



AS MERKO EHITUS

GROUP

2019 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:	01.01.2019 – 31.03.2019
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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BRIEF OVERVIEW OF THE GROUP

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



BUSINESS SEGMENTS

ESTONIA	LATVIA	LITHUANIA	NORWAY
General construction Civil engineering Electrical construction Road construction Residential real estate development and investments	General construction Civil engineering Electrical construction Residential real estate development and investments	General construction Residential real estate development and investments	General construction

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

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

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

SHARES

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

The main shareholder is AS Riverito (72%)

2018 KEY FIGURES

Revenue **418.0 million** euros Net profit **19.3 million** euros **764** 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 increasing the company value by offering general contracting services in the field of construction of buildings and infrastructure facilities as well as developing residential real estate in its main home markets of Estonia, Latvia, Lithuania and Norway. Merko Ehitus aims to be a preferred partner to its clients for construction works.

MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

In Q1 of 2019, Merko Ehitus posted revenue of EUR 77 million and net profit of EUR 2.8 million. The number of apartments delivered to buyers in Q1 of this year grew more than 20% year-over-year.

Nearly 4% decrease in revenue in the first quarter was expected, considering the trend of decreasing construction orders on the market and the fact that exceptionally large construction projects in the group's portfolio in recent years were completed. In the first quarter, the group entered into more new construction contracts than we did a year ago during the same period, but as the profit margins on construction contracts are low due to high price competition, the growth in revenue is not a goal unto itself. It was positive that the net profitability improved in the first quarter. In the construction market, the share of government contracts is increasing and the volume of public procurements is significantly influencing the outlook on the construction market in the years to come regarding buildings and especially infrastructure.

In Q1 of 2019, Merko Ehitus posted revenue of EUR 77 million (Q1 2018: EUR 80 million), EBITDA was EUR 3.5 million (Q1 2018: 1.8 million) and net profit EUR 2.8 million (Q1 2018: EUR 1.1 million). In Q1, new construction contracts worth EUR 32 million were signed, the largest of these being the construction of a support warehouse and the expansion of a medical centre in Tapa armed forces campus, public water supply and sewerage pipe renovation in Harju County and the extension of the Sindi 330 kV substation.

For Merko Ehitus apartment development is a strategic business area, and this year's planned investment into that area is around EUR 100 million. At the moment, the group has more than 1,000 apartments in development in Estonia, Latvia and Lithuania, of which more than half will be completed in 2020," said Andres Trink.

No significant changes took place on the apartment market in the Baltic capitals in Q1. The price level is stabilizing in Tallinn and Vilnius due to an increased supply of new apartments: quality, integral residential environment and the developer's professionalism have become increasingly important. Considering the low transaction volumes on the Riga apartment market and improving macroeconomic indicators, the growth potential is good there. In 2018, the group launched two development projects in Riga with about 200 apartments, which will be completed in 2020.

In Q1 of 2019, Merko Ehitus handed over 63 apartments to buyers, which is more than 20% above the level shown a year ago during the same period. Merko's largest projects include Uus-Veerenni and Pikaliiva residential communities in Tallinn, Gaiļezers and Viesturdārzs developments in Riga and Vilnelės slėnis and Rinktinės Urban developments in Vilnius.

One area of concern is the situation on the Baltic banking market, where decreased competition is worsening companies' access to credit. The tightening requirements on acceptance of bank customers as well as on their transactions can have a negative impact on economic activity in the Baltics. This may, gradually, also manifest itself in a decline of real estate market activity.

As of 31 March 2019, the secured order book of Merko Ehitus group amounted to EUR 190 million, compared to EUR 292 million as at the same date last year. In Q1, the largest projects in progress in Estonia were Pärnu mnt 186 commercial building, student home of Rakvere Vocational School, the Maakri Kvartal business complex, expansion and construction work on the logistics building and medical centre at the Defence Forces Tapa base, dredging and reconstruction works of Hundipea port, and laying undersea cables under the Suur Väin and Väike Väin straits; in Latvia, construction on the Akropole multifunctional centre, Alfa shopping centre and Lidl logistics centre; and in Lithuania, Hotel Neringa, Quadrum office building and two school buildings. In Norway, the largest projects in progress included design and construction of Tesla service centre and renovation of an office building at Møllergata 23-25, Oslo.

2019 3M
REVENUE
77 MILLION EUROS

PROFIT
BEFORE TAX
3.0 MILLION EUROS

OVERVIEW OF THE 3 MONTHS RESULTS

PROFITABILITY

Net profit attributable to equity holders of the parent in 3 months 2019 was EUR 2.8 million (3M 2018: EUR 1.1 million), having increased by 151.7% compared to the same period last year. Net profit margin increased to 3.6% (3M 2018: 1.4%).

Profit before tax in 3 months 2019 was EUR 3.0 million (3M 2018: EUR 1.3 million), which brought the profit before tax margin to 3.9% (3M 2018: 1.6%).

REVENUE

The 3 months 2019 revenue was EUR 76.8 million (3M 2018: EUR 80.3 million). 3 months' revenue has decreased by 4.3% compared to same period last year. The share of revenue earned outside Estonia in 3 months 2019 was 60.8% (3M 2018: 57.5%).

SECURED ORDER BOOK

As at 31 March 2019, the group's secured order book was EUR 190.0 million (31 March 2018: EUR 291.9 million). In 3 months 2019, group companies signed new contracts in the amount of EUR 32.2 million (3M 2018: EUR 22.3 million).

REAL ESTATE DEVELOPMENT

In 3 months 2019, the group sold a total of 63 apartments (incl. 29 apartments in a joint venture); in 3 months 2018, the group sold 51 apartments (incl. 25 apartment in a joint venture). The group earned a revenue of EUR 4.6 million from sale of own developed apartments in 3 months 2019 and EUR 4.3 million in 3 months 2018.

CASH POSITION

At the end of the reporting period, the group had EUR 33.0 million in cash and cash equivalents, and equity EUR 134.6 million (48.7% of total assets). Comparable figures as at 31 March 2018 were EUR 27.6 million and EUR 131.3 million (47.6% of total assets), respectively. As at 31 March 2019, the group had net debt of EUR 9.9 million (31 March 2018: EUR 23.1 million).

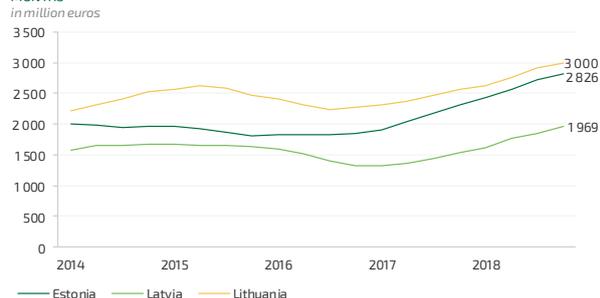
DISTRIBUTION OF PROFITS

The general meeting of shareholders held on 8 May 2019 resolved to approve the profit allocation proposal for 2018 and to distribute EUR 17.7 million (1 euro per share) in dividends from retained earnings. This is equivalent to a 92% dividend rate for 2018.

OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

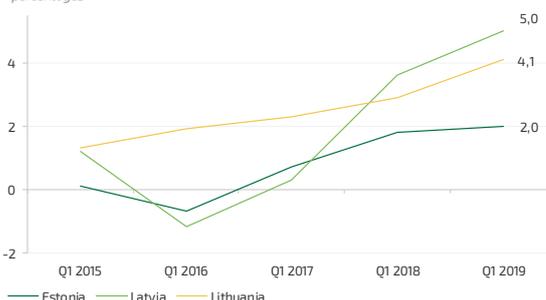
CONSTRUCTION SERVICES

BALTIC STATES CONSTRUCTION MARKETS (WITH OWN FORCES) ROLLING 12 MONTHS



Source: national statistical offices

ANNUAL CHANGE IN CONSTRUCTION PRICE INDEX IN FIRST QUARTER



Source: national statistical offices

In 2018, a total of EUR 7,795 million in construction work was performed in the Baltic states using own resources, which was close to EUR 1,400 million more than a year before (EUR 6,402 million). The construction market grew in current prices by +22% (2017: +17%). With that, the market as measured in current prices approached the peak boom-era levels, falling just 5% short (2008: EUR 8,185 million). In Estonia, the boom era peak was exceeded by 13% while Latvia and Lithuania fell 17-18% short. In terms of volume, Lithuania was still the leader, but its share has now fallen under 40% of the Baltic construction market (2018: 38%, 2017: 40%). Latvia's share has risen to 25% (2017: 24%) and Estonia's share to 36% (2017: 36%).

Considering that the construction volumes have increased during a rather short time period, especially in Estonia, but also in Lithuania, the growth rate might not continue at current level for much longer. The amount of issued construction permits decreased in 2018 compared to previous year in Estonia considerably both in terms of residential (ca -10%) and non-residential premises (ca -20%), while in Lithuania the amount of issued construction permits for residential premises remained the same and the amount of permits for non-residential premises increased (ca +10%). In Latvia the amount of issued construction permits increased both for residential and non-residential premises (ca +15...20%).

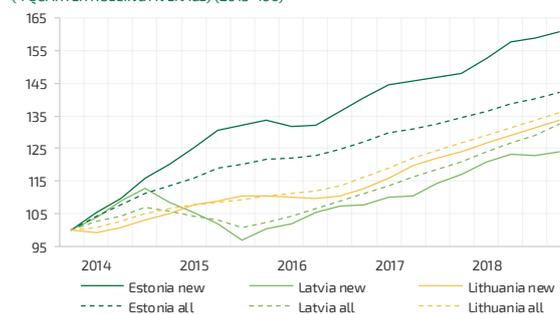
In Norway, annual growth has continued at a stable 3% rate. The growth has gradually brought construction volumes to over 25% more than the boom-era peak, which in Norway was considerably less dramatic as it was in the Baltics.

In Q1 2019, the Latvian construction price index grew already by 5% compared to the same period last year. In a few years, the growth has sped up significantly. In Lithuania, the price rise in the construction sector is also accelerating, exceeding the 4% mark in Q1. Estonia's price rise in the construction sector has stayed more or less stable at around 2%. Besides impacting price, the high activity of the construction market also affects the availability of resources. In autumn 2018, the pressure was the highest, as the dearth of high-quality subcontractors started to pose a risk to on-time completion of construction sites. In Q1 of 2019, the availability of resources improved, particularly in Estonia, which is partly related to seasonal cycles but presumably also stems from a slight decrease in the level of activity. The continuing rapid growth of the price of construction in Lithuania and in particular in Latvia points to the fact that the shortage of resources on these markets may remain a salient topic this year as well.

DEVELOPMENT OF APARTMENTS

During recent years, new residential units have been introduced to the market to such an extent that by the end of 2018, the number of permits for use issued for residential buildings in Estonia hit the boom-era peak. In Lithuania, permits for use have been issued for a few years now in a larger volume than at the peak of 2008 and a certain correction has occurred in the last year and a half. In Latvia, volumes remain lower than in Estonia and Lithuania, but in 2018, the number of permits for use grew by nearly 20%. Also, the number of building permits has risen significantly in the last two years in Latvia, exceeding the volume of permits for use nearly twofold. In Q1 in Estonia, however, the volume of building permits dropped below the number of permits for use if compared over the last 12 months.

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



Source: Eurostat

In spite of the increase in supply, prices continue to display a clear rising trend. This is supported by income growth – wages have been rising for years and are continuing to do so – as well as by low unemployment rate, general economic growth, low loan interest rates and banks' willingness to finance home purchases. Insofar as the prices of housing have grown at the same pace as incomes, there is no reason to speak of a residential real estate price bubble. At the same time, it is clear that buyers have more and more options on the market, as a result of which sales periods mainly for developments in lower quality and less well designed living environments may lengthen. Also, it is difficult to estimate how extensive the number of buyers of properties in the most expensive development segment is. Developers with strong financial capability have an advantage; they can cope successfully even if the sales process does not go quite as rapidly as before.

BUSINESS ACTIVITIES

Starting from 2019, the management board of AS Merko Ehitus decided to change the segment reporting structure in the group's financial reports and harmonise it with the group's internal reporting structure.

As a result of the change, the Estonian construction service and other home market construction service will be merged and instead of three business segment there will be two:

- construction service;
- real estate development.

The change is due to the fact that the volumes of construction services provided in group's home markets have become more evenly distributed. Therefore, the management board of AS Merko Ehitus is focusing on the construction service business segment as a whole and does not deem it necessary to treat Estonian construction service as a separate business segment.

CONSTRUCTION SERVICE

The construction service in Estonia consists of services in the field of general construction, civil engineering, electricity, external networks and road construction, as well as concrete works: in Latvia general construction, provision of civil engineering and electricity construction services; and in Lithuania and Norway general construction works.

million EUR

	3M 2019	3M 2018	VARIANCE	12M 2018
Revenue	70.3	71.3	-1.3%	347.1
% of total revenue	91.6%	88.8%		83.0%
Operating profit	2.8	0.4	+551.4%	10.7
Operating profit margin	4.0%	0.6%		3.1%

In the 3 months of 2019, the revenue of the construction service segment was EUR 70.3 million (3M 2018: EUR 71.3 million), including EUR 27.2 million (3M 2018: EUR 27.8 million) in Estonia, EUR 29.7 million (3M 2018: EUR 31.8 million) in Latvia, EUR 7.5 million (3M 2018: EUR 7.7 million) in Lithuania and EUR 5.9 million (3M 2018: EUR 4.0 million) in Norway. The sales revenue of construction service has decreased by 1.3% compared to the same period last year. The construction service segment revenue for 3 months 2019 made up 91.6% of the group's total revenue (3M 2018: 88.8%). In this segment, the group earned an operating profit of EUR 2.8 million for 3 months (3M 2018: EUR 0.4 million). The operating profit margin was 4.0% (3M 2018: 0.6%).

Compared to 2018, when the effect of depletion of sub-contractors' resources was readily felt, including on profit margins, similar problems in the first quarter of 2019 were somewhat milder. Group's large on-going construction projects have reached final phases, which makes it possible to reevaluate the effect of possible unfavourable developments to financial results. Competition among main contractors, however, remains strong, which means that profitability continues to be a subject to be kept in focus. In the context of the market reality, which is geared towards underbidding, the threat remains that risks are underestimated and the realisation of such risks might have negative effect on the market participants. Retaining and increasing revenue must be balanced with taken risks. If such balance is unattainable, overly risky revenue goals must be abandoned. This is especially evident in public procurements for general construction. As a rule, in those cases underbidding is pushing the risk-reward level below such, which would be compatible with our goals.

Larger projects in progress in the first quarter in construction service segment in Estonia included the construction works of commercial building at Pärnu mnt 186, student home of Rakvere Vocational School, Maakri Kvartal business complex, support warehouse and the expansion of a medical centre in Tapa armed forces campus, as well as renovation works of Tsirguliina 330kV substation, dredging and reconstruction works of Hundipea port, road repair and maintenance works in Tallinn, construction of electric power cables of Suur Väin and Väike Väin straits as well the construction works of water supply and sewerage piping in Metsanurme, Kasemetsa and Üksnurme area. In Latvia, larger ongoing projects included the construction works of Akropole multifunctional centre, Alfa shopping centre and Lidl logistics centre. In Lithuania, larger projects were the construction works of Hotel Neringa Quadrum office building and two school buildings. In Norway, the larger projects were design and construction works of Tesla service centre and renovation of an office building at Møllergata st 23-25 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 ensuring the finest quality, as well as maximum convenience and assurance for buyers, Merko handles all phases of development: acquisition of the real estate, planning, design of the development project, construction, marketing and sales, and warranty-period customer service.

million EUR

	3M 2019	3M 2018	VARIANCE	12M 2018
Revenue	6.5	9.0	-28.1%	70.9
incl. sale of apartments	4.6	4.3		41.3
construction service to joint venture projects	1.0	3.5		15.5
sale of immovable properties	0.4	0.7		9.5
% of total revenue	8.4%	11.2%		17.0%
Operating profit	0.6	1.3	-56.7%	11.3
Operating profit margin	8.6%	14.3%		16.0%

In 3 months 2019, the group sold a total of 63 apartments (incl. 29 apartments in a joint venture); in 3 months 2018, 51 apartments (incl. 25 apartment in a joint venture). The group earned a revenue of EUR 4.6 million (VAT not included) from sale of own developed apartments in 3 months 2019 and EUR 4.3 million (VAT not included) in 3 months 2018.

In the case of projects developed in joint ventures, the real estate development business segment revenue reflects the construction services provided to the project by the group and the operating profit includes the realised construction profit for the period. The profit from development gained from sale of those apartments to end-customers is recognised in the group's reporting based on the equity method.

In 3 months of 2019, real estate development segment revenues decreased by 28.1% compared to the same period last year. In the 3 months of 2019, the share of revenue from the real estate development segment formed 8.4% of the group's total revenue (3 months of 2018: 11.2%).

The segment's operating profit for the 3 months of 2019 amounted to EUR 0.6 million (3 months of 2018: EUR 1.3 million) and the operating profit margin was 8.6% (3 months of 2018: 14.3%), which decreased by 5.7 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. Compared to 2019, the segment's profitability of 2018 was positively influenced by the sale of immovable property that had little strategic importance for the group. Operating profitability is dependent also on the amount of revenue – in case of smaller revenue, overhead decreases the profitability. In 3 months of 2019, the volume of construction services provided to joint ventures decreased as these activities were mostly performed in 2018.

At the end of the period, group's inventory comprised 288 apartments where a preliminary agreement had been signed: 7 completed apartments (2 in Estonia, 1 in Latvia and 4 in Lithuania) and 281 apartments under construction (150 in Estonia, 14 in Latvia and 117 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 2019, the group had a total of 855 apartments for active sale (as at 31 March 2018: 403 apartments; as at 31 December 2018: 989 apartments), for which there are no pre-sale agreements and of which 93 have been completed (20 in Estonia, 62 in Latvia and 11 in Lithuania) and 762 are under construction (149 in Estonia, 178 in Latvia and 435 in Lithuania).

In 3 months of 2019, the group launched the construction of a total of 20 new apartments in the Baltic states (3 months of 2018: 145 apartments). In the 3 months, the group invested a total of EUR 15.9 million (3 months of 2018: EUR 7.1 million) in new development projects launched in 2019 as well as projects already in progress.

After the reporting date, the group has started the construction of the second stage of Pikaliiva residential project in Estonia with 50 apartments at Pikaliiva 22 and Kaaruti 8 in Tallinn.

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 2019, the group's inventories included land plots with development potential, where the construction works have not started, in amount of EUR 54.2 million (31.03.2018: EUR 62.1 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	31.03.2019	31.03.2018	31.12.2018
Estonia	26.3	27.4	26.9
Latvia	26.9	26.5	26.6
Lithuania	1.0	8.2	1.0
Total	54.2	62.1	54.5

In the 3 months of 2019, the group purchased new land plots at an acquisition cost of EUR 0.1 million for real estate development purposes (3 months of 2018: no new land plots were acquired).

SECURED ORDER BOOK

As at 31 March 2019, the group's secured order book amounted to EUR 190.0 million, compared to EUR 291.9 million as at 31 March 2018, having decreased by 34.9% 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 2019, EUR 32.2 million worth of new contracts were signed, which is 44.4% more than the EUR 22.3 million signed during the same period in 2018.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FIRST QUARTER OF 2019

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Design and construction works of water supply and sewerage piping in Metsanurme, Kasemetsa and Üksnurme area in Saku Parish, Harju County	Estonia	June of 2021	6.4
Construction contract for the construction of a support warehouse and the expansion of a medical centre in Tapa armed forces campus, in Lääne-Viru County	Estonia	January of 2020	5.5
Construction contract for the extension of Sindi 330 kV substation	Estonia	End of 2020	2.3

After the reporting date, the group has concluded the following larger construction contract:

- On 17 April 2019, SIA Merks, part of AS Merko Ehitus group, entered into a construction contract with SIA Orkla Confectionery & Snacks Latvija for the new chocolate factory construction works in Latvia, Ādaži county, Birznieki. The contract value is EUR 8.9 million and works are scheduled for completion in the second quarter of 2020.

Of the contracts signed in the 3 months of 2019, 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 61% (31.03.2018: approximately 70%; 31.12.2018: approximately 70%).

The group is focusing on the existing home markets, keeping a diversified operating portfolio as a strategic aim, keeping a balance between construction activities and real estate development of different countries. The group has gained a strong foothold in all the Baltic states and continues a gradual growth in Norway. Retaining the foothold and growing further must be done in a profitable way. 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 2019, the group had cash and cash equivalents in the amount of EUR 33.0 million (31.03.2018: EUR 27.6 million). As 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 35.6 million, of which EUR 30.7 million was unused (31.03.2018: EUR 17.5 million of which EUR 9.7 was unused). In addition to the overdraft facilities, the company has a working capital loan facility with a limit of EUR 3.5 million (31.03.2018: EUR 3.5 million) from AS Riverito, which was not withdrawn at the end of current period (31.03.2018: not withdrawn).

The 3-month cash flow from operating activity was negative at EUR 3.7 million (3 months of 2018: negative EUR 3.0 million), cash flow from investing activity was negative at EUR 0.8 million (3 months of 2018: positive EUR 0.1 million) and the cash flow from financing activity was negative at EUR 2.6 million (3 months of 2018: negative EUR 8.7 million).

The cash flow from operating activities had positive impacts from EBITDA of EUR 3.5 million (3 months of 2018: positive impact of EUR 1.8 million), from the positive changes in trade and other receivables related to operating activities of EUR 2.9 million (3 months of 2018: negative change of EUR 3.6 million) and change in trade and other payables related to operating activities of EUR 7.8 million (3 months of 2018: positive change of EUR 4.5 million), while the negative impacts came from changes in receivables and liabilities related to construction contracts of EUR 3.7 million (3 months 2018: negative change of EUR 0.4 million), change in the provisions of EUR 1.8 million (3 months of 2018: negative change of EUR 1.6 million) and change in inventories of EUR 12.0 million (3 months of 2018: negative change of EUR 3.3 million).

To support cash flows from operating activities, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (15.5% as at 31.03.2019; 18.4% as at 31.03.2018; 16.4% as at 31.12.2018).

Cash flows from investing activities include negative cash flow from the acquisition of non-current assets and investment property in the amount of EUR 0.9 million (3 months of 2018: EUR 0.2 million) and the positive cash flow was from the sale of non-current assets in the amount of EUR 0.1 million (3 months of 2018: EUR 0.3 million).

In cash flows from financing, the larger negative factors were negative change in loans related to construction projects in the net amount of EUR 4.9 million (3 months of 2018: net positive cash flow of EUR 1.1 million), finance lease repayments in the amount of EUR 0.3 million (3 months of 2018: net negative cash flow of EUR 0.2 million) and net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 0.1 million (3 months of 2018: negative cash flow in the net amount of EUR 0.1 million). Positive cash flow from financing activity were gained from loans received and repaid in connection with development projects in the amount of EUR 2.7 million (3 months of 2018: net negative cash flow of EUR 9.6 million).

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		3M 2019	3M 2018	3M 2017	12M 2018
Revenue	million EUR	76.8	80.3	58.1	418.0
Gross profit	million EUR	6.2	4.1	4.1	33.0
Gross profit margin	%	8.1	5.1	7.1	7.9
Operating profit	million EUR	2.9	1.3	1.3	19.9
Operating profit margin	%	3.8	1.6	2.2	4.8
Profit before tax (PBT)	million EUR	3.0	1.3	1.1	19.8
PBT margin	%	3.9	1.6	1.9	4.7
Net profit	million EUR	2.9	1.2	1.0	19.4
attributable to equity holders of the parent	million EUR	2.8	1.1	1.0	19.3
attributable to non-controlling interest	million EUR	0.1	0.1	(0.0)	0.1
Net profit margin	%	3.6	1.4	1.8	4.6
Other income statement indicators					
		3M 2019	3M 2018	3M 2017	12M 2018
EBITDA	million EUR	3.5	1.8	1.9	21.9
EBITDA margin	%	4.5	2.2	3.3	5.2
General expense ratio	%	5.2	4.5	5.8	3.7
Labour cost ratio	%	11.7	9.0	13.2	8.2
Revenue per employee	thousand EUR	106	109	77	563
OTHER SIGNIFICANT INDICATORS					
		31.03.2019	31.03.2018	31.03.2017	31.12.2018
Return on equity	%	16.5	11.8	5.8	15.3
Return on assets	%	7.5	5.6	3.1	6.9
Return on invested capital	%	12.6	11.2	5.5	11.5
Equity ratio	%	48.7	47.6	53.6	48.9
Debt ratio	%	15.5	18.4	17.7	16.4
Current ratio	times	2.3	2.3	2.7	2.2
Quick ratio	times	1.0	1.1	1.1	1.1
Accounts receivable turnover	days	41	43	39	40
Accounts payable turnover	days	42	42	38	41
Average number of employees	people	727	737	759	743
Secured order book	million EUR	190.0	291.9	287.7	229.0

Ratio definitions are provided on page 39 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: 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 2019, a provision has been set up at the group in the amount of EUR 0.1 million (31.03.2018: EUR 0.1 million) for covering potential claims and legal costs.

An overview of the key legal disputes of group entities ended during 2019 and ongoing as of 31.03.2019 is presented below:

Estonia

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

The court cases 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 (now merged with AS Merko Ehitus Eesti, part of AS Merko Ehitus group). 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). Tallinn Administrative Court decided on 22 April 2019 to partially satisfy the appeal and order the Republic of Estonia to pay AS Merko Ehitus Eesti EUR 760 thousand and late interest at the rate specified in subsection 113 (1) of the Law of Obligations Act for a period starting from 2 February 2016 until the principal claim is duly discharged. The court also ordered that procedural costs of EUR 12 thousand be paid to AS Merko Ehitus Eesti. At the time of this report, the decision has not yet entered into force, so the impact of this claim has not been taken into account in the group's reporting.

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 new court hearing is scheduled on 5 June 2019. 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.

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.

On 8 June 2018, Riga International Airport paid partly the claim submitted on September 21, 2017, therefore SIA Merks reduced the claim to EUR 248 thousand (EUR 76 thousand being the principal claim and EUR 172 thousand late interest). On 11 December 2018 was decided to take independent expert and next court hearing is scheduled on 20 May 2019. 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. By decision of 9 January 2018, the court appointed an expertise, the result of which was submitted on 14 December 2018. The next court hearing will take place on 9 May 2019. The potential positive outcome of this claim is not recognised in the group's financial reporting.

UAB Axis

On 3 September 2018, UAB Axis power (sub-contractor) filed an action against UAB Merko Statyba (main contractor), part of AS Merko Ehitus group, in the total amount of EUR 846 thousand as compensation for carrying out concrete works, which were more complicated than foreseen at signing of the contract. The partial court hearing was held on 25 April 2019, the next court hearing has not yet been agreed. The group finds the claim unsubstantiated and has not recognised provisions in relation to this claim.

EMPLOYEES AND LABOUR COSTS

As of 31 March 2019, Merko Ehitus group employed 740 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 24 (-3.1%). The number of employees has decreased in Estonia and Latvia and increased in Norway due to increase of construction volumes.

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 2019, the labour cost was EUR 9.0 million (3 months 2018: EUR 7.2 million), which increased by 24.1% compared to the same period previous year. The labour cost ratio increased by 2.7 pp from 9.0% to 11.7%.

During 3 months of 2019, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, has paid EUR 1.9 million in labour taxes in Estonia, making it the largest labour tax payer in the construction sector (3 months 2018: EUR 1.5 million).

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:
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	MRKIT
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

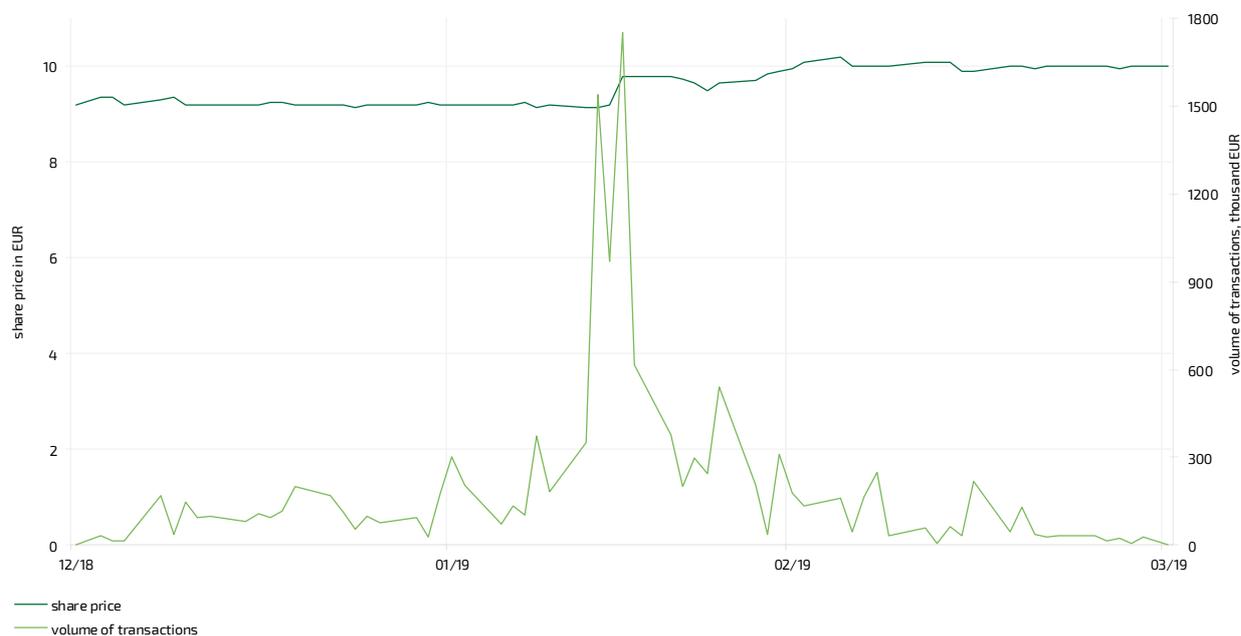
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As at 31 March 2019, the company has 17,700,000 shares. The number of shares has not changed during 2019.

A total of 3,644 transactions were conducted with the shares of Merko Ehitus in 3 months of 2019, with 1.32 million shares (7.5% of total shares) traded, generating a turnover of EUR 12.5 million (comparable figures in 3 months 2018 were accordingly: 1,071 transactions with 0.3 million shares traded (1.5% of total shares), generating a turnover of EUR 2.8 million). The lowest transaction was carried out with a price of EUR 9.10 and the highest with EUR 10.30 per share (3 months of 2018: EUR 8.70 and EUR 11.80, accordingly). On 31 March 2019, the closing price of the share was EUR 10.00 (31.03.2018: EUR 11.50; 31.12.2018: EUR 9.20). As at 31 March 2019, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 177.0 million, down 13.0% compared to the end of the equivalent period of the prior year (31.03.2018: EUR 203.6 million).

	31.03.2019	31.03.2018	31.03.2017	31.12.2018
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.16	0.06	0.06	1.09
Equity per share, euros	7.21	7.09	6.87	7.16
P/B ratio	1.39	1.62	1.30	1.28
P/E ratio	8.42	13.78	22.53	8.42
Market value, million EUR	177.0	203.6	158.6	162.8

Ratio definitions are provided on page 39 of the report.

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2019



STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.03.2019

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.03%	12,742,686	71.99%
100,001 – 1,000,000	10	0.29%	1,792,862	10.13%
10,001 – 100,000	41	1.20%	976,702	5.52%
1,001-10,000	505	14.76%	1,447,150	8.18%
101-1,000	1,714	50.09%	678,487	3.83%
1-100	1,151	33.63%	62,113	0.35%
Total	3,422	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.03.2019 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.03.2019	% OF TOTAL 31.12.2018	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
Firebird Republics Fund Ltd	356,062	2.01%	2.05%	(7,032)
OÜ Midas Invest	253,280	1.43%	1.19%	42,600
Firebird Avrora Fund Ltd	215,387	1.22%	1.26%	(7,032)
Skandinaviska Enskilda Banken AB, Swedish customers	201,000	1.14%	0.90%	41,441
State Street Bank and Trust Omnibus Account a Fund No OM01	161,006	0.91%	0.87%	7,988
SEB Elu- ja Pensionikindlustus AS	148,787	0.84%	0.81%	5,900
Firebird Fund L.P.	127,815	0.72%	0.74%	(3,516)
BNYM AS AGT/CLTS	115,698	0.65%	0.47%	32,470
Swedbank AS	109,262	0.62%	0.40%	37,339
Total largest shareholders	14,430,983	81.53%	80.68%	150,158
Total other shareholders	3,269,017	18.47%	19.32%	(150,158)
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2019



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 8 May 2019 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 92% dividend rate and a 10.9% dividend yield for the year 2018 (using the share price as at 31 December 2018). Comparable figures in 2018 were accordingly: EUR 17.7 million (EUR 1.00 per share) as dividends, 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).

According to the Estonian Income Tax Law subsection 50 (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 European Economic Area (EEA) Agreement subject to that state's income tax legislation. As the group did not incur income tax expenses arising in connection with disbursement of dividends in Estonia in 2018, only the 20/80 regular rate of income tax is applied to dividends to be paid in 2019 and no additional income tax is withheld from dividends paid to shareholders that are resident natural persons. The dividend payment to the shareholders will take place on 1 July 2019.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

AS Merko Ehitus operates as a holding company to a group, the companies of which 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%), UAB Merko Bustas (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 17-18 and in Note 16 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at group.merko.ee/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 2019, the management structure is as follows:



GROUP'S LEGAL STRUCTURE

As at 31 March 2019, the group comprises 30 companies (31.03.2018: 33). 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 29 October 2018, a merger between OY Merko Finland and Hartian OY, both belonging to AS Merko Ehitus group, was initiated. The acquiring company was OY Merko Finland. As a result of the merger, the company being acquired (Hartian OY) wound up without liquidation proceedings and OY Merko Finland become the legal successor of the company being acquired. The merger date was 1 January 2019, after which all transactions of the acquired company will be deemed to be made on the account of the acquiring company. The final entry in the Commercial Register was made on 30 April 2019.

On 17 December 2018, Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, signed a notarised division plan. According to the plan, company OÜ Vahi Lastehoid will be established as a result of the division, to which apartment ownerships, located on

Pärna allee in Tartu, will be transferred as per the division plan. The division will take effect as the entry is made in the Commercial Register presumably in the second quarter of 2019.

On 28 December 2018, AS Merko Ehitus launched a process for restructuring its fully owned subsidiary in Lithuania, UAB Merko Bustas. In accordance with the restructuring plan, UAB Merko Bustas's 100% subsidiary UAB Rinktinės projektai will be merged with the parent company. The restructuring is planned to be completed and the final merger entry made in the Commercial Register in the first half of 2019.

On 14 January 2019, UAB Merko Statyba, fully owned subsidiary of AS Merko Ehitus, established company UAB VPSP 2 in Lithuania, through which the public-private partnership (PPP) project for the design and construction works of the new Kaunas district Police headquarters of the Police Department under the Ministry of the Interior of the Republic of Lithuania is being carried out in Kaunas.

After the balance sheet date, on 1 April 2019, UAB Merko Bustas, fully owned subsidiary of AS Merko Ehitus in Lithuania established a fully owned subsidiary UAB MB Projektas.

On 10 April 2019, UAB Merko Statyba, fully owned subsidiary of AS Merko Ehitus in Lithuania, established a 100% subsidiary UAB VPSP Projektas.

On 5 April 2019, AS Merko Ehitus management board decided to start liquidation procedures of a fully owned subsidiary OÜ Kiviaia Kinnisvara. The liquidation of the company is planned to be completed in 2019.

GENERAL MEETING OF SHAREHOLDERS

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

The annual general meeting of shareholders was held on 8 May 2019. The general meeting resolved to approve the annual report and the profit allocation proposal for 2018. The dividends in the sum of EUR 17.7 million (EUR 1 per share) will be paid out to the shareholders on 1 July 2019.

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 of 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 their 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 2019, the general meeting was chaired by attorney-at-law Vesse Vöhma 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 2019 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 Janno Hermanson (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 2019, the Supervisory Board of AS Merko Ehitus had three members of whom, in accordance with the requirements of the Good Governance Code, Indrek Neivelt was 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.

After the reporting date, the Supervisory Board of AS Merko Ehitus decided to extend the powers of a Member of the Management Board of the company, Mr. Tõnu Toomik, starting from 6 June 2019 for the next three years. The Management Board of AS Merko Ehitus will continue with two members: Mr. Andres Trink (Chairman) and Mr. Tõnu Toomik

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 31 March 2019:

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, Janis Šperbergs	Oskars Ozoliņš (Chairman), Andris Bišmeistars
UAB Merko Bustas	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Saulius Putrimas (Manager)

Changes in the management of group subsidiaries

After the reporting date, the Management Board of AS Merko Ehitus appointed Mr. Martin Rebane as a Member of the Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, starting from 30 April 2019. The Supervisory Board of AS Merko Ehitus Eesti will continue with four members: Mr. Andres Trink (Chairman), Mr. Tõnu Toomik, Mr. Teet Roopalu and Mr. Martin Rebane. According to the articles of association of AS Merko Ehitus Eesti, a Member of the Supervisory Board is appointed for three years.

MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

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

Andres Trink

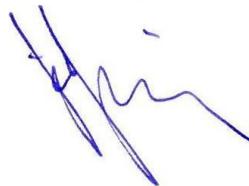
Chairman of the Management Board



09.05.2019

Tõnu Toomik

Member of the Management Board



09.05.2019

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2019 3 months	2018 3 months	2018 12 months
Revenue	2	76,845	80,310	418,011
Cost of goods sold	3	(70,639)	(76,227)	(384,962)
Gross profit		6,206	4,083	33,049
Marketing expenses		(851)	(806)	(3,285)
General and administrative expenses		(3,124)	(2,819)	(12,304)
Other operating income		701	852	3,527
Other operating expenses		(35)	(32)	(1,115)
Operating profit		2,897	1,278	19,872
Finance income/costs		83	(26)	(97)
incl. finance income/costs from sale of subsidiary and liquidation		-	-	(62)
finance income/costs from joint venture		222	136	653
interest expense		(135)	(153)	(652)
foreign exchange gain (loss)		-	(1)	5
other financial income (expenses)		(4)	(8)	(41)
Profit before tax		2,980	1,252	19,775
Corporate income tax expense		(75)	(90)	(375)
Net profit for financial year		2,905	1,162	19,400
incl. net profit attributable to equity holders of the parent		2,778	1,104	19,343
net profit attributable to non-controlling interest		127	58	57
Other comprehensive income, which can subsequently be classified in the income statement				
Currency translation differences of foreign entities		32	13	(6)
Comprehensive income for the period		2,937	1,175	19,394
incl. net profit attributable to equity holders of the parent		2,808	1,117	19,324
net profit attributable to non-controlling interest		129	58	70
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.16	0.06	1.09

The notes set out on pages 24-37 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.03.2019	31.03.2018	31.12.2018
ASSETS				
Current assets				
Cash and cash equivalents	5	32,970	27,600	39,978
Trade and other receivables	6	75,297	85,027	76,183
Prepaid corporate income tax		224	549	224
Inventories	7	130,019	121,754	117,992
		238,510	234,930	234,377
Non-current assets				
Investments in joint venture		954	215	732
Other long-term loans and receivables	8	11,043	15,051	10,391
Deferred income tax assets		-	5	-
Investment property	9	14,140	15,655	13,771
Property, plant and equipment	10	10,853	9,358	9,715
Intangible assets	11	700	511	671
		37,690	40,795	35,280
TOTAL ASSETS		276,200	275,725	269,657
LIABILITIES				
Current liabilities				
Borrowings	12	15,624	13,673	19,900
Payables and prepayments	13	82,764	81,761	77,016
Income tax liability		420	484	381
Short-term provisions	14	7,081	4,119	8,100
		105,889	100,037	105,397
Non-current liabilities				
Long-term borrowings	12	27,220	37,003	24,266
Deferred income tax liability		1,521	1,299	1,481
Other long-term payables	15	2,299	1,474	2,179
		31,040	39,776	27,926
TOTAL LIABILITIES		136,929	139,813	133,323
EQUITY				
Non-controlling interests		4,706	4,625	4,577
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		(691)	(689)	(721)
Retained earnings		126,534	123,254	123,756
		134,565	131,287	131,757
TOTAL EQUITY		139,271	135,912	136,334
TOTAL LIABILITIES AND EQUITY		276,200	275,725	269,657

The notes set out on pages 24-37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non- control- ling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
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
Balance as at 31.12.2018	7,929	793	(721)	123,756	131,757	4,577	136,334
Profit (loss) for the reporting period	-	-	-	2,778	2,778	127	2,905
Other comprehensive income	-	-	30	-	30	2	32
Total comprehensive income (loss) for the reporting period	-	-	30	2,778	2,808	129	2,937
Balance as at 31.03.2019	7,929	793	(691)	126,534	134,565	4,706	139,271

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

The notes set out on pages 24-37 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2019 3 months	2018 3 months	2018 12 months
Cash flows from operating activities				
Operating profit		2,897	1,278	19,872
Adjustments:				
Depreciation and impairment		574	484	2,073
(Profit)/loss from sale of non-current assets		(116)	(184)	(473)
Change in receivables and liabilities related to construction contracts		(3,710)	(355)	11,153
Interest income from operating activities		(482)	(546)	(2,351)
Change in provisions		(1,788)	(1,586)	4,732
Change in trade and other receivables related to operating activities		2,869	(3,630)	(1,256)
Change in inventories		(11,953)	(3,296)	571
Change in trade and other payables related to operating activities		7,815	4,458	(1,759)
Interest received		354	627	2,450
Interest paid		(188)	(189)	(799)
Other finance income (costs)		(24)	(8)	(44)
Corporate income tax paid		(3)	(69)	(383)
Total cash flows from operating activities		(3,755)	(3,016)	33,786
Cash flows from investing activities				
Disposal of subsidiary		-	-	385
Liquidation of subsidiary		-	-	(3)
Purchase of investment property		(402)	(2)	(92)
Purchase of property, plant and equipment (excl. finance lease)		(432)	(121)	(712)
Proceeds from sale of property, plant and equipment		145	294	664
Purchase of intangible assets		(68)	(41)	(281)
Interest received		1	1	3
Total cash flows from investing activities		(756)	131	(36)
Cash flows from financing activities				
Proceeds from borrowings		4,751	4,140	30,139
Repayments of borrowings		(7,045)	(12,743)	(44,670)
Repayments of lease liabilities		(263)	(151)	(605)
Non-controlling interest buyout		-	-	(1)
Dividends paid		-	-	(17,816)
Total cash flows from financing activities		(2,557)	(8,754)	(32,953)
Net increase/decrease in cash and cash equivalents		(7,068)	(11,639)	797
Cash and cash equivalents at the beginning of the period	5	39,978	39,210	39,210
Effect of exchange rate changes		60	29	(29)
Cash and cash equivalents at the end of the period	5	32,970	27,600	39,978

The notes set out on pages 24-37 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 2019 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 2017 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. 2018 audited annual report and 2018 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 2019 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 previous reporting periods of AS Merko Ehitus group, financial information was presented in segment reporting under the "Estonian construction service", "other home markets construction service" and "real estate development" segments. Due to the fact that the volumes of construction service on the home markets have become more evenly distributed, as of this year the AS Merko Ehitus management board views construction services as a whole in a single segment.

Starting from 1 January 2019, business segments are presented as two segments, based on the segment reporting structure laid out in Note 2: construction service and real estate development.

The comparative data for previous periods has been adjusted accordingly to new presentation in 2019 3 months consolidated interim report, including the fact that the recognition of the real estate development segment has not changed and the comparative data of this segment have not been adjusted.

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 2019:

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 implemented the standard from 1 January 2019, applying the modified retrospective approach, as a result of which the impact of the implementation of the standard was recognised as of the date of initial implementation (1 January 2019) and the comparative data from 2018 were not restated.

The group uses simplifications for short-term leases and rent of low value assets. Cancellable vehicle leasing contracts with a leasing period up to 12 months are not recognised as assets and all new vehicle leasing contracts are signed under the financial lease terms. As at 31 December 2018, the balance of vehicles acquired under the financial lease terms was 1,734 thousand euros. Leased assets ("right of use assets") are reflected in the statement of financial position in the same line item together with similar owned assets (tangible non-current assets) using acquisition cost less depreciation method. The depreciation period is usually the same as the lease period. Implementing the amendments, the amount of non-current assets in the group's balance sheet increased by 1,009 thousand euros as of 01.01.2019 and the amount of liabilities increased by 1,009 thousand euros. The impact of IFRS 16 on the income statement is insignificant (Notes 10, 12).

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 company AS Merko Ehitus, monitors the business operations of the group by operating segments and countries.

Reporting of the group's operations are segmented as:

- construction service,
- real estate development.

Construction service segment includes all projects of the home markets 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 development 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.

2019 3 months	Construction service	Real estate development	Total segments
Revenue	70,372	11,279	81,651
Inter-segment revenue	(6)	(4,800)	(4,806)
Revenue from clients	70,366	6,479	76,845
incl.timing of revenue recognition at a point in time	335	5,026	5,361
timing of revenue recognition over time	70,031	1,453	71,484
Operating profit (loss)	2,781	559	3,340
Profit (loss) before tax	2,730	728	3,458
incl. interest income from operating activities	21	436	457
depreciation	(491)	(83)	(574)
recognition of provisions	(2,438)	(12)	(2,450)
reversal of provisions	-	63	63
profit from joint venture	-	222	222
other finance income (costs)	(4)	(50)	(54)
incl. interest expenses	(4)	(46)	(50)
Assets 31. 03.2019	73,738	173,275	247,013
incl. joint venture	-	954	954

2018 3 months	Construction service	Real estate development	Total segments
Revenue	71,314	12,370	83,684
Inter-segment revenue	(10)	(3,364)	(3,374)
Revenue from clients	71,304	9,006	80,310
incl.timing of revenue recognition at a point in time	288	5,096	5,384
timing of revenue recognition over time	71,016	3,910	74,926
Operating profit (loss)	427	1,290	1,717
Profit (loss) before tax	365	1,362	1,727
incl. interest income from operating activities	72	449	521
depreciation	(301)	(72)	(373)
recognition of provisions	(350)	(29)	(379)
reversal of provisions	50	5	55
profit from joint venture	-	136	136
other finance income (costs)	(3)	(57)	(60)
incl. interest expenses	(4)	(53)	(57)
Assets 31.03.2018	88,954	162,746	251,700
incl. joint venture	-	215	215

2018 12 months	Construction service	Real estate development	Total segments
Revenue	347,100	85,343	432,443
Inter-segment revenue	(37)	(14,395)	(14,432)
Revenue from clients	347,063	70,948	418,011
incl.timing of revenue recognition at a point in time	2,226	52,846	55,072
timing of revenue recognition over time	344,837	18,102	362,939
Operating profit (loss)	10,719	11,319	22,038
Profit (loss) before tax	10,397	11,658	22,055
incl. interest income from operating activities	289	2,061	2,350
depreciation	(1,718)	(290)	(2,008)
impairment of assets	(66)	-	(66)
impairment of inventories	-	(300)	(300)
recognition of provisions	(5,144)	(480)	(5,624)
reversal of provisions	350	20	370
profit from joint venture	-	653	653
other finance income (costs)	(27)	(223)	(250)
incl. interest expenses	(28)	(206)	(234)
Assets 31.12.2018	71,773	161,151	232,924
incl. joint venture	-	732	732

In addition to the segment assets, as at 31.03.2019 the group holds assets in the amount of EUR 29,187 thousand (31.03.2018: EUR 26,025 thousand; 31.12.2018: EUR 36,733 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, 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

	2019 3 months	2018 3 months	2018 12 months
Pre-tax profit from reporting segments	3,458	1,728	22,055
Other operating profit (loss)	(443)	(440)	(2,166)
incl. recognition of provisions	(7)	-	(7)
finance income (costs)	(35)	(36)	(114)
incl. interest income	-	-	1
interest expenses	(37)	(36)	(146)
Total profit before tax	2,980	1,252	19,775

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

	2019 3 months		2018 3 months		2018 12 months	
Estonia	30,150	39%	34,120	42%	202,627	48%
Latvia	31,252	41%	34,044	42%	157,496	38%
Lithuania	9,529	12%	8,157	11%	46,765	11%
Norway	5,914	8%	3,989	5%	11,123	3%
Total	76,845	100%	80,310	100%	418,011	100%

CONTRACT ASSETS AND LIABILITIES

in thousands of euros

	31.03.2019	31.03.2018	31.12.2018
Accrued income from construction services (Note 6)	12,263	21,298	9,847
Prepayments for construction services (Note 13)	(15,622)	(16,873)	(16,912)
Advance payments received for construction contract works (Note 14)	(2,793)	(8,705)	(3,363)
Recognised provision for onerous construction contracts (Note 14)	(254)	(309)	(248)

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

in thousand euros

	31.03.2019	31.03.2018	31.12.2018
Estonia	12,612	13,208	11,970
Latvia	13,514	12,409	12,782
Lithuania	391	5	13
Norway	130	117	124
Total	26,647	25,739	24,889

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2019	2018	2018
	3 months	3 months	12 months
Construction services and properties purchased for resale	39,683	52,580	262,190
Materials	15,491	11,982	60,096
Labour costs	6,322	4,732	23,666
Construction mechanisms and transport	1,826	1,650	10,214
Design	1,170	1,496	8,345
Real estate management costs	120	96	190
Depreciation	368	373	1,554
Impairment of inventories	-	-	300
Provisions	2,386	324	5,242
Other expenses	3,273	2,994	13,165
Total cost of goods sold	70,639	76,227	384,962

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.

	2019	2018	2018
	3 months	3 months	12 months
Net profit (loss) attributable to shareholders <i>(in thousand EUR)</i>	2,778	1,104	19,343
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17,700	17,700	17,700
Earnings (loss) per share <i>(in euros)</i>	0.16	0.06	1.09

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 are paid by parent company AS Merko Ehitus in 2019 in the amount of EUR 17,700 thousand, i.e. EUR 1.00 per share (Q2 2018: 17,000 thousand, i.e. EUR 1.00 per share). The group will incur income tax expenses in 2019 in connection with dividend payments in an estimated sum of 2,748 thousand euros (the group did not incur income tax expenses in 2018 in connection with dividend payments, as these were covered by dividends paid prior to AS Merko Ehitus by its foreign subsidiaries).

As at 31.03.2019, the parent company AS Merko Ehitus has EUR 2,879 thousand (31.03.2018: EUR 414 thousand; 31.12.2018: EUR 2,879 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 31.03.2019, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 101,250 thousand (31.03.2018: EUR 98,135 thousand; 31.12.2018: EUR 99,004 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 720 thousand (31.03.2018: EUR 104 thousand; 31.12.2018: EUR 720 thousand), the corresponding income tax on dividends would amount to EUR 24,593 thousand (31.03.2018: EUR 24,430 thousand; 31.12.2018: EUR 24,031 thousand). For calculating the additional income tax on dividends, the income tax regular rate in force in 2019 has been 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

	31.03.2019	31.03.2018	31.12.2018
Bank accounts	32,929	27,515	39,915
Overnight deposits	41	85	63
Total cash and cash equivalents	32,970	27,600	39,978

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.03.2019	31.03.2018	31.12.2018
Trade receivables			
Accounts receivable	42,654	41,548	42,835
Allowance for doubtful receivables	(81)	(103)	(81)
	42,573	41,445	42,754
Tax prepayments excluding corporate income tax			
Value added tax	2,245	1,099	944
Other taxes	2	3	2
	2,247	1,102	946
Accrued income from construction services	12,263	21,298	9,847
Other short-term receivables			
Short-term loans	10,590	10,956	14,590
Interest receivables	237	149	112
Other short-term receivables	680	650	271
	11,507	11,755	14,973
Prepayments for services			
Prepayments for construction services	6,224	8,718	7,064
Prepaid insurance	129	267	195
Other prepaid expenses	354	442	404
	6,707	9,427	7,663
Total trade and other receivables	75,297	85,027	76,183
incl. short-term loan receivables from related parties (Note 16)	9,000	9,366	9,000
other short-term receivables and prepayments to related parties (Note 16)	669,	1,493	1,521

NOTE 7 INVENTORIES

in thousand euros

	31.03.2019	31.03.2018	31.12.2018
Materials	789	289	797
Work-in-progress	58,884	35,660	43,081
Finished goods	12,539	22,016	15,991
Goods for resale			
Registered immovables purchased for resale	54,224	62,130	54,532
Other goods purchased for resale	702	742	705
	54,926	62,872	55,237
Prepayments for inventories			
Prepayments for real estate properties	1,300	690	1,300
Prepayments for other inventories	1,581	227	1,586
	2,881	917	2,886
Total inventories	130,019	121,754	117,992

NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	31.03.2019	31.03.2018	31.12.2018
Long-term loans	-	4,000	-
Long-term receivables from customers of construction services	11,043	11,051	10,391
Total other long-term loans and receivables	11,043	15,051	10,391

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.03.2019	31.03.2018	31.12.2018
Land	11,991	11,902	11,991
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(12)	(12)	(12)
	17	17	17
Buildings at carrying amount			
Cost	2,631	5,271	2,631
Accumulated depreciation	(901)	(1,535)	(868)
	1,730	3,736	1,763
Prepayments for investment property	402	-	-
Total investment property	14,140	15,655	13,771

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.03.2019	31.03.2018	31.12.2018
Land	743	810	743
Buildings at carrying amount*			
Cost	6,535	5,729	5,765
Accumulated depreciation	(2,289)	(2,050)	(2,180)
	4,246	3,679	3,585
Machinery and equipment at carrying amount*			
Cost	14,039	13,736	14,473
Accumulated depreciation	(8,975)	(9,664)	(9,764)
	5,064	4,072	4,709
Other fixtures at carrying amount			
Cost	5,377	5,533	5,474
Accumulated depreciation	(4,792)	(4,736)	(4,906)
	585	797	568
Prepayments for property, plant and equipment	215	-	110
Total property, plant and equipment	10,853	9,358	9,715

* As of 31 March 2019 the balance of buildings at carrying amount includes leased assets "right of use assets" in a sum of EUR 705 thousand. The balance of machinery and equipment at carrying amount includes leased assets "right of use assets" in a sum of EUR 229 thousand and leased assets acquired under finance lease terms in a sum of EUR 1,822 thousand (Note 1.2).

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.03.2019	31.03.2018	31.12.2018
Goodwill			
Cost	75	75	73
	75	75	73
Software at carrying amount			
Cost	1,775	1,430	1,716
Accumulated depreciation	(1,196)	(1,079)	(1,157)
	579	351	559
Prepayments for intangible assets	46	85	39
Total intangible assets	700	511	671

NOTE 12 BORROWINGS

in thousand euros

	31.03.2019	31.03.2018	31.12.2018
Lease liabilities*			
Lease liabilities balance	2,618	785	1,647
incl. current portion	781	430	524
non-current portion 2...5 years	1,837	355	1,123
Bank loans			
Loan balance	29,701	40,441	30,694
incl. current portion	9,318	8,793	12,551
non-current portion 2...5 years	20,383	31,648	18,143
Loans from entities under common control			
Loan balance	6,000	6,000	6,000
incl. current portion (Note 16)	1,000	1,000	1,000
non-current portion 2...5 years (Note 16)	5,000	5,000	5,000
Loans from other entities			
Loan balance	4,525	3,450	5,825
incl. current portion	4,525	3,450	5,825
Total loans			
Loans balance	40,226	49,891	42,519
incl. current portion	14,843	13,243	19,376
non-current portion 2...5 years	25,383	36,648	23,143
Total borrowings	42,844	50,676	44,166
incl. current portion	15,624	13,673	19,900
non-current portion 2...5 years	27,220	37,003	24,266

* As of 31 March 2019 the balance of lease payables consists of "right of use assets" in current portion in a sum of EUR 314 thousand, finance lease payables in current portion in a sum of EUR 467 thousand and "right of use assets" in non-current portion 2...5 years in a sum of EUR 617 thousand and finance lease payables in non-current portion 2...5 years in a sum of EUR 1,220 thousand (Note 1.2).

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.03.2019	31.03.2018	31.12.2018
Trade payables	43,587	39,652	38,327
Payables to employees	10,409	8,045	10,067
Tax liabilities, except for corporate income tax			
Value added tax	653	1,534	1,102
Personal income tax	552	650	648
Social security tax	1,293	1,096	1,166
Unemployment insurance tax	46	56	57
Contributions to mandatory funded pension	26	42	42
Other taxes	373	176	229
	2,943	3,554	3,244
Prepayments for construction services	15,622	16,873	16,912
Other liabilities			
Interest liabilities	16	17	6
Dividends payables	73	115	-
Other liabilities	124	616	345
	213	748	351
Prepayments received *	9,990	12,889	8,115
Total payables and prepayments	82,764	81,761	77,016
incl. payables to related parties (Note 16)	294	148	293

* As of 31 March 2019 the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 2,793 thousand (31.03.2018: EUR 8,705 thousand; 31.12.2018: EUR 3,363 thousand) and of prepayments received connection with residential properties (apartment buyers) in a sum of EUR 7,197 thousand (31.03.2018: EUR 4,184 thousand; 31.12.2018: EUR 4,752 thousand) (Note 2).

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.03.2019	31.03.2018	31.12.2018
Provision for warranty obligation for construction	3,522	3,023	3,373
Provision for costs of projects sold and work-in-progress projects	3,180	655	4,330
Provision for onerous construction contracts	254	309	248
Provision for legal costs and claims filed	120	120	120
Other provisions	5	12	29
Total short-term provisions	7,081	4,119	8,100

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.03.2019	31.03.2018	31.12.2018
Trade payables	1,853	1,039	1,675
Other long-term liabilities	446	435	504
Other long-term payables total	2,299	1,474	2,179
incl. other long-term payables to related parties (Note 16)	446	435	504

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 31.03.2019, 31.03.2018 and 31.12.2018, 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
	31.03.2019	31.03.2018	31.12.2018		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
AS Merko Infra	100	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Statinių priežiūra ir administravimas	100	100	100	Lithuania, Vilnius	Real estate
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	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 Rinktinės projektai	-	100	100	Lithuania, Vilnius	Real estate
OÜ Jõgeva Haldus	-	100	-	Estonia, Tallinn	Real estate
OÜ Kiviaia Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
SIA Merko Investments	100	100	100	Latvia, Riga	Holding
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Žakusala Estates	75	75	75	Latvia, Riga	Real estate
PS Merks-Ostas celtnieks	65	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	100	Finland, Helsinki	Construction
Hartian Oy	-	75	100	Finland, Helsinki	Real estate
Lenko Stroi LLC	-	100	-	Russia, St. Petersburg	Holding
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	56	Norway, Sofiemyr	Construction
Joint venture					
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 16-17.

GOODS AND SERVICES

in thousand euros

	2019 3 months	2018 3 months	2018 12 months
Provided services and goods sold			
Parent company	4	4	15
Joint venture	2,071	3,878	16,505
Entities under common control	-	-	91
Members of the management	-	-	43
Other related parties	-	10	28
Total services provided and goods sold	2,075	3,892	16,682
Interest income			
Joint venture	135	140	559
Purchased services and goods			
Parent company	23	23	90
Entities under common control	15	14	57
Total purchased services and goods	38	37	147
Interest expense			
Entities under common control	36	36	145
Total interest expense	36	36	145

BALANCES WITH RELATED PARTIES

in thousand euros

	31.03.2019	31.03.2018	31.12.2018
Receivables from related parties			
Loans granted (Notes 6, 8)			
Joint ventures	9,000	9,366	9,000
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Joint venture	577	1,398	1,385
Entities under common control	88	88	88
Members of the management	-	-	44
Other related parties	-	3	-
Total receivables and prepayments	669	1,493	1,521
Total receivables from related parties	9,669	10,859	10,521
Payables to related parties			
Short-term loans received (Note 12)			
Entities under common control	1,000	1,000	1,000
Payables and prepayments (Note 13)			
Parent company	9	9	9
Joint venture	-	11	14
Entities under common control	14	13	1
Members of the management	271	-	269
Other related parties	-	115	-
Total payables and prepayments	294	148	293
Long-term loans received (Note 12)			
Entities under common control	5,000	5,000	5,000
Other long-term payables (Note 15)			
Other related parties	446	435	504
Total payables to related parties	6,740	6,583	6,797

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 2019 was EUR 645 thousand (3 months of 2018: EUR 413 thousand; 12 months of 2018: EUR 2,643 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 2019, the Management Board members of major subsidiaries did not receive benefits (3 months of 2018: EUR 11 thousand, 12 months of 2018: EUR 34 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 31.03.2019:

		NO OF SHARES	% OF SHARES
Toomas Annus (AS Riverito) *	Chairman of the Supervisory Board	12,742,686	71.99%
Indrek Neivelt (OÜ Trust IN)	Member of the Supervisory Board	31,635	0.18%
Teet Roopalu	Member of the Supervisory Board	-	-
		12,774,321	72.17%

* Toomas Annus holds the majority of the votes represented by shares in AS Riverito directly and through holding companies (176,351 shares out of a total of 270,000 shares). With that the votes held by AS Riverito in AS Merko Ehitus (12,742,686 shares) are deemed to belong to Toomas Annus.

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 31.03.2019:

		NO OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	600	0.00%
Tõnu Toomik (AS Riverito) *	Member of the Management Board	-	-
		600	0.00%

* In AS Riverito, Tõnu Toomik holds votes represented by 34,054 shares (total of 270,000 shares).

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

The group has purchased the following guarantees from financial institutions and issued contracts of surety 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.

	31.03.2019	31.03.2018	31.12.2018
Performance period's warranty to the customer	21,168	30,280	34,511
Tender warranty	1,431	858	655
Guarantee for warranty period	15,018	18,696	17,666
Prepayment guarantee	1,131	13,465	12,098
Payment guarantee	-	30,500	30,500
Contracts of surety	8,105	3,807	7,734
Letter of credit	428	1,576	428
Total contingent liabilities	47,281	99,182	103,592

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 fulfilment 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 2019, which are set out on pages 5-37.

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

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

Andres Trink Chairman of the Management Board



09.05.2019

Tõnu Toomik Member of the Management Board



09.05.2019

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	=	$\frac{\text{Share price 31.03}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 31.03}}{\text{Equity per share (average of the current 4 quarters)}}$
Market value	=	Share price 31.03 x Number of shares