these consolidated financial statements.*

# CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

|                                                                                                                         | Note | 2016<br>6 months | 2015<br>6 months | 2015<br>12 months |
|-------------------------------------------------------------------------------------------------------------------------|------|------------------|------------------|-------------------|
| <b>Cash flows from (used in) operating activities</b>                                                                   |      |                  |                  |                   |
| Operating profit                                                                                                        |      | 3,080            | 3,963            | 12,496            |
| Adjustments:                                                                                                            |      |                  |                  |                   |
| Depreciation                                                                                                            |      | 1,482            | 1,591            | 3,004             |
| (Profit)/loss from sale of non-current assets                                                                           |      | (231)            | (100)            | (114)             |
| Change in receivables and liabilities related to construction contracts recognised under the stage of completion method |      | (273)            | 800              | 2,229             |
| Interest income from operating activities                                                                               |      | (988)            | (788)            | (1,592)           |
| Change in provisions                                                                                                    |      | (2,747)          | (3,414)          | (1,487)           |
| Change in trade and other receivables related to operating activities                                                   |      | (18,791)         | (10,679)         | 9,985             |
| Change in inventories                                                                                                   |      | (1,584,)         | 6,326            | 10,936            |
| Change in trade and other payables related to operating activities                                                      |      | 7,650            | (13,372)         | (27,234)          |
| Interest received                                                                                                       |      | 766              | 703              | 1,793             |
| Interest paid                                                                                                           |      | (331)            | (426)            | (857)             |
| Other finance income and costs                                                                                          |      | (12)             | (21)             | (36)              |
| Corporate income tax (paid)/reclaimed                                                                                   |      | (1,265)          | (1,422)          | (1,754)           |
| <b>Total cash flows from (used in) operating activities</b>                                                             |      | <b>(13,244)</b>  | <b>(16,839)</b>  | <b>7,369</b>      |
| <b>Cash flows from investing activities</b>                                                                             |      |                  |                  |                   |
| Acquisition of subsidiaries                                                                                             | 16   | 1,258            | -                | -                 |
| Increase of equity in joint venture                                                                                     |      | -                | -                | (355)             |
| Purchase of property, plant and equipment                                                                               |      | (1,560)          | (345)            | (699)             |
| Proceeds from sale of property, plant and equipment                                                                     |      | 380              | 264              | 311               |
| Purchase of intangible assets                                                                                           |      | (112)            | (15)             | (116)             |
| Interest received                                                                                                       |      | 24               | 53               | 97                |
| <b>Total cash flows from investing activities</b>                                                                       |      | <b>(10)</b>      | <b>(43)</b>      | <b>(762)</b>      |
| <b>Cash flows from (used in) financing activities</b>                                                                   |      |                  |                  |                   |
| Proceeds from borrowings                                                                                                |      | 10,662           | 10,792           | 17,115            |
| Repayments of borrowings                                                                                                |      | (6,149)          | (12,991)         | (21,846)          |
| Finance lease principal payments                                                                                        |      | (434)            | (818)            | (2,186)           |
| Proceeds from issues of shares of subsidiaries to non-controlling interest                                              |      | -                | 1                | 1                 |
| Share capital reduction                                                                                                 |      | -                | -                | (4,071)           |
| Non-controlling interest buyout                                                                                         |      | -                | -                | (41)              |
| Dividends paid                                                                                                          |      | (9,027)          | (7,257)          | (7,257)           |
| <b>Total cash flows from (used in) financing activities</b>                                                             |      | <b>(4,948)</b>   | <b>(10,273)</b>  | <b>(18,285)</b>   |
| <b>Net increase/decrease in cash and cash equivalents</b>                                                               |      | <b>(18,202)</b>  | <b>(27,155)</b>  | <b>(11,678)</b>   |
| <b>Cash and cash equivalents at the beginning of the period</b>                                                         | 5    | <b>39,905</b>    | <b>51,583</b>    | <b>51,583</b>     |
| <b>Effect of exchange rate changes</b>                                                                                  |      | <b>(1)</b>       | <b>-</b>         | <b>-</b>          |
| <b>Cash and cash equivalents at the end of the period</b>                                                               | 5    | <b>21,702</b>    | <b>24,428</b>    | <b>39,905</b>     |

The notes set out on pages 43-57 are an integral part of these consolidated financial statements.



# NOTES

## NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 6 months and II quarter 2016 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 2015 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. 2015 audited annual report and 2015 6 months and II quarter unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 6 months and II quarter 2015 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 chief operating decision-maker, i.e. the Management Board of parent AS Merko Ehitus, monitors the business of the group by countries and operating segments. The performance of the business is assessed by the chief operating decision-maker based on segment revenue derived from outside the group and pre-tax profit. Pre-tax profit of segments is made up of income and expenses directly related to them. Other income and expenses not directly related to segments cannot be allocated and they are monitored together at the group level.

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

- Estonian construction service,
- Latvian and Lithuanian construction service,
- Real estate development.

Estonian construction service and Latvian and Lithuanian construction service segments include all projects of the respective countries pertaining to construction services both in general construction, civil engineering and road construction. Other operating areas (management services, supervision service, etc.) are insignificant to the group and they are not monitored as separate segments. The real estate segment is primarily engaged in the group's own real estate development – construction and sale, to a lesser degree, it also includes real estate maintenance and leasing. 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. For more information about the segments, see the chapter in the Management report entitled Business segments.

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>2016 6 months</b>                            | <b>Estonian<br/>construction<br/>service</b> | <b>Latvian and<br/>Lithuanian<br/>construction<br/>service</b> | <b>Real estate<br/>development</b> | <b>Total<br/>segments</b> |
|-------------------------------------------------|----------------------------------------------|----------------------------------------------------------------|------------------------------------|---------------------------|
| Segment revenue                                 | 53,183                                       | 23,597                                                         | 43,753                             | 120,533                   |
| Inter-segment revenue                           | (92)                                         | (63)                                                           | (14,815)                           | (14,970)                  |
| <b>Revenue from external clients</b>            | <b>53,091</b>                                | <b>23,534</b>                                                  | <b>28,938</b>                      | <b>105,563</b>            |
| <b>Gross profit (-loss)</b>                     | <b>4,150</b>                                 | <b>1,292</b>                                                   | <b>3,055</b>                       | <b>8,497</b>              |
| <b>Segment pre-tax profit (loss)</b>            | <b>4,324</b>                                 | <b>1,291</b>                                                   | <b>3,752</b>                       | <b>9,367</b>              |
| incl. interest income from operating activities | -                                            | -                                                              | 875                                | 875                       |
| depreciation (Note 3)                           | (1,041)                                      | (20)                                                           | (150)                              | (1,211)                   |
| impairment of inventories (Note 3)              | -                                            | -                                                              | (103)                              | (103)                     |
| setting up of provisions (Note 3)               | (204)                                        | (134)                                                          | (160)                              | (498)                     |
| loss on joint ventures                          | -                                            | -                                                              | (46)                               | (46)                      |
| other finance income (costs)                    | (21)                                         | (1)                                                            | (126)                              | (148)                     |
| incl. interest income                           | -                                            | -                                                              | 1                                  | 1                         |
| interest expenses                               | (21)                                         | (1)                                                            | (122)                              | (144)                     |
| <b>Segment assets 30.06.2016</b>                | <b>44,981</b>                                | <b>16,386</b>                                                  | <b>136,638</b>                     | <b>198,005</b>            |
| incl. joint ventures (Note 8)                   | -                                            | -                                                              | 225                                | 225                       |
| <b>2015 6 months</b>                            | <b>Estonian<br/>construction<br/>service</b> | <b>Latvian and<br/>Lithuanian<br/>construction<br/>service</b> | <b>Real estate<br/>development</b> | <b>Total<br/>segments</b> |
| Segment revenue                                 | 50,172                                       | 36,589                                                         | 44,266                             | 131,027                   |
| Inter-segment revenue                           | (2,996)                                      | (66)                                                           | (11,761)                           | (14,823)                  |
| <b>Revenue from external clients</b>            | <b>47,176</b>                                | <b>36,523</b>                                                  | <b>32,505</b>                      | <b>116,204</b>            |
| <b>Gross profit (-loss)</b>                     | <b>4,327</b>                                 | <b>1,531</b>                                                   | <b>3,081</b>                       | <b>8,939</b>              |
| <b>Segment pre-tax profit (loss)</b>            | <b>4,364</b>                                 | <b>1,530</b>                                                   | <b>3,639</b>                       | <b>9,533</b>              |
| incl. interest income from operating activities | -                                            | -                                                              | 774                                | 774                       |
| depreciation (Note 3)                           | (1,033)                                      | (16)                                                           | (151)                              | (1,200)                   |
| setting up of provisions (Note 3)               | (402)                                        | (228)                                                          | (321)                              | (951)                     |
| loss on joint ventures                          | (19)                                         | -                                                              | (57)                               | (76)                      |
| other finance income (costs)                    | (37)                                         | -                                                              | (155)                              | (192)                     |
| incl. interest income                           | -                                            | -                                                              | 1                                  | 1                         |
| interest expenses                               | (37)                                         | -                                                              | (157)                              | (194)                     |
| <b>Segment assets 30.06.2015</b>                | <b>49,203</b>                                | <b>19,577</b>                                                  | <b>138,708</b>                     | <b>207,488</b>            |
| incl. joint ventures (Note 8)                   | -                                            | -                                                              | 9                                  | 9                         |

| <b>2016 II quarter</b>                          | <b>Estonian<br/>construction<br/>service</b> | <b>Latvian and<br/>Lithuanian<br/>construction<br/>service</b> | <b>Real estate<br/>development</b> | <b>Total<br/>segments</b> |
|-------------------------------------------------|----------------------------------------------|----------------------------------------------------------------|------------------------------------|---------------------------|
| Segment revenue                                 | 34,111                                       | 15,592                                                         | 18,357                             | 68,060                    |
| Inter-segment revenue                           | (47)                                         | (32)                                                           | (9,238)                            | (9,317)                   |
| <b>Revenue from external clients</b>            | <b>34,064</b>                                | <b>15,560</b>                                                  | <b>9,119</b>                       | <b>58,743</b>             |
| <b>Gross profit (-loss)</b>                     | <b>3,217</b>                                 | <b>980</b>                                                     | <b>1,238</b>                       | <b>5,435</b>              |
| <b>Segment pre-tax profit (loss)</b>            | <b>3,314</b>                                 | <b>980</b>                                                     | <b>1,554</b>                       | <b>5,848</b>              |
| incl. interest income from operating activities | -                                            | -                                                              | 405                                | 405                       |
| depreciation (Note 3)                           | (557)                                        | (13)                                                           | (74)                               | (644)                     |
| impairment of inventories (Note 3)              | -                                            | -                                                              | 29                                 | 29                        |
| setting up of provisions (Note 3)               | (61)                                         | (76)                                                           | 144                                | 7                         |
| loss on joint ventures                          | -                                            | -                                                              | (29)                               | (29)                      |
| other finance income (costs)                    | (11)                                         | (1)                                                            | (54)                               | (66)                      |
| incl. interest income                           | -                                            | -                                                              | (1)                                | (1)                       |
| interest expenses                               | (11)                                         | (1)                                                            | (53)                               | (65)                      |
| <b>Segment assets change in II quarter</b>      | <b>9,438</b>                                 | <b>7,225</b>                                                   | <b>7,974</b>                       | <b>24,637</b>             |
| incl. joint ventures                            | -                                            | -                                                              | (29)                               | (29)                      |
| <b>2015 II quarter</b>                          | <b>Estonian<br/>construction<br/>service</b> | <b>Latvian and<br/>Lithuanian<br/>construction<br/>service</b> | <b>Real estate<br/>development</b> | <b>Total<br/>segments</b> |
| Segment revenue                                 | 31,948                                       | 19,117                                                         | 27,558                             | 78,623                    |
| Inter-segment revenue                           | (1,859)                                      | (32)                                                           | (6,127)                            | (8,018)                   |
| <b>Revenue from external clients</b>            | <b>30,089</b>                                | <b>19,085</b>                                                  | <b>21,431</b>                      | <b>70,605</b>             |
| <b>Gross profit (-loss)</b>                     | <b>2,931</b>                                 | <b>530</b>                                                     | <b>1,917</b>                       | <b>5,378</b>              |
| <b>Segment pre-tax profit (loss)</b>            | <b>2,990</b>                                 | <b>530</b>                                                     | <b>2,176</b>                       | <b>5,696</b>              |
| incl. interest income from operating activities | -                                            | -                                                              | 386                                | 386                       |
| depreciation (Note 3)                           | (503)                                        | (8)                                                            | (75)                               | (586)                     |
| setting up of provisions (Note 3)               | (293)                                        | (169)                                                          | (65)                               | (527)                     |
| loss on joint ventures                          | (3)                                          | -                                                              | (29)                               | (32)                      |
| other finance income (costs)                    | (19)                                         | -                                                              | (94)                               | (113)                     |
| incl. interest income                           | -                                            | -                                                              | 1                                  | 1                         |
| interest expenses                               | (19)                                         | -                                                              | (96)                               | (115)                     |
| <b>Segment assets change in II quarter</b>      | <b>8,319</b>                                 | <b>(3,206)</b>                                                 | <b>(10,919)</b>                    | <b>(5,806)</b>            |
| incl. joint ventures                            | (3)                                          | -                                                              | (11)                               | (14)                      |

| 2015 12 months                                  | Estonian<br>construction<br>service | Latvian and<br>Lithuanian<br>construction<br>service | Real estate<br>development | Total<br>segments |
|-------------------------------------------------|-------------------------------------|------------------------------------------------------|----------------------------|-------------------|
| Segment revenue                                 | 117,983                             | 72,155                                               | 95,528                     | 285,666           |
| Inter-segment revenue                           | (9,377)                             | (134)                                                | (25,143)                   | (34,654)          |
| <b>Revenue from external clients</b>            | <b>108,606</b>                      | <b>72,021</b>                                        | <b>70,385</b>              | <b>251,012</b>    |
| <b>Gross profit (-loss)</b>                     | <b>10,389</b>                       | <b>4,831</b>                                         | <b>7,748</b>               | <b>22,968</b>     |
| <b>Segment pre-tax profit (loss)</b>            | <b>10,381</b>                       | <b>4,830</b>                                         | <b>8,886</b>               | <b>24,097</b>     |
| incl. interest income from operating activities | -                                   | -                                                    | 1,516                      | 1,516             |
| depreciation (Note 3)                           | (2,010)                             | (31)                                                 | (302)                      | (2,343)           |
| impairment of inventories (Note 3)              |                                     |                                                      | (1,058)                    | (1,058)           |
| setting up of provisions (Note 3)               | (919)                               | (1,326)                                              | (876)                      | (3,121)           |
| loss on joint ventures                          | (19)                                | -                                                    | (119)                      | (138)             |
| other finance income (costs)                    | (63)                                | -                                                    | (253)                      | (316)             |
| incl. interest income                           | -                                   | -                                                    | 3                          | 3                 |
| interest expenses                               | (63)                                | -                                                    | (252)                      | (315)             |
| <b>Segment assets 31.12.2015</b>                | <b>31,971</b>                       | <b>8,834</b>                                         | <b>133,202</b>             | <b>174,007</b>    |
| incl. joint ventures (Note 8)                   | -                                   | -                                                    | 284                        | 284               |

In addition to the segment assets, as at 30.06.2016 the group holds assets in the amount of EUR 18,388 thousand (30.06.2015: EUR 17,727 thousand; 31.12.2015: EUR 37,081 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, loans receivable excluding loans to joint ventures, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

|                                                 | 2016<br>6 months | 2015<br>6 months | 2016<br>II quarter | 2015<br>II quarter | 2015<br>12 months |
|-------------------------------------------------|------------------|------------------|--------------------|--------------------|-------------------|
| Pre-tax profit from reporting segments          | 9,367            | 9,533            | 5,848              | 5,696              | 24,097            |
| Unallocated income (expense)                    |                  |                  |                    |                    |                   |
| marketing expenses                              | (1,669)          | (1,521)          | (901)              | (742)              | (3,230)           |
| general and administrative expenses             | (4,868)          | (4,245)          | (2,451)            | (2,052)            | (8,907)           |
| incl. setting up of provisions                  | -                | -                | -                  | -                  | (115)             |
| cancellation of provisions                      | -                | -                | -                  | -                  | 172               |
| other operating income (expense)                | 56               | (72)             | 6                  | (84)               | 82                |
| incl. interest income from operating activities | 113              | 14               | 59                 | 14                 | 76                |
| finance income (costs)                          | (147)            | (124)            | (66)               | (83)               | (350)             |
| incl. interest income                           | 21               | 69               | 11                 | 33                 | 118               |
| interest expenses                               | (155)            | (174)            | (78)               | (103)              | (441)             |
| <b>Total profit before tax</b>                  | <b>2,739</b>     | <b>3,571</b>     | <b>2,436</b>       | <b>2,735</b>       | <b>11,692</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

in thousand euros and percentages

|              | 2016 6 months  |             | 2015 6 months  |             | 2016 II quarter |             | 2015 II quarter |             | 2015 12 months |             |
|--------------|----------------|-------------|----------------|-------------|-----------------|-------------|-----------------|-------------|----------------|-------------|
| Estonia      | 71,678         | 68%         | 72,636         | 62%         | 40,335          | 68%         | 46,102          | 66%         | 154,809        | 62%         |
| Latvia       | 19,606         | 19%         | 36,618         | 32%         | 9,835           | 17%         | 19,834          | 28%         | 65,226         | 26%         |
| Lithuania    | 9,615          | 9%          | 6,126          | 5%          | 5,280           | 9%          | 3,845           | 5%          | 28,134         | 11%         |
| Finland      | 2,577          | 2%          | 824            | 1%          | 1,768           | 3%          | 824             | 1%          | 2,843          | 1%          |
| Norway       | 2,087          | 2%          | -              | -           | 1,525           | 3%          | -               | -           | -              | -           |
| <b>Total</b> | <b>105,563</b> | <b>100%</b> | <b>116,204</b> | <b>100%</b> | <b>58,743</b>   | <b>100%</b> | <b>70,605</b>   | <b>100%</b> | <b>251,012</b> | <b>100%</b> |

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

in thousand euros

|              | 30.06.2016    | 30.06.2015    | 31.12.2015    |
|--------------|---------------|---------------|---------------|
| Estonia      | 18,235        | 19,141        | 18,200        |
| Latvia       | 471           | 519           | 473           |
| Lithuania    | 12            | 21            | 19            |
| Norway       | 115           | -             | -             |
| <b>Total</b> | <b>18,833</b> | <b>19,681</b> | <b>18,692</b> |

## NOTE 3 COST OF GOODS SOLD

in thousand euros

|                                                           | 2016<br>6 months | 2015<br>6 months | 2016<br>II quarter | 2015<br>II quarter | 2015<br>12 months |
|-----------------------------------------------------------|------------------|------------------|--------------------|--------------------|-------------------|
| Construction services and properties purchased for resale | 56,838           | 69,050           | 28,993             | 42,531             | 142,961           |
| Materials                                                 | 19,043           | 16,713           | 12,658             | 10,273             | 35,382            |
| Labour costs                                              | 10,365           | 10,141           | 5,764              | 5,778              | 22,514            |
| Construction mechanisms and transport                     | 3,540            | 3,861            | 2,226              | 2,507              | 9,079             |
| Design                                                    | 1,351            | 996              | 700                | 566                | 2,158             |
| Real estate management costs                              | 115              | 125              | 45                 | 60                 | 227               |
| Depreciation                                              | 1,211            | 1,200            | 644                | 586                | 2,343             |
| Impairment of inventories                                 | 103              | -                | (29)               | -                  | 1,058             |
| Provisions                                                | 498              | 951              | (7)                | 527                | 3,121             |
| Other expenses                                            | 4,002            | 4,228            | 2,314              | 2,399              | 9,201             |
| <b>Total cost of goods sold</b>                           | <b>97,066</b>    | <b>107,265</b>   | <b>53,308</b>      | <b>65,227</b>      | <b>228,044</b>    |

## NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

|                                                                  | 2016<br>6 months | 2015<br>6 months | 2016<br>II quarter | 2015<br>II quarter | 2015<br>12 months |
|------------------------------------------------------------------|------------------|------------------|--------------------|--------------------|-------------------|
| Net profit(-loss) attributable to shareholders (in thousand EUR) | 1,823            | 2,417            | 1,711              | 1,608              | 10,000            |
| Weighted average number of ordinary shares (thousand pcs)        | 17,700           | 17,700           | 17,700             | 17,700             | 17,700            |
| <b>Earnings (loss) per share (in euros)</b>                      | <b>0.10</b>      | <b>0.14</b>      | <b>0.09</b>        | <b>0.09</b>        | <b>0.56</b>       |

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

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation decision, dividends were paid by parent company AS Merko Ehitus in Q2 2016 in the amount of EUR 9,027 thousand, i.e. EUR 0.51 per share, and the accompanying income tax liability would amount to 20/80 on the amount to be paid out, i.e. EUR 2,257 thousand, which will be partially covered by the income tax withheld on taxed dividends received from subsidiaries in the previous periods. In the second quarter of 2016 the group incurred additional income tax expenses of EUR 566 thousand in Estonia in connection with disbursement of dividends.

In 2015 the parent company AS Merko Ehitus distributed dividends in the amount of EUR 7,257 thousand, i.e. EUR 0.41 per share. AS Merko Ehitus had to pay additional corporate income tax in Estonia in connection with the disbursement of dividends of EUR 906 thousand.

As at 31 December 2015, the parent company AS Merko Ehitus has no previously taxed dividends and income received from abroad on which income tax has been withheld (30.06.2015: EUR 0 thousand; 31.12.2015: EUR 0 thousand).

As at 30.06.2016, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 87,806 thousand (30.06.2015: EUR 87,186 thousand; 31.12.2015: EUR 93,255 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 0 thousand (30.06.2015: EUR 0 thousand; 31.12.2015: EUR 0 thousand), the corresponding income tax on dividends would amount to EUR 21,925 thousand (30.06.2015: EUR 21,797 thousand; 31.12.2015: EUR 23,314 thousand). For calculating the additional income tax on dividends, the income tax rate in force in 2016 was used, which is 20/80 of the amount paid as net dividends. The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

## NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

|                                        | 30.06.2016    | 30.06.2015    | 31.12.2015    |
|----------------------------------------|---------------|---------------|---------------|
| Cash on hand                           | 3             | 8             | 4             |
| Bank accounts                          | 12,871        | 16,689        | 32,667        |
| Overnight deposits                     | 8,828         | 7,731         | 7,234         |
| <b>Total cash and cash equivalents</b> | <b>21,702</b> | <b>24,428</b> | <b>39,905</b> |

## NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

|                                                                           | 30.06.2016    | 30.06.2015    | 31.12.2015    |
|---------------------------------------------------------------------------|---------------|---------------|---------------|
| Trade receivables                                                         |               |               |               |
| Accounts receivable                                                       | 32,395        | 34,403        | 15,431        |
| Allowance for doubtful receivables                                        | (326)         | (698)         | (326)         |
|                                                                           | <b>32,069</b> | <b>33,705</b> | <b>15,105</b> |
| Tax prepayments excluding corporate income tax                            |               |               |               |
| Value added tax                                                           | 1,287         | 1,558         | 887           |
| Other taxes                                                               | 19            | 87            | 35            |
|                                                                           | <b>1,306</b>  | <b>1,645</b>  | <b>922</b>    |
| Amounts due from customers of contract works                              | 6,093         | 7,460         | 3,948         |
| Other short-term receivables                                              |               |               |               |
| Short-term loans                                                          | -             | 2,159         | 1,432         |
| Interest receivables                                                      | 112           | 502           | 200           |
| Other short-term receivables                                              | 587           | 496           | 617           |
|                                                                           | <b>699</b>    | <b>3,157</b>  | <b>2,249</b>  |
| Prepayments for services                                                  |               |               |               |
| Prepayments for construction services                                     | 5,110         | 3,811         | 2,036         |
| Prepaid insurance                                                         | 362           | 371           | 275           |
| Other prepaid expenses                                                    | 386           | 356           | 319           |
|                                                                           | <b>5,858</b>  | <b>4,538</b>  | <b>2,630</b>  |
| <b>Total trade and other receivables</b>                                  | <b>46,025</b> | <b>50,505</b> | <b>24,854</b> |
| incl. short-term loan receivables from related parties (Note 16)          | -             | 1,406         | 1,432         |
| other short-term receivables and prepayments to related parties (Note 16) | 1,201         | 541           | 541           |

## NOTE 7 INVENTORIES

in thousand euros

|                                            | 30.06.2016     | 30.06.2015     | 31.12.2015     |
|--------------------------------------------|----------------|----------------|----------------|
| Materials                                  | 501            | 813            | 600            |
| Work-in-progress                           | 42,995         | 23,956         | 28,397         |
| Finished goods                             | 14,838         | 27,170         | 19,603         |
| Goods for resale                           |                |                |                |
| Registered immovables purchased for resale | 50,273         | 59,368         | 58,029         |
| Other goods purchased for resale           | 772            | 819            | 790            |
|                                            | <b>51,045</b>  | <b>60,187</b>  | <b>58,819</b>  |
| Prepayments for inventories                |                |                |                |
| Prepayments for real estate properties     | 1,086          | 1,086          | 1,086          |
| Prepayments for other inventories          | 272            | 444            | 585            |
|                                            | <b>1,358</b>   | <b>1,530</b>   | <b>1,671</b>   |
| <b>Total inventories</b>                   | <b>110,737</b> | <b>113,656</b> | <b>109,090</b> |



## NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

|                                                                 | 30.06.2016    | 30.06.2015    | 31.12.2015    |
|-----------------------------------------------------------------|---------------|---------------|---------------|
| Investments joint ventures                                      | 225           | 9             | 284           |
| Long-term loans                                                 | 5,736         | 3,944         | 3,956         |
| Long-term bank deposit                                          | 37            | 37            | 37            |
| Long-term interest                                              | 246           | 10            | 7             |
| Long-term receivables from customers of construction services   | 11,072        | 11,226        | 12,419        |
| <b>Total other long-term loans and receivables</b>              | <b>17,316</b> | <b>15,226</b> | <b>16,703</b> |
| incl. long-term loan receivables from related parties (Note 16) | 4,185         | 2,444         | 2,456         |
| other long-term receivables from related parties (Note 16)      | 246           | 10            | 7             |

## NOTE 9 INVESTMENT PROPERTY

in thousand euros

|                                         | 30.06.2016   | 30.06.2015   | 31.12.2015   |
|-----------------------------------------|--------------|--------------|--------------|
| Land                                    | 51           | 51           | 51           |
| Right of superficies at carrying amount |              |              |              |
| Cost                                    | 29           | 29           | 29           |
| Accumulated depreciation                | (11)         | (10)         | (10)         |
|                                         | <b>18</b>    | <b>19</b>    | <b>19</b>    |
| Buildings at carrying amount            |              |              |              |
| Cost                                    | 5,245        | 5,245        | 5,245        |
| Accumulated depreciation                | (1,075)      | (820)        | (944)        |
|                                         | <b>4,170</b> | <b>4,425</b> | <b>4,301</b> |
| <b>Total investment property</b>        | <b>4,239</b> | <b>4,495</b> | <b>4,471</b> |

## NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

|                                               | 30.06.2016    | 30.06.2015    | 31.12.2015    |
|-----------------------------------------------|---------------|---------------|---------------|
| Land                                          | 824           | 824           | 824           |
| Buildings at carrying amount                  |               |               |               |
| Cost                                          | 5,725         | 5,726         | 5,725         |
| Accumulated depreciation                      | (1,898)       | (1,720)       | (1,806)       |
|                                               | <b>3,827</b>  | <b>4,006</b>  | <b>3,919</b>  |
| Machinery and equipment at carrying amount    |               |               |               |
| Cost                                          | 18,901        | 18,973        | 18,910        |
| Accumulated depreciation                      | (11,341)      | (10,659)      | (11,314)      |
|                                               | <b>7,560</b>  | <b>8,314</b>  | <b>7,596</b>  |
| Other fixtures at carrying amount             |               |               |               |
| Cost                                          | 5,238         | 5,269         | 5,141         |
| Accumulated depreciation                      | (4,260)       | (4,134)       | (4,094)       |
|                                               | <b>978</b>    | <b>1,135</b>  | <b>1,047</b>  |
| Prepayments for property, plant and equipment | 420           | 42            | 56            |
| <b>Total property, plant and equipment</b>    | <b>13,609</b> | <b>14,321</b> | <b>13,442</b> |

## NOTE 11 INTANGIBLE ASSETS

in thousand euros

|                                    | 30.06.2016 | 30.06.2015 | 31.12.2015 |
|------------------------------------|------------|------------|------------|
| <b>Goodwill</b>                    |            |            |            |
| Cost                               | 969        | 891        | 891        |
| Impairment                         | (312)      | (223)      | (267)      |
|                                    | <b>657</b> | <b>668</b> | <b>624</b> |
| <b>Software at carrying amount</b> |            |            |            |
| Cost                               | 1 156      | 1,073      | 1 075      |
| Accumulated depreciation           | (974)      | (876)      | (920)      |
|                                    | <b>182</b> | <b>197</b> | <b>155</b> |
| Prepayments for intangible assets  | 146        | -          | 100        |
| <b>Total intangible assets</b>     | <b>985</b> | <b>865</b> | <b>879</b> |

## NOTE 12 BORROWINGS

in thousand euros

|                                                 | 30.06.2016    | 30.06.2015    | 31.12.2015    |
|-------------------------------------------------|---------------|---------------|---------------|
| <b>Finance lease payables</b>                   |               |               |               |
| Present value of lease payments                 | <b>2,251</b>  | <b>4,070</b>  | <b>2,704</b>  |
| incl. current portion                           | 909           | 1,593         | 912           |
| non-current portion 1...4 years                 | 1,342         | 2,477         | 1,792         |
| <b>Bank loans</b>                               |               |               |               |
| Loan balance                                    | <b>25,683</b> | <b>22,059</b> | <b>19,403</b> |
| incl. current portion                           | 4,078         | 9,915         | 2,535         |
| non-current portion 1...5 years                 | 21,605        | 12,144        | 16,868        |
| <b>Loans from entities under common control</b> |               |               |               |
| Loan balance                                    | <b>7,000</b>  | <b>8,000</b>  | <b>8,000</b>  |
| incl. current portion (Note 16)                 | 1,000         | 1,000         | 1,000         |
| non-current portion 1...5 years (Note 16)       | 6,000         | 7,000         | 7,000         |
| <b>Loans from other entities</b>                |               |               |               |
| Loan balance                                    | <b>30</b>     | <b>954</b>    | <b>1,078</b>  |
| incl. current portion                           | 7             | 954           | 1,078         |
| non-current portion 1...5 years                 | 23            | -             | -             |
| <b>Total loans</b>                              |               |               |               |
| Loans balance                                   | <b>32,713</b> | <b>31,013</b> | <b>28,481</b> |
| incl. current portion                           | 5,085         | 11,869        | 4,613         |
| non-current portion 1...5 years                 | 27,628        | 19,144        | 23,868        |
| <b>Total borrowings</b>                         | <b>34,964</b> | <b>35,083</b> | <b>31,185</b> |
| incl. current portion                           | 5,994         | 13,462        | 5,525         |
| non-current portion 1...5 years                 | 28,970        | 21,621        | 25,660        |

## NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

|                                                  | 30.06.2016    | 30.06.2015    | 31.12.2015    |
|--------------------------------------------------|---------------|---------------|---------------|
| Trade payables                                   | 26,853        | 27,617        | 16,325        |
| Payables to employees                            | 6,510         | 6,494         | 8,122         |
| Tax liabilities, except for corporate income tax |               |               |               |
| Value added tax                                  | 2,128         | 1,781         | 2,005         |
| Personal income tax                              | 552           | 476           | 490           |
| Social security tax                              | 1,006         | 971           | 908           |
| Unemployment insurance tax                       | 56            | 54            | 56            |
| Contributions to mandatory funded pension        | 47            | 43            | 45            |
| Other taxes                                      | 166           | 170           | 96            |
|                                                  | <b>3,955</b>  | <b>3,495</b>  | <b>3,600</b>  |
| Amounts due to customers for contract works      | 6,448         | 6,659         | 4,575         |
| Other liabilities                                |               |               |               |
| Interest liabilities                             | 24            | 151           | 143           |
| Other liabilities                                | 374           | 3,472         | 3,527         |
|                                                  | <b>398</b>    | <b>3,623</b>  | <b>3,670</b>  |
| Prepayments received                             | 8,131         | 9,528         | 6,974         |
|                                                  |               |               |               |
| <b>Total payables and prepayments</b>            | <b>52,295</b> | <b>57,416</b> | <b>43,266</b> |
| incl. payables to related parties (Note 16)      | 212           | 4,198         | 3,273         |

## NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

|                                                    | 30.06.2016   | 30.06.2015   | 31.12.2015   |
|----------------------------------------------------|--------------|--------------|--------------|
| Provision for warranty obligation for construction | 2,449        | 2,119        | 2,378        |
| Provision for costs of projects sold               | 1,453        | 1,247        | 2,120        |
| Provision for onerous construction contracts       | 134          | 1,287        | 392          |
| Provision for legal costs and claims filed         | 100          | 172          | 100          |
| Other provisions                                   | 1            | 105          | 23           |
| <b>Total short-term provisions</b>                 | <b>4,137</b> | <b>4,930</b> | <b>5,013</b> |

## NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

|                                                             | 30.06.2016   | 30.06.2015   | 31.12.2015   |
|-------------------------------------------------------------|--------------|--------------|--------------|
| Trade payables                                              | 1 157        | 1,167        | 1,159        |
| Other long-term liabilities                                 | 277          | -            | -            |
| <b>Other long-term payables total</b>                       | <b>1 434</b> | <b>1,167</b> | <b>1,159</b> |
| incl. other long-term payables to related parties (Note 16) | 277          | -            | -            |

## NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 30.06.2016, 30.06.2015 and 31.12.2015, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

### AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

|                                           | Ownership and voting rights % |            |            | Location           | Area of operation |
|-------------------------------------------|-------------------------------|------------|------------|--------------------|-------------------|
|                                           | 30.06.2016                    | 30.06.2015 | 31.12.2015 |                    |                   |
| Subsidiaries                              |                               |            |            |                    |                   |
| AS Merko Ehitus Eesti                     | 100                           | 100        | 100        | Estonia, Tallinn   | Construction      |
| Tallinna Teede AS                         | 100                           | 100        | 100        | Estonia, Tallinn   | Road construction |
| OÜ Tevener                                | -                             | 100        | -          | Estonia, Tallinn   | Mining            |
| AS Vooremaa Teed                          | 100                           | 100        | 100        | Estonia, Jõgeva    | Road construction |
| AS Merko Infra                            | 100                           | 100        | 100        | Estonia, Tallinn   | Construction      |
| AS Gustaf                                 | 100                           | 100        | 100        | Estonia, Pärnu     | Construction      |
| AS Merko Tartu                            | 100                           | 100        | 100        | Estonia, Tartu     | Construction      |
| OÜ Fort Ehitus                            | 76                            | 75         | 75         | Estonia, Viimsi    | Construction      |
| OÜ Mineraal                               | 100                           | 100        | 100        | Estonia, Tallinn   | Mining            |
| OÜ Heamaja                                | 100                           | 100        | 100        | Estonia, Tallinn   | Real estate       |
| OÜ Rannamõisa Kinnisvara                  | 100                           | 100        | 100        | Estonia, Tallinn   | Real estate       |
| UAB Merko Statyba                         | 100                           | 100        | 100        | Lithuania, Vilnius | Construction      |
| UAB Statinių priežiūra ir administravimas | 100                           | 100        | 100        | Lithuania, Vilnius | Construction      |
| OÜ Merko Property                         | 100                           | 100        | 100        | Estonia, Tallinn   | Real estate       |
| UAB Balsiu mokyklos SPV                   | 100                           | 100        | 100        | Lithuania, Vilnius | Real estate       |
| UAB Merko Bustas                          | 100                           | 100        | 100        | Lithuania, Vilnius | Real estate       |
| UAB MN Projektas                          | 100                           | 100        | 100        | Lithuania, Vilnius | Real estate       |
| UAB Jurininku aikšte                      | 100                           | 100        | 100        | Lithuania, Vilnius | Real estate       |
| UAB VPSP1                                 | 100                           | 100        | 100        | Lithuania, Vilnius | Real estate       |
| UAB Timana                                | 100                           | 100        | 100        | Lithuania, Vilnius | Real estate       |
| UAB Rinktinės projektai                   | 100                           | -          | -          | Lithuania, Vilnius | Real estate       |
| UAB Kražių valdymas                       | -                             | 100        | -          | Lithuania, Vilnius | Real estate       |
| UAB Kražių Projektas                      | -                             | 100        | -          | Lithuania, Vilnius | Real estate       |
| OÜ Jõgeva Haldus                          | 100                           | 100        | 100        | Estonia, Tallinn   | Real estate       |
| OÜ Metsailu                               | 100                           | 100        | 100        | Estonia, Tallinn   | Real estate       |
| OÜ Tähelinna Kinnisvara                   | 100                           | 100        | 100        | Estonia, Tallinn   | Real estate       |
| Väike-Paekalda OÜ                         | 100                           | 100        | 100        | Estonia, Tallinn   | Real estate       |
| Suur-Paekalda OÜ                          | 100                           | 100        | 100        | Estonia, Tallinn   | Real estate       |
| SIA Merko Investments                     | 100                           | 100        | 100        | Latvia, Riga       | Holding           |
| OÜ Merko Investments                      | 100                           | 100        | 100        | Estonia, Tallinn   | Holding           |
| SIA Merks                                 | 100                           | 100        | 100        | Latvia, Riga       | Construction      |
| SIA SK Viesturdarzs                       | 100                           | 100        | 100        | Latvia, Riga       | Real estate       |
| SIA Merks Investicijas                    | 100                           | 100        | 100        | Latvia, Riga       | Real estate       |
| SIA Industrijas Parks                     | 100                           | 100        | 100        | Latvia, Riga       | Real estate       |
| SIA Elniko                                | 100                           | 100        | 100        | Latvia, Riga       | Real estate       |

|                             | Ownership and voting rights % |            |            | Location               | Area of operation |
|-----------------------------|-------------------------------|------------|------------|------------------------|-------------------|
|                             | 30.06.2016                    | 30.06.2015 | 31.12.2015 |                        |                   |
| SIA Ropažu Priedes          | 100                           | 100        | 100        | Latvia, Riga           | Real estate       |
| PS Merko-Merks              | 100                           | 100        | 100        | Latvia, Riga           | Construction      |
| SIA Zakusala Estates        | 75                            | 75         | 75         | Latvia, Riga           | Real estate       |
| Merko Finland Oy            | 100                           | 100        | 100        | Finland, Helsinki      | Construction      |
| Hartian Oy                  | 75                            | 75         | 75         | Finland, Helsinki      | Real estate       |
| As.Oy Helsingin Pestikuja 1 | 100                           | 100        | 100        | Finland, Helsinki      | Real estate       |
| Lenko Stroi LLC             | 100                           | 100        | 100        | Russia, St. Petersburg | Holding           |
| Merko Finland Oy            | 100                           | -          | -          | Norway, Sofiemyr       | Holding           |
| Hartian Oy                  | 56                            | -          | -          | Norway, Sofiemyr       | Construction      |
| <b>Joint ventures</b>       |                               |            |            |                        |                   |
| OÜ Unigate                  | 50                            | 50         | 50         | Estonia, Tallinn       | Real estate       |
| Poolkoksime Sulgemise OÜ    | 50                            | 50         | 50         | Estonia, Tallinn       | Construction      |
| OÜ Kortermaja               | -                             | 50         | -          | Estonia, Tartu         | Real estate       |
| Kivimäe 32 OÜ               | 50                            | 50         | 50         | Estonia, Tallinn       | Real estate       |
| Kodusadam OÜ                | 50                            | 50         | 50         | Estonia, Tallinn       | Real estate       |

The 100% subsidiary in the Kingdom of Norway, Merko Investments AS (registry code 916 750 323) was founded in February 2016 and, on 17 February, entered into the register. Merko Investments AS, registered in Norway, is 100% subsidiary of AS Merko Ehitus. The first contribution of NOK 30 thousand was made to the new subsidiary's share capital on 3 February; the second contribution, of NOK 4,700 thousand, was made on 3 March (totalling approximately EUR 502 thousand). This is a technical step aimed at creating the legal platform for launching operations in Norway.

On 7 March 2016, Merko Investments AS, part of AS Merko Ehitus group, signed contracts with Norwegian companies SDV Holding AS and Aucon AS to acquire 56% stake in Norwegian construction company Peritus Entreprenør AS. The total purchase price was NOK 4,000 thousand (EUR 425 thousand). At the moment of purchase, the group developed an additional non-controlling stake in the amount NOK 2,572 thousand (EUR 273 thousand; as at 30.06.2016 EUR 277 thousand), which due to contractual conditions is recognised in the group as a redemption option of minority holding as a liability under other debts to related parties. The due date for the option is 7 March 2021. Peritus Entreprenør AS ([www.peritus-entreprenor.no](http://www.peritus-entreprenor.no)) is a Norwegian construction company, offering general construction services, with the sales turnover of approximately 7 million euros in 2015. The former owners will continue to participate in the daily management of the company and they keep their 44% stake. The aim of the acquisition is to start offering construction services on Norwegian market.

On 7 March 2016, Merko Ehitus group subsidiary UAB Merko Bustas entered into an agreement with the company Venturecorp Property Holdings Ltd for acquiring a 100% ownership in the Lithuanian real estate developer UAB Rinktinės projektai with a total purchase price of EUR 2 thousand.

On 30 March 2016, AS Merko Ehitus's 100% subsidiary AS Merko Ehitus Eesti made a non-monetary contribution into subsidiary OÜ Fort Ehitus. The object of the non-monetary contribution was the ceding of claims arising from a loan agreement to OÜ Fort Ehitus totalling EUR 1,880 thousand. Among other things, AS Merko Ehitus ceded claims worth EUR 1,429 thousand and the non-controlling interest in the amount of EUR 451 thousand. After executing the transaction, AS Merko Ehitus Eesti's stake in the subsidiary OÜ Fort Ehitus increased by 1% percentage to 76%.

#### ACQUISITION OF SUBSIDIARY

in thousand euros

|                               | Peritus Entreprenør AS | UAB Rinktinės projektai |
|-------------------------------|------------------------|-------------------------|
|                               | Fair value             | Fair value              |
| Cash                          | 1,682                  | 2                       |
| Short-term receivables        | 642                    | -                       |
| Inventories                   | 5                      | -                       |
| Property, plant and equipment | 47                     | -                       |
| Short-term liabilities        | 1 730                  | -                       |
| Long-term liabilities         | 25                     | -                       |
| Net assets                    | 621                    | 2                       |
| Non-controlling interest      | (273)                  | -                       |
| Acquired ownership interest   | 56%                    | 100%                    |
| Goodwill                      | 77                     | -                       |
| Net assets acquired           | 425                    | 2                       |

|                                                               | Peritus Entreprenør AS | UAB Rinktinės projektai |
|---------------------------------------------------------------|------------------------|-------------------------|
|                                                               | Fair value             | Fair value              |
| Acquisition cost                                              | 425                    | 2                       |
| Subsidiary's cash and cash equivalent on acquisition          | 1,368                  | 2                       |
| Paid on acquisition                                           | (126)                  | -                       |
| Cash flow from acquisition of subsidiary                      | 1,242                  | 2                       |
| Net profit for the period                                     | 123                    | -                       |
| Comprehensive income for the period                           | 131                    | -                       |
| incl. net profit attributable to equity holders of the parent | 76                     | -                       |
| net profit attributable to non-controlling interest           | 55                     | -                       |

### GOODS AND SERVICES

in thousand euros

|                                               | 2016 6 months | 2015 6 months | 2015 12 months |
|-----------------------------------------------|---------------|---------------|----------------|
| <b>Provided services and goods sold</b>       |               |               |                |
| Parent company                                | 7             | 5             | 12             |
| Joint ventures                                | 1,711         | 144           | 530            |
| Entities under common control                 | 3,386         | 5             | 49             |
| Members of the management                     | 90            | 903           | 1,837          |
| <b>Total services provided and goods sold</b> | <b>5,194</b>  | <b>1,057</b>  | <b>2,428</b>   |
| <b>Interest income</b>                        |               |               |                |
| Joint ventures                                | 131           | 76            | 171            |
| <b>Purchased services and goods</b>           |               |               |                |
| Parent company                                | 45            | 45            | 90             |
| Entities under common control                 | 67            | 63            | 125            |
| Other related parties                         | -             | -             | 6              |
| <b>Total purchased services and goods</b>     | <b>112</b>    | <b>108</b>    | <b>221</b>     |
| <b>Interest expense</b>                       |               |               |                |
| Entities under common control                 | 92            | 78            | 201            |
| Members of the management                     | -             | 2             | 2              |
| <b>Total interest expense</b>                 | <b>92</b>     | <b>80</b>     | <b>203</b>     |

### BALANCES WITH RELATED PARTIES

in thousand euros

|                                               | 30.06.2016   | 30.06.2015   | 31.12.2015   |
|-----------------------------------------------|--------------|--------------|--------------|
| <b>Receivables from related parties</b>       |              |              |              |
| Loans granted (Notes 6, 8)                    |              |              |              |
| Joint ventures                                | 4,185        | 3,850        | 3,888        |
| Receivables and prepayments (Note 6)          |              |              |              |
| Parent company                                | 4            | 3            | 4            |
| Joint ventures                                | 1,039        | 515          | 536          |
| Entities under common control                 | 158          | 23           | 1            |
| <b>Total receivables and prepayments</b>      | <b>1,201</b> | <b>541</b>   | <b>541</b>   |
| Other long-term receivables (Note 8)          |              |              |              |
| Joint ventures                                | 246          | 10           | 7            |
| <b>Total receivables from related parties</b> | <b>5,632</b> | <b>4,401</b> | <b>4,436</b> |

|                                          | 30.06.2016   | 30.06.2015    | 31.12.2015    |
|------------------------------------------|--------------|---------------|---------------|
| <b>Payables to related parties</b>       |              |               |               |
| Loans received (Note 12)                 |              |               |               |
| Entities under common control            | 1,000        | 1,000         | 1,000         |
| Payables and prepayments (Note 13)       |              |               |               |
| Parent company                           | 9            | 9             | 9             |
| Entities under common control            | 203          | 3,282         | 3,264         |
| Members of the management                | -            | 907           | -             |
| Other related parties                    | 610          | -             | 618           |
| <b>Total payables and prepayments</b>    | <b>822</b>   | <b>4,198</b>  | <b>3,891</b>  |
| Other long-term payables (Note 12)       |              |               |               |
| Entities under common control            | 6,000        | 7,000         | 7,000         |
| Other long-term payables (Note 12)       |              |               |               |
| Other related parties                    | 277          | -             | -             |
| <b>Total payables to related parties</b> | <b>8,099</b> | <b>12,198</b> | <b>11,891</b> |

#### TRANSACTIONS INVOLVING RELATED PARTIES (ADDITIONAL INFORMATION)

On 17 February 2016, AS Merko Ehitus's 100% subsidiary SIA Merks realised immovable properties located at Dikmana 8, Dikmana 10 and Grostonas 15 in Riga to 100% subsidiaries SIA SBC 08, SIA SBC 10 and SIA SBC 15 of a related party E.L.L. Kinnisvara AS at the sale price in the total amount of EUR 2,600 thousand.

#### REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 6 months of 2016 was EUR 1,160 thousand (6 months of 2015: EUR 1,004 thousand; 12 months of 2015: EUR 2,191 thousand).

#### TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members according to whom no termination benefits are paid to them upon termination of the contract. In the 6 months of 2016, the Management Board members of major subsidiaries received EUR 22 thousand in compensation (6 months of 2015: EUR 13 thousand; 12 months of 2015: EUR 18 thousand).

#### MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

Track record and photographs of the members of the Supervisory Board can be found on AS Merko Ehitus website at: [group.merko.ee](http://group.merko.ee).

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 30.06.2016:

|                              |                                   | NO OF SHARES     | % OF SHARES   |
|------------------------------|-----------------------------------|------------------|---------------|
| Toomas Annus (AS Riverito)   | Chairman of the Supervisory Board | 8,322,914        | 47.02%        |
| Indrek Neivelt (OÜ Trust IN) | Member of the Supervisory Board   | 31,635           | 0.18%         |
| Olari Taal (OÜ Eggera)       | Member of the Supervisory Board   | 2,500            | 0.01%         |
| Teet Roopalu                 | Member of the Supervisory Board   | -                | 0.00%         |
|                              |                                   | <b>8,357,049</b> | <b>47.21%</b> |

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

Shares held by members of the Management Board of AS Merko Ehitus as at 30.06.2016:

|                           |                                  | NO OF SHARES     | % OF SHARES  |
|---------------------------|----------------------------------|------------------|--------------|
| Andres Trink              | Chairman of the Management Board | 400              | 0.00%        |
| Tõnu Toomik (AS Riverito) | Member of the Management Board   | 1,607,185        | 9.08%        |
|                           |                                  | <b>1,607,585</b> | <b>9.08%</b> |



## NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

|                                               | 30.06.2016    | 30.06.2015    | 31.12.2015    |
|-----------------------------------------------|---------------|---------------|---------------|
| Performance period's warranty to the customer | 12,513        | 17,613        | 9,174         |
| Tender warranty                               | 957           | 1,234         | 745           |
| Guarantee warranty period                     | 23,148        | 17,983        | 23,988        |
| Prepayment guarantee                          | 1,527         | 7,242         | 2,336         |
| Payment guarantee                             | 30,500        | 278           | 30,500        |
| Contracts of surety                           | 1,416         | 392           | 654           |
| Letter of credit                              | -             | 927           | 2,000         |
| <b>Total contingent liabilities</b>           | <b>70,061</b> | <b>45,669</b> | <b>69,397</b> |

The "Payment guarantee" entry includes a payment guarantee for the benefit of a financial institution, issued within the framework of a contract for construction entered into in the fourth quarter of 2015, in order to secure the customer's contractual payment obligations in the total amount of up to EUR 30,500 thousand. The realisation of the payment guarantee is not considered likely by the group. In order to secure the payment guarantee, a second-rank mortgage on the registered immovable accommodating the building to be constructed within the framework of the contract for construction has been established for the benefit of the group in the total amount of EUR 8,500 thousand.

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

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

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

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

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

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

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

The Management Board of AS Merko Ehitus has prepared the consolidated interim financial statements for the 6 months and II quarter of 2016, which are set out on pages 5-57.

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

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

Andres Trink

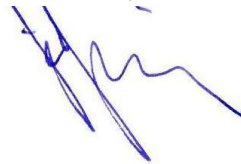
Chairman of the Management Board



04.08.2016

Tõnu Toomik

Member of the Management Board



04.08.2016