



# AS MERKO EHITUS

SOCIAL RESPONSIBILITY REPORT





# AS MERKO EHITUS GROUP

## SOCIAL RESPONSIBILITY REPORT

<b>Business name:</b>	AS Merko Ehitus
<b>Main activities:</b>	Holding companies General contracting of construction Real estate development
<b>Commercial Register No.:</b>	11520257
<b>Address:</b>	Järvevana tee 9G, 11314 Tallinn
<b>Postal address:</b>	Pärnu mnt 141, 11314 Tallinn
<b>Phone:</b>	+372 650 1250
<b>Fax:</b>	+372 650 1251
<b>E-mail:</b>	group@merko.ee
<b>Web site:</b>	group.merko.ee
<b>Auditor:</b>	AS PricewaterhouseCoopers
<b>Supervisory Board:</b>	Toomas Annus, Teet Roopalu, Indrek Neivelt, Olari Taal
<b>Management Board:</b>	Andres Trink, Tõnu Toomik



<b>TABLE OF CONTENTS</b>	
<b>BRIEF OVERVIEW OF THE GROUP</b>	<b>4</b>
<b>STATEMENT OF THE CHAIRMAN</b>	
<b>OF THE MANAGEMENT BOARD</b>	<b>11</b>
<b>MANAGEMENT REPORT</b>	<b>13</b>
<b>EMPLOYEES</b>	<b>14</b>
<b>REPORT ON GOOD CORPORATE GOVERNANCE</b>	<b>22</b>
<b>RISK MANAGEMENT</b>	<b>34</b>



AS Merko Ehitus consists of Estonia's leading construction company AS Merko Ehitus Eesti, the Latvian-market-oriented SIA Merks, UAB Merko Statyba that is operating on the Lithuanian market and the real estate development business unit along with real estate holding companies. Merko Ehitus focuses on general contracting of construction and on providing complete solutions in professional construction and real estate development. 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 Baltics.

Wide scope of construction services: general construction, civil engineering, road construction and real estate projects.



Operates in Estonia (**68%** of revenue), Latvia (**27%**) and Lithuania (**5%**)



The largest listed construction company in the Baltics



2014 revenue: **EUR 252.3** mln



#### MERKO'S COMPETITIVE ADVANTAGES:

- Broad range of construction services and products, and comprehensive solutions offered to clients
- Experienced project managers and engineers
- Longstanding experience on the subcontractors and suppliers market
- Innovative technological approaches and construction solutions
- Strong financial capability
- Inventory of residential development projects

2014 EBITDA: **EUR 16.4** mln  
Net profit 2014: **EUR 12.4** mln



31.12.2014: **765** employees



2014 NEW CONTRACTS SIGNED: **EUR 170.4** mln



#### OUR VALUE OFFERING

AS PRIME CONTRACTOR, WE OVERSEE THE ENTIRE CONSTRUCTION PROCESS AND ARE RESPONSIBLE FOR THE COMPLETION OF THE CONSTRUCTION PROJECT AS A WHOLE:

- Integrated project management and construction service and provision of strategic consultation to the contracting entity throughout the process
- As needed, combined use of subcontractors and Merko workforce (concrete works, road construction, electrical constructions both indoor and outdoor)
- Real estate investments and development, managing the entire apartment development process: development, construction and sales
- Co-investing, risk distribution and participation in PPP (public-private partnership) projects



## MAIN EVENTS IN 2014

### JANUARY



- AS Merko Ehitus Eesti completes construction of Nurmevälja logistics centre, featuring 23,000 m<sup>2</sup> of gross space, and a solar panel solution for generating part of the energy needed by the centre.



- Merko starts the third phase of construction on the Paepargi apartment development, which will see the completion of three apartment buildings with a total of 54 apartments. Merko has sold 108 apartments in the six buildings completed in the first two stages.
- A consortium (AS Merko Ehitus Eesti, KMG Inseneriehituse AS and Ratatek OY) signs a contract (EUR 26 million) with Tallinna Linnatranspordi AS for performing design and renovation of the infrastructure of Tallinn tram line No. 4.

### FEBRUARY

- SIA Merks signs a contract (EUR 6.5 million) with the urban development department of Riga City Council for re-cultivation and construction of a landfill in Riga.



- Merko launches the construction of two apartment buildings equipped with smart home solutions in Kalamaja district, at Vana-Kalamaja 31 and Suur-Laagri 2.

### MARCH

- The Estonian Concrete Association announces the winner of the Concrete Building of the Year 2013 award – the renovation of Ülemiste crossing in Tallinn, performed by a consortium of AS Merko Ehitus Eesti, AS Merko Infra, Tallinna Teede AS and AS Ehitusfirma Rand ja Tuulberg.



- AS Merko Ehitus Eesti and AS Merko Infra complete 70 km of water pipes and 72 km of sewerage pipes in Vääna-Jõesuu as well as utility connection points for more than 2,400 properties, which will significantly improve the quality of life for the area's inhabitants.

### APRIL

- AS Merko Ehitus Eesti's project director Tiit Joost is declared the winner of the Civil Engineer of the Year 2013 competition held by the Association of Estonian Construction Entrepreneurs, for his successful management of construction work on Ülemiste traffic junction.
- The general meeting of shareholders approves the 2013 annual report, with net profit of EUR 10.4 million, and decides to pay shareholders dividends of EUR 7.3 million – EUR 0.41 per share. A decision is made to extend the term of supervisory board members Toomas Annus, Teet Roopalu, Indrek Neivelt and Olari Taal until 30 April 2017.

### MAY

- AS Merko Ehitus releases its financial results for Q1: sales revenue of EUR 48.9 million and net profit of EUR 0.7 million.
- UAB Merko Statyba and ABB AB enter into a contract (EUR 6.0 million) for general construction at the Nordbalt high-voltage direct current converter station in the village of Kiškėnų, in Klaipėda County in Lithuania.

### JULY

- A new environmentally friendly waste water treatment centre built by AS Merko Infra and AS Merko Ehitus Eesti makes it possible for more than 6,000 residents of the city of Elva and small town of Käärdis to join a modern waste water treatment centre.
- As a result of the Narva-Jõesuu beach area development and reconditioning works, completed by AS Merko Infra ja AS Merko Ehitus Eesti, the public urban space bordering on the seashore of Narva-Jõesuu is renovated and Narva-Jõesuu promenade is opened.

### AUGUST



- In 14 months, the Tondiraba Ice Arena is completed. It's full of extraordinary solutions, from the 4,500 reinforced concrete elements, 2,000 square metre seamless concrete floor to the imposing 62-metre span wooden trusses.
- UAB Merko Statyba and Pro Kapital Bonum UAB – part of the AS Pro Kapital group – enter into a contract (EUR 2.9 million) for design and construction of an apartment building (41 residential units and 3 commercial) located in Saltiniu Namai residential complex, Vilnius, Lithuania.
- AS Merko Ehitus releases its 6-month and Q2 financial results: 6-month sales revenue of EUR 113.7 million and net profit of EUR 4.4 million.
- UAB Merko Statyba and VšĮ Tarptautinė Amerikosmokykla Vilniuje enter into a contract (EUR 2.2 million) for performing construction on the International American School athletics building in Vilnius.
- Merko completes the fourth phase of the Vääna-Jõesuu public water supply and sewerage pipes and waste water pump station, including 3.8 km of drinking water and 4.1 km of sewerage pipes.

## MAIN EVENTS IN 2014

### SEPTEMBER



- Tallinna Teede AS enters into a contract with the Road Administration (EUR 5.7 million) for renovation of the Kodusoo-Läsna segments of Tallinn-Narva main road No. 1 (E20) and a contract with the Tallinn Public Works Department (EUR 2.9 million, not including the contracting authority's reserve) for renovation of Suur-Sõjamäe street from J. Smuuli tee to the city limits.
- AS Merko Ehitus Supervisory Board decides to extend the powers of the chairman of the company's management board from 1 January 2015 to 1 January 2018. AS Merko Ehitus's management board continues as a two-member body. Andres Trink (Chairman) and Tõnu Toomik.



- AS Merko Ehitus launches two residential development projects in Tallinn. Construction of an apartment building with 47 apartments and 4 commercial units in Kristiine district at Rästa 18 begins. The cost of the development project is approximately EUR 6.5 million. The

company also launches the fourth phase of the Paepargi apartment development, which consists of three 14-storey apartment buildings, the first of which is on Paepargi 49. The total value of the development project is EUR 14-16 million.

- Merko marks the completion of the luxurious Noorus spa hotel in Narva-Jõesuu, built by AS Merko Ehitus Eesti and featuring 114 luxuriously furnished rooms, a conference centre, an à la carte restaurant seating 130 and Estonia's largest spa complex.
- The world's leading business and investment magazine, Euromoney, names AS Merko Ehitus as Estonia's best real estate developer, both overall and in the residential, commercial and industrial real estate categories.

### OCTOBER

- AS Merko Ehitus wins the award for Estonia's most competitive construction company and Tallinna Teede AS – part of the Merko group – takes the prize for most competitive SME. Watch video: <https://www.youtube.com/watch?v=DclmFwjP0SI>.



- UAB Merko Bustas launches two apartment development projects in Vilnius. The Fizikų apartment development has a 6- and 5-storey building and 108 apartments. Construction starts on the first of the buildings, which has 38 apartments. The cost of the development project is between EUR 6-7 million. Meanwhile, the Kražių Namai project near the Old Town has two

three-storey energy class A buildings with a total of 27 apartments. The cost of the development project is between EUR 3-3.5 million.

- AS Merko Infra completes the design and construction work in the second phase of Sillamäe's pipes and bore wells, laying 11 km of water pipes and 12 km of sewerage pipes. Two pump stations were renovated as well.
- The 140-MW Kiisa emergency backup power plant in Saku, Harju County, is completed. AS Merko Ehitus Eesti was a subcontractor on this project.

### NOVEMBER

- AS Merko Ehitus Eesti and AS Mainor Ülemiste – which is developing the Ülemiste City centre – enter into a contract (EUR 17.4 million) for design and construction of an office building with 13 floors and one underground floor, located at Sepise 9 / Valukoja 8, Tallinn.
- AS Merko Ehitus releases its 9-month and Q3 financial results: 9-month sales revenue of EUR 182.2 million and net profit of EUR 7.6 million.
- SIA Merks and SIA Jaunais Mežaparks enter into a construction contract (EUR 4.1 million) for performing preparatory engineering work on the grounds of a 30-hectare future residential area of private homes.

### DECEMBER

- AS Merko Ehitus and BLRT Grupp Aktsiaselts found a joint venture, Kalaranna Arenduse OÜ, established for the purpose of acquiring real estate zoned as commercial and residential land in the Noblessner quarter of Tallinn, preparing development activity and developing the properties. Kalaranna Arenduse OÜ's share capital is EUR 10,000, which is split in half between the parties.
- The AS Merko Ehitus Eesti subsidiary AS Merko Tartu launches a new stage of an

apartment development in Pärna allee in Tartu municipality comprising construction of two energy class B apartment buildings with 60 apartments total. The total cost of the project is about EUR 3.5 million.

- AS Merko Ehitus Eesti and OÜ Infor Invest enter into a contract (about EUR 6 million) for design and construction of a logistics centre with a gross area of close to 15,000 m² at Vana-Narva mnt 5B, Maardu city, Estonia.
- UAB Merko Statyba and OÜ Prodo and UAB Baltic Petroleum enter into a contract (approximately EUR 15 million) for construction of a residential complex with office space consisting of nine buildings at Algirdo 42/Kauno 16 in Vilnius.
- The Estonian Association of Construction Entrepreneurs announces Ahto Aruväli from AS Merko Ehitus Eesti as the winner of the Builder of the Year award for 2014. He is credited for the construction of Tondiraba Ice Arena, where Ahto Aruväli was able to effectively manage the cooperation between customer, oversight, architect, designers, subcontractors and own employees.



- A Maxima XX supermarket built by AS Merko Ehitus Eesti is opened in the Paepargi residential area in Lasnamäe district of Tallinn.

Contract figures do not include VAT.





THE PRIME CONSTRUCTION CONTRACTOR FOR THE 300 MW EESTI POWER PLANT WAS THE CONSORTIUM LED BY THE FRENCH COMPANY ALSTOM, UNDER A TURNKEY CONSTRUCTION CONTRACT; MERKO WAS THE BIGGEST SUBCONTRACTOR FOR GENERAL CONSTRUCTION. THE POWER PLANT COMPLEX CONSISTS OF MORE THAN 30 DIFFERENT BUILDINGS AND INFRASTRUCTURE SITES; MERKO WAS INVOLVED IN THE CONSTRUCTION OF 22 OF THEM. BY ESTONIAN STANDARDS, THIS WAS A VERY LARGE AND INTERNATIONAL CONSTRUCTION PROJECT, AS COMPANIES FROM CLOSE TO 20 DIFFERENT EUROPEAN COUNTRIES WERE INVOLVED IN THE WORK AND THE MAXIMUM NUMBER OF EMPLOYEES APPROACHED 1,400 AT PEAK PERIODS.

## 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. 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 Baltics. 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. The shares of Merko have been listed on the Tallinn Stock Exchange since 1997. The group employs 765 people.

The group comprises construction and property development companies providing

complete construction solutions in Estonia, Latvia and Lithuania, 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 about 5% of the total volume of the Estonian construction market as of the end of year 2014. In Latvia and Lithuania, Merko Ehitus operates through its subsidiaries SIA Merks and UAB Merko Statyba, focusing selectively on projects where the competitive advantage is perceivable as compared to other market players.

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



## VISION

“OUR VISION IS RELIABLE SOLUTIONS AND QUALITY PERFORMANCE FOR YOUR IDEAS.”

## VALUES

### RESPONSIBILITY

We decide based on business thinking, awareness and ethical beliefs. We offer enduring and environmentally friendly solutions.

### KEEPING PROMISES

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

### COMPETENCE

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

### INITIATIVE

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

### CREATIVITY

We are open, innovative and creative in working out and implementing the solutions. We have a will to carry out forward-looking ideas.



## STRATEGY



THE BUSINESS STRATEGY OF AS MERKO EHITUS SUBSIDIARIES IS FOCUSED ON IMPROVING PROFITABILITY AND ENHANCING THE EFFICIENCY OF THE COST BASE, OFFERING GENERAL CONTRACTING SERVICES IN THE FIELD OF CONSTRUCTION OF BUILDINGS AND INFRASTRUCTURE FACILITIES AND DEVELOPING RESIDENTIAL REAL ESTATE IN ITS HOME MARKETS ESTONIA, LATVIA AND LITHUANIA. AS MERKO EHITUS AIMS TO BE A PREFERRED PARTNER TO ITS CLIENTS FOR CONSTRUCTION WORKS.

## LONG-TERM FINANCIAL OBJECTIVES UNTIL 2018

In 2013, the Management Board and Supervisory Board reviewed the company's strategic development directions and approved long-term financial objectives until 2018.

Considering the weak growth prospects of the Baltic construction and real estate market in the coming few years, the overall 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.

The long-term financial objectives of AS Merko Ehitus relate to the period until 2018 and are reviewed annually based on the market situation, the financial condition and strategy of the company:

- average return on equity of the period of at least 10%
- dividend rate: 50-70% of annual profit
- equity ratio: at least 40%



NOORUS SPA HOTEL, COMPLETED IN AUGUST 2014 IN NARVA-JÕESUU, OFFERS HOSPITALITY SERVICES EVERY BIT THE EQUAL OF ITS FOUR-STAR RATING.



WITHIN FIVE YEARS OF WORKS AT CLOSING THE KOHTLA-JÄRVE INDUSTRIAL WASTE AND SEMI-COKE DUMP IN NORTH-EASTERN ESTONIA, A HILL OF MINE WASTE AMOUNTING TO 6 MILLION M<sup>3</sup> WAS RELOCATED, 84 HECTARES WERE REPLANTED, A RAINWATER COLLECTION SYSTEM MORE THAN 8 KM LONG WAS INSTALLED, AND 2.5 HECTARE LAKES CONTAINING LIQUID OIL SHALE MINING RESIDUES WERE CLOSED.

In 2014, the Group fulfilled all the set long-term financial objectives:

average return  
on equity **10.1%**

dividend rate  
**58%**  
of annual profit

equity ratio  
**51.0%**

In 2014, the group's return on equity was 10.1% (2013: 8.8%). Based on 2014 results, the group can be satisfied with the results of all the major subsidiaries, as well the fact that materialisation of major construction risks were avoided as opposed to 2013.

Additionally to the average return on equity goal, the Group achieved also the rest of the long-term financial goals in 2014: the dividend rate was 58% (2013: 70%) and the equity ratio was 51,0% (2013: 50.9%).



# STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD



ANDRES TRINK  
AS MERKO EHITUS  
CHAIRMAN OF THE  
MANAGEMENT BOARD

Dear reader,

As the leading Baltic construction company, we have always wanted to make a contribution to society, and we are glad that over the years, we have developed a longstanding relationship with professional partners who help us to do just that. We plan on continuing to implement the principles of social responsibility in cooperation with our partners in years to come as well.

We are confident that our long-term success hinges on socially responsible management practices and sustainable operations. We try to find a balance between short-term goals and business results and long-term perspective – growing the value of the company. The goal of the group is to increase its value in both the economic and the societal terms, taking responsibility for its decisions and activities, understanding how they affect employees, customers and partners as well as local communities, the environment and all of society.

The results of Merko Ehitus group depend on motivated and professional employees. As an employer, our task is to create working environment, which supports the achievement of good results and focuses on working safety and development opportunities. We employ 765 people in the Baltics for whom we provide conditions for professional development and career opportunities by supporting studies and acquisition of professional knowledge and experience.

Our employees are a core asset for our company. They are ambassadors for carrying on and implementing corporate principles and values. Our employees won two primary honours in the construction industry in 2014: project director Tiit Joosti received the Civil Engineer of the Year award for leading the construction work at Ülemiste traffic junction and the Estonian Association of Construction Entrepreneurs chose project manager Ahto Aruväli for managing the construction of Tondiraba Ice Arena.

We also support projects initiated by employees. In the last two years, the assistance collected as part of charity initiatives started by Merko employees have helped improve the quality of life for two families in need.

As the leading construction company and apartment developer in the Baltics, Merko aims to develop and build comfortable homes and well-functioning, modern environments. We put our existing knowledge and experiences to work in every new apartment and other site we develop or build, with the goal of creating a high-quality and lasting homes, buildings and other infrastructure sites. We were honoured that a leading international business and investment magazine, Euromoney, mentioned us in its real estate market survey as Estonia's best real estate developer – in no fewer than five categories.

Merko's sponsorship activity remains focused on three fields. One area is sports – on both the pro and recreational level. The projects we support help establish opportunities for people to engage in sports and active pursuits. We contribute to education with the aim of developing specialized educational programmes and train a future generation of professionals. We also support efforts to preserve and popularize culture and artistic legacy, concentrating on sites with national and wider appeal.

Our biggest support project is still the Eesti Terviserajad recreational trails project, which aims to promote exercise as part of one's lifestyle. Thanks to the ten-year-long effort by three large companies (Merko, Swedbank and Eesti Energia), top athletes and amateurs and hobbyists have more than 100 trails and paths to choose from country-wide. A total of 200 of the 1,000 kilometres of the system are illuminated and 200 km are asphalt paved. All of the paths are open 24 hours a day and free to use. With the goal of supporting the Estonian national Nordic skiing team and ensure a strong next generation of athletes, we have a longstanding cooperation with the Estonian Ski Association. In Latvia, we have long been a supporter of the women's basketball team at Rīga Stradiņš University.

We support education through scholarships awarded to young researchers/teachers and civil engineering students at Tallinn University of Technology. In addition, in 2014 we engaged in cooperation with the Association of Latvian Construction Engineers in issuing the annual construction award, and also supported the Latvian Union of Architects.

In the field of culture, our longstanding relationship with the Art Museum of Estonia helps us preserve and protect Estonian art heritage. Since 2014, we have provided support for a major project at the St. Nicholas Museum in Tallinn, "Rode Altarpiece in Closeup", focusing on the conservation of the grand late medieval retablo of the main altar. In Latvia, we supported the Liepāja Symphony Amber Sound Orchestra.

The achievement confirms that we are on the right track, but it also sets a high bar for the future. What is certain is that Merko will continue to refine and implement our corporate social responsibility principles.



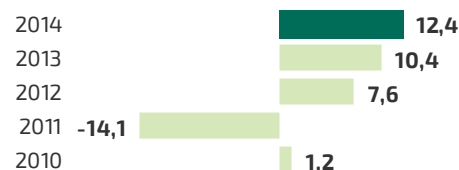
Sincerely,  
Andres Trink



# MANAGEMENT REPORT

## BRIEF OVERVIEW OF 2014

NET PROFIT  
in million euros



REVENUE  
in million euros



### PROFITABILITY

Profit before tax in 2014 was EUR 13.3 million (2013: EUR 11.1 million), which is equivalent to a profit before tax margin of 5.3% (2013: 4.2%). Net profit in 2014 was EUR 12.4 million (2013: EUR 10.4 million), up 19.4% from the previous year. Net margin increased by 24.3% to 4.9% (2013: 4.0%).

### REVENUE

Revenue in 2014 was EUR 252.3 million (2013: EUR 262.7 million), which has decreased by 4.0% compared to the same period last year. The share of revenue earned outside of Estonia has increased in 2014 to 32.3% (2013: 19.3%). The number of apartments sold in 2014 (395 pcs, revenues of EUR 39.4 million) has increased by 50.2% (2013: 263 apartments, revenues of EUR 28.3 million).

### CASH POSITION

At the end of the reporting period, the group had EUR 51.6 million in cash and cash equivalents and equity EUR 127.0 million (51.0% of total assets). Comparable figures as at 31 December 2013 were accordingly EUR 46.6 million and EUR 121.9 million (50.9% of total assets). As at 31 December 2014 the group had net debt of negative EUR 13.9 million (31 December 2013: negative EUR 11.2 million).

### ORDER BOOK

In 2014, group companies signed new contracts in the amount of EUR 170.4 million (2013: EUR 254.3 million). As at 31 December 2014, the group's secured order book stood at EUR 179.1 million (31 December 2013: EUR 213.7 million).

### PROPOSAL FOR DISTRIBUTION OF PROFITS AND REDUCTION OF SHARE CAPITAL

The Management Board proposes to distribute to shareholders EUR 7.3 million (EUR 0.41 per share) in dividends from retained earnings in 2015. This is equivalent to a 58% dividend rate for 2014. The Management Board also proposes to reduce the share capital by a total of EUR 4.1 million (EUR 0.23 per share) by way of reducing the book value of shares.

		2014	2013	VARIANCE
Revenue	million EUR	252.3	262.7	-4.0%
Gross profit	million EUR	24.7	22.7	+8.8%
Gross margin	%	9.8	8.6	+13.3%
EBITDA	million EUR	16.4	15.1	+8.9%
EBITDA margin	%	6.5	5.7	+13.4%
Profit before tax	million EUR	13.3	11.1	+19.4%
PBT margin	%	5.3	4.2	+24.3%
Net profit attributable to equity holders of the parent	million EUR	12.4	10.4	+19.4%
Net margin	%	4.9	4.0	+24.3%
Earnings per share	EUR	0.70	0.59	+19.4%
Dividends per share	EUR	0.41*	0.41	0.0%

\* pursuant to the Management Board's proposal

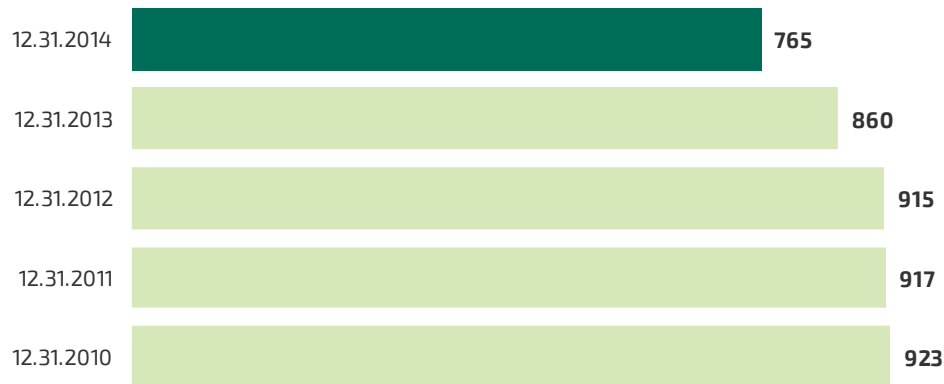
		31.12.2014	31.12.2013	VARIANCE
Return on equity (annual)	%	10.1	8.8	+15.6%
Equity ratio	%	51.0	50.9	+0.1%
Order book	million EUR	179.1	213.7	-16.2%
Total assets	million EUR	249.3	239.2	+4.2%
Number of employees	people	765	860	-11.0%

# EMPLOYEES

Compared to the same period last year, the number of the group's employees decreased by 95 (-11.0%) and as at 31 December 2014, the group had a total of 765 employees (including fixed-term and part-time employees).

In 2014, the number of employees has declined because of the proportion of the civil engineering segment declined within the work volumes of the group, but also due to the sale of subsidiary Gustav Tallinn OÜ, the change of the principal area of activity of subsidiary AS Gustaf and the decrease of road maintenance works of subsidiary AS Vooremaa Teed. On the other hand the number of employees increased in Lithuania mainly due to the growth of construction volumes.

NO OF EMPLOYEES  
people



## PERSONNEL POLICY

Merko Ehitus employs a total of 765 people in Estonia, Latvia and Lithuania, including office staff, project managers and on-site team members. Experienced professionals are the company's key strength.

The group's personnel policy supports achievement of the company's goals, ensuring sustainability of the organisation and management, staying competitive, maintaining and increasing the value of the organisation and constant development of competence.

We develop responsible management throughout the organisation, guided by company strategy, management system, applicable law, ethical values and

good organisation management practice. We treat employees as partners, involving them in the decision-making process and perceiving that the right to make decisions includes responsibility. We support people's achievement of their professional goals and the advancement of their career in the company by encouraging existing employees to apply for vacant or new positions within the company. We ensure an adequate, fair and competitive salary that complies with the contribution of the employee and a motivation package.

We provide employees with conditions for professional development and career opportunities by supporting studies and acquisition of professional knowledge and experience. We support our employees for developing their competence and skills.

## HEALTH AND SAFETY

Creating a safe working environment for well trained, healthy and motivated employees, both in offices and on construction sites, has always been an important aspect in the operations of the group's construction companies. Pre-construction risk analysis remains constantly in focus, aimed at identifying common protection needs of site workers, measures and requirements for use of personal protection equipment. Basic and supplementary training in the field of occupational health and safety forms part of our personnel policy. Training provides knowhow and skills that enables to prevent risks, analyse them and find the most suitable technical and economic solutions. The management system for occupational health and safety that was certified in 2004 and complies with the OHSAS 18001 standard allows to effectively monitor working environment in construction sites and offices. Basic and supplementary training has always been available for inspectors to guarantee their competence.

Periodic health inspection provided by the occupational health partner to assess work-related risk factors helps to prevent employee health problems, plan safer working environments or, with the partial support of the company, to allow employees to use the necessary health rehabilitation measures. Additionally, the company organises for its employees free vaccinations and, naturally, provides its on-site personnel with comfortable compliant work clothes and footwear.

A balanced personal life and a healthy way of living provide a counterbalance to stressful work. In order to promote recreational sports and to maintain working ability we pay our employees sports and health allowance. Additionally, Merko has for more than ten years contributed to the development of Estonian health trails - today a hundred health trails all across Estonia are available for use free of charge for all Merko employees as well as everyone else.



## PERSONNEL DEVELOPMENT AND RECOGNITION

Work at Merko demands great responsibility but also offers variety, new challenges and opportunities for study and development. We value and support employees' personal development, offer various training courses internally and externally both as team training and individual study. We fully support employees' studies and recognise graduation and completion of a diploma.

In order to recognise the most prominent employees of the company and the best business partners, employees annually elect AS Merko Ehitus Eesti Achievers of the Year. In 2014, the following employees, team and business partner were elected as Achievers of the Year:

New Talent of the Year	Areenika Tammissaar	Warranty works specialist, residential construction division
Office Employee of the Year	Marek Sõrmus	Project manager, quantity surveying group
Civil Engineer of the Year	Peeter Laidma	Project manager, civil engineering division
Electrical Engineer of the Year	Juri Marenkov	Installation project manager, department of electrical works
Residential Contractor of the Year	Ahti Suppi	Project manager, residential construction division
General Contractor of the Year	Ahto Aruväli	Project manager, general construction division
Great Feat of the Year	Eesti Energia 300 MW Narva power plant general construction works	
	Team:	
	Indrek Moorats	Project manager, general construction division
	Maido Puks	Site manager, general construction division
	Viktor Stepanenko	Site manager, general construction division
	Margus Kana	Site engineer, general construction division
	Kermo Kaen	Site engineer, general construction division
	Janno Otsmaa	Site engineer, general construction division
	Rasmus Raamat	Site engineer, general construction division
	Jüri Šuhhalov	Expert of electrical works, general construction division
	Andres Aldoja	Expert of mechanical works, general construction division
	Kai Vähi	Design manager, general construction division
	Haide Pertel	Site secretary, general construction division
	Marti Russak	Site engineer, general construction division
Business Partner of the Year	AS Windoor	Partnership in the construction of the hotel and entertainment complex Hilton Tallinn and the apartment building Kentmanni 6

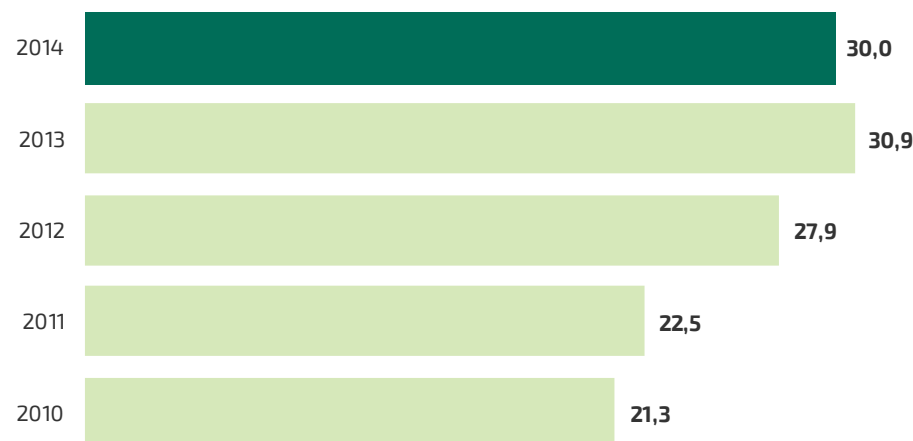
We celebrate together with our employees their personal events and company events for employees welcome everybody together with their spouses or guests and family events welcome the whole family. We offer additional benefits in the form of holiday days to our long-time employees. We highly value teamwork and a strong sense of team identity.

## REMUNERATION

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 2014, the labour cost was EUR 30.0 million (2013: EUR 30.9 million), down 2.9% from the previous year.

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 code of business ethics includes, among other things, guidelines on the following matters:

- conflicts of interests;
- confidentiality obligation;
- handling of insider information and insider transactions;
- bribery and corruption;
- hospitality and gifts;
- competition rules;
- equal treatment;
- protection and proper use of assets.

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 in 2014 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. The reporting and information analysis system implemented in AS Merko Ehitus ensures security, confidentiality and, if so desired, anonymity at every stage of the process. Each reported misconduct will be investigated by an independent cooperation partner – AS Merko Ehitus's contractual cooperation partner Ernst & Young – and will lead to appropriate action.

The reports forwarded via the report form, the reporting hotline or e-mail will not be forwarded to Merko – Ernst & Young will only give Merko a summary of the content of reports that need investigation, without any reference to the source of the information.

Information will also be kept confidential and used solely for the purposes of solving the relevant incidents by Merko's managers and the audit committee to whom a report has been made.



REPORT FORM



E-MAIL



HOTLINE



DIRECT COMMUNICATION



## ENVIRONMENT

The environmental management system that complies with ISO 14001 standard continues to focus on waste handling issues of construction sites, highlighting the need to sort waste in the most appropriate location and handing waste over only to such service providers that are licensed to handle such waste. In cooperating with such companies we have often discovered polluted soil and waste containing hazardous substances. For years, the company has been recording the quantities of waste created in construction sites and submitted respective annual reports to the Environmental Authority.

In environmentally sensitive tenders, we have always considered the requirements to the environmental impact assessment of projects, carried out preliminary research if necessary or conducted replacement planting, if it has been inevitable to fell trees when preparing the construction site.

## SOCIAL RESPONSIBILITY

The group is responsible for its decisions and activities that have an impact on our employees, customers and partners and, more broadly, on local communities.

In 2014, Merko Ehitus continued its long-term sponsorship projects in the same fields:

- We support sports and recreational sport projects that help create ways for entire communities to participate in sports and recreation.
- We support education in order to develop specialised education and plant the seeds for a new generation of professionals.
- We support keeping art and culture vital and make them available to more people, focusing on sites that are nationally important and have broad appeal.

During the year, the group supported sports, culture and education and made charitable donations total in the amount of EUR 0.22 million (2013: EUR 0.34 million).

The company's largest sponsored project is the Estonian Health Trails ([www.terviserajad.ee](http://www.terviserajad.ee)) project founded in 2004 in collaboration with Swedbank and Eesti

Energia. The aim of the project is to adjust and develop the exercise and sports tracks of Estonia to ensure the availability of the year-round and free of charge possibility for active exercise in nature for all interested people and popularise the sporty lifestyle. Today, both pro athletes and sports-minded people can choose from among more than 100 recreational trails all over Estonia with a total length of 1000 km, of which 200 km is illuminated and 200 km is black top.

In 2014, the foundation provided support for various design, construction and maintenance work and the purchase of necessary maintenance equipment for trails and recreational centres. The foundation also continued marking and blazing trails, installing trail maps and displays with the goal of making it easier for trail users to navigate. The foundation has also produced about 50 Estonian- and Russian-language instructional videos.

In the field of sport, the company continued cooperation it launched in 2005 with the Estonian Ski Association, the goal of which is to support the national cross-country skiing team and provide for a new generation of skiers.



10 YEARS AFTER THE PROJECT STARTED, ALL OF ESTONIA'S COUNTIES HAVE RECREATIONAL TRAILS. ESTONIANS CAN ENJOY OVER 100 TRAILS STRETCHING OVER 1000 KILOMETRES.

In 2014, Merko Ehitus and the Estonian Ski Association signed a new agreement that will give future hopefuls the U23 Merko Team assurance in preparing to contend for titles this upcoming season. The U23 Merko Team in the 2014/2015 season consists of Kati Tammjärv (Tartu Ski Club), Marko Kilp (Nõmme Sport Club), Alvar-Johannes Alev (Jõulu Ski Club) and Andreas Veerpalu (Karupesa Team).

In 2014, Merko continued the sponsoring of Estonian racing driver Martin Rump, who is participating in the prestigious Formula Renault 2.0 Eurocup Series in the ranks of team Fortec.

In Latvia, SIA Merks has supported the women's basketball team at Riga's Stradiņš University since 2001. This year, it also supported the international competitive dance competition Baltic Grand Prix 2014. This is one of the largest events of its kind in the Baltics and Europe. This year, the Merks Cup trophy was awarded to adults in the category of Latin American dance.

In the field of culture, Merko Ehitus has sponsored Estonian Art Museum since the year 2005. Since 2014, we have provided support for the major project at the St. Nicholas Museum, "Rode Altarpiece in Closeup", focusing on the conservation of the grand late medieval retable of the high altar. This is one of the grandest and best-preserved late medieval northern German cabinet altars anywhere in Europe. It came to Tallinn in 1481 and has been in its position for over 500 years. Over 6 metres wide and close to 3.5 metres high when fully open, the conservation work can be witnessed on the spot at the museum. The project runs from 2014-2016.

In 2014, Merko also supported a gala concert organized by the Italian Embassy and the publishing of a prestigious book marking the 10th anniversary of Estonia's accession to the EU and Italy's assuming the presidency of the Council of the European Union. The opera gala held in the Estonia Concert Hall featured soloists from one of Italy's most influential opera houses, Bergamo's Donizetti Theatre, accompanied by the Estonian National Symphony Orchestra conducted by Anu Tali.

In Latvia, the group supported two projects in the field of culture. Subsidiary SIA Merks supported the Liepāja Symphony Amber Sound Orchestra, which performed 11 concerts on an Asia tour lasting several weeks. Among other things, the orchestra performed at the opening ceremony of the Latvian Embassy in India. SIA Merks also supported the Valmiera Drama Theatre performance, Vienādas asinis.

Merko has a successful partnership since 2007 with Tallinn University of Technology for the objective of developing education in the field and train the next generation. In November 2013, AS Merko Ehitus Eesti signed a new cooperation agreement with the Development Fund of Tallinn University of

Technology until 2016 for sponsoring TUT students and academic staff with eponymous scholarships. A EUR 3,200 scholarship is awarded in construction specialities to a young lecturer/scientist up to 40 years of age, possessing a Doctoral level degree, in TUT and there is also another scholarship for EUR 1,920 awarded to a successful student of the third, fourth or fifth year in the Faculty of Civil Engineering, in TUT. In 2014, for the second year a scholarship was awarded. The scientist's scholarship was awarded to professor Hendrik Voll, Head of the heat and ventilation Department at TUT and the engineering scholarship was awarded to Jakov Ivanov, a fourth year student of the same speciality.

## RECOGNITIONS 2014

In 2014, the activities of AS Merko Ehitus were recognised in the form of the following prizes:

### CIVIL ENGINEER OF THE YEAR 2013

Tiit Joosti, project director with AS Merko Ehitus Eesti, was declared the winner of the Civil Engineer of the Year 2013 competition announced in the first quarter of 2014. The victory was an acknowledgement of Tiit Joosti's successful management of the construction of the Ülemiste junction as a civil engineer. The Civil Engineer of the Year competition was announced by the Estonian Association of Civil Engineers for the first time, with the aim of starting a new annual tradition. The competition aims at promoting the profession of a civil engineer, and acknowledging the engineers engaged in the field of construction for outstanding professional achievements.

### BALTIC MARKET AWARD 2013

At an award gala held in the first quarter of 2014 – the Baltic Market Awards 2013 – 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 2013, 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 category "The Most Visible Improvement over the Year" at raising quality of investor relations.



## CHIEF FINANCIAL OFFICER OF THE YEAR 2014

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. 2014's candidates included 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 with a significant role in raising the quality of reporting of the consolidated group operating in Estonia, Latvia and Lithuania, resulting in a more substantive and efficient process of reporting to the management board and external consumers. Signe Kukin has also contributed in improving the Merko Ehitus group's structure and increasing the efficiency of internal controls.

## EUROMONEY – REAL ESTATE SURVEY 2014

In its real estate market survey for 2014, Euromoney – the world's leading business and investment magazine – declared AS Merko Ehitus the best real estate developer in Estonia. Merko Ehitus triumphed in all five categories of the competition, including aggregate result, residential, commercial and industrial real estate. Merko Ehitus was awarded the Euromoney's best real estate developer recognition also in 2012.

The Real Estate Survey 2014 is the tenth survey conducted by Euromoney, a financial magazine published from 1969, with the aim of ranking the best in real estate on the basis of the market data, as well as the assessments of developers, counsellors, business customers, investors and banks, business and end users from more than 60 countries. The respondents assessed which companies of the relevant market offered to their opinion the best real estate products and services during the last 12 months.

## THE ENTREPRENEURSHIP AWARD 2014

AS Merko Ehitus was granted The Most Competitive Construction Enterprise award for the third year in a row and in addition Tallinna Teede AS, a subsidiary of AS Merko Ehitus group, was granted The Most Competitive Small and Medium-sized Enterprise award at the annual Entrepreneurship Award competition organised by Enterprise Estonia, the Estonian Chamber of Commerce and the Estonian Employers' Confederation.



ANDRES TRINK, THE CHAIRMAN OF THE MANAGEMENT BOARD OF AS MERKO EHITUS RECEIVING THE AWARD FOR THE MOST COMPETITIVE CONSTRUCTION ENTERPRISE.

The webpage of the entrepreneurship competition at <http://www.ettevotluskonkurss.ee/en> contains an overview of the winners and a recording of the transmission of the award gala evening. The publication concerning the best companies that participated in the contest, 'Best Estonian Companies of the Year 2014' is available in Estonian at <https://www.fingler.com/mag/122938>. The book includes company introductions and interviews with managers.

The best of the Estonian Companies' Competitiveness Ranking compiled by the Estonian Chamber of Commerce and Industry and the Estonian Employers' Confederation are determined among large enterprises, small and medium-sized enterprises and micro-enterprises. In addition, rankings are compiled in 12 areas: retail, wholesale, industry and energy, food industry, construction, communications and IT services, transport and logistics, architecture and design, tourism, financial brokerage, business services and real estate, service. This year, 472 enterprises took part in the Competitiveness Ranking of Estonian Enterprises contest.



2014 COMPLETED  
MULTIFUNCTIONAL  
TONDIRABA ICE ARENA BUILT  
IN 14 MONTHS UNDER THE  
LEADERSHIP OF MERKO'S  
PROJECT MANAGER AHTO  
ARUVÄLI, WHICH INCLUDES  
THE MAIN ARENA, TWO  
TRAINING COURTS AND  
A CURLING ARENA. THE  
IMPRESSIVE WOODEN  
TRUSSES WITH UP TO 62  
METER SPAN SHOWN ON THE  
PHOTO.

## CONSTRUCTION INDUSTRY AWARD 2014

An annual "Construction Industry Award" competition was organised by the Latvian Association of Civil Engineers in the third quarter of 2014. "The Young Engineer of the Year 2014" award went to Valdis Silnieks, construction engineer of SIA Merks, who was recognised for his work on the construction of buildings of the Faculty of Power and Electrical Engineering of Riga Technical University and the fire depo of Riga Airport.

## BUILDER OF THE YEAR 2014

Estonian Association of Construction Entrepreneurs (E.A.C.E.) awarded Ahto Aruväli, the Project Manager of AS Merko Ehitus Eesti with the Builder of the Year 2014 award for the construction of Tondiraba Ice Arena. The construction of Tondiraba Ice Rink features splendid management of the site team by Ahto Aruväli. Ahto Aruväli's professional project management ensured that the aesthetically pleasing building, with complicated engineering under the hood

and multifunctional uses was built on schedule in 14 months.

This year there were 18 nominees, including AS Merko Ehitus Eesti Project Manager Peeter Laidma for the construction of Vääna-Jõesuu water supply and sewerage piping and AS Merko Ehitus Eesti Project Manager Tiit Joosti for the construction of Ülemiste traffic junction. The goal of the Builder of the Year competition is to find the construction project manager whose work has been recognized by the contracting entity as well as by the architect, structural engineer and person in charge of construction supervision. E.A.C.E. choose the builder of the year for the sixth consecutive year and the aim of the initiative is to promote the profession and recognize the best in the field.



## BALTIC MARKET AWARD 2014

At an award gala held in the first quarter of 2015 – the Baltic Market Awards 2014 – 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 2014, 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" and second place in the category "The Best Interactive Investor Relations".



**MERKO EHITUS**  
Best Interactive  
Investor Relations  
**2<sup>ND</sup> PLACE**  
Best Investor Relations  
In the Baltic Market  
**3<sup>RD</sup> PLACE**

## CONCRETE CONSTRUCTION OF THE YEAR 2014

AS Merko Ehitus Eesti was awarded the constructor prize for the second year in a row at the esteemed Concrete Construction of the Year 2014 contest – a recognition for the construction and concrete works of Tondiraba ice arena. The contest is organised annually by the Estonian Concrete Association and the Association of Construction Material Producers of Estonia.

The Concrete Construction of the Year competition, this year held for the 15th time, was launched to inform the wider public of the many uses of concrete and to recognise those who have used this domestic building material – versatile and mouldable concrete – to bring their ideas to life. This year, thirteen entries were submitted to the competition. Concrete constructions as well as structures and processes utilised in them delivered to the contracting party in 2014 were eligible for entry in the competition.

# REPORT ON GOOD CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE AND STRUCTURE

Adherence to the principles of Good Corporate Governance is part of the management of AS Merko Ehitus. Generally, this system is regulated by relevant legislation, the company's articles of association and the company's internal policies. Starting from 1 January 2006, issuers of shares listed on the NASDAX Tallinn Stock Exchange are recommended to adhere to the principles of Good Corporate Governance approved by the Financial Supervisory Authority that covers good practices of enterprise management and treatment of shareholders. AS Merko Ehitus has followed these principles throughout 2014.

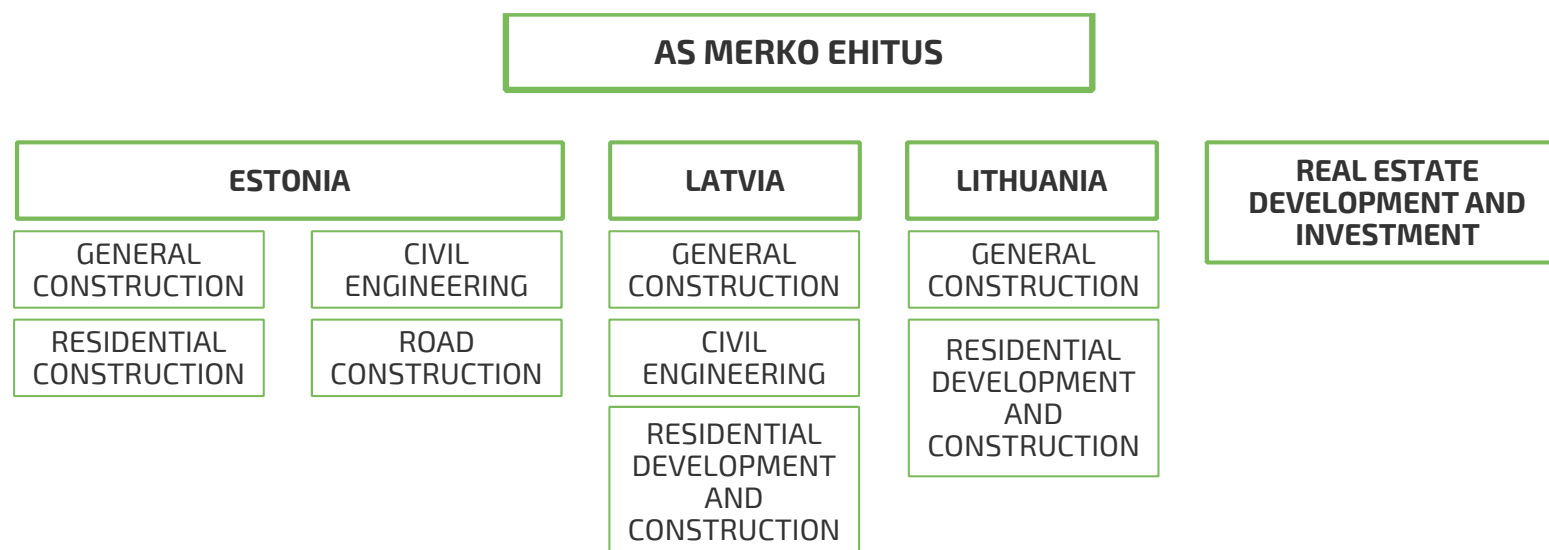
AS Merko Ehitus is dedicated to following high standards of corporate governance, for the implementation of which the Management Board and the Supervisory Board are responsible for shareholders. Our objective is to be transparent in our economic activity, in disclosing information and in relations with shareholders.

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.

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 effectiveness in group management, we in some cases differentiate the management structure and legal structure. Management structure of group's business areas as at 31 December 2014 is the following:





## GROUP'S LEGAL STRUCTURE

As at 31 December 2014, the group comprises 47 companies (31.12.2013: 47). 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 18 and 19 of the financial statements.

### CHANGES IN THE LEGAL STRUCTURE OF THE GROUP

In 2014, AS Merko Ehitus has decided to streamline its group companies' structure to improve management effectiveness and produce administrative cost savings. As part of the action plan, ownership interests of insignificant subsidiaries are reviewed and potential mergers or disposals are decided. The action plan does not concern material subsidiaries of the group and does not have a material near-term effect on the group's financial results. First changes are under way and the implementation of the action plan will continue in 2014.

On 20 December 2013, AS Merko Ehitus initiated a process to merge its fully owned subsidiaries OÜ Woody, OÜ Metsailu and OÜ Käibevara, all engaged in real estate development, in order to have savings in administrative cost related to company management. The acquiring company is OÜ Metsailu. The companies being acquired will be merged into OÜ Metsailu and as a result of the merger the companies being acquired will wind up without liquidation proceedings and OÜ Metsailu will become the legal successor of the companies being acquired. As a result of the merger, AS Merko Ehitus will remain the sole shareholder in OÜ Metsailu, the acquiring company. The closing date of the merger was 1 January 2014 after which all transactions of the acquirees have been deemed to have been made on account of the acquirer. The final merger entry was made in the Commercial Register on 6 June 2014.

On 15 January 2014, a subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti, signed an agreement for the transfer of its entire 80% holding in the subsidiary Gustaf Tallinn OÜ to the current co-shareholder and member of the management board Tiit Pomerants. The share capital of Gustaf Tallinn OÜ is EUR 23,967 of which the holding of AS Merko Ehitus Eesti with a nominal value of EUR 19,174 comprises 80% and the holding of Tiit Pomerants with a nominal value of EUR 4,793 made up 20%. The holding was transferred with the purpose of re-arranging the structure of the group companies and reducing holdings in non-significant subsidiaries. The principal area of activity of the construction company Gustaf Tallinn OÜ is construction and finishing work and the company

offers prime contractor service for smaller renovations and repair jobs, which are not one of the strategically significant principal areas of activity of the AS Merko Ehitus group. On 15 January 2014, the buyer paid the seller EUR 20,000. The final sales price was 17,201 euros, which was calculated in accordance with the audited 2013 annual report of Gustaf Tallinn OÜ on the basis of the share of equity held by AS Merko Ehitus Eesti, adjusted by dividend payment of EUR 960,000 paid to the seller before transfer of the share as well as by the income tax expense of EUR 255,190 related to the paid dividend. On 2 May 2014, the seller returned the adjusted part of the sales price EUR 2,799 to the buyer's bank account.

As a result of the sale of the ownership interest and the subsequent deconsolidation of Gustaf Tallinn OÜ, the estimated impact on the consolidated profit of AS Merko Ehitus group is EUR 0, the negative impact on assets and liabilities is EUR 967 thousand and EUR 945 thousand, respectively.

On 22 January 2014, fully owned subsidiary of AS Merko Ehitus, UAB Merko Bustas, formed a fully owned subsidiary in Lithuania, UAB VPSP 1 with a share capital of LTL 10,000 (EUR 2,896). The subsidiary was initially formed to participate in public-private partnership (PPP) procurements organised by the Lithuanian government and later changed to acquiring registered immovables for development purposes in Lithuania.

On 13 June 2014, fully owned subsidiary of AS Merko Ehitus, AS Merko Ehitus Eesti formed a 50% joint venture in Estonia, Kivimäe 32 OÜ with a share capital of EUR 2,600. The joint venture was formed to acquire a property for development in Tallinn, Estonia.

On July 30, fully owned subsidiary of AS Merko Ehitus, UAB Merko Bustas acquired a 100% subsidiary UAB Timana in Lithuania, with a share capital of LTL 10,000 (EUR 2,896) and a purchase price of LTL 1,100,000 (EUR 318,582). The subsidiary was acquired with the aim of acquiring registered immovables for development purposes in Vilnius.

On 31 July 2014, a subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti, signed an agreement for the transfer of 7,5% holding in the subsidiary AS Gustaf from the former co-shareholders and members of the management board Raigo Jaanuste and Ago Randorg. After the acquisition of the minority share, AS Gustaf became a 100% subsidiary of AS Merko Ehitus Eesti. The holding was acquired with the purpose of re-arranging the structure of the group companies. The principal area of activity of the construction company AS Gustaf was general contracting of construction, mainly in the western and

southern regions of Estonia. Following the acquisition of 100% shares in AS Gustaf, the principal area of activity of the company will be changed to real estate development. On 1 August 2014, AS Merko Ehitus Eesti paid the sellers 95% of the shares sales price of EUR 89,058. The final sales price will be calculated in accordance with the audited 2015 annual report of AS Gustav, on the basis of the designated equity. AS Merko Ehitus Group considers the additional influence of adjustments of the sales price to be immaterial.

On 5 August 2014, a subsidiary of AS Merko Ehitus group, SIA Merks, signed an agreement for the transfer of 25% holding (275 thousand shares) in the joint venture SIA Zakusala Estates from the current co-shareholder Tritan Group AS. After the acquisition of the additional shareholding, SIA Zakusala Estates became a 75% subsidiary of SIA Merks. The additional 25% holding was acquired with the purpose of gaining a greater control over the assets and the management of SIA Zakusala Estates. The principal area of activity of the real estate company SIA Zakusala Estates is the development of approximately 126 thousand square meters land located on the island Zakusala on Daugava river in Riga. With the increased control the group will be better positioned to lead the overall future development of the project. This is a long term investment for AS Merko Ehitus group. According to the agreement SIA Merks paid for the additional 25% holding the purchase prices of EUR 696,273, by assigning the corresponding part of a loan given by SIA Merks to SIA Zakusala Estates, to AS Tritan Group.

On 11 August 2014 the liquidation of SIA Merks's 100% subsidiary SIA Polystar, which started in the first half of 2014, was finalised and the company was deleted from the business register.

On 15 August 2014, a subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti, signed an agreement for the transfer of 49% holding in the subsidiary OÜ Heamaja from the former co-shareholder for the purchase price of EUR 1,225. After the acquisition of the minority share, OÜ Heamaja became a 100% subsidiary of AS Merko Ehitus Eesti.

On 16 September 2014, AS Merko Ehitus acquired a 100% shareholding in the subsidiary SIA Merko Investments (prev. SIA Skanstes Virsotnes) from the subsidiary SIA Merks in an intercompany transaction, with the purpose of re-arranging the structure of the group companies.

On 2 December 2014, AS Merko Ehitus formed a 50% joint venture in Estonia, Kalaranna Arenduse OÜ with a share capital of EUR 10,000. The joint venture was formed to acquire a property for development in Tallinn, Estonia.

On 22 December 2014, AS Merko Ehitus initiated a process to merge its fully owned subsidiaries OÜ Metsailu, OÜ Ringtee Tehnopark, OÜ Maryplus and OÜ Constancia, all engaged in real estate development, in order to have savings in administrative cost related to company management. The acquiring company is OÜ Metsailu. The companies being acquired will be merged into OÜ Metsailu and as a result of the merger the companies being acquired will wind up without liquidation proceedings and OÜ Metsailu will become the legal successor of the companies being acquired. As a result of the merger, AS Merko Ehitus will remain the sole shareholder in OÜ Metsailu, the acquiring company. The closing date of the merger was 1 January 2015 after which all transactions of the acquirees have been deemed to have been made on account of the acquirer. The final merger entry will be made in the Commercial Register during the first half of 2015.

On 5 February 2015, OY Merko Finland, fully owned subsidiary of AS Merko Ehitus, made a monetary contribution in the amount of EUR 2,250 to form a 75%-owned subsidiary Hartian OY. The share capital of the subsidiary will be EUR 3,000. The company will be formed with the aim of acquiring a residential quarter, construction rights for 10 private houses, in Pestikuja 1, Helsinki.

On 4 March 2015, AS Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, initiated a process to merge its 66% subsidiary AS Merko Tartu, engaged in construction, and Raadi Kortermaja OÜ, fully owned subsidiary of AS Merko Tartu engaged in real estate development, in order to have savings in administrative cost related to company management. The acquiring company is AS Merko Tartu. The company being acquired will be merged into AS Merko Tartu and as a result of the merger the company being acquired will wind up without liquidation proceedings and AS Merko Tartu will become the legal successor of the company being acquired. As a result of the merger, AS Merko Ehitus Eesti will remain a 66% shareholder in AS Merko Tartu, the acquiring company. The closing date of the merger will be 1 April 2015 after which all transactions of the acquiree have been deemed to have been made on account of the acquirer. The final merger entry will be made in the Commercial Register during the second quarter of 2015.

On 25 March 2015, a 100% subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti and E.L.L. Kinnisvara AS entered into an agreement on the acquisition of a 100% holding in OÜ Rannamõisa Kinnisvara with a share capital of EUR 2,556. E.L.L. Kinnisvara AS is a company controlled by AS Riverito. 71.99% of the shares of AS Merko Ehitus are owned by AS Riverito. OÜ Rannamõisa Kinnisvara is a company engaged in development of real estate, which owns registered



immovable properties in Tallinn at Rannamõisa Road and Kaeravälja Street with a total area of approximately 35 thousand m<sup>2</sup>. The purpose of the acquisition of the holding by AS Merko Ehitus Eesti is to develop the properties in question and sell them to a third party. The price of the 100% holding is EUR 3,261,350, which is to be paid to the seller after the transfer of immovable properties belonging to OÜ Rannamõisa Kinnisvara to the third parties but no later than 30 June 2016. In addition, the Parties have entered into an agreement on an option to resell the 100% holding, which gives AS Merko Ehitus Eesti the right to resell the holding for the price that has been paid by the moment of the resale, plus the cost of acquisition of immovable properties acquired by OÜ Rannamõisa Kinnisvara during the time it was held by AS Merko Ehitus Eesti, in case such immovable properties are acquired. The expiration date of the put option is 29 June 2016.

## 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 shareholders decides, among others, the appointment and recall of members of the Supervisory Board, appointment of the auditor and approval of the results of the financial year, the payment of dividends. The annual general meeting of shareholders is held at least once a year and shall approve the annual report within six months of the end of the financial year.

The general meeting of the shareholders was held on 30 April 2014. The general meeting resolved to approve the annual report and the profit allocation proposal for 2013. The dividends in the sum of EUR 7.3 million (EUR 0.40 per share) were paid out to shareholders on 20 May 2014.

In addition, the annual general meeting resolved to extend the terms of office of members of the Supervisory Board Toomas Annus, Teet Roopalu, Indrek Neivelt and Olari Taal until April 30th 2017, i.e. for a period of three years from the decision for the extension. The remuneration of members of the Supervisory Board did not change and will continue based on terms and conditions approved at general meeting of shareholders of AS Merko Ehitus, held on October 31st 2008.

In addition the general meeting of shareholders decided to appoint AS PricewaterhouseCoopers the auditor of AS Merko Ehitus for the financial year of 2014 and to pay to the auditing company for auditing the financial year of 2014 as per contract to be entered into with AS PricewaterhouseCoopers.

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 2014, 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 2014 was attended by Andres Trink (Chairman of the Management Board), Toomas Annus (Chairman of the Supervisory 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.



**TOOMAS ANNUS** (54)  
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)



**INDREK NEIVELT** (47)  
MEMBER OF THE  
SUPERVISORY BOARD

### Positions held:

2008-...	AS Merko Ehitus, Member of the Supervisory Board
2005-2014	Bank Saint Petersburg, Chairman of the Supervisory Board
1999-2005	Hansapank, Director General of the Group, Chairman of the Management Board
1991-1999	Hansapank, various positions
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)



**TEET ROOPALU** (65)  
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 subsidiaries and associated companies.

### Education:

Tallinn University of Technology, construction economics and organisation

**Number of shares:** -



**OLARI TAAL** (61)  
MEMBER OF THE  
SUPERVISORY BOARD

### Positions held:

2008-...	AS Merko Ehitus, Member of the Supervisory Board
2013-2014	AS Eesti Energia, 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)



NURMEVÄLJA LOGISTICS CENTRE ENCOMPASSES A LOGISTICS CENTRE WITH A GROSS AREA OF 23,000 M<sup>2</sup> AND HEIGHT 13.7 M, BESIDES WAREHOUSE SPACE, ALSO MANUFACTURING SPACE CONTINGENT ON SPECIAL REQUIREMENTS, OFFICE, CONFERENCE ROOMS, TECHNICAL UTILITY SYSTEMS AND OTHER SPACES.

The meetings of the Supervisory Board generally take place once a month, except in summer months. In 2014, the Supervisory Board held 12 regular meetings. No extraordinary Supervisory Board meetings were held. Participation of members of the Supervisory Board at meetings:

NAME	PARTICIPATION IN MEETINGS	PARTICIPATION %
Toomas Annus	12	100%
Teet Roopalu	12	100%
Indrek Neivelt	11	92%
Olari Taal	12	100%

The Supervisory Board fulfilled all its obligations laid down in legal acts. The Supervisory Board has set up an audit committee as its work body. The Supervisory Board has not considered it necessary to set up a remuneration committee or appointment committee. Remuneration of the members of the Supervisory Board is approved by the general meeting of shareholders. The valid procedure for remuneration of Supervisory Board members was approved by the general meeting of shareholders held at 31 October 2008.

No termination benefits are paid to the members of the Supervisory Board upon the termination or non-extension of the contract. In the 2014 and 2013 financial years, the members of the Supervisory Board were remunerated as follows (in euros):

NAME	2014	2013
Toomas Annus	42,182	42,182
Teet Roopalu	38,347	38,347
Tõnu Toomik *	-	15,978
Indrek Neivelt	38,347	38,347
Olari Taal	38,347	38,347
<b>TOTAL</b>	<b>157,223</b>	<b>173,201</b>

\* Tõnu Toomik was a member of the Supervisory Board until 5 June 2013.

Remuneration, less the statutory taxes, to the members of the Supervisory Board is paid on a monthly basis.



## 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. AS Merko Ehitus has a two-member Management Board: Andres Trink (Chairman of the Management Board) and Tõnu Toomik (Member of the Management Board).

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

Members of the Management Board have entered into three-year contracts of service with the company. The procedure and principles of remuneration of Management Board members are approved by the Supervisory Board. The members of the Management Board are paid a fee for fulfilling their official duties. Bonuses payable to the Management Board depend on the fulfilment of the targets of the given financial year by the group and the Management Board. The members of the Management Board are paid bonuses once a year based on the fulfilment of the targets of the previous financial year.

Gross service fees calculated to the members of the Management Board in the financial year 2014 totalled EUR 538 thousand (financial year 2013: EUR 285 thousand).



**ANDRES TRINK** (47) 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 engineering (summa cum laude).

Estonian Business School, international business administration.

Graduate of the INSEAD University (France), executive management programme.

**Number of shares:** -



**TÕNU TOOMIK** (53) MEMBER  
OF THE MANAGEMENT BOARD  
APPOINTED: 6 JUNE 2013  
TERM ENDS: 5 JUNE 2016

### 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 Supervisory Boards of subsidiaries and associated companies.

### Education:

Tallinn University of Technology, industrial and civil engineering

**Number of shares:** 1,607,185 (AS Riverito)

## SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the most significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 31 December 2014:

COMPANY *	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti (35,353,155 euros)	Andres Trink (Chairman), Teet Roopalu, Tõnu Toomik, Taavi Ojala	Tiit Roben (Chairman), Jaan Mäe, Alar Lagus, Veljo Viitmann
AS Merko Infra (11,884,210 euros)	Tiit Roben (Chairman), Veljo Viitmann, Mihkel Mugur	Arno Elias (Chairman), Tarmo Pohlak, Boris Tehnikov
Tallinna Teede AS (11,269,185 euros)	Tiit Roben (Chairman), Alar Lagus, Veljo Viitmann	Jüri Läll (Chairman), Jüri Helila
OÜ Merko Investments (21,583,411 euros)	-	Andres Trink, Signe Kukin
SIA Merks (20,176,843 euros)	Andres Trink (Chairman), Tõnu Toomik, Signe Kukin	Oskars Ozoliņš (Chairman), Jānis Šperbergs
SIA Merko Investments (35,455,476 euros)	-	Andres Trink (Chairman), Oskars Ozoliņš
UAB Merko Statyba (997,825 euros)	Andres Trink (Chairman), Tõnu Toomik, Signe Kukin	Saulius Putrimas (Chairman), Jaanus Rästas
OÜ Metsailu (5,025,120 euros)	-	Tiit Kuusik, Ines Prual

\* The figure in brackets indicates the amount of equity held by the parent company's owners in significant subsidiaries as at 31 December 2014.

In conjunction with a streamlining of the management structure, there was a change on 7 March 2014 in the composition of the Management Board of AS Merko Ehitus Eesti, a 100% subsidiary of AS Merko Ehitus. Andres Agukas, the Member of the Management Board was recalled. The Management Board will continue with four members: Tiit Roben (The Chairman), Jaan Mäe, Veljo Viitmann and Alar Lagus.

As a result of the departure of Andres Agukas, the composition of the Supervisory Boards of AS Merko Infra and Tallinna Teede AS, subsidiaries of the AS Merko Ehitus Eesti group, was changed. Effective 7 March 2014, Tiit Roben was appointed as Chairman of the Supervisory Board of AS Merko Infra to replace Andres Agukas. The Supervisory Board will continue with three members: Tiit Roben (Chairman), Veljo Viitmann and Mihkel Mugur. The Supervisory Board of Tallinna Teede AS will continue with three members after the departure of Andres Agukas: Tiit Roben (The Chairman), Alar Lagus and Veljo Viitmann.

The Supervisory Board of AS Merko Infra, a 100% subsidiary AS Merko Ehitus Eesti and with ultimate parent AS Merko Ehitus, decided to appoint Boris Tehnikov as an additional member of the Management Board and to elect the current member, Arno Elias, as the Chairman of the Management Board of AS Merko Infra as of 2 April 2014. The Management Board of AS Merko Infra will continue with three members: Arno Elias (The Chairman), Tarmo Pohlak and Boris Tehnikov.

AS Merko Ehitus board decided to recall a member of the Supervisory Board of UAB Merko Statyba Jaan Mäe and appoint Signe Kukin as the new member of the Supervisory Board as of 2 April 2014. The Supervisory Board of UAB Merko Statyba will continue with three members: Andres Trink (The Chairman), Tõnu Toomik and Signe Kukin.

OÜ Merko Investments, part of AS Merko Ehitus group, which has 100% holding in SIA Merks, board decided to recall a member of the Supervisory Board of SIA Merks Jaan Mäe and appoint Signe Kukin as the new member of the Supervisory Board as of 2 April 2014. The Supervisory Board of SIA Merks will continue with three members: Andres Trink (The Chairman), Tõnu Toomik and Signe Kukin.

On 30 July 2014, the Supervisory Board of Tallinna Teede AS – the subsidiary of AS Merko Ehitus Eesti, part of AS Merko Ehitus group – decided to extend the powers of the Chairman of the Management Board, Jüri Läll for three years, i.e. till 30 July 2017. The Management Board of Tallinna Teede AS will continue with two members: Jüri Läll (The Chairman) and Jüri Helila.

On 31 July 2014, the Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Member of the Management Board, Alar Lagus for three years, i.e. till 31 July 2017. The Management Board of AS Merko Ehitus Eesti will continue with four members: Tiit Roben (The Chairman), Jaan Mäe, Veljo Viitmann and Alar Lagus.

On 8 September 2014, the Supervisory Board of AS Merko Ehitus decided to extend the powers of the Chairman of the Management Board, Andres Trink for three years, i.e. till 1 January 2018. The Management Board of AS Merko Ehitus will continue with two members: Andres Trink (The Chairman) and Tõnu Toomik.

On 15 December 2014, the Supervisory Board of AS Merko Ehitus Eesti – the subsidiary of AS Merko Ehitus – decided to extend the powers of the Chairman of the Management Board, Tiit Roben and the Members of the Management Board, Jaan Mäe and Veljo Viitman for three years, i.e. till 31 December 2017. The Management Board of AS Merko Ehitus Eesti will continue with four members: Tiit Roben (The Chairman), Jaan Mäe, Veljo Viitmann and Alar Lagus.

On 15 December 2014, the Management Board of AS Merko Ehitus decided to extend the powers of the Chairman of the Supervisory Board, Andres Trink and the Members of the Supervisory Board, Tõnu Toomik and Teet Roopalu of the subsidiary AS Merko Ehitus Eesti for three years, i.e. till 31 December 2017. The Management Board of AS Merko Ehitus appointed Mr. Toomas Aak as the new member of the Supervisory Board from 1 January 2015 until 31 December 2017. The former Supervisory Board member, Mr. Taavi Ojalá s mandate expired from 31 December 2014 as a result of the expiry of a fixed-term contract of service. The Supervisory Board of AS Merko Ehitus Eesti will continue with four members: Andres Trink (The Chairman), Tõnu Toomik, Teet Roopalu and Toomas Aak.

On 17 March 2015, the Management Board of AS Merko Ehitus decided to extend the powers of the Members of the Supervisory Board of UAB Merko Statyba, Andres Trink, Tõnu Toomik and Signe Kukin for three years, i.e. from 13 April 2015 until 12 April 2018. The Supervisory Board of UAB Merko Statyba will continue with three members: Andres Trink (The Chairman), Tõnu Toomik and Signe Kukin.

Remuneration paid to the members of the Management Boards of significant subsidiaries is provided in Note 33 of the financial statements.

## AUDIT COMMITTEE

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

As at 10 January 2011, the company's Supervisory Board set up a 3-member audit committee and appointed Indrek Neivelt and Olari Taal as its members and Teet Roopalu as its Chairman. A member of the committee is elected for a term of three years, but at the decision of the Supervisory Board, a member of the committee may be recalled before the expiration of their term of office.

Members of the auditing committee are not separately remunerated.

## REPORTING AND FINANCIAL AUDIT

Availability of adequate and timely information is the basis for obtaining quality management decisions. It is important to ensure that reporting is factual, but also forward-looking. This will enable to manage, to the best of one's knowledge, risks and, in competition with other market operators, turn them into opportunities. The company's reporting can be roughly divided into: a) financial reporting and b) management reporting.

Financial reporting consists of interim reports of consolidated economic indicators and annual reports of companies that belong to the AS Merko Ehitus group, that are made public through the stock exchange system of NASDAQ Tallinn and that are available to all shareholders, potential investors and analysts covering the company.

On the other hand, management reporting is meant for the company's internal use. It is appropriate to separate reporting on various operating indicators that focuses on the performance of business segments and different group companies as well as return on equity. The refinement of reporting is a continuous process during which indicators affecting the achievement of agreed objectives are reviewed. Management reporting includes budgets and forecasts that AS Merko Ehitus does not disclose.



Financial audits are conducted on the basis of International Standards on Auditing. The auditor of AS Merko Ehitus is approved by the general meeting of shareholders. The selection process is managed by the Supervisory Board and its findings are presented to the general meeting for approval. As a result of the tender and with the resolution made by the general meeting in 2013, the financial auditor for annual report of 2014 is AS PricewaterhouseCoopers (PwC). Auditors authorised to sign the report differ, depending on the country of residence of the group company. Chartered auditor Ago Vilu is responsible for the consolidated audit report.

AS Merko Ehitus considers it important to ensure independence of the financial auditor and to avoid of conflicts of interest. In 2014, PwC did not perform to AS Merko Ehitus services that could have affected the independence of the auditor. We find that the financial audit was conducted in 2014 in compliance with regulative acts, international standards and expectations. PwC presented the results in two stages: a) as part of an interim audit and b) with regard to the final audit before the opinion is issued.

In 2014, the fees for financial audit and other counseling services of AS Merko Ehitus group amounted to EUR 116 thousand (2013: EUR 93 thousand).

## CONFLICT OF INTERESTS AND HANDLING OF INSIDER INFORMATION

It is important to appropriately handle insider information in order to protect shareholders' interest and ensure honest and fair trading of shares. Significant information about AS Merko Ehitus and its subsidiaries must be available in a timely, consistent and equal manner for all shareholders and potential new shareholders. It is inevitable that persons related to AS Merko Ehitus and its subsidiaries have, because of their job, at certain times and in certain cases more information about the group than investors and the public. To prevent the misuse of such information, we have adopted internal rules in the group's companies on maintaining and publication of insider information and on making transactions on the basis of insider information (hereinafter: insider information rules). Insider information rules include a reporting system under which employees who may develop a conflict of interest when fulfilling their job duties are required to disclose their economic interests and confirm their independence by self-assessment.

The members of the Management and Supervisory Board of AS Merko Ehitus are users of insider information (so-called insiders). They have signed a

relevant statement, are aware of insider information rules of AS Merko Ehitus and together with people connected with them are registered in the list of the company's insiders. Moreover, the list of insiders includes the financial employees of the parent company who have access to the group's consolidated operating results as well as members of the Management and Supervisory Boards of the more important subsidiaries together with the employees who are responsible for preparing and presenting accounting information.

As at 31 December 2014, the company's insider register lists 46 persons with permanent access (31.12.2013: 49 persons). The group keeps records on insiders in accordance with requirements set forth in the Securities Market Act and NASDAQ Tallinn rules and regulations.

To the best of our knowledge, in the financial year 2014 there were no cases of any misuse of insider information or conflicts of interest. No transactions with related parties were made at other than market terms.

## OWNERSHIP INTERESTS OF AS MERKO EHITUS MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD (OVER 5%) IN OTHER COMPANIES

NAME	RELATED COMPANY
Toomas Annus	AS Riverito, Kardispordi Arendamise OÜ, AS Eesti Elecster, Kemtal OÜ, Kemtal Grupp OÜ
Teet Roopalu	Teet Konsult OÜ
Indrek Neivelt	Trust IN OÜ, Admiral Investeeringute OÜ
Olari Taal	Eggera OÜ
Andres Trink	None
Tõnu Toomik	AS Riverito

No members of the company's supervisory or management board hold shares in an entity that operates in the core business area of AS Merko Ehitus – construction sector.

An overview of transactions with related parties in 2014 is provided in Note 33 of the financial statements.

## DISCLOSURE OF INFORMATION

In disclosing information, AS Merko Ehitus shall follow Estonian law, the rules and regulations of NASDAQ Tallinn Stock Exchange and guidelines of the Financial Supervision Authority of Estonia and immediately disclose important information regarding the company's activities to the shareholders after obtaining reasonable assurance as to its correctness and that the disclosure of such information shall not harm the interests of the company and its business partners.

The group has adopted an information disclosure procedure that describes the main policies in communication with investors and the public. The objective of the information disclosure procedure is to ensure access to adequate and yet accurate information about the group and its operations that will form the basis for the price of the securities issued by the company. Information will be disclosed without undue delay and impartially. The main principles of information disclosure of Merko Ehitus are consistency, impartiality, transparency, truthfulness and preventive approach.

The group discloses information about its financial condition and strategy in its financial statements, annual report and interim reports pursuant to the schedule that has been set. The disclosure dates of each next financial year will be announced before the end of the previous financial year.

Merko immediately discloses all decisions, issues and events that in the company's view may significantly change the price of the securities issued by the company and that are to be disclosed pursuant to laws and regulations. Stock exchange releases are published in Estonian and English.

Stock exchange releases are always published regarding the following subjects:

- financial statements, interim reports;
- amendment to previously published strategies and financial objectives;
- profit warnings;
- major projects and construction contracts;
- major investments and financial arrangements;
- significant corporate reorganisations and partnership agreements;
- significant reorganization, streamlining or discontinuation of functions or operations; management board's proposals to the annual general meeting and resolutions adopted in the annual meeting;
- significant legal actions, legal proceedings or actions of the authorities.

From 13 March 2014, information about projects is disclosed in the form of stock exchange notice if contract value exceeds EUR 3 million excluding VAT (until 12.03.2014: for contracts valued over EUR 5 million) and in case of public procurements without the customer's reserve (price limit subjected to construction contracts by Merko). Generally, Merko will only make disclosures about awarded contracts, i.e. information is disclosed after the contract is signed. We emphasize the fact that the said EUR 3 million limit is not absolute but a criterion for making it easier for investors to understand which projects Merko covers in its press releases sent via the stock exchange information system. In certain cases, there may be a need to send out press releases via the stock exchange information system on contracts smaller than that amount, if these exert a significant influence on the price of the company's securities or are relevant to current and prospective investors.

Important information shall be disclosed through the stock exchange system and on the company's website. In 2014, we published 40 stock exchange releases through the stock exchange system.

NUMBER OF RELEASES	CONTENT OF RELEASE
13	New construction contracts
5	New development projects
5	Operating results
12	Changes in structure and management
2	General meeting
3	Other releases

We will publish 2015 consolidated interim reports as follows:

DATE	EVENT
07/05/2015	2015 3 months and I quarter unaudited interim report
06/08/2015	2015 6 months and II quarter unaudited interim report
05/11/2015	2015 9 months and III quarter unaudited interim report
11/02/2016	2015 12 months and IV quarter unaudited interim report

In 2015, reports will be published before the start of the trading day, at 8 am local Estonian time (EET). Annual accounts of subsidiaries are not generally published, but they can be obtained, if necessary, from AS Merko Ehitus or the local Commercial Registries.

Our objective is to support fair pricing of Merko shares through constant and continued distribution of information to all market operators. Moreover, our objective is to maintain the loyalty of existing shareholders towards the company and to create interest in new shareholders and analysts.

It is our responsibility to prepare quarterly and annual reports, stock exchange releases and presentation and to plan and organise investor meetings with shareholders and analysts. We also collect and analyse feedback from investors and analysts in order to increase the value of information to be disclosed.

The company shall not hold meetings with analysts or presentations for investors immediately before the dates of disclosure of financial reporting (interim reports, annual report). AS Merko Ehitus communicates regularly with its larger shareholders and potential investors and, if requested, holds meetings. The information presented in these meetings is public, i.e. available from the company's reports, website or other public sources. We carefully monitor insider information rules during these meetings.

The investor calendar published on the AS Merko Ehitus website <http://group.merko.ee/en/investors/investor-calendar/2015-01/> provides an overview of investor meetings both past and upcoming. Current shareholders can request their participation in planned meetings shown on the investor calendar. Requests should be made in a timely fashion. In addition to the investor meeting date, time and names of participants, Merko's website has a section with the presentations used at the meetings. In 2014, AS Merko Ehitus organized 22 investor meetings (2013: 24) including three investor tours (2013: 1).

For informing the company's shareholders an annual general meeting of shareholders is called at least once a year where all shareholders can ask questions from members of the company's Management Board and Supervisory Board.

The main analysts who cover AS Merko Ehitus are:

SWEDBANK AS	SEB ENSKILDA	AS LHV PANK
Liivalaia 8, 15040 Tallinn, Estonia	Tornimäe 2, 15010 Tallinn, Estonia	Tartu mnt 2, 10145 Tallinn, Estonia
phone +372 631 0310	phone +372 665 5100	phone +372 680 0457
e-mail <a href="mailto:info@swedbank.ee">info@swedbank.ee</a>	e-mail <a href="mailto:info@seb.ee">info@seb.ee</a>	e-mail <a href="mailto:research@lhv.ee">research@lhv.ee</a>
<a href="http://www.swedbank.ee">www.swedbank.ee</a>	<a href="http://www.seb.ee">www.seb.ee</a>	<a href="http://www.lhv.ee">www.lhv.ee</a>

Information on investor relations of AS Merko Ehitus is available from:

ANDRES TRINK	SIGNE KUKIN	AS MERKO EHITUS
Chairman of the Management Board	Group Chief Financial Officer	Delta Plaza, 7th Floor
phone +372 650 1250	phone +372 650 1250	Pärnu mnt 141, 11314 Tallinn, Estonia
fax +372 650 1251	fax +372 650 1251	phone +372 650 1250
e-mail <a href="mailto:andres.trink@merko.ee">andres.trink@merko.ee</a>	e-mail <a href="mailto:signe.kukin@merko.ee">signe.kukin@merko.ee</a>	<a href="http://www.group.merko.ee">www.group.merko.ee</a>

## DECLARATION OF CONFORMITY TO RECOMMENDATIONS OF GOOD CORPORATE GOVERNANCE CODE

The Corporate Governance Code principles are recommended to the publicly traded companies and the entities are free to decide whether to follow the main CGC principles or not. The Corporate Governance Code is based on the principle of follow or explain according to which an entity shall explain its standpoints and activities with regard to those CGC provisions which it does not follow.

We have assessed the structure and functions of the management of AS Merko Ehitus on the basis of Good Governance Code. Above we have described significant components of corporate governance. Having assessed the compliance of the structure and functioning of the company's management system, we find that our organisation and activities are in significant part in compliance with the Good Governance Code. Also, our activities comply with the Estonian legislation that regulates several principles provided in the code in more detail. We hereby declare, that AS Merko Ehitus has followed all the recommendations of CGC, with exception of Section 2.2.7, that is provided below with the explanation why the company is not following it at the present:

CORPORATE GOVERNANCE RECOMMENDATIONS	EXPLANATIONS BY MANAGEMENT AND SUPERVISORY BOARDS
2.2.7 Basic wages, performance pay, severance packages, other benefits payable and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on the website of the issuer and in the Corporate Governance Recommendations report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the issuer or the amount of foreseeable expense as of the day of disclosure.	AS Merko Ehitus publishes in its annual report the total amount of remuneration and bonuses paid to member of the Management Board, as it believes that public disclosure of personal income does not create value added for shareholders but does violate the privacy of members of the Management Board.



# RISK MANAGEMENT

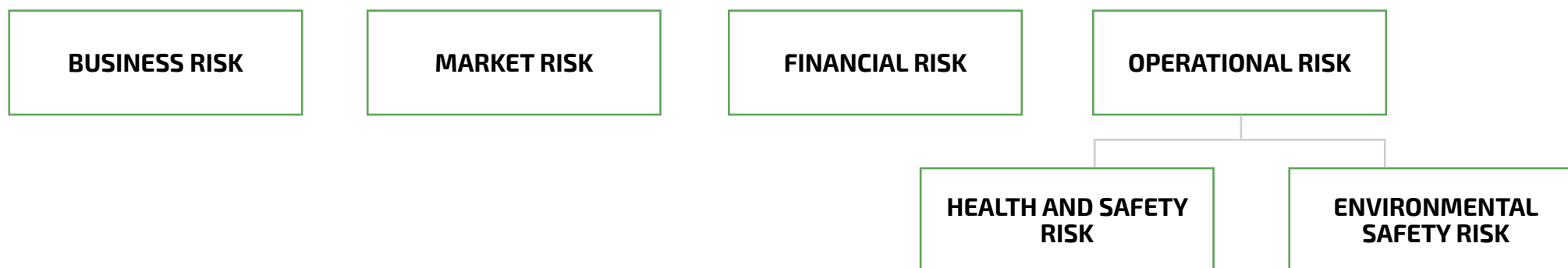
Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial 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. Detailed description of financial risks is provided in Note 35 of the financial statements.

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 who develops, implements and maintains processes covering group activities for the management of all material risks impacting the activity and results of Merko Ehitus. 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 materializes, 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 potentially major volatility of input prices in the construction sector that could complicate the budgeting process, completion of projects at planned costs, cause additional risks in carrying out fixed-price construction contracts and weaken projects' profitability. Therefore, the overall economic development is being closely monitored and taking excessive price risks already in the bidding phase is avoided.

The residential development area is one of the main sources of market risk arising from

the value of real estate for Merko Ehitus group. The real estate market has become more selective and in pre-launch risk assessment, consideration is given to such important aspects as the project's location, development volume, planning solutions and the target group. Taking into account low interest rates on loans and limited supply on the market of new apartments, in the last three years the demand and transaction activity on the apartment market has grown moderately. 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.

Market risk that is partially related to financial risks also includes currency risk and interest rate risk. The analysis of these risks is provided in Note 35 of the financial statements.

## 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.

The analysis on **CREDIT, LIQUIDITY AND LEGAL RISKS** is provided in Note 35 of the financial statements.

## 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 10 (2013: 10) 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. In 2014, indemnity applications submitted to insurance companies totalled EUR 0.85 million (2013: EUR 0.90 million), and insurance benefits were received in the amount of EUR 0.83 million (2013: EUR 0.08 million).

A warranty provision has been provided at the company to cover for the construction errors which have become evident during the warranty period. In 2014, warranty provisions were set up at the group in the total amount of EUR 1.09 million (2013: EUR 0.82 million) and disbursements amounted to EUR 0.76 million (2013: EUR 0.62 million). As at the year-end, the company's warranty provision amounted to EUR 2.10 million (31.12.2013: EUR 1.81 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.







merko  
2014

