



AS MERKO EHITUS

GROUP

2018 3 months consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2018 – 31.03.2018
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Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

TABLE OF CONTENTS

BRIEF OVERVIEW OF THE GROUP	3
MANAGEMENT REPORT	5
MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT	20
CONSOLIDATED FINANCIAL STATEMENT	21
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	21
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	22
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	23
CONSOLIDATED CASH FLOW STATEMENT	24
NOTES	25
NOTE 1 ACCOUNTING POLICIES USED	25
NOTE 1.1 CHANGES IN THE PRESENTATION OF INFORMATION	25
NOTE 1.2 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND AMENDMENTS TO PUBLISHED STADARDS.....	25
NOTE 2 OPERATING SEGMENTS	26
NOTE 3 COST OF GOODS SOLD	29
NOTE 4 EARNINGS AND DIVIDENDS PER SHARE.....	30
NOTE 5 CASH AND CASH EQUIVALENTS.....	30
NOTE 6 TRADE AND OTHER RECEIVABLES	31
NOTE 7 INVENTORIES	31
NOTE 8 LONG-TERM FINANCIAL ASSETS	32
NOTE 9 INVESTMENT PROPERTY	32
NOTE 10 PROPERTY, PLANT AND EQUIPMENT	32
NOTE 11 INTANGIBLE ASSETS	33
NOTE 12 BORROWINGS	33
NOTE 13 PAYABLES AND PREPAYMENTS	34
NOTE 14 SHORT-TERM PROVISIONS.....	34
NOTE 15 OTHER LONG-TERM PAYABLES	34
NOTE 16 RELATED PARTY TRANSACTIONS.....	35
NOTE 17 CONTINGENT LIABILITIES	38
MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT	39
DEFINITION OF RATIOS	40

BRIEF OVERVIEW OF THE GROUP

AS Merko Ehitus is a construction and real estate development group operating in Estonia, Latvia, Lithuania and Norway.



BUSINESS SEGMENTS

ESTONIA

General construction
Civil engineering
Electrical construction
Road construction
Residential real estate development and investments

LATVIA

General construction
Civil engineering
Electrical construction
Residential real estate development and investments

LITHUANIA

General construction
Residential real estate development and investments

NORWAY

General construction

The construction company with the largest equity in the Baltics, long-term capability to self-finance its projects

A strong position on the Baltic construction market, the leading residential real estate developer

International quality, environmental protection and occupational safety **certificates ISO 9001, ISO 14001, OHSAS 18001**

SHARES

The shares are listed in the Main List of NASDAQ Tallinn since 1997.

The main shareholder is AS Riverito (**72%**)

2017 KEY FIGURES

Revenue **317,6 million** EUROS

Net profit **14,7 million** EUROS

757 employees



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

MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

Sales revenue of Merko Ehitus in Q1 of 2018 grew to EUR 80.3 million, bolstered by the pre-existing portfolio of construction contracts. The group's net profit was EUR 1.1 million. In the first quarter, Merko companies signed new construction contracts worth EUR 22 million and the secured order book stood at EUR 292 million.

Considering the volume of Merko Ehitus secured order book and the major projects currently under way, the growth of the group's sales revenue compared to the same period last year was as expected. The greatest growth came in sales revenue in Latvia, and the volume of construction works performed outside Estonia in the first quarter was greater than the volume for Estonia

In the first quarter, the trends of pressure on the growth of input prices and the limited availability of construction resources continued from last year. In the construction value chain, risks are being redistributed among parties, which also exerts an effect on general contracting companies and, ultimately, customers. Although compared to the first quarter of last year, construction volumes grew and profitability of construction service improved, group's management was not satisfied with the overall result for our construction activity under contracts. Merko group is continuing to look for greater effectiveness both in project management and on the expenses side and for optimum risk to income ratio, but not at the expense of construction quality. One quarter will not yield big major changes in this area, but solely growth in construction volumes is not a goal unto itself.

2018 3M
REVENUE
80 MILLION EUROS
PROFIT
BEFORE TAX
1.3 MILLION EUROS

In Q1, Merko Ehitus sold 51 apartments, compared to 141 last year in the same period. Although the share of the apartment development activity was less of a factor in the results for Q1, this was more due to technical reasons: sales depend on the moment that the authorisation for use for the building is received, at which point Merko Ehitus can start delivering the apartments to buyers. The number of apartments sold under preliminary contracts grew and these sales will be realised in quarters to come. Group's management didn't see major changes in the first three months of the year on the apartment market in the Estonian, Latvian and Lithuanian capitals. The economic environment is currently solid in the Baltic states, financing conditions are favourable and purchasing power remains stable. Driven by customer demand, more attention has to be devoted in apartment development to well-designed and sustainable solutions and an integral living environment. Greater efficiency and rationality in processing building permits and planning documents would help to raise apartment development volumes. In the first quarter, Merko Ehitus Group launched four new development projects with more than 140 apartments, and this year plans to bring several new development projects to market in Vilnius, Tallinn and Riga.

In Q1 of 2018, Merko Ehitus posted revenue of EUR 80.3 million (EUR 58.1 million for the same period last year; growth of +38%), EBITDA of EUR 1.8 million, profit before taxes of EUR 1.3 million and net profit of EUR 1.1 million. In the first 3 months of 2018, the group entered into new contracts with a total volume of EUR 22.3 million, including for establishing public space for the central square in Kuressaare, Estonia and for performing additional works on the Z-Towers complex in Latvia. As of 31 March 2018, Merko Ehitus Group's secured order book amounted to EUR 291.9 million.

Among major projects in progress in Q1 in Estonia there were the construction of T1 Mall of Tallinn shopping centre, Maakri Kvartal, Õpiku Maja's building B, Noblessner residential quarter, Pärnu mnt 22 office building, expansion of Wendre production facility, the residence of the Embassy of the People's Republic of China, the Tallink office building, Viimsi state gymnasium and the Toom-Kuninga 21 apartment building. In Latvia, the major projects in progress were the Akropole and Alfa shopping centres, the Z-Towers complex and the Ventspils music school and concert hall; in Lithuania, the expansion of the Radisson Blu Hotel Lietuva, Neringa Hotel, a Philip Morris plant, and the Rinktinės Urban and Basteja Life development projects. In Norway, the largest project under way in Q1 was the renovation and conversion of the office building at Akersgata 8 in Oslo.

OVERVIEW OF THE 3 MONTHS RESULTS

PROFITABILITY

Net profit in 3M 2018 was EUR 1.1 million (3M 2017: EUR 1.0 million), having increased by 7.3% compared to the same period last year. Net profit margin decreased to 1.4% (3M 2017: 1.8%). Profit before tax in 3M 2018 was EUR 1.3 million (3M 2017: EUR 1.1 million), which brought the profit before tax margin to 1.6% (3M 2017: 1.9%).

REVENUE

3M 2018 revenue was EUR 80.3 million (3M 2017: EUR 58.1 million). 3M revenue has increased by 38.1% compared to last year. The share of revenue earned outside Estonia in 3M 2018 was 57.5% (3M 2017: 29.2%).

SECURED ORDER BOOK

As at 31 March 2018, the group's secured order book was EUR 291.9 million (31 March 2017: EUR 287.7 million). In 3M 2018, group companies signed new contracts in the amount of EUR 22.3 million (3M 2017: EUR 58.6 million).

REAL ESTATE DEVELOPMENT

The group sold a total of 51 apartments (incl. 25 apartment in a joint venture) in 3 months of 2018 at a total value of EUR 4.3 million (excl. VAT). During 3 months of 2017, 141 apartments (incl. 1 apartment in a joint ventures) were sold at total value of EUR 16.3 million.

CASH POSITION

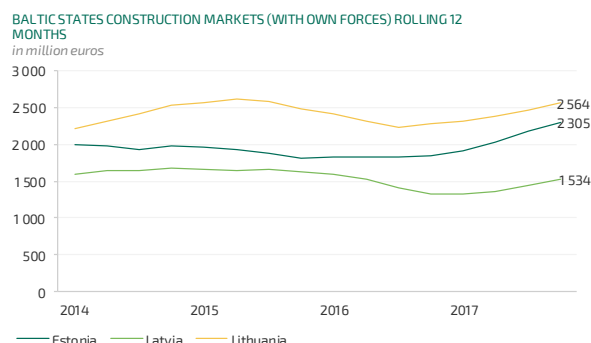
At the end of the reporting period, the group had EUR 27.6 million in cash and cash equivalents, and equity EUR 131.3 million (47.6% of total assets). Comparable figures as at 31 March 2017 were EUR 33.8 million and EUR 123.8 million (53.6% of total assets), respectively. As at 31 March 2018 the group had net debt of EUR 23.1 million (31 March 2017: EUR 6.9 million).

DISTRIBUTION OF PROFITS

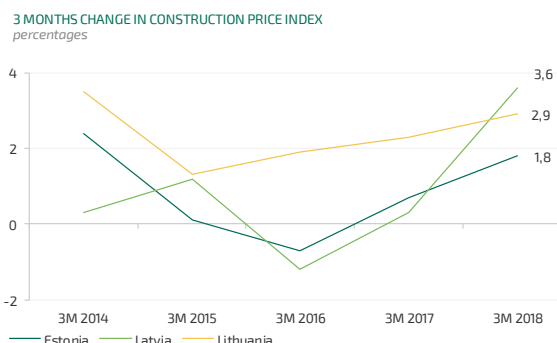
The general meeting of shareholders held on 9 May 2018 resolved to approve the profit allocation proposal for 2017 and to distribute EUR 17.7 million (1 euro per share) in dividends from retained earnings. This is equivalent to a 120% dividend rate for 2017.

OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

CONSTRUCTION SERVICES



Source: Local national statistical offices



Source: Local national statistical offices

The construction sector has not seen major changes in trends compared to Q4 of last year. The rise in input prices has become even more distinct, however. Construction volumes remain high, which keeps the situation with availability of workforce tight: the market is characterised by a shortage of qualified employees and subcontractors. That means wages are continuing to rise and general contractors are facing problems finding enough subcontractors to ensure high-quality construction that stays on schedule. With strong price based competition between general contractors, it is even harder to channel rising input prices to customers.

Looking ahead, three major narratives can be traced, which are expected to have an impact on the activity of the construction market in the future: the end of the current EU financing period in 2020; the potential start of Rail Baltic construction; and the entry into force of nearly zero energy requirements for new buildings. Although there are differences between the group's home markets, in general, it can be said that activity has been high in both the residential and commercial real estate market for quite some time. A trend toward greater stabilisation can now be expected. Riga is a separate matter, as construction activity there has not fully recovered since the recession in the last decade. Perhaps we will see a postponed renewal of activity there.

As a result of the aforementioned trends, however, the market may experience additional demand from the public sector. EU funding must be used up by the end of the corresponding multiannual financing period, which may mean that some part of it will be directed into construction (infrastructure, but buildings as well). If Rail Baltic construction should go ahead, that would mean major utilisation of existing construction resources (manpower, machinery etc.). In addition, EU's nearly zero energy (NZE) requirements will come into effect in Estonia from 1 January 2020 at the building permit application stage for new buildings. Regulatory developments are more modest in Latvia and Lithuania, but considering that NZE rules apply to all EU member states, it is only a matter of time until they will more specifically be established at local levels in those countries as well. In the short term, the new state of affairs may result in a rise in construction activity due to a rush to obtain building permits before the new rules come into force. After an uptick in activity in the interim, however, the next few years after that may see a slowdown in the pace of construction of new buildings until the market, including customers and end-consumers, grow accustomed to the new conditions (higher prices).

Principally, it is a matter of how the above-mentioned developments will unfold over time – ideally, the growth in demand from the public sector would offset a decline in activity after the NZE requirements come into effect. In the worst case, however, demand from different sectors will accumulate at the same time, overheating the already active construction sector and making the question of sufficient resources even more urgent.

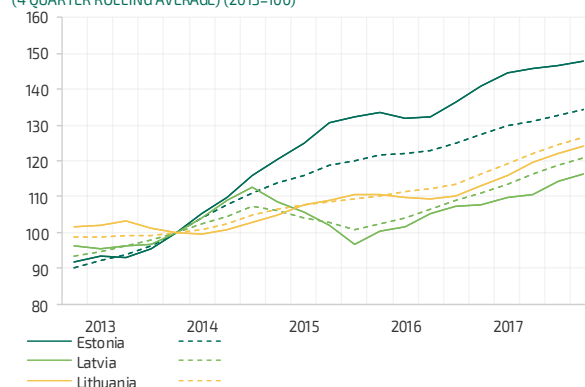
DEVELOPMENT OF APARTMENTS

In Tallinn and Vilnius, the pace of apartment market growth is generally tapering off, but in spite of increased supply, we can still see a rise in prices, which is largely a function of rising wages. As time goes on, the more important quality, location and integrity of the development area will be. Sales periods will lengthen for less attractive projects. The apartment market in Riga is characterised by a lower activity level than Tallinn and Vilnius, yet here, too, we can see the rate of increase in prices rise somewhat.

The macroeconomic environment is still an apartment buyer's market – economic growth has sped up and is expected to remain strong, incomes and savings are increasing, loan interest rates are still low and bank loans are readily available.

On the Norwegian housing market, a certain price correction has taken place and sales periods have become longer. At the end of last year and in Q1, prices have retreated and stabilised a few percent short of their peak levels.

NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX
(4 QUARTER ROLLING AVERAGE) (2013=100)



Source: Eurostat

BUSINESS ACTIVITIES

The group business reporting is divided into three business segments:

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

See additionally the detailed management structure on page 17.

ESTONIAN CONSTRUCTION SERVICE

The Estonian construction service segment consists of services in the field of general construction, civil engineering, electricity, external networks and road construction, as well as concrete works and construction services.

million EUR

	3M 2018	3M 2017	VARIANCE	12M 2017
Revenue	27.8	26.7	+4.0%	135.2
% of total revenue	34.6%	46.0%		42.6%
Operating profit (loss)	0.3	(0.5)		5.9
Operating profit margin	1.1%	(5.3%)		4.3%

In the 3 months of 2018, the revenue of the Estonian construction service segment was EUR 27.8 million (3 months of 2017: EUR 26.7 million), having increased by 4.0% from the same period last year. The Estonian construction service segment revenue for 3 months 2018 was 34.6% of the group's revenue (3M 2017: 46.0%).

In this segment, the group earned an operating profit of EUR 0.3 million for 3 months (3 months of 2017: EUR operating loss 0.5 million). In 3 months of 2018, the operating profit margin of the Estonian construction service segment was 1.1% (3 months of 2017: -5.3%).

The competition in main contracting in the area of general construction is getting increasingly tighter in the Estonian construction services market. The number of construction objects in the market is limited and therefore contractors tend to leave an increasingly small buffer for profitability and adverse developments when competing in price. This is particularly evident in public procurements where Merko is finding it increasingly difficult to successfully participate. Thus, the share of the public sector in Merko's Estonian construction services portfolio has considerably decreased. The depression in sales prices is accompanied by an increasing cost pressure from growing construction prices. The prices of labour, construction equipment and building materials have all increased. In order to ensure sustainable profitability, the group has to continue improving the efficiency of internal project management processes and optimizing the placement of resources and the cost base.

Larger projects in the first quarter in Estonian construction service segment included the construction works of Maakri Kvartal business complex, T1 shopping centre, Õpiku office building B, Pärnu mnt 22 office building, extension works to the complex of the air traffic control centre, Tallink office building, Embassy of the People's Republic of China residence, extension works of Wendre production building, Viimsi State Gymnasium and Toom-Kuninga 21 residential building construction works and clean up works of the residual pollution of the Maadevahe and Priimetsa asphalt concrete plant.

OTHER HOME MARKETS CONSTRUCTION SERVICE

The other home markets construction service segment consists of general construction work in Latvia, Lithuania and Norway, as well as provision of civil engineering and electricity construction services in Latvia.

million EUR

	3M 2018	3M 2017	VARIANCE	12M 2017
Revenue	43.5	11.2	+289.2%	108.4
% of total revenue	54.2%	19.2%		34.1%
Operating profit (loss)	0.1	(0.6)		1.8
Operating profit margin	0.3%	(5.3%)		1.7%

The sales revenue of the other home markets construction service segment amounted to EUR 43.5 million in the 3 months of 2018 (3 months of 2017: EUR 11.2 million), which is 289.2% more than in the 3 months of 2017. If the other home markets construction service segment revenues of 3 months of 2017 formed 19.2% of the group's revenue, then during 3 months of 2018, that ratio increased to 54.2%. The revenue growth has been supported mainly by major construction contracts in Latvia.

In Latvia, Merko has gained a stronger position among general contractors than previously, which provides opportunities to grow business volumes. In Lithuania, we are continuing our strategic plan to focus on foreign customers, who make up the predominant part of the group's Lithuanian secured order book. In Lithuania, we have also entered more widely the public procurement sphere in the field of general construction. In Norway, the group is performing a number of smaller-scale agreements.

The group is facing tough competition and growing costs also in other home markets (primarily Latvia and Lithuania). We are therefore carefully deliberating in participating in procurements in those markets and submit tenders for contracts in which we consider the risk to reward ratio to be sufficiently good. In 2018, the primary focus in this segment is on the successful completion of large projects in progress.

The 3 months operating profit of the other home market construction service segment amounted to EUR 0.1 million (3 months of 2017: operating loss EUR 0.6 million) and the operating profit margin was 0.3% (3 months of 2017: -5.3%).

In the first quarter of 2018, the larger ongoing projects in the other home markets construction service segment included, in Riga, the construction works of Multifunctional Centre Akropole and of Alfa Shopping Centre, finishing works of Z-Towers complex and, in Ventspils, the construction works of music school and concert hall. In Vilnius, the larger projects were the construction works of the design and construction works of Radisson Blu Hotel Lietuva extension, Hotel Neringa and construction works of the residential complex in Šaltiniu Namai quarter, in Klaipeda, the reconstruction and extension construction works of Philip Morris plant. In Norway, the larger project included renovation and building works of Akersgata 8 office building in Oslo.

REAL ESTATE DEVELOPMENT

The real estate development segment includes residential real estate development and construction of joint venture projects, long-term real estate investments and commercial real estate projects in Estonia, Latvia and Lithuania. In the interests of the finest quality and maximum convenience and assurance for buyers, Merko handles all phases of development: acquisition of the real estate, planning, design of the development project, construction, sales and marketing, and warranty-period customer service.

million EUR

	3M 2018	3M 2017	VARIANCE	12M 2017
Revenue	9.0	20.2	-55.4%	74.0
Incl. apartments revenue	4.3	16.3		47.1
Incl. construction service to joint venture projects	3.5	2.5		18.5
Incl. revenue from immovable properties	0.7	-		5.2
% of total revenue	11.2%	34.8%		23.3%
Operating profit	1.3	2.7	-52.1%	13.8
Operating profit margin	14.3%	13.3%		18.6%

The group sold a total of 51 apartments (incl. 25 apartment in a joint ventures) in 3 months of 2018 at a total value of EUR 4.3 million (excl. VAT) comparing to 2017 3 months when 141 apartments (incl. 1 apartment in a joint ventures) were sold at a total value of EUR 16.3 million. In 3 months of 2018, real estate development segment revenues decreased by 55.4% compared to the same period last year. In the 3 months of 2018, the share of revenue from the real estate development segment formed 11.2% of the group's total revenue (3 months of 2017: 34.8%).

The 3 months of 2018 operating profit of the segment amounted to EUR 1.3 million (3 months of 2017: EUR 2.7 million) and the operating profit margin was 14.3% (3 months of 2017: 13.3%), which increased by 1.0 pp compared to the same period previous year. The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, incl. the land acquisition price. The 2018 3 months segment's profitability was positively influenced by the sale of immovable property that is not strategically needed by the group. At the same time, the operating profit margin has been reduced, in comparison with 2017, by the growth in the volume of construction service projects developed by joint ventures. Profit from construction has been recognised in the course of construction and the profit from development is realised at a later stage, upon sale of apartments to the final customer, based on the equity method.

At the end of the period, group's inventory comprised 322 apartments where a preliminary agreement had been signed: 39 completed apartments (5 in Estonia and 34 in Latvia) and 283 apartments under construction (207 in Estonia and 76 in Lithuania). The sale of these apartments had not yet been finalised and delivered to customers, because the development site is still under construction or the site was completed at the end of the reporting period and the sales transactions have not all been finalised yet.

As at 31 March 2018, the group had a total of 403 apartments for active sale (as at 31 March 2017: 598 apartments; as at 31 December 2017: 317 apartments), for which there are no pre-sale agreements and of which 138 have been completed (33 in Estonia, 100 in Latvia and 5 in Lithuania) and 265 are under construction (141 in Estonia and 124 in Lithuania).

APARTMENT PROJECTS IN PROGRESS AND INDICATIVE DATE OF COMPLETION

PROJECT	PLACE/COUNTRY	COMPLETION DATE	NO OF UNSOLD APARTMENTS *	INCL. PRE-SOLD APARTMENTS
Fizikų 8	Vilnius, Lithuania	Completed	2	-
Tartu road 52 stage I & II	Tallinn, Estonia	Completed	13	-
Krokuvos 73	Vilnius, Lithuania	Completed	3	-
Grostonas 12 stage I (Skanstes Parks)	Riga, Latvia	Completed	5	-
Grostonas 12 stage II (Skanstes Parks)	Riga, Latvia	Completed	33	2
Staapli 4 (Noblessner Homeport) ***	Tallinn, Estonia	Completed	25	5
Gaiļezers stage I (Gaiļezers nami)	Riga, Latvia	Completed	96	32
			177	39
Ceikiniu 3 (Rinktinės Urban) **	Vilnius, Lithuania	Second half of 2018	123	73
Staapli 3 (Noblessner Homeport) *** / **	Tallinn, Estonia	End of 2018	103	64
Staapli 8 (Noblessner Homeport) ***	Tallinn, Estonia	End of 2018	18	1
Paepargi 43 and 47 (Paepargi)	Tallinn, Estonia	Summer of 2018	66	66
Paepargi 39,41 and 45 (Paepargi)	Tallinn, Estonia	Autumn of 2018	93	76
			403	280
Started in Q1 2018				
Staapli 12 (Noblessner Homeport) ***	Tallinn, Estonia	End of 2018	11	-
Strazdelio 5 (Basteja Life)**	Vilnius, Lithuania	End of 2019	77	3
Suur-Patarei 20 (Rand)	Tallinn, Estonia	Autumn of 2019	31	-
Tähepargi stage I (Tähepargi)	Tartu, Estonia	Spring of 2019	26	-
			142	3
Total			725	283

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

** The number of apartments has been corrected due to changes in the project.

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

In 3 months of 2018, the group launched the construction of a total of 145 new apartments in the Baltic states (3 months of 2017: 408 apartments). In the 3 months of 2018, the group has invested a total of EUR 7.1 million (3 months of 2017: EUR 7.5 million) in new development projects launched in 2018 as well as projects already in progress.

Merko group continues to invest in residential real estate projects also in 2018. Depending on the apartment market developments in the Baltic states in 2018, the group will launch the construction of approximately 650-700 new apartments. The planned investment level in 2018 in both development projects initiated in the previous years and new projects to be launched in 2018 is nearly EUR 60 million (2017: EUR 48.4 million invested). However, when making the investments, the group continues to be dependent on the pace of processing of building permits.

One of group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As at 31 March 2018, the group's inventories included land plots with development potential, where the construction works have not started, in amount of EUR 62.1 million (31.03.2017: EUR 67.0 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	31.03.2018	31.03.2017	31.12.2017
Estonia	27.4	26.6	28.9
Latvia	26.5	31.9	26.5
Lithuania	8.2	8.5	8.2
Total	62.1	67.0	63.6

No new land plots for real estate development purposes were acquired in the 3 months of 2018 (3 months of 2017: EUR 4.1 million; 12 months of 2017: acquired different new land plots in Tallinn, Estonia at an acquisition cost of EUR 5.1 million and in Riga, Latvia at an acquisition cost of EUR 4.1 million).

SECURED ORDER BOOK

As at 31 March 2018, the group's secured order book amounted to EUR 291.9 million, compared to EUR 287.7 million as at 31 March 2017, having increased by 1,4% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 3 months of 2018, EUR 22.3 million worth of new contracts were signed, compared to EUR 58.6 million in same period 2017.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FIRST QUARTER OF 2018

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Design and construction contract for the establishment of public space for the central square of Kuressaare	Estonia	September of 2019	3.5

After the balance sheet date, the group has concluded the following larger construction contracts:

- On 2 April 2018, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and OÜ Hansa Hotell entered into a contract for the construction of the second stage of an office building, located at Sadama 9, Tallinn. The contract value is approximately EUR 4 million and scheduled to be completed in March 2019.
- On 10 April 2018, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and Fausto Capital OÜ entered into a contract for the construction of the first stage of an office building, located at Tartu mnt 80, Tallinn. The contract value is approximately EUR 3.8 million and the deadline for the completion is scheduled in July 2019.
- On 18 April 2018, AS Merko Infra, part of AS Merko Ehitus group, and Elering AS entered into contracts for the construction of Kilingi-Nõmme and Tsirguliina substations. The Kilingi-Nõmme substation contract value is approximately EUR 3.1 million and the Tsirguliina substation contract value is approximately EUR 4.3 million. The works are scheduled to be completed in November 2019.

Of the contracts signed in the 3 months of 2018, private sector orders accounted for the majority, which is also represented in the group's secured order book, where private sector orders from projects in progress constitute approximately 84% (31.03.2017: approximately 70%; 31.12.2017: approximately 86%).

To diversify group's operating portfolio, a strategic goal is to increase construction service revenues outside Estonia. Thus, the group continues to identify and strengthen its competitive advantages and are closely monitoring the development and opportunities in both the Baltic states and the Nordic countries, especially in Norway. At the same time, it has to be ensured that the growth is profitable. The group is therefore focused on ensuring that sales revenue is grown only on the basis of projects with an acceptable risk to reward ratio.

CASH FLOWS

As at 31 March 2018, the group had cash and cash equivalents in the amount of EUR 27.6 million (31.03.2017: EUR 33.8 million; 31.12.2017: EUR 39.2 million). The group's cash position continues to be strong: the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As at the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 17.5 million, of which EUR 9.7 was unused (31.03.2017: EUR 11.2 million of which EUR 9.7 was unused). In addition to the overdraft facilities, the company has a working capital loan facility with the limit of EUR 3.5 million (31.03.2017: EUR 3.5 million) from AS Riverito, which was not withdrawn at the end of current period (31.03.2017: not withdrawn).

The 3 month cash flow from operating activity was negative at EUR 3.0 million (3 months of 2017: positive EUR 5.6 million), cash flow from investing activity was positive at EUR 0.1 million (3 months of 2017: negative EUR 0.1 million) and the cash flow from financing

activity was negative at EUR 8.7 million (3 months of 2017: negative EUR 5.2 million). Compared to the year 2017, the cash flow from operating activities had positive impacts from EBITDA EUR 1.8 million (3 months of 2017: EUR 1.9 million) and from the positive change in trade and other payables related to operating activities EUR 4.5 million (3 months of 2017: negative change of EUR 5.0 million), while the negative impacts came from change in trade and other receivables related to operating activities EUR 3.6 million (3 months of 2017: positive change of EUR 10.8 million), change in inventories EUR 3.3 million (3 months of 2017: positive change of EUR 2.6 million) and change in the provisions EUR 1.6 million (3 months of 2017: negative change of EUR 2.0 million).

To support cash flows from operating activities, the group has judiciously raised additional external capital. At the same time, the debt ratio has remained at a moderate level (18.4% as at 31.03.2018; 17.7% as at 31.03.2017; 21.4% as at 31.12.2017).

Cash flows from investing activities include negative cash flow from the acquisition of non-current assets in the amount of EUR 0.2 million (3 months of 2017: EUR 0.4 million) and positive cash flow from the sale of non-current assets in the amount of EUR 0.3 million (3 months of 2017: EUR 0.3 million).

Project specific loans obtained using investment property as collateral, included under cash flows from financing activities, were repaid in the amount of EUR 0.1 million (3 months of 2017: negative cash flow in the net amount of EUR 0.1 million). Net of loans received and loans repaid in connection with development projects amounted to negative cash flow of EUR 8.1 million (3 months of 2017: net positive cash flow of EUR 9.1 million) and finance lease principal repayments of EUR 0.2 million (3 months of 2017: EUR 0.2 million).

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		3M 2018	3M 2017	3M 2016	12M 2017
Revenue	million EUR	80.3	58.1	46.8	317.6
Gross profit	million EUR	4.1	4.1	3.1	30.9
Gross profit margin	%	5.1	7.1	6.5	9.7
Operating profit	million EUR	1.3	1.3	0.5	19.5
Operating profit margin	%	1.6	2.2	1.0	6.2
Profit before tax (PBT)	million EUR	1.3	1.1	0.3	18.8
PBT margin	%	1.6	1.9	0.6	5.9
Net profit	million EUR	1.2	1.0	0.0	15.8
attributable to equity holders of the parent	million EUR	1.1	1.0	0.1	14.7
attributable to non-controlling interest	million EUR	0.1	(0.0)	(0.1)	1.1
Net profit margin	%	1.4	1.8	0.2	4.6
Other income statement indicators		3M 2018	3M 2017	3M 2016	12M 2017
EBITDA	million EUR	1.8	1.9	1.2	22.2
EBITDA margin	%	2.2	3.3	2.5	7.0
General expense ratio	%	4.5	5.8	6.8	4.6
Labour cost ratio	%	9.0	13.2	14.2	10.1
Revenue per employee	thousand EUR	109	77	62	434

OTHER SIGNIFICANT INDICATORS		31.03.2018	31.03.2017	31.03.2016	31.12.2017
Return on equity	%	11.8	5.8	7.5	11.9
Return on assets	%	5.6	3.1	4.3	5.8
Return on invested capital	%	11.2	5.5	7.8	11.4
Equity ratio	%	47.6	53.6	62.3	47.0
Debt ratio	%	18.4	17.7	12.9	21.4
Current ratio	times	2.3	2.7	3.4	2.2
Quick ratio	times	1.1	1.1	1.3	1.1
Accounts receivable turnover	days	43	39	35	40
Accounts payable turnover	days	42	38	35	40
Average number of employees	people	737	759	755	732
Secured order book	million EUR	291.9	287.7	243.5	344.4

Ratio definitions are provided on page 40 of the report.

RISK MANAGEMENT

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

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

Legal risk

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

As at 31 March 2018, a provision has been set up at the group in the amount of EUR 0.1 million (31.03.2017: EUR 0.3 million) for covering potential claims and legal costs.

An overview of the key legal disputes of group entities ended during 2018 and ongoing as of 31.03.2018 is presented below:

Estonia

Lawsuit against former employee

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

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

Several court cases are ongoing in connection with Minister of the Environment regulation No 22 of 27 March 2015, which redrew the boundaries of species protection sites to exclude properties on Paekalda street owned by AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ.

On 2 February 2016, AS Merko Ehitus group companies Suur-Paekalda OÜ and Väike-Paekalda OÜ filed a complaint in Tallinn Administrative Court for compensation of damage. The plaintiffs are seeking a ruling ordering that the state pay damages of approximately EUR 3.2 million to Suur-Paekalda OÜ (exact amount to be determined) and approximately EUR 1.6 million to Väike-Paekalda (exact amount to be determined) as well as late interest at the rate specified in subsection 113 (1) of the Law of Obligations Act starting from 2 February 2016 until due compliance with the demand for compensation. The claims consist of direct patrimonial damage (reduction in the value of immovable property and expenditures made on development activity) and claims for revenue foregone (failed development activity in 2005-2007). The possible positive impact of the claim submitted has not been recognized by the group in its financial statements.

Latvia

Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The court ruling is expected during the first half of 2018.

The possible effect of the potential positive outcome of this claim has not been taken into account in the group's financial reporting.

Starptautiskā lidosta "Rīga"

On 21 September 2017, SIA Merks has initiated court proceedings against VAS "Starptautiskā lidosta "Rīga"" (Riga International Airport). The basis of the court proceeding is a dispute with Riga International Airport on the terms and conditions of signing the final completion certificate of the new passenger terminal of Riga International Airport. SIA Merks seeks court decision requiring Riga International Airport to sign the final completion certificate and thus entitling SIA Merks for payment of EUR 449 thousand (EUR 414 thousand being the principal claim and EUR 35 thousand late interest) for the works. The date of the first court hearing is scheduled on 16 May 2018.

On 5 March 2018, SIA Merks prepared an additional claim to the court to confirm that the works are fully and properly performed and should be duly accepted by Riga International Airport and, releasing the retention money for the warranty period guarantee in the amount of EUR 920 thousand. No additional provisions are recognised in relation to the potential outcome of this claim.

Lithuania

Vilniaus vandenys

On 18 May 2016, AS Merko Ehitus and UAB Merko Statyba, acting pursuant to the joint venture agreement, filed an action against UAB Vilniaus vandenys in the total amount of EUR 183 thousand. The plaintiffs maintain that due to the actions of UAB Vilniaus vandenys, both the construction period became longer and also additional works were carried out – works that the customer later refused to pay for. In the hearing on 9 January 2018, the court expertise was appointed. The potential positive outcome of this claim is not recognised in the group's financial reporting.

EMPLOYEES AND LABOUR COSTS

As of 31 March 2018, Merko Ehitus Group employed 764 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 35 (-4.4%). The number of employees has increased mainly due to increase of construction volumes in Latvia and Lithuania and decreased due to partial disposal of road maintenance activity in Estonia.

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

The group defines labour cost as salary (incl. fixed salary, additional pay, holiday pay, and performance pay), taxes based on salary, fringe benefits and taxes on fringe benefits. In 3 months 2018, the labour cost was EUR 7.2 million (3 months 2017: EUR 7.7 million), which decreased by 5.7% compared to the same period previous year, the labour cost ratio decreased by 4.2 pp from 13.2% to 9.0%.

During 3 months of 2018, AS Merko Ehitus Eesti, the largest Estonian construction company belonging to the Merko Ehitus group, has paid EUR 1.5 million in labour taxes in Estonia, making it the largest labour tax payer in the construction sector.

ETHICAL BUSINESS PRACTICES

Group's core values include ethical business practices, which are an important long-term success factor. By following highly ethical policies, we promote profitable growth, gain the trust of our stakeholders, and support fair competition and equal treatment.

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

The topic of business ethics has been thoroughly covered on the group's website:

<http://group.merko.ee/en/corporate-governance-2/responsibility/ethical-business-practices/>.

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

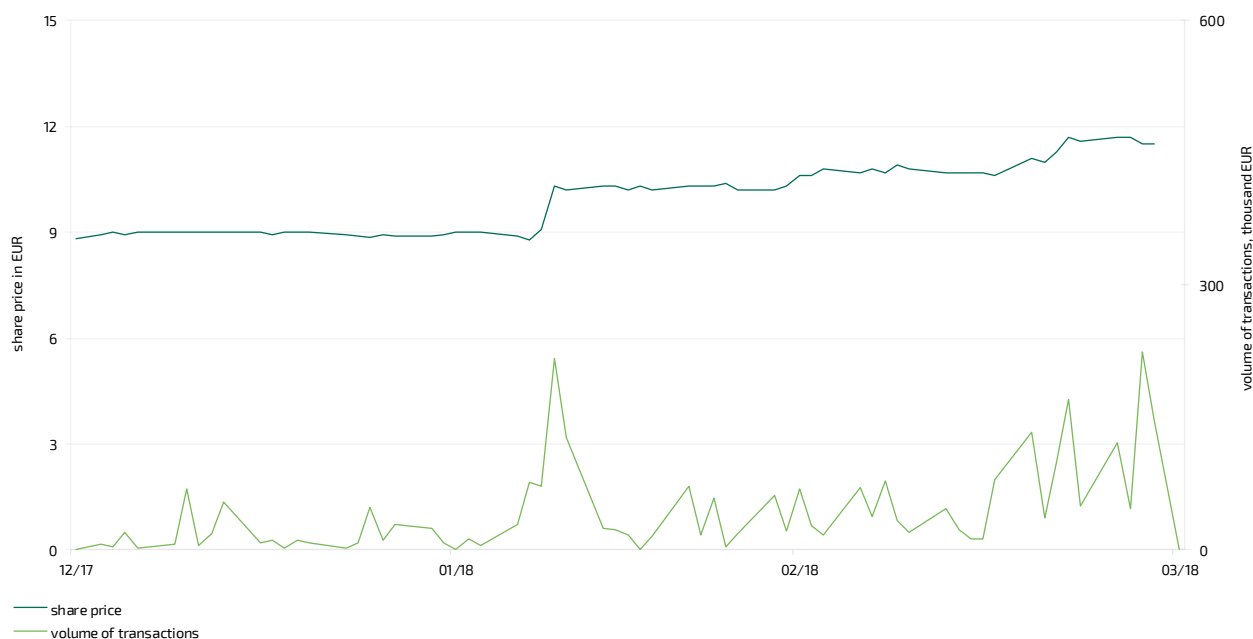
Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRK1T
Residency of issuer	Estonia
Stock Exchange List	NASDAQ Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	without nominal value
Number of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR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

The shares of Merko Ehitus are listed in the Main List of NASDAQ Tallinn. As at 31 March 2018, the company has 17,700,000 shares. The number of shares has not changed during 2018.

A total of 1,071 transactions were conducted with the shares of Merko Ehitus in 3 months of 2018, with 0.27 million shares (1.5% of total shares) traded, generating a turnover of EUR 2.79 million (comparable figures in 3 months 2017 were accordingly: 634 transactions with 0.15 million shares traded (0.9% of total shares) and generating a turnover of EUR 1.39 million). The lowest share price amounted to EUR 8.70 and the highest to EUR 11.80 per share (3 months of 2017: EUR 8.75 and EUR 9.39). The closing price of the share was EUR 11.50 on 31 March 2018 (31.03.2017: EUR 8.96; 31.03.2017: EUR 8.81). As at 31 March 2018, the market value of AS Merko Ehitus amounted to EUR 203.6 million, which has increased by 28.3% compared to the same period end last year (31.03.2017: EUR 158.6 million; 31.12.2017: EUR 155.9 million).

	31.03.2018	31.03.2017	31.03.2016	31.12.2017
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.06	0.06	0.01	0.83
Equity per share, euros	7.09	6.87	6.99	6.99
P/B ratio	1.62	1.30	1.29	1.26
P/E ratio	13.78	22.53	17.13	10.61
Market value, million EUR	203.6	158.6	159.3	155.9

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2018



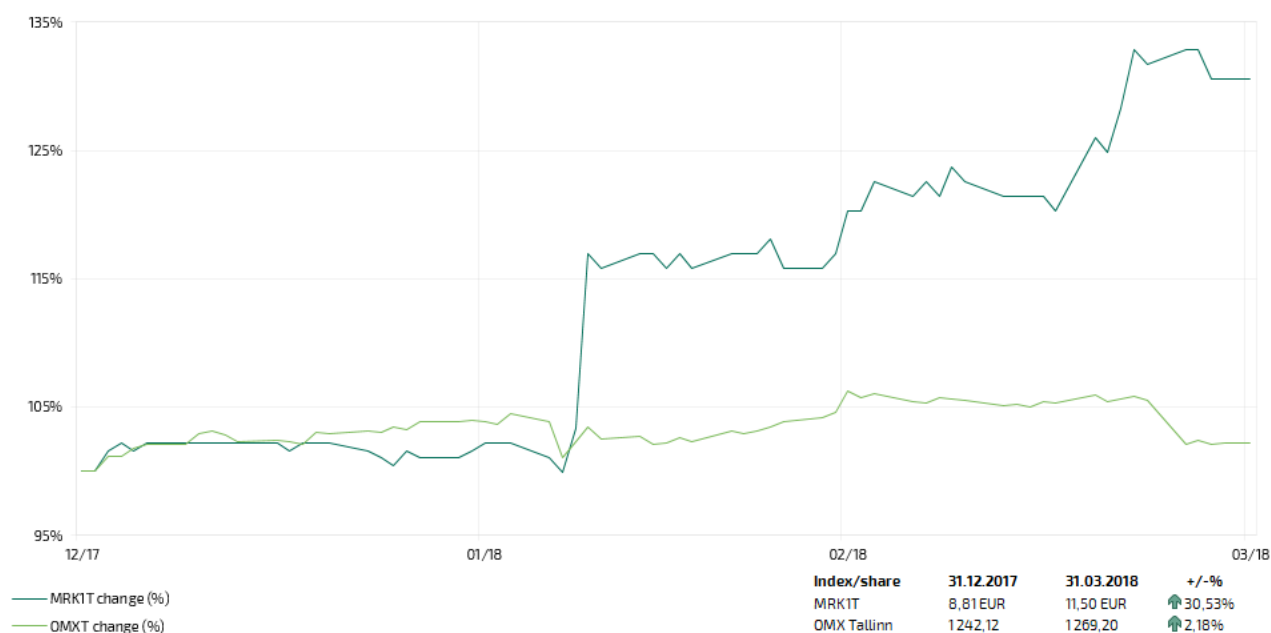
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.03.2018

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.05%	12,742,686	71.99%
100,001 – 1,000,000	11	0.51%	2,778,850	15.70%
10,001 – 100,000	34	1.57%	949,816	5.37%
1,001-10,000	286	13.23%	775,816	4.38%
101-1,000	1,079	49.93%	412,891	2.33%
1-100	750	34.71%	39,941	0.23%
Total	2,161	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.03.2018 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.03.2018	% OF TOTAL 31.12.2017	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	974,126	5.50%	5.50%	-
Firebird Republics Fund Ltd	363,094	2.05%	2.05%	-
SEB S.A. UCITS client assets	232,222	1.31%	1.31%	-
Firebird Aurora Fund Ltd	222,419	1.26%	1.25%	1,900
OÜ Midas Invest	174,925	0.99%	0.92%	11,900
Skandinaviska Enskilda Banken AB, Swedish customers	169,809	0.96%	1.19%	(41,451)
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	143,887	0.81%	0.81%	-
Firebird Fund L.P.	131,331	0.74%	0.74%	-
Total largest shareholders	15,307,517	86.48%	86.64%	(27,651)
Total other shareholders	2,392,483	13.52%	13.36%	27,651
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2018



DIVIDENDS AND DIVIDEND POLICY

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

According to the current dividends policy the objective is paying the shareholders 50–70% of the annual profit.

The annual general meeting of shareholders of AS Merko Ehitus held at 9 May 2018 approved the Supervisory Board's proposal to pay the shareholders the total amount of EUR 17.7 million (EUR 1.00 per share) as dividends from net profit brought forward, which is equivalent to a 120% dividend rate and a 11.4% dividend yield for the year 2017 (using the share price as at 31 December 2017). Comparable figures in 2016 were accordingly: EUR 7.3 million (EUR 0.41 per share) as dividends, which is equivalent to a 119% dividend rate and a 4.5% dividend yield (using the share price as at 31 December 2016).

According to the Estonian Income Tax Law section 50 subsection 1¹, AS Merko Ehitus can pay dividends, without any additional income tax expense and liabilities occurring, up to the amount it has received dividends from subsidiaries, which are resident companies of a Contracting State of the EEA Agreement subject to that state's income tax legislation. Taking into account the dividends already paid to the parent company by foreign subsidiaries, the group will not incur income tax expenses arising in 2018 in Estonia in connection with disbursement of dividends in Estonia (Q2 2017: EUR 0.9 million). The dividend payment to the shareholders will take place on 15 June 2018.

CORPORATE GOVERNANCE

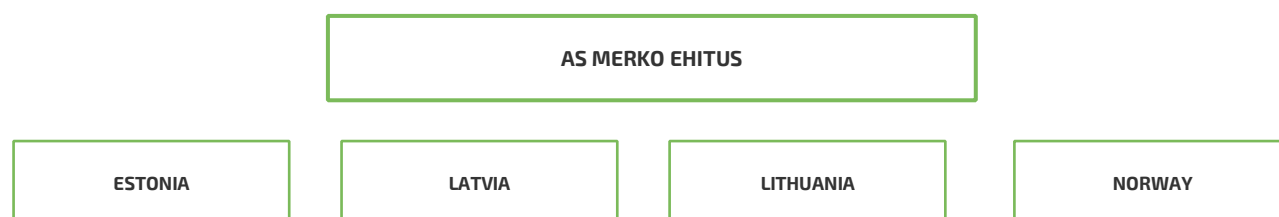
CORPORATE GOVERNANCE AND STRUCTURE

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

The main area of activity of the holding company is developing and implementing strategies for the Merko Ehitus group's various business domains by way of planning resources, deciding on major investments, targeting and overseeing the activity of subsidiaries and coordinating partner relations. The holding company AS Merko Ehitus has a two-member Management Board: Andres Trink and Tõnu Toomik.

The overview of the Management Board and Supervisory Board have been presented on pages 18–19 and in Note 16 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at <http://group.merko.ee/en/corporate-governance-2/>.

It is important to maintain a simple organisational structure in the group and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum efficiency in the group management, we in some cases differentiate the management structure and legal structure. Management of the group's operating activity takes place in a country-specific manner and is coordinated at the level of the holding company. As of 31 March 2018, the management structure is as follows:



GROUP'S LEGAL STRUCTURE

As at 31 March 2018, the group comprises 33 companies (31.03.2017: 42; 31.12.2017: 45). The group's legal structure is predominantly based on regulatory requirements and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 16 of the financial statements.

Changes in the legal structure of the group

On March 17 2017, AS Merko Ehitus and AS Ehitusfirma Rand ja Tuulberg initiated a process to dissolve joint venture Poolkoksimeäe Sulgemise OÜ, in which each joint owner has a 50% share. The liquidation of the company was completed and the deletion entry to the Commercial Register made on 26 January 2018.

On 20 November 2017, AS Merko Ehitus supervisory board has decided to start liquidation procedures of 100% owned subsidiary based in Russia, OOO Lenko Stroi. The liquidation of the company is planned to be completed in 2018.

In connection with the improvement of efficiency of the business operations and the structure of the Estonian companies of AS Merko Ehitus group, on 21 December 2017, AS Merko Ehitus and AS Merko Ehitus Eesti, 100% subsidiary of AS Merko Ehitus, entered into a real right contract to transfer the right of ownership on real estate development segment's registered immovables and

shareholdings in private limited companies on 1 January 2018. These companies were (a) 100% subsidiaries of AS Merko Ehitus: OÜ Tähelinna Kinnisvara, OÜ Metsailu, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7, OÜ Paekalda 9, OÜ Unigate, Suur-Paekalda OÜ, Väike-Paekalda OÜ; and (b) a 50% joint venture OÜ Kodusadam. As per a merger contract signed prior, on balance sheet date 1 January 2018, AS Merko Ehitus Eesti merged AS Merko Tartu and aforementioned received subsidiaries with itself, with the exception of OÜ Tähelinna Kinnisvara. The final entry in the Commercial Register will be made in first half of year 2018.

On 21 December 2017, a merger between AS Merko Infra and OÜ Mineraal, both belonging to AS Merko Ehitus group, was initiated. The acquiring company is AS Merko Infra. OÜ Mineraal will be acquired by AS Merko Infra and as a result of the merger, the company being acquired will wind up without liquidation proceedings and AS Merko Infra will become the legal successor of OÜ Mineraal. The merger date is 1st of January 2018, after which all transactions of the acquired company will be deemed to be made on the account of AS Merko Infra. The final entry in the Commercial Register will be made in first half of year 2018.

After the balance sheet date, on 12 April 2018, AS Merko Ehitus disposed of its 100% shareholding in OÜ Jõgeva Haldus.

GENERAL MEETING OF SHAREHOLDERS

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

The general meeting of the shareholders was held on 9 May 2018. The general meeting resolved to approve the annual report and the profit allocation proposal for 2017. The dividends in the sum of EUR 17.7 million (EUR 1 per share) will pay out to the shareholders on 15 June 2018.

In addition, the general meeting of the shareholders was appointed the audit firm AS PricewaterhouseCoopers the auditor of AS Merko Ehitus for the financial years of 2018 through 2020 with pay for auditing as per contract to be entered into with.

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 2018, the general meeting was chaired by attorney-at-law Vesse Võhma who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board and Supervisory Board about the company's activities.

On behalf of the company, usually the Chairman of the Management Board shall participate in the General Meeting of AS Merko Ehitus, and if necessary, other members of the Management and Supervisory Boards shall be involved. The company's auditor also participates.

The annual general meeting of shareholders of AS Merko Ehitus held in 2018 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Priit Roosimägi (Head of Group Finance Unit) 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 AS Merko Ehitus, the Supervisory Board has 3 to 5 members who shall be elected for the term of three years.

As at 31 March 2018, the Supervisory Board of AS Merko Ehitus had three members of whom, in accordance with the requirements of the Good Governance Code, Indrek Neivelt is an independent member.

MANAGEMENT BOARD

The Management Board is a governing body, which represents and manages AS Merko Ehitus in its daily activities in accordance with the law and the Articles of Association. The Management Board has to act in the most economically purposeful manner, taking into consideration the best interests of the company and all shareholders, while ensuring the company's sustainable development in accordance with set objectives and strategy. To ensure that the company's interests are met in the best way possible, the Management and Supervisory Boards shall extensively collaborate. At least once a quarter, a joint meeting of the members of the Supervisory and Management Boards shall take place, in which the Management Board shall inform the Supervisory Board of significant issues regarding the company's business operations, the fulfilment of the company's short and long-term goals and the risks impacting them. For every meeting of the Supervisory Board, the Management Board shall prepare a management report and submit it well in advance of the meeting so that the Supervisory Board can study it. The Management Board prepares reports for the Supervisory Board also in between the meetings, if it is considered necessary by the Supervisory Board or its Chairman.

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

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

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 31 March 2018:

COMPANY	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti	Andres Trink (Chairman), Teet Roopalu, Tõnu Toomik	Keit Paal (Chairman), Jaan Mäe, Alar Lagus, Veljo Viitmann
Tallinna Teede AS	Tõnu Toomik (Chairman), Keit Paal, Alar Lagus, Veljo Viitmann	Jüri Läll (Chairman), Jüri Helila
OÜ Merko Investments	-	Andres Trink, Priit Roosimägi
SIA Merks	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Oskars Ozoliņš (Chairman), Jānis Šperbergs
SIA Merko Investments	-	Andres Trink (Chairman), Oskars Ozoliņš
UAB Merko Statyba	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Saulius Putrimas (Chairman), Jaanus Rästas

Changes in the management of group subsidiaries

On 8 January 2018, the Management Board of AS Merko Ehitus, decided to extend the powers of the Members of the Supervisory Board of AS Merko Ehitus Eesti, Mr. Andres Trink, Mr. Tõnu Toomik and Mr. Teet Roopalu for three years, i.e. till 31 December 2020. The Supervisory Board of AS Merko Ehitus Eesti will continue in a former three-member panel: Mr. Andres Trink (The Chairman), Mr. Tõnu Toomik and Mr. Teet Roopalu.

On 18 April 2018, the Management Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Members of the Supervisory Board of AS Tallinna Teed, Mr. Veljo Viitmann and Mr. Alar Lagus for three years, i.e. till 18 April 2021. The Supervisory Board of AS Tallinna Teed will continue in a former four-member panel: Mr. Tõnu Toomik (The Chairman), Mr. Keit Paal, Mr. Veljo Viitmann and Mr. Alar Lagus.

MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

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

Andres Trink

Chairman of the Management Board



10.05.2018

Tõnu Toomik

Member of the Management Board



10.05.2018

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2018 3 months	2017 3 months	2017 12 months
Revenue	2	80,310	58,147	317,598
Cost of goods sold	3	(76,227)	(54,026)	(286,747)
Gross profit		4,083	4,121	30,851
Marketing expenses		(806)	(860)	(3,215)
General and administrative expenses		(2,819)	(2,518)	(11,289)
Other operating income		852	567	3,793
Other operating expenses		(32)	(57)	(601)
Operating profit		1,278	1,253	19,539
Finance income/costs		(26)	(156)	(767)
incl. finance income from sale of subsidiary		-	-	14
finance income/costs from joint ventures		136	28	64
finance income/costs from other long-term investments		-	-	2
interest expense		(153)	(173)	(745)
foreign exchange gain (loss)		(1)	2	(1)
other financial income (expenses)		(8)	(13)	(101)
Profit before tax		1,252	1,097	18,772
Corporate income tax expense		(90)	(118)	(3,020)
Net profit for financial year		1,162	979	15,752
incl. net profit attributable to equity holders of the parent		1,104	1,029	14,694
net profit attributable to non-controlling interest		58	(50)	1,058
Other comprehensive income, which can subsequently be classified in the income statement				
Currency translation differences of foreign entities		13	(3)	(74)
Comprehensive income for the period		1,175	976	15,678
incl. net profit attributable to equity holders of the parent		1,117	1,025	14,637
net profit attributable to non-controlling interest		58	(49)	1,041
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.06	0.06	0.83

The notes set out on pages 25-38 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.03.2018	31.03.2017	31.12.2017
ASSETS				
Current assets				
Cash and cash equivalents	5	27,600	33,839	39,210
Trade and other receivables	6	85,027	45,414	75,844
Prepaid corporate income tax		549	528	492
Inventories	7	121,754	120,838	118,421
		234,930	200,619	233,967
Non-current assets				
Long-term financial assets	8	15,266	11,922	17,242
Deferred income tax assets		5	1,326	5
Investment property	9	15,655	4,043	15,719
Property, plant and equipment	10	9,358	12,456	9,665
Intangible assets	11	511	668	497
		40,795	30,415	43,128
TOTAL ASSETS		275,725	231,034	277,095
LIABILITIES				
Current liabilities				
Borrowings	12	13,673	14,586	24,218
Payables and prepayments	13	81,761	54,909	74,972
Income tax liability		484	103	413
Short-term provisions	14	4,119	4,633	4,569
		100,037	74,231	104,172
Non-current liabilities				
Long-term borrowings	12	37,003	26,196	35,138
Deferred income tax liability		1,299	1,149	1,259
Other long-term payables	15	1,474	2,000	1,789
		39,776	29,345	38,186
TOTAL LIABILITIES		139,813	103,576	142,358
EQUITY				
Non-controlling interests		4,625	3,643	4,567
Equity attributable to equity holders of the parent				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	793	793
Currency translation differences		(689)	(649)	(702)
Retained earnings		123,254	115,742	122,150
		131,287	123,815	130,170
TOTAL EQUITY		135,912	127,458	134,737
TOTAL LIABILITIES AND EQUITY		275,725	231,034	277,095

The notes set out on pages 25–38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent					Non-control- ling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings	Total		
Balance as at 31.12.2016	7,929	793	(645)	114,713	122,790	3,692	126,482
Profit (loss) for the reporting period	-	-	-	1,029	1,029	(50)	979
Other comprehensive income	-	-	(4)	-	(4)	1	(3)
Total comprehensive income (loss) for the reporting period	-	-	(4)	1,029	1,025	(49)	976
Balance as at 31.03.2017	7,929	793	(649)	115,742	123,815	3,643	127,458
Balance as at 31.12.2017	7,929	793	(702)	122,150	130,170	4,567	134,737
Profit (loss) for the reporting period	-	-	-	1,104	1,104	58	1,162
Other comprehensive income	-	-	13	-	13	0	13
Total comprehensive income (loss) for the reporting period	-	-	13	1,104	1,117	58	1,175
Balance as at 31.03.2018	7,929	793	(689)	123,254	131,287	4,625	135,912

The share capital of AS Merko Ehitus consists of 17,700,000 shares without nominal value.

The notes set out on pages 25-38 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2018 3 months	2017 3 months	2017 12 months
Cash flows from operating activities				
Operating profit		1,278	1,253	19,539
Adjustments:				
Depreciation		484	651	2,675
(Profit)/loss from sale of non-current assets		(184)	(99)	(571)
(Profit) loss from sale of a business unit		-	-	(474)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		(355)	(1,967)	(8,488)
Interest income from operating activities		(546)	(446)	(1,979)
Change in provisions		(1,586)	(2,049)	572
Change in trade and other receivables related to operating activities		(3,630)	10,808	(19,301)
Change in inventories		(3,296)	2,569	(4,851)
Change in trade and other payables related to operating activities		4,458	(5,037)	12,058
Interest received		627	328	1,709
Interest paid		(189)	(204)	(879)
Other finance income and costs		(8)	(13)	(28)
Corporate income tax (paid)/reclaimed		(69)	(176)	(1,284)
Total cash flows from operating activities		(3,016)	5,618	(1,302)
Cash flows from investing activities				
Acquisition of subsidiaries	16	-	-	328
Disposal of subsidiary		-	-	(7)
Purchase of investment property		(2)	-	(6)
Purchase of property, plant and equipment		(121)	(317)	(1,186)
Proceeds from sale of property, plant and equipment		294	251	1,924
Purchase of intangible assets		(41)	(48)	(181)
Sale of a business unit		-	-	113
Interest received		1	4	6
Total cash flows from investing activities		131	(110)	991
Cash flows from financing activities				
Proceeds from borrowings		4,140	20,165	61,651
Repayments of borrowings		(12,743)	(25,207)	(47,380)
Finance lease principal payments		(151)	(165)	(818)
Dividends paid		-	-	(7,364)
Total cash flows from financing activities		(8,754)	(5,207)	6,089
Net increase/decrease in cash and cash equivalents		(11,639)	301	5,778
Cash and cash equivalents at the beginning of the period	5	39,210	33,544	33,544
Effect of exchange rate changes		29	(6)	(112)
Cash and cash equivalents at the end of the period	5	27,600	33,839	39,210

The notes set out on pages 25-38 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 3 months 2018 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2016 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2017 audited annual report and 2017 3 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 3 months 2018 present a true and fair view of the group's economic results based on the principle of going concern. While the influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 1.1 CHANGES IN THE PRESENTATION OF INFORMATION

In the group's segment reporting of the previous year's 3 months consolidated interim report, the outcome of Estonian construction service, other home markets construction service and real estate development were presented on gross profit level. Based on the resolution of AS Merko Ehitus Management Board to monitor revenue and operating profit (-loss) as the main financial indicators in the segment reporting, the outcome of the segments are presented on operating profit (-loss) level in this interim report. The comparative data for previous periods has been adjusted accordingly to new presentation in 2018 3 months consolidated interim report.

NOTE 1.2 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND AMENDMENTS TO PUBLISHED STANDARDS

The following new or revised standards and interpretations became obligatory for the group starting from 1 January 2018:

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

A comprehensive check-list based on IFRS 15 standard has been prepared by the group, based on which the group entities assess and report revenue from contracts with customers according to the new standard. Group's management finds the impact of the amendments to existing construction contracts and also to new contracts with customers immaterial.

The rest of new or revised standards or interpretations, which became effective in the financial year starting 1 January 2018, do not have a material impact on the group.

New accounting standards, interpretations and changes

Certain new or revised standards and interpretations have been issued that are mandatory for the group's annual periods beginning on or after 1 January 2019, and which the group has not early adopted:

IFRS 16, Leases (effective for annual periods beginning on 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The group assesses the impact of the amendments on its financial statements immaterial, as the operating lease payments in the future do not have a material impact for the group.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (effective for annual periods beginning on 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share

of loss of the investee that exceeds the amount of investor's interest in the investee. The group assesses the impact of the amendments on its financial statements immaterial as of the preparation of this report and in the light of existing investments.

The other new or revised standards or interpretations, which are not yet effective, are not expected to have a material impact on the group.

NOTE 2 OPERATING SEGMENTS

in thousand euros

The chief operating decision-maker, i.e. the Management Board of parent AS Merko Ehitus, monitors the business of the group by countries and operating segments

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

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

Estonian construction service and other home markets construction service segments include all projects of the respective countries in general construction, civil engineering and road construction. Other operating areas (management services, supervision service, etc.) are insignificant to the group and they are recognised within the construction service segment. The real estate segment primarily consists of the group's own real estate development – construction and sale, to a lesser degree, it also includes real estate maintenance and leasing.

The business result is assessed based on external revenue, operating profit and profit before tax of the business segment. The operating profit and profit before tax of the segment is composed of the income and expenditure directly related to the segment. Other income and expenses not directly related to the segments are attributable to the activities of holding companies and are monitored at group level.

Additional information on the segments is provided in the Business activities chapter of the Management report.

In the segment reporting, all intra-segment income and expenses have been eliminated from the pre-tax profit of the segments and all unrealised internal profits have been eliminated from the segment assets.

2018 3 months	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Revenue	27,773	43,541	12,370	83,684
Inter-segment revenue	(10)	-	(3,364)	(3,374)
Revenue from clients	27,763	43,541	9,006	80,310
Operating profit (-loss)	299	128	1,290	1,717
Profit (-loss) before tax	288	77	1,362	1,727
incl. interest income from operating activities	72	-	449	521
depreciation (Note 3)	(285)	(16)	(72)	(373)
recognition of provisions (Note 3)	(112)	(238)	(29)	(379)
reversal of provisions (Note 3)	-	50	5	55
profit from joint ventures	-	-	136	136
other finance income (costs)	(2)	(1)	(57)	(60)
incl. interest expenses	(3)	(1)	(53)	(57)
Assets 31.03.2018	39,036	49,918	162,746	251,700
incl. joint ventures (Note 8)	-	-	215	215

2017 3 months	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Revenue	26,767	11,196	25,701	63,664
Inter-segment revenue	(14)	(10)	(5,493)	(5,517)
Revenue from clients	26,753	11,186	20,208	58,147
Operating profit (-loss)	(459)	(588)	2,692	1,645
Profit (-loss) before tax	(466)	(607)	2,598	1,525
incl. interest income from operating activities	11	-	395	406
depreciation (Note 3)	(437)	(10)	(72)	(519)
recognition of provisions (Note 3)	(137)	(229)	(218)	(584)
reversal of provisions (Note 3)	103	-	-	103
profit from joint ventures	-	-	28	28
other finance income (costs)	(6)	1	(108)	(113)
incl. interest income	-	1	-	1
interest expenses	(6)	-	(95)	(101)
Assets 31.03.2017	30,750	18,208	155,583	204,541
incl. joint ventures (Note 8)	-	-	462	462

2017 12 months	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Revenue	135,338	108,446	98,388	342,172
Inter-segment revenue	(125)	(55)	(24,394)	(24,574)
Revenue from clients	135,213	108,391	73,994	317,598
Operating profit (-loss)	5,853	1,795	13,760	21,408
Profit (-loss) before tax	5,822	1,552	13,426	20,800
incl. interest income from operating activities	18	-	1,654	1,672
depreciation (Note 3)	(1,873)	(48)	(271)	(2,192)
impairment of inventories (Note 3)	-	-	(2,360)	(2,360)
reversal of impairment of inventories (Note 3)	-	-	5,276	5,276
recognition of provisions (Note 3)	(1,095)	(1,305)	(365)	(2,765)
reversal of provisions (Note 3)	191	-	-	191
profit from joint ventures	-	-	64	64
other finance income (costs)	(31)	9	(357)	(379)
incl. interest income	-	9	-	9
interest expenses	(18)	-	(341)	(359)
Assets 31.12.2017	29,422	49,162	157,058	235,642
incl. joint ventures (Note 8)	-	-	79	79

In addition to the segment assets, as at 31.03.2018 the group holds assets in the amount of EUR 24,025 thousand (31.03.2017: EUR 26,493 thousand; 31.12.2017: EUR 41,453 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, loans receivable, excluding loans to joint ventures, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	2018 3 months	2017 3 months	2017 12 months
Pre-tax profit from reporting segments	1,728	1,525	20,800
Other operating profit (-loss)	(440)	(392)	(1,869)
incl. recognition of provisions	-	-	(98)
finance income (costs)	(36)	(36)	(159)
incl. interest income	-	-	1
interest expenses	(36)	(37)	(147)
Total profit before tax	1,252	1,097	18,772

Other income and expenses, which are not directly associated with segments, are associated with holding companies.

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2018 3 months		2017 3 months		2017 12 months	
Estonia	34,120	42%	41,149	71%	190,928	60%
Latvia	34,044	42%	10,826	19%	79,914	25%
Lithuania	8,157	11%	5,420	9%	34,629	11%
Norway	3,989	5%	732	1%	12,104	4%
Finland	-	0%	20	0%	23	0%
Total	80,310	100%	58,147	100%	317,598	100%

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

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Estonia	12,993	16,577	13,367
Latvia	12,409	474	12,390
Lithuania	5	9	5
Norway	117	107	119
Total	25,524	17,167	25,881

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2018 3 months	2017 3 months	2017 12 months
Construction services and properties purchased for resale	52,580	33,462	186,352
Materials	11,982	9,421	50,983
Labour costs	4,732	5,445	22,255
Construction mechanisms and transport	1,650	1,409	9,317
Design	1,496	874	4,544
Real estate management costs	96	78	265
Depreciation	373	519	2,192
Impairment of inventories	-	-	2,360
Reversal of impairment of inventories	-	-	(5,276)
Provisions	324	481	2,574
Other expenses	2,994	2,337	11,181
Total cost of goods sold	76,227	54,026	286,747

NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2018 3 months	2017 3 months	2017 12 months
Net profit(-loss) attributable to shareholders <i>(in thousand EUR)</i>	1,104	1,029	14,694
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17,700	17,700	17,700
Earnings (loss) per share <i>(in euros)</i>	0.06	0.06	0.83

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

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation decision, dividends will be paid by parent company AS Merko Ehitus in Q2 2018 in the amount of EUR 17,700 thousand, i.e. EUR 1.00 per share (Q2 2017: 7,257 thousand, i.e. EUR 0.41 per share). Taking into account the dividends already paid to the parent company by foreign subsidiaries by the time of this report, the group will not incur income tax expenses arising in 2018 in Estonia in connection with disbursement of dividends (in the second quarter of 2017, the group incurred additional income tax expenses of EUR 880 thousand).

As at 31.03.2018, the parent company AS Merko Ehitus has EUR 414 thousand (31.03.2017: EUR 0 thousand; 31.12.2017: EUR 67 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 31.03.2018, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 98,135 thousand (31.03.17: EUR 92,074 thousand; 31.12.2017: EUR 97,172 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 104 thousand (31.03.2017: EUR 0 thousand; 31.12.2017: EUR 17 thousand), the corresponding income tax on dividends would amount to EUR 24,430 thousand (31.03.2017: EUR 23,019 thousand; 31.12.2017: EUR 24,276 thousand). For calculating the additional income tax on dividends, the income tax rate in force in 2018 was used, which is 20/80 of the amount paid as net dividends. The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Cash on hand	0	1	1
Bank accounts	27,515	33,837	39,174
Overnight deposits	85	1	35
Total cash and cash equivalents	27,600	33,839	39,210

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Trade receivables			
Accounts receivable	41,548	23,391	36,768
Allowance for doubtful receivables	(103)	(264)	(103)
	41,445	23,127	36,665
Tax prepayments excluding corporate income tax			
Value added tax	1,099	936	733
Other taxes	3	2	2
	1,102	938	735
Accrued income from construction services	21,298	6,040	17,780
Other short-term receivables			
Short-term loans	10,956	7,923	10,590
Interest receivables	149	456	603
Other short-term receivables	650	348	636
	11,755	8,727	11,829
Prepayments for services			
Prepayments for construction services	8,718	5,551	8,075
Prepaid insurance	267	448	248
Other prepaid expenses	442	583	512
	9,427	6,582	8,835
Total trade and other receivables	85,027	45,414	75,844
incl. short-term loan receivables from related parties (Note 16)	9,366	6,348	9,000
other short-term receivables and prepayments to related parties (Note 16)	1,493	2,535	2,911

NOTE 7 INVENTORIES

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Materials	289	612	238
Work-in-progress	35,660	38,461	36,023
Finished goods	22,016	13,501	17,612
Goods for resale			
Registered immovables purchased for resale	62,130	66,995	63,613
Other goods purchased for resale	742	759	747
	62,872	67,754	64,360
Prepayments for inventories			
Prepayments for real estate properties	690	-	-
Prepayments for other inventories	227	510	188
	917	510	188
Total inventories	121,754	120,838	118,421

NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Investments to joint ventures	215	462	79
Long-term loans	4,000	-	4,000
Long-term bank deposit	-	36	-
Long-term interest	-	-	-
Long-term receivables from customers of construction services	11,051	11,424	13,163
Total other long-term loans and receivables	15,266	11,922	17,242

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Land	11,902	51	11,902
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(12)	(11)	(12)
	17	18	17
Buildings at carrying amount			
Cost	5,271	5,246	5,252
Accumulated depreciation	(1,535)	(1,272)	(1,452)
	3,736	3,974	3,800
Total investment property	15,655	4,043	15,719

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Land	810	821	811
Buildings at carrying amount			
Cost	5,729	5,650	5,530
Accumulated depreciation	(2,050)	(1,993)	(2,077)
	3,679	3,657	3,453
Machinery and equipment at carrying amount			
Cost	13,736	17,360	13,707
Accumulated depreciation	(9,664)	(11,081)	(9,458)
	4,072	6,279	4,249
Other fixtures at carrying amount			
Cost	5,533	5,250	5,561
Accumulated depreciation	(4,736)	(4,421)	(4,719)
	797	829	842
Prepayments for property, plant and equipment	-	870	310
Total property, plant and equipment	9,358	12,456	9,665

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Goodwill			
Cost	75	970	74
Impairment	-	(679)	-
	75	291	74
Software at carrying amount			
Cost	1,430	1 272	1,471
Accumulated depreciation	(1,079)	(1,020)	(1,092)
	351	252	379
Prepayments for intangible assets	85	125	44
Total intangible assets	511	668	497

NOTE 12 BORROWINGS

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Finance lease payables			
Present value of lease payments	785	1,591	863
incl. current portion	430	1,220	487
non-current portion 2...5 years	355	371	376
Bank loans			
Loan balance	40,441	33,162	50,383
incl. current portion	8,793	13,359	20,621
non-current portion 2...5 years	31,648	19,803	29,762
Loans from entities under common control			
Loan balance	6,000	6,000	6,000
incl. current portion (Note 16)	1,000	-	1,000
non-current portion 2...5 years (Note 16)	5,000	6,000	5,000
Loans from other entities			
Loan balance	3,450	29	2,110
incl. current portion	3,450	7	2,110
non-current portion 2...5 years	-	22	-
Total loans			
Loans balance	49,891	39,191	58,493
incl. current portion	13,243	13,366	23,731
non-current portion 2...5 years	36,648	25,825	34,762
Total borrowings	50,676	40,782	59,356
incl. current portion	13,673	14,586	24,218
non-current portion 2...5 years	37,003	26,196	35,138

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Trade payables	39,652	22,414	35,356
Payables to employees	8,045	7,015	8,613
Tax liabilities, except for corporate income tax			
Value added tax	1,534	1,586	532
Personal income tax	650	733	554
Social security tax	1,096	1,323	958
Unemployment insurance tax	56	71	53
Contributions to mandatory funded pension	42	65	43
Other taxes	176	137	160
	3,554	3,915	2,300
Prepayments for construction services	16,873	8,407	13,749
Other liabilities			
Interest liabilities	17	38	2
Dividends payables	115	-	-
Other liabilities	616	408	594
	748	446	596
Prepayments received	12,889	12,712	14,358
Total payables and prepayments	81,761	54,909	74,972
incl. payables to related parties (Note 16)	148	46	17

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Provision for warranty obligation for construction	3,023	2,515	2,874
Provision for costs of projects sold	655	1,514	1,221
Provision for onerous construction contracts	309	248	224
Provision for legal costs and claims filed	120	348	120
Other provisions	12	8	130
Total short-term provisions	4,119	4,633	4,569

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Trade payables	1,039	1,289	1,248
Other long-term liabilities	435	711	541
Other long-term payables total	1,474	2,000	1,789
incl. other long-term payables to related parties (Note 16)	435	319	541

NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.03.2018, 31.03.2017 and 31.12.2017, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	31.03.2018	31.03.2017	31.12.2017		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
AS Vooremaa Teed	-	100	-	Estonia, Jõgeva	Road construction
AS Merko Infra	100	100	100	Estonia, Tallinn	Construction
AS Merko Tartu	-	100	100	Estonia, Tartu	Construction
OÜ Fort Ehitus	-	76	-	Estonia, Viimsi	Construction
OÜ Mineraal	-	100	100	Estonia, Tallinn	Mining
Kivimäe 32 OÜ	-	-	100	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	100	-	-	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Statinių priežiūra ir administravimas	100	100	100	Lithuania, Vilnius	Real estate
UAB Timana	100	-	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikštele	100	100	100	Lithuania, Vilnius	Real estate
UAB Timana	-	100	-	Lithuania, Vilnius	Real estate
UAB Rinktinės projektai	100	100	100	Lithuania, Vilnius	Real estate
OÜ Jõgeva Haldus	100	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	-	100	100	Estonia, Tallinn	Real estate
OÜ Kiviaia Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	-	100	100	Estonia, Tallinn	Real estate
Väike-Paekalda OÜ	-	100	100	Estonia, Tallinn	Real estate
Suur-Paekalda OÜ	-	100	100	Estonia, Tallinn	Real estate
OÜ Unigate	-	-	100	Estonia, Tallinn	Real estate
OÜ Paekalda 2	-	-	100	Estonia, Tallinn	Real estate
OÜ Paekalda 3	-	-	100	Estonia, Tallinn	Real estate
OÜ Paekalda 7	-	-	100	Estonia, Tallinn	Real estate
OÜ Paekalda 9	-	-	100	Estonia, Tallinn	Real estate
SIA Merko Investments	100	100	100	Latvia, Riga	Holding
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	100	Latvia, Riga	Real estate

	Ownership and voting rights %			Location	Area of operation
	31.03.2018	31.03.2017	31.12.2017		
SIA Industrias Parks	100	100	100	Latvia, Riga	Real estate
SIA Elniko	-	100	-	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	75	Latvia, Riga	Real estate
PS Merks-Ostas celtnieks	65	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	-	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	100	Finland, Helsinki	Construction
Hartian Oy	75	75	75	Finland, Helsinki	Real estate
Lenko Stroi LLC	100	100	100	Russia, St. Petersburg	Holding
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	56	Norway, Sofiemyr	Construction
Joint ventures					
OÜ Unigate	-	50	-	Estonia, Tallinn	Real estate
Poolkoksimäe Sulgemise OÜ	-	50	50	Estonia, Tallinn	Construction
Kivimäe 32 OÜ	-	50	-	Estonia, Tallinn	Real estate
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate

Additional information of the changes in reported period is provided in chapter Corporate Governance in Management report on pages 17-18.

GOODS AND SERVICES

in thousand euros

	2018 3 months	2017 3 months	2017 12 months
Provided services and goods sold			
Parent company	4	4	15
Joint ventures	3,878	2,248	15,763
Entities under common control	-	1,529	6,430
Other related parties	10	-	-
Members of the management	-	10	42
Total services provided and goods sold	3,892	3,791	22,250
Interest income			
Joint ventures	140	77	435
Purchased services and goods			
Parent company	23	23	90
Entities under common control	14	17	59
Total purchased services and goods	37	40	149
Interest expense			
Parent company	-	34	34
Entities under common control	36	36	146
Total interest expense	36	70	180

BALANCES WITH RELATED PARTIES

in thousand euros

	31.03.2018	31.03.2017	31.12.2017
Receivables from related parties			
Loans granted (Notes 6, 8)			
Joint ventures	9,366	6,348	9,000
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Joint ventures	1,398	1,963	2,489
Entities under common control	88	568	418
Other related parties	3	-	-
Total receivables and prepayments	1,493	2,535	2,911
Total receivables from related parties	10,859	8,883	11,911
Payables to related parties			
Short-term loans received (Note 12)			
Entities under common control	1,000	-	1,000
Total short-term loans received	1,000	-	1,000
Payables and prepayments (Note 13)			
Parent company	9	9	9
Joint ventures	11	-	7
Entities under common control	13	37	1
Other related parties	115	-	-
Total payables and prepayments	148	46	17
Long-term loans received (Note 12)			
Entities under common control	5,000	6,000	5,000
Other long-term payables (Note 15)			
Other related parties	435	319	541
Total payables to related parties	6,583	6,365	6,558

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 3 months of 2018 was EUR 413 thousand (3 months of 2017: EUR 447 thousand; 12 months of 2017: EUR 2,355 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 3 months of 2018, the Management Board members of major subsidiaries received EUR 11 thousand in compensation (3 months of 2017: EUR 40 thousand; 12 months of 2017: EUR 147 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

Track record and photographs of the members of the Supervisory Board can be found on AS Merko Ehitus website at group.merko.ee/en/corporate-governance-2/supervisory-council/.

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31.03.2018:

		NO OF SHARES	% OF SHARES
Toomas Annus (AS Riverito)	Chairman of the Supervisory Board	8,322,914	47.02%
Indrek Neivelt (OÜ Trust IN)	Member of the Supervisory Board	31,635	0.18%
Teet Roopalu	Member of the Supervisory Board	-	-
		8,354,549	47.20%

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31.03.2018:

		NO OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	600	0.00%
Tõnu Toomik (AS Riverito)	Member of the Management Board	1,607,185	9.08%
		1,607,785	9.08%

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	31.03.2018	31.03.2017	31.12.2017
Performance period's warranty to the customer	30,280	23,552	31,229
Tender warranty	858	1,597	2,201
Guarantee for warranty period	18,696	21,667	18,197
Prepayment guarantee	13,465	9,640	16,249
Payment guarantee	30,500	30,500	31,019
Contracts of surety	3,807	4,840	4,215
Letter of credit	1,576	-	-
Total contingent liabilities	99,182	91,796	103,110

The "Payment guarantee" entry includes a payment guarantee for the benefit of a financial institution, issued within the framework of a contract for construction entered into in 2015, in order to secure the customer's contractual payment obligations in the total amount of up to EUR 30,500 thousand. The realisation of the payment guarantee is not considered likely by the group. To secure the customer's contractual obligations, a first-ranking mortgage of EUR 36,600 thousand with the financing institution as the beneficiary has been established on the registered immovable property of the building to be constructed in the framework of the construction agreement. To secure the group's payment guarantee, a second-ranking mortgage of EUR 8,500 thousand with the group as the beneficiary has been established.

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

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

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

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

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

Contracts of surety – the group guarantees the timely fulfillment of group member's liabilities towards a third party (e.g. providing services by a certain date in the agreed amount).

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

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of AS Merko Ehitus has prepared the consolidated interim financial statements for the 3 months of 2018, which are set out on pages 5-38.

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

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

Andres Trink Chairman of the Management Board



10.05.2018

Tõnu Toomik Member of the Management Board



10.05.2018

DEFINITION OF RATIOS

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