



# AS MERKO EHITUS

## GROUP

### 2022 3 months consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
Commercial Register No.:	11520257
Address:	Järvevana tee 9G, 11314 Tallinn
Postal address:	Pärnu mnt 141, 11314 Tallinn
Phone:	+372 650 1250
Fax:	+372 650 1251
E-mail:	group@merko.ee
Web site:	group.merko.ee
Financial year:	01.01.2022 – 31.12.2022
Reporting period:	01.01.2022 – 31.03.2022
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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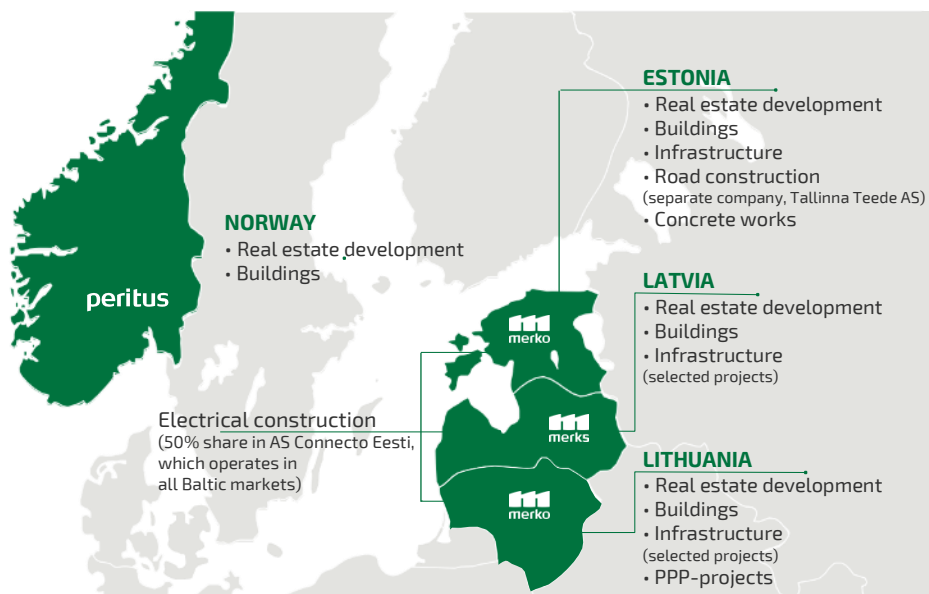
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# BRIEF OVERVIEW OF THE GROUP

**Companies in the Merko Ehitus group develop real estate, construct buildings and infrastructure. We operate in the Baltic states and Norway.**

**We create a better living environment and build the future.**

Long-term experience, a wide scope of construction services, quality and reliability have made Merko the brand of the leading construction company and apartment developer in the Baltics.



**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, ISO 45001**

## SHARES

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

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

## 2021 KEY FIGURES

Revenue **339.4 million** euros

Net profit **29.1 million** euros

**670** employees





## STRATEGY

AS Merko Ehitus subsidiaries provide construction services in the field of building and infrastructure construction and develop residential real estate in their home markets of Estonia, Latvia, Lithuania, and Norway. We want to be the preferred partner for those who value quality, both in the performance of construction works and in the development and sale of apartments, as well as in contributing to society. As a caring and development oriented employer, we ensure that our employees are professional and motivated, each of whom contributes to the joint result of each company, each unit and Merko itself. By focusing on profitability, cost base efficiency and the best employees, we ensure the investor a long-term profitable investment.



# MANAGEMENT REPORT

## COMMENTARY FROM MANAGEMENT

Merko Ehitus sales revenue in the first quarter was EUR 68.4 million and net profit EUR 3.0 million. The sales revenue for the 3 months of 2022 increased by 14% compared to the same period of previous year and net profit decreased by 11%.

According to the management of Merko Ehitus, the situation on the construction market continues to be extremely complicated due to global supply chain problems and a rise in the cost of materials. The rapid price rise of construction inputs last year was exacerbated by the war in Ukraine and sanctions imposed on Russia, and a price shock. These are unforeseen circumstances whose impact on performance of construction contracts is yet to become apparent. In today's situation, mutual cooperation of all counterparties, including the customers, will be very important to resolve challenges of a construction project.

On the apartment market, the supply of new apartments has been in a declining trend for some time now, while apartment prices have grown quickly due to the rise in construction prices. The war in Ukraine has amplified these developments even further. Accelerating inflation reduces purchasing power on one hand, but on the other hand it encourages home buying and investment into real estate for those with capital and lending capacity. According to the management, Merko's goal is to continue to provide a high-quality product and service to enable such investments.

In the first quarter, Merko delivered 126 apartments and one commercial area to buyers. Most of the apartments to be delivered this year will be completed in the H2. As of the end of the quarter, close to 1,700 apartments due to be completed in 2022 and 2023 are under construction in Estonia, Latvia and Lithuania. Of the apartments already finished, only a few are unsold and over half of the ones in progress have already been reserved under preliminary sale contracts. The largest apartment developments were Noblessner, Uus-Veerenni, Odra, Metsatuka and Lahekalda in Tallinn; Erminurme in Tartu; Viesturdārzs and Mežpilsēta in Riga, and Vilneles Skverai in Vilnius.

Although the need for new buildings and infrastructure remains, adapting to the rapid growth of construction prices will take time and some of the planned investments will be put on pause. Nor are construction companies prepared to enter into longer-term contracts at a fixed price given the current situation. The development of new supply chains takes time and it is unclear when and at what price levels a certain stabilization could take place. Preference is given to customers who are prepared to offer flexibility the construction company in covering the price increase of input prices, to focus on the functionality of the object under construction and on time completion, and not only on keeping the cost to a minimum.

In the first quarter of this year, the group's companies entered into construction contracts worth EUR 171 million, of which the 100-million-euro contract for the construction of the Arter quarter in Tallinn was the biggest. The secured order-book balance grew to EUR 376 million by the end of the quarter, and three-quarters of the portfolio was made up by private sector orders. In Q1, Merko increased its holding in the network construction company AS Connecto Eesti from 35% to 50%.

In the first quarter of 2022, the largest objects in operation in Estonia were the third phase of the third development phase of the Mustamäe medical campus of the North-Estonia Medical Centre, the Tallinn School of Music and Ballet, St John's School and the Arter quarter, and also the construction of infrastructure segments of the Republic of Estonia's southeast land border. In Latvia, the Orkla wafer and biscuit production plant, GUSTAVS business centre, Elemental Skanste office buildings, NATO facilities in Ādaži and the Kauguri city park and youth house were in progress; and in Lithuania, infrastructure for a number of wind farms a car service centre in Vilnius and the Continental Automotive production building in Kaunas.

**2022 3M**  
**REVENUE**  
**68 MILLION EUROS**

**PROFIT**  
**BEFORE TAX**  
**3.5 MILLION EUROS**

## OVERVIEW OF THE 3 MONTHS RESULTS

### PROFITABILITY

2022 3 months' pre-tax profit was EUR 3.5 million (3M 2021: EUR 3.7 million), which brought the pre-tax profit margin to 5.1% (3M 2021: 6.2%).

Net profit attributable to shareholders for 3 months 2022 was EUR 3.0 million (3M 2021: EUR 3.4 million) and 3 months net profit margin was 4.4% (3M 2021: 5.6%).

### REVENUE

2022 3 months' revenue was EUR 68.4 million (3M 2021: EUR 60.1 million). 3 months' revenue increased by 13.8% compared to same period last year. The share of revenue earned outside Estonia in 3 months 2022 was 56.2% (3M 2021: 36.9%).

### SECURED ORDER BOOK

As of 31 March 2022, the group's secured order book was EUR 376.1 million (31 March 2021: EUR 281.2 million). In 3 months 2022, group companies signed contracts in the amount of EUR 171.2 million (3M 2021: EUR 97.4 million).

### REAL ESTATE DEVELOPMENT

In 3 months 2022, the group sold a total of 126 apartments; in 3 months 2021, the group sold 90 apartments. The group earned a revenue of EUR 15.5 million from sale of own developed apartments in 3 months 2022 and EUR 14.8 million in 3 months 2021.

### CASH POSITION

At the end of the reporting period, the group had EUR 29.9 million in cash and cash equivalents, and equity of EUR 170.3 million (50.0% of total assets). Comparable figures as of 31 March 2021 were EUR 54.8 million and EUR 156.6 million (58.1% of total assets), respectively. As of 31 March 2022, the group's net debt was EUR 23.6 million (31 March 2021: negative EUR - 22.4 million).

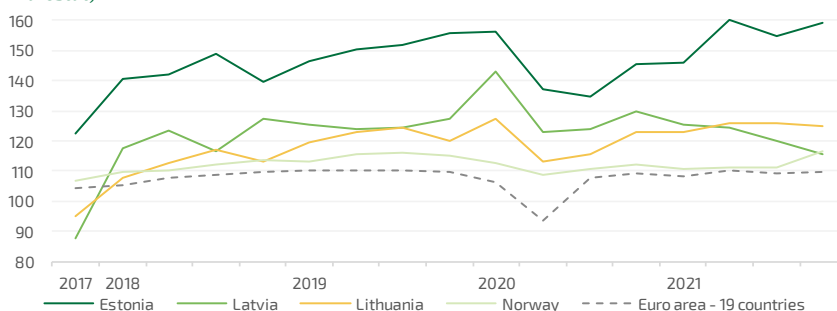
## OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

### CONSTRUCTION SERVICES

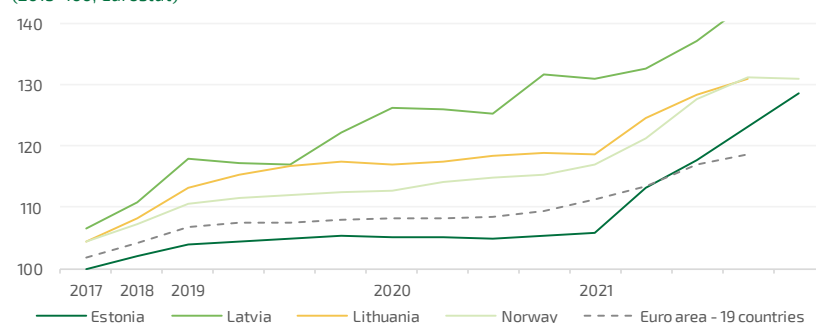
Although in late 2021, it seemed that the construction volumes in the Baltic states were back to pre-crisis levels, stabilizing in conditions of high demand, Russia's invasion of Ukraine on 24 February dashed that expectation. The war swept Ukrainian construction products and workers away from the market, and this, along with the sanctions imposed by the EU and North America on Russia and Belarus set off supply chain disruptions similar to the one seen during the first wave of the pandemic but even more substantial. Moreover, it became apparent that Russia would use its position as the largest supplier of energy to deliberately raise prices in order to deter EU countries from imposing further sanctions. Due to the high energy-intensity of construction materials, the price rise will continue to limit effective demand for construction service even after the supply chains are restructured. To sum up, a shortage of materials and subcontracting, soaring prices and generally shaken confidence dictated trends on the construction services market in Q1 2022 and will continue to do in the foreseeable future.

The energy price spike in the second half of 2021 coupled with the European Central Bank's naive expectation that inflation would recede by itself added up to a nearly 15% rise in the construction price index on Baltic markets. The rapidly increasing construction prices have already started impacting construction volumes, since the public sector with its inflexible procurement and financing conditions declines to enter into contracts at bids that exceed projected prices. It is very likely that we will see a noteworthy drop in construction volumes in 2022 due to customers not being able to afford the prices.

QUARTERLY CONSTRUCTION VOLUME INDEX, seasonally adjusted (2015=100; Eurostat)



QUARTERLY CONSTRUCTION PRICE INDEX (2015=100; Eurostat)

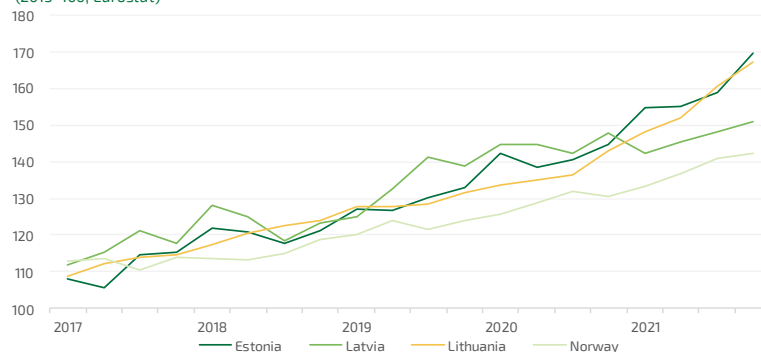


The war makes it even more unclear how the price rise will be distributed between the construction sector and customers. The impact of disrupted supply chains as a result of war and sanctions are seen by construction companies as force majeure, but the public sector has not hastened to accept view and there are no reports in the media that suggest they have covered additional expenses on construction contracts. On the other hand, Q1 brought significant number of reports on procurements that failed due to the bids exceeding the budgets and postponed projects. In regard to contracts already being performed, we can only speculate about whether construction companies will more frequently quit projects as costs exceed contractual reserves. Abandoning a site will allow expenses on disputes to be spread out over a longer period, avoiding the project from immediately going into the red. The uncertainty increased by the war allows several scenarios to be mapped out.

### DEVELOPMENT OF APARTMENTS

On the new apartments market, prices continued setting new records and the stock declined, until the beginning of the war brought the situation to a swift end. The interruption of supply chains halted the initiation of new developments and the construction price shock will reduce possibilities for initiating them for several more months. At the same time, the prospect of the developments currently in progress reaching the final sale phase will keep the new apartments market statistically active and average prices will tend to grow for at least another year. Since the supply side (developers) have few properties in stock and the awareness of higher costs keeps demand for energy-efficient apartments high, the new apartments market is not expected to decline in the near future. It is not very likely that the growth of official interest rates in the Eurozone forecasted for the autumn would immediately have a significant impact on demand on the new apartments market. The influx of refugees into the Baltics due to the war and forecasts about the duration of the war give reason to expect additional demand on the housing rental market and, accordingly, growing interest in investors buying properties to lease out. Developers who are connected to construction companies will continue to enjoy an edge on the new apartments market, as they are able to more efficiently and positively navigate the rising construction prices.

NEW DWELLINGS QUARTERLY HOUSE PRICE INDEX (2015=100; Eurostat)



## BUSINESS ACTIVITIES

The group business reporting is divided into two business segments:

- construction service;
- real estate development.

### CONSTRUCTION SERVICE

The construction service in Baltic states consists of services in the fields of general construction, civil engineering and electrical construction, additionally in Estonia road construction and concrete works services and in Norway general construction.

million EUR

	3M 2022	3M 2021	VARIANCE	12M 2021
Revenue	47.8	39.0	+22.5%	243.4
% of total revenue	69.8%	64.8%		71.7%
Operating profit	0.0	0.0	+39.8%	11.8
Operating profit margin	0.1%	0.1%		4.9%

In the 3 months of 2022, the revenue of the construction service segment was EUR 47.8 million (3M 2021: EUR 39.0 million). The sales revenue of construction service has increased by 22.5% compared to the same period last year. The construction service segment revenue for 3 months 2022 made up 69.8% of the group's total revenue (3M 2021: 64.8%). In this segment, the group earned an operating profit of EUR 0.0 million for 3 months (3M 2021: EUR 0.0 million). The operating profit margin was 0.1% (3M 2021: 0.1%). Seasonally, construction volumes in the first quarter are lower than in the rest of the year, with the impact of fixed costs, the operating profitability of the segment is lower in this period.

Larger projects in progress in the first quarter in construction service segment in Estonia included the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre, Tallinn School of Music and Ballet, St John's School and construction works of Arter quarter as well as construction works of the Republic of Estonia's southeast land border. In Latvia, larger ongoing projects in the first quarter included the construction works of the Orkla wafer and biscuits production plant, GUSTAVS business center, Elemental Skanste office buildings as well as the city park and youth house in Kauguri and NATO base in Ādaži. In Lithuania, larger projects were construction of wind farm balance of plants in Šilalė and Akmenė districts, the Continental Automotive production building in Kaunas and car service building in Vilnius were underway. In Norway, the group worked on the reconstruction of smaller scale contracts.

### 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, Lithuania and Norway. To ensure the finest quality, as well as maximum convenience and assurance for apartment 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 2022	3M 2021	VARIANCE	12M 2021
Revenue	20.7	21.1	-2.2%	96.0
incl. revenue from sale of apartments	15.5	14.8		72.7
incl. construction service from public-private-partnerships	-	2.6		6.9
incl. construction service to joint venture projects	4.6	0.2		7.6
incl. revenue from immovable properties	-	2.6		5.2
% of total revenue	30.2%	35.2%		28.3%
Operating profit	4.1	4.3	-5.6%	22.7
Operating profit margin	19.8%	20.6%		23.6%

In 3 months 2022, the group sold a total of 126 apartments and 1 commercial premise; in 3 months 2021, 90 apartments and 2 commercial premises. The group earned a revenue of EUR 15.5 million (VAT not included) from sale of developed apartments in 3 months 2022 and EUR 14.8 million (VAT not included) in 3 months 2021. In the revenue and operating profit of the real estate development segment also are reflected the sales of commercial premises and parking spaces of the real estate development projects and the result of public-private-partnership contracts, based on which the group companies provide construction service and property management services.



In the case of projects developed in joint venture, 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 2022, real estate development segment revenues decreased by 2.2% compared to the same period last year and formed 30.2% of the group's total revenue (3 months of 2021: 35.2%).

The segment's operating profit for the 3 months of 2022 amounted to EUR 4.1 million (3 months of 2021: EUR 4.3 million) and the operating profit margin was 19.8% (3 months of 2021: 20.6%). The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, including the land acquisition price.

In 3 months of 2022, the group did not launch apartments construction (3 months of 2021: 567 apartments). In the 3 months, the group invested a total of EUR 26.5 million (3 months of 2021: EUR 10.9 million) in the ongoing development projects.

Revenue from apartment sales came in lower compared to the same period of previous year, despite the larger number of apartments handed over, mainly because a large proportion of the apartments transferred to buyers in the first quarter were in Lithuania, where the prices of the apartments lag behind the prices of Estonia. Demand in the new apartment market remains high, apartments are reaching readiness for final sales according to construction schedule.

One of the 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 of 31 March 2022, the group's inventories included land plots with development potential, where the construction works have not started, in the amount of EUR 80.7 million (31.12.2021: EUR 60.6 million).

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

million EUR

	31.03.2022	31.03.2021	31.12.2021
Estonia	25.9	22.4	25.9
Latvia	26.7	25.0	25.0
Lithuania	26.5	13.2	13.6
Norway	1.6	-	1.6
<b>Total</b>	<b>80.7</b>	<b>60.6</b>	<b>66.1</b>

In 3 months of 2022, the group has obtained new land plots for real estate development purposes at acquisition cost of EUR 14.5 million (3 months of 2021: in the amount of EUR 3.7 million).

## SECURED ORDER BOOK

As of 31 March 2022, the group's secured order book amounted to EUR 376.1 million, compared to EUR 281.2 million as of 31 March 2021, having increased by 33.8% 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 2022, EUR 171.2 million worth of new contracts were signed, which is increased by 75.8% compared to the same period of the previous year (3 months of 2021: EUR 97.4 million).

#### LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FIRST QUARTER OF 2022

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Construction contract to perform above-grade construction works of Arter quarter in Tallinn, Liivalaia St. 34 and 36	Estonia	Q3 of 2024	116.0
Construction contract for the construction of Pelgulinna State gymnasium in Tallinn	Estonia	August of 2023	25.0
Construction contract to perform reconstruction works of approximately 1.4 km long section of Rannamõisa road in Haabersti district of Tallinn	Estonia	February of 2023	6.0

As of 31 March 2022, the private sector orders accounted for approximately 76% of the total balance in the group's secured order book (31.03.2021: approximately 47%). Both the public and private sectors are re-evaluating the soundness and profitability of investments in an environment of rapidly changing input prices, with private sector's greater flexibility and relative simplicity of decision-making in the investment area reflected in the increased share of private sector contracts.

The group is focusing on the existing home markets, keeping a diversified operating portfolio as a strategic aim, balancing construction activities with real estate development in different countries. The group has gained a strong foothold in all the Baltic states and continues a gradual growth in Norway.

## CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 29.9 million (31.03.2021: EUR 54.8 million). As the group's cash position continues to be strong, the group has not utilised its credit lines of existing overdrafts and loan agreements within reporting period. As of the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 49.0 million, of which EUR 45.1 million was unused (31.03.2021: EUR 44.1 million of which was almost entirely unused).

The 3-month cash flow from operating activity was negative at EUR 10.7 million (3 months of 2021: positive EUR 4.5 million), cash flow from investing activity was negative at EUR 3.0 million (3 months of 2021: negative EUR 0.4 million) and the cash flow from financing activity was negative at EUR 1.3 million (3 months of 2021: positive EUR 3.2 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 4.4 million (3 months of 2021: positive effect of EUR 4.6 million), from the change in trade and other payables related to operating activities of EUR 18.3 million (3 months of 2021: positive effect of EUR 8.1 million) and from the changes in trade and other receivables related to operating activities of EUR 3.0 million (3 months of 2021: negative effect of EUR 1.6 million). The negative effects to cash flow from operating activities came from the changes in receivables and liabilities related to construction contracts of EUR 6.1 million (3 months 2021: negative effect of EUR 3.9 million), from the change in the provisions of EUR 2.3 million (3 months of 2021: negative effect of EUR 1.9 million) and from the change in inventories of EUR 27.1 million (3 months of 2021: negative effect of EUR 0.4 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments, while the negative cash flow is due to the increase in the volume of inventories related to the construction of apartments, then the positive cash flow is due to the decrease in inventories in the sale of the apartments. Interest was paid EUR 0.3 million (3 months of 2021: EUR 0.1 million) and corporate income tax was paid at EUR 0.2 million (3 months of 2021: EUR 0.1 million).

To support cash flows from operating activities, including increased volumes in apartment development, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (15.7% as of 31.03.2022; 12.0% as of 31.03.2021; 16.2% as of 31.12.2021).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 0.2 million, which is mainly related to the renewal of equipment in the field of construction (3 months of 2021 EUR 0.4 million) and from the acquisition of a subsidiary in the amount of EUR 0.7 million and the acquisition of an joint venture in the amount of EUR 2.2 million (3 months of 2021: there were no acquisitions of subsidiaries and joint ventures). The positive effect came from the sale of non-current assets in the amount of EUR 0.1 million (3 months of 2021: EUR 0.0 million).

In cash flows from financing, the larger negative factors were the buy-out of minority interests in the amount of EUR 1.9 million (3 months of 2021: no minority share purchase), repayments of lease liabilities in the amount of EUR 0.2 million (3 months of 2021: net negative cash flow of EUR 0.2 million), the change in loans related to net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 0.3 million (3 months of 2021: positive cash flow in the net amount of EUR 3.8 million) and the net change in loans received and repaid in connection with development projects in the amount of EUR 2.7 million (3 months of 2021: net positive cash flow of EUR 0.4 million) which resulted from the repayment of loans taken for residential development projects. Positive cash flow from financing activity resulted from the change in loans related to other activities in the amount of EUR 3.8 million.

## RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		3M 2022	3M 2021	3M 2020	12M 2021
Revenue	million EUR	68.4	60.1	55.9	339.4
Gross profit	million EUR	7.9	7.0	5.5	46.8
Gross profit margin	%	11.5	11.6	9.8	13.8
Operating profit	million EUR	3.7	3.9	2.2	32.2
Operating profit margin	%	5.3	6.5	3.9	9.5
Pre-tax profit	million EUR	3.5	3.7	2.1	32.1
Pre-tax profit margin	%	5.1	6.2	3.7	9.5
Net profit	million EUR	3.1	3.3	1.9	29.0
attributable to equity holders of the parent	million EUR	3.0	3.4	2.0	29.1
attributable to non-controlling interest	million EUR	0.1	(0.1)	(0.1)	(0.1)
Net profit margin	%	4.4	5.6	3.6	8.6
Other income statement indicators		3M 2022	3M 2021	3M 2020	12M 2021
EBITDA	million EUR	4.4	4.6	2.8	34.8
EBITDA margin	%	6.4	7.6	5.1	10.3
General expense ratio	%	7.1	6.1	6.7	5.2
Labour cost ratio	%	15.6	14.3	14.2	11.3
Revenue per employee	thousand EUR	104	92	82	521

OTHER SIGNIFICANT INDICATORS		31.03.2022	31.03.2021	31.03.2020	31.12.2021
Return on equity	%	18.2	16.5	12.4	18.8
Return on assets	%	9.3	9.1	5.3	10.0
Return on invested capital	%	16.0	14.2	10.3	16.9
Assets	million EUR	340.6	269.8	289.1	324.4
Equity	million EUR	170.1	160.8	136.3	167.0
Equity attributable to equity holders of the parent	million EUR	170.3	156.6	132.2	167.2
Equity ratio	%	50.0	58.1	45.7	51.6
Debt ratio	%	15.7	12.0	23.1	16.2
Current ratio	times	2.2	2.6	2.4	2.4
Quick ratio	times	0.7	1.1	0.8	0.9
Accounts receivable turnover	days	32	31	45	31
Accounts payable turnover	days	45	33	54	39
Average number of employees	people	659	654	682	651
Secured order book	million EUR	376.1	281.2	193.0	257.3

Ratio definitions are provided on page 37 of the report.

## RISK MANAGEMENT

Risk management is part of strategic management and is inseparable from daily operations of the group. In managing risks, the main objective of the group is to determine most significant risks and to manage these risks in a balanced way so that the group 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/](https://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 of 31 March 2022, no provision has been formed to cover potential claims and legal costs (31.03.2021: EUR 0.2 million).

Below is presented an overview of the key legal disputes and proceedings, which have taken place or ended during 2022 or are ongoing as of 31 March 2022 and which concern group entities is presented:

### **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 filed a complaint in Tallinn Administrative Court for compensation of damage. 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). On 22 April 2019 the Tallinn Administrative Court partially satisfied the appeal and ordered the Republic of Estonia to pay AS Merko Ehitus Eesti EUR 760 thousand and late interest 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. Both sides filed an appeal to the Tallinn District Court, which partially annulled the decision of the Tallinn Administrative Court and sent the case back to Administrative Court to determine the amount of compensation. Both parties to the dispute filed cassation appeals with the Supreme Court. By a decision of 5 March 2021, the Supreme Court dismissed the cassation appeal of AS Merko Ehitus Eesti, but sent the appeal regarding the claim for compensation for direct property damage caused by the lawful activities of the Republic of Estonia to the Tallinn Administrative Court for reconsideration. The Tallinn Administrative Court suspended the proceedings in the administrative case until the procedure for the detailed planning of the properties has been completed. The impact of this claim has not been taken into account in the group's reporting.

### **Latvia**

#### Latvian Competition Council administrative proceeding

On 9 August 2021, SIA Merks, a subsidiary of AS Merko Ehitus, received the decision of the Latvian Competition Council in the administrative proceedings initiated with regard to the company in 2019. The Group has disclosed information about the proceedings on an ongoing basis in stock market notices and annual and interim reports.

According to the decision of 30 July 2021, the Latvian Competition Council considers SIA Merks as one of the nine companies that are parties to prohibited cooperation in dividing contract volumes (the market) between Latvian construction companies in 2015-2019, which constitutes a violation of subsection 11 (1) of Latvian Competition Law. With the decision, the Competition Council imposes a monetary fine on SIA Merks in the amount of 5.4% of the 2020 sales revenue of SIA Merks, i.e., 2,689 thousand euros in total. Pursuant to the decision, AS Merko Ehitus as the parent company of SIA Merks bears joint liability, if SIA Merks itself fails to fulfil or is unable to fulfil its obligations. The text of the decision (only in Latvian) is available at [https://lemumi.kp.gov.lv/files/documents/21210809\\_L%C4%93mums\\_Publiskojam%C4%81\\_versija.pdf](https://lemumi.kp.gov.lv/files/documents/21210809_L%C4%93mums_Publiskojam%C4%81_versija.pdf).

On 13 September 2021, SIA Merks and AS Merko Ehitus contested the decision of the Latvian Competition Council in the Latvian administrative court. The fine imposed by the Competition Council will not become payable and the possible claims for damages of third persons will not be subject to review nor other possible consequences arising from law will be applicable before the court decision enters into force.

The Latvian Competition Council asked the court for an extension for submitting its arguments against the opinions of the plaintiffs and the Latvian administrative court respectively established 15 December 2021 as the new term for replying. The submission of the Latvian Competition Council was made available to the applicants on 28 April 2022 and as at the time of compiling current report it has not been possible to access its contents. The organising hearing for the court sessions is scheduled for 15 June 2022.

AS Merko Ehitus continues to hold the conclusions of the Latvian Competition Council with regard to the business activities of SIA Merks both factually and legally unjustified and will use all the possibilities granted under the rule of law to overturn such conclusions.

Considering the as yet unestablished terms for the court proceedings and the impossibility of evaluating the result, the Group has not formed any provisions.

#### SIA Ostas Celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas Celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas Celtnieks" according to its share in the consortium. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. The court took the evidence from both parties to the proceedings and advised the parties to enter into a suitable arrangement for both parties. No agreement was reached, SIA "Ostas Celtnieks" filed a counterclaim against SIA Merks for lost profits, which prolongs the process. SIA Merks submitted an application to transfer the court proceedings from Liepāja Circuit Court to Riga Economic Court. The next court session is scheduled for 03 June 2022. The impact of this claim has not been taken into account in the group's reporting.

## EMPLOYEES AND LABOUR COSTS

As of 31 March 2022, Merko Ehitus group employed 670 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 13 (-1.9%). The number of employees increased in Latvia and Lithuania and decreased in Estonia and Norway.

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 2022, the labour cost was EUR 10.7 million (3 months 2021: EUR 8.6 million), which increased by 24.4% compared to the same period previous year. The labour cost ratio increased by 1.3 pp from 14.3% to 15.6% in comparable periods.

During 3 months of 2022, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 2.0 million in labour taxes in Estonia, being one of the largest labour tax payer in the construction sector (3 months 2021: EUR 1.9 million).

## ETHICAL BUSINESS PRACTICES

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

We conduct business honestly, follow ethical principles in our activities and make sure our employees know and follow business ethics standards in their everyday work. To embed the principles 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-responsibility/](https://group.merko.ee/en/corporate-responsibility/).

## SHARE AND SHAREHOLDERS

### INFORMATION ON SECURITY

Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRK1T
Residency of issuer	Estonia
Stock Exchange List	Nasdaq Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	Without nominal value
Number of issued securities	17,700,000
Number of listed securities	17,700,000
Currency	EUR
Listing date	11 August 2008

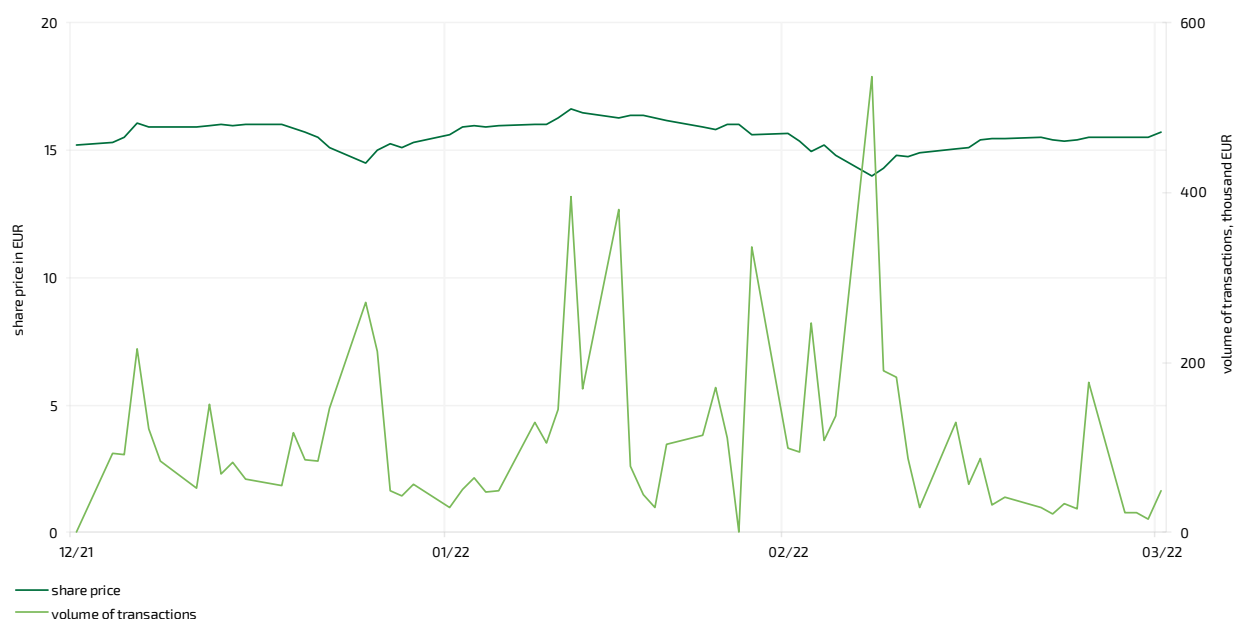
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As of 31 March 2022, the company has 17,700,000 shares. The number of shares has not changed during 2022.

A total of 13,507 transactions were conducted with the shares of Merko Ehitus in 3 months of 2022, with 0.46 million shares (2.6% of total shares) traded, generating a turnover of EUR 7.2 million (comparable figures in 3 months 2021 were accordingly: 8,413 transactions with 0.55 million shares traded (3.1% of total shares), generating a turnover of EUR 6.4 million). The lowest value-per-share transaction was recorded at the price of EUR 13.78 and the highest at EUR 16.80 per share (3 months of 2021: EUR 9.48 and EUR 13.65, accordingly). On 31 March 2022, the closing price of the share was EUR 15.72 (31.03.2021: EUR 13.55). As of 31 March 2022, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 278.2 million, up 16.0% compared to the end of the equivalent period of the prior year (31.03.2021: EUR 239.8 million).

	31.03.2022	31.03.2021	31.03.2020	31.12.2021
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.17	0.19	0.11	1.65
Equity per share, euros	8.95	8.35	7.09	8.76
P/B ratio	1.76	1.62	0.98	1.74
P/E ratio	9.67	9.85	7.97	9.24
Market value, million EUR	278.2	239.8	123.5	269.4

Ratio definitions are provided on page 37 of the report.

### CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2022



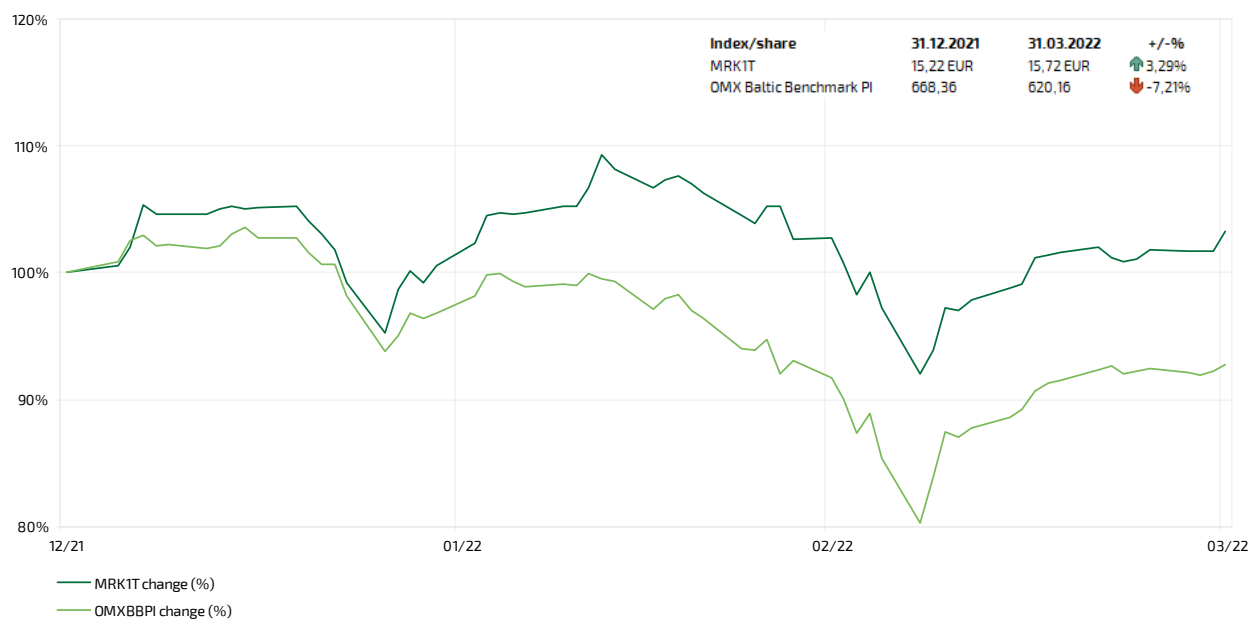
## STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS OF 31.03.2022

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.01%	12,742,686	71.99%
100,001 – 1,000,000	7	0.07%	1,362,477	7.70%
10,001 – 100,000	51	0.51%	1,107,285	6.26%
1,001-10,000	499	4.95%	1,434,971	8.11%
101-1,000	2,453	24.31%	856,159	4.84%
1-100	7,079	70.16%	196,422	1.11%
<b>Total</b>	<b>10,090</b>	<b>100%</b>	<b>17,700,000</b>	<b>100%</b>

## SHAREHOLDERS OF AS MERKO EHITUS AS OF 31.03.2022 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.03.2022	% OF TOTAL 31.12.2021	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	377,435	2.13%	2.13%	-
Firebird Republics Fund Ltd	313,953	1.77%	1.77%	-
Firebird Aurora Fund Ltd	174,894	0.99%	0.99%	-
SEB Life and Pension Baltic SE Estonian Branch	148,787	0.84%	0.84%	-
Siseinfo OÜ	130,000	0.73%	0.73%	-
Clearstream Banking AG	113,687	0.64%	0.64%	22
Firebird Fund L.P.	103,721	0.59%	0.59%	-
Seitse Samuraid OÜ	100,000	0.56%	0.56%	-
Sven Einar Stefan Andersson	80,000	0.45%	0.45%	-
<b>Total largest shareholders</b>	<b>14,285,163</b>	<b>80.71%</b>	<b>80.71%</b>	<b>22</b>
Total other shareholders	3,414,837	19.29%	19.29%	(22)
<b>Total</b>	<b>17,700,000</b>	<b>100%</b>	<b>100%</b>	<b>-</b>

## PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX BALTIC BENCHMARK PRICE INDEX IN 2022



## 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.

On 4 May 2022, the shareholders of AS Merko Ehitus approved the Supervisory Board's proposal to the shareholders to pay out 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 61% dividend rate and a 6.6% dividend yield for the year 2021 (using the share price as of 31 December 2021). Comparable figures in 2021 were accordingly: EUR 17.7 million (EUR 1.00 per share) as dividends, which is equivalent to a 77% dividend rate and a 10.6% dividend yield for the year 2020 (using the share price as at 31 December 2020).

The income tax rate of regularly paid (net) dividends in the amount of EUR 5.9 million will be applied to dividends payable in 2022 (14/86). From the dividends payable to natural person shareholders and to which 14/86 income tax rate will be applicable, group shall withhold additional 7% income tax.

## CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE AND STRUCTURE

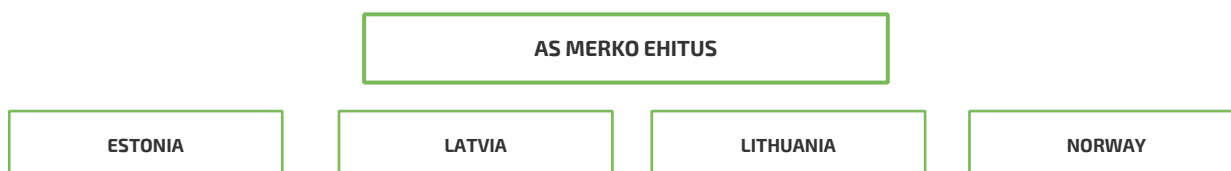
AS Merko Ehitus operates as a holding company for group of companies in Estonia, Latvia, Lithuania and Norway that offer complete solutions in the field of construction and real estate development. In the construction sector, the group's largest companies are AS Merko Ehitus Eesti (100%), Tallinna Teede AS (100%), SIA Merks (100%), UAB Merko Statyba (100%), UAB Merko Bustas (100%), AS Peritus Entreprenør (56%) and the company belonging to the SIA Merks group SIA Merks Mājas (100%).

The main area of activity of the holding company is developing and implementing strategies for the Merko Ehitus group's various business segments 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 interim financial statements, and published, together with the track record and photographs, on the company's website at [group.merko.ee/en/corporate-governance-2/](http://group.merko.ee/en/corporate-governance-2/).

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

As of 31 March 2022, the management structure is as follows:



### GROUP'S LEGAL STRUCTURE

As of 31 March 2022, in addition to AS Merko Ehitus, the group comprises 33 companies (31.03.2021: 32). The group's legal structure is predominantly based on economic and legal rationality and does not in all cases conform one-to-one to the group's management structure. The detailed list of group companies is provided in Note 16 of the interim financial statements.

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

On 21 October 2021, AS Merko Infra and OÜ Merko Kaevandused, both belonging to AS Merko Ehitus group, signed a merger agreement where the acquiring company is OÜ Merko Kaevandused. As a result of the merger, the company being acquired wound up without liquidation proceedings and OÜ Merko Kaevandused became the legal successor of AS Merko Infra. The merger date was 1st of January 2022, after which all transactions of the acquired company are deemed to be made on the account of OÜ Merko Kaevandused. The Commercial Register made the final entry in its registers on 28 April 2022.

On 15 December 2021, a subsidiary of AS Merko Ehitus group, SIA Merks Mājas, signed an agreement to obtain a 25% holding in the subsidiary SIA Zakusala Estates from the minority shareholder ZE-Holding AS at the purchase price of EUR 1.9 million. After the acquisition of the additional shareholding, SIA Zakusala Estates became a 100% subsidiary of SIA Merks Mājas. The purchase price was paid on 25 January 2022.

On 25 February 2022, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus group, signed a contract with Aardekapp OÜ to acquire additional 15% holding (82,500 shares) in AS Connecto Eesti. The agreement is a continuation of the share acquisition agreements



entered into on 2 June 2021. After the acquisition of an additional shareholding, the Merko group owns 50% of AS Connecto Eesti and the company will become a joint venture between AS Merko Ehitus Eesti and Aardekapp OÜ. The transfer of shares and completion of the transactions took place on 28 February 2022 (Note 16).

On 16 March 2022, a subsidiary of AS Merko Ehitus group, OÜ Merko Kaevandused, acquired a 100% holding in OÜ Metsara-Metspere Kinnisvara, with a share capital of EUR 409 thousand and for a purchase price of EUR 695 thousand. Acquisition of the subsidiary is recognised in the group as an acquisition of land and is recorded under property, plant and equipment (Notes 10, 16).

## GENERAL MEETING OF SHAREHOLDERS

The company's highest governing body is the General Meeting of Shareholders, the competencies of which are established by legislation and the articles of association of the company.

The annual general meeting of shareholders was held on 4 May 2022. The general meeting resolved to approve the annual report and the profit allocation proposal for 2021. The dividends in the sum of EUR 17.7 million (EUR 1 per share) will be paid out to the shareholders on 17 June 2022.

The general meeting confirmed four-member Supervisory Board until 06.05.2023 and elected Kristina Siimar as a member of the Supervisory Board, for a term of office from 06 May 2022 to 6 May 2025 (inclusive), i.e. for three years. In addition, the principles of remuneration of the members of the Management Board of AS Merko Ehitus were approved. („AS Merko Ehitus juhatuseliikmete tasustamise põhimõtted ja kontrolli protseduur“).

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 2022, the general meeting was chaired by attorney-at-law Vesse Võhma who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board and Supervisory Board about the company's activities.

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

The annual general meeting of shareholders of AS Merko Ehitus held in 2022 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Urmas Somelar (Head of Group Finance) and Janno Hermanson (Auditor).

## SUPERVISORY BOARD

The Supervisory Board plans the activities of the company, organises the management of the company and supervises the activities of the Management Board. The Supervisory Board notifies 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 of 31 March 2022, the Supervisory Board of AS Merko Ehitus had three members, of whom, in accordance with the requirements of the Corporate Governance Recommendations, Indrek Neivelt was an independent member.

By the resolution of the general meeting of 04.05.2022, Kristina Siimar was elected a member of the Supervisory Board with a term of office of up to 6 May 2025 (inclusive). According to the same resolution, the Supervisory Board AS Merko Ehitus has four-member at least until 06.05.2023 (the term of authority of the former members of the Supervisory Board).

## 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 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 possibly influencing it. 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 Chairperson.

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 Supervisory Board of AS Merko Ehitus extended the powers of a Member of the Management Board of the company, Mr. Tõnu Toomik until 6 June 2025 (inclusive). The Management Board of AS Merko Ehitus will continue with two members: Mr. Andres Trink (Chairman) and Mr. Tõnu Toomik.

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

## SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as of 31 March 2022:

COMPANY	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti	Andres Trink (Chairman), Tõnu Toomik, Martin Rebane	Ivo Volkov (Chairman), Jaan Mäe, Veljo Viitmann
OÜ Merko Investments	-	Andres Trink, Urmas Somelar
SIA Merks	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Andris Bišmeistars (Manager)
SIA Merks Mājas	-	Andris Bišmeistars (Manager)
UAB Merko Statyba	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Chairman) Jaanus Rästas
UAB Merko Bustas	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Manager)

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

According to a decision of the Management Board of AS Merko Ehitus from 29 April 2022, the powers of the Member of the Supervisory Board of AS Merko Ehitus Eesti, Mr. Martin Rebane, have been extended until 29 April 2025. The Supervisory Board of AS Merko Ehitus Eesti will continue with three members: Mr. Andres Trink (The Chairman), Mr. Tõnu Toomik and Mr. Martin Rebane.

## MANAGEMENT BOARD'S DECLARATION

Members of the Management Board of AS Merko Ehitus declare and confirm that the consolidated unaudited interim report for the 3 months of 2022, which consists of the management report and the interim financial statements, prepared according to the current International Financial Reporting Standards as adopted by the European Union, provides, to the best of their knowledge, a true and fair view of the development of business operations, assets, liabilities, financial position, results of the operations, cash flows, and profit or loss of AS Merko Ehitus and the consolidated undertakings as a whole, includes a description of the principal risks and uncertainties, and reflects transactions with related parties. The parent company and the companies, which are part of the consolidation group, are going concerns.

Andres Trink	Chairman of the Management Board	05.05.2022
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Tõnu Toomik	Member of the Management Board	05.05.2022
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# INTERIM FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2022 3 months	2021 3 months	2021 12 months
Revenue	2	68,426	60,107	339,375
Cost of goods sold	3	(60,554)	(53,133)	(292,563)
<b>Gross profit</b>		<b>7,872</b>	<b>6,974</b>	<b>46,812</b>
Marketing expenses		(1,115)	(947)	(3,611)
General and administrative expenses		(3,723)	(2,715)	(13,925)
Other operating income		686	675	3,508
Other operating expenses		(61)	(54)	(582)
<b>Operating profit</b>		<b>3,659</b>	<b>3,933</b>	<b>32,202</b>
Finance income/costs		(160)	(184)	(75)
incl. finance income/costs from associates and joint venture		(2)	7	799
interest expense		(162)	(146)	(681)
foreign exchange gain (loss)		52	-	(8)
other financial income (expenses)		(48)	(45)	(185)
<b>Profit before tax</b>		<b>3,499</b>	<b>3,749</b>	<b>32,127</b>
Corporate income tax expense		(421)	(429)	(3,104)
<b>Net profit for financial year</b>		<b>3,078</b>	<b>3,320</b>	<b>29,023</b>
incl. net profit attributable to equity holders of the parent		3,006	3,368	29,140
net profit attributable to non-controlling interest		72	(48)	(117)
<b>Other comprehensive income, which can subsequently be classified in the income statement</b>				
Currency translation differences of foreign entities		16	23	33
<b>Comprehensive income for the period</b>		<b>3,094</b>	<b>3,343</b>	<b>29,056</b>
incl. net profit attributable to equity holders of the parent		3,020	3,392	29,163
net profit attributable to non-controlling interest		74	(49)	(107)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.17	0.19	1.65

The notes set out on pages 24-36 are an integral part of these interim financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.03.2022	31.03.2021	31.12.2021
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	5	29,881	54,792	44,930
Trade and other receivables	6	57,331	35,362	55,484
Prepaid corporate income tax		53	320	114
Inventories	7	187,848	126,748	160,593
		<b>275,113</b>	<b>217,222</b>	<b>261,121</b>
<b>Non-current assets</b>				
Investments in associates and joint ventures		9,377	2,361	7,703
Other long-term loans and receivables	8	23,878	20,457	24,079
Deferred income tax assets		793	623	622
Investment property	9	13,803	13,897	13,828
Property, plant and equipment	10	16,966	14,484	16,350
Intangible assets	11	653	721	669
		<b>65,470</b>	<b>52,543</b>	<b>63,251</b>
<b>TOTAL ASSETS</b>		<b>340,583</b>	<b>269,765</b>	<b>324,372</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Borrowings	12	11,554	13,626	11,636
Payables and prepayments	13	103,801	63,196	90,054
Income tax liability		956	1,429	681
Short-term provisions	14	6,825	5,366	7,976
		<b>123,136</b>	<b>83,617</b>	<b>110,347</b>
<b>Non-current liabilities</b>				
Long-term borrowings	12	41,938	18,767	41,001
Deferred income tax liability		3,159	3,032	3,112
Other long-term payables	15	2,244	3,570	2,900
		<b>47,341</b>	<b>25,369</b>	<b>47,013</b>
<b>TOTAL LIABILITIES</b>		<b>170,477</b>	<b>108,986</b>	<b>157,360</b>
<b>EQUITY</b>				
Non-controlling interests		(153)	4,159	(227)
<b>Equity attributable to equity holders of the parent</b>				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	793	793
Currency translation differences		(777)	(790)	(791)
Retained earnings		162,314	148,688	159,308
		<b>170,259</b>	<b>156,620</b>	<b>167,239</b>
<b>TOTAL EQUITY</b>		<b>170,106</b>	<b>160,779</b>	<b>167,012</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>340,583</b>	<b>269,765</b>	<b>324,372</b>

The notes set out on pages 24–36 are an integral part of these interim financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings	Total		
<b>Balance as at 31.12.2020</b>	<b>7,929</b>	<b>793</b>	<b>(814)</b>	<b>145,320</b>	<b>153,228</b>	<b>4,207</b>	<b>157,435</b>
Profit (loss) for the reporting period	-	-	-	3,368	3,368	(48)	3,320
Other comprehensive income	-	-	24	-	24	(1)	23
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>24</b>	<b>3,368</b>	<b>3,392</b>	<b>(49)</b>	<b>3,343</b>
<b>Transactions with owners</b>							
Non-controlling interests of purchased subsidiary	-	-	-	-	-	1	1
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>1</b>
<b>Balance as at 31.03.2021</b>	<b>7,929</b>	<b>793</b>	<b>(790)</b>	<b>148,688</b>	<b>156,620</b>	<b>4,159</b>	<b>160,779</b>
<b>Balance as at 31.12.2021</b>	<b>7,929</b>	<b>793</b>	<b>(791)</b>	<b>159,308</b>	<b>167,239</b>	<b>(227)</b>	<b>167,012</b>
Profit (loss) for the reporting period	-	-	-	3,006	3,006	72	3,078
Other comprehensive income	-	-	14	-	14	2	16
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>14</b>	<b>3,006</b>	<b>3,020</b>	<b>74</b>	<b>3,094</b>
<b>Balance as at 31.03.2022</b>	<b>7,929</b>	<b>793</b>	<b>(777)</b>	<b>162,314</b>	<b>170,259</b>	<b>(153)</b>	<b>170,106</b>

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

The notes set out on pages 24–36 are an integral part of these interim financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2022 3 months	2021 3 months	2021 12 months
<b>Cash flows from operating activities</b>				
Operating profit		3,659	3,933	32,202
Adjustments:				
Depreciation and impairment		692	619	2,593
(Profit)/loss from sale of non-current assets		(128)	(25)	(111)
(Profit)/loss from sale of a business unit		-	-	(500)
Change in receivables and liabilities related to construction contracts		(6,101)	(3,884)	(7,164)
Interest income from operating activities		(541)	(473)	(2,116)
Change in provisions		(2,325)	(1,868)	1,981
Change in trade and other receivables related to operating activities		3,002	(1,557)	(21,079)
Change in inventories		(27,107)	(404)	(34,148)
Change in trade and other payables related to operating activities		18,258	8,148	30,916
Interest received		446	337	1,355
Interest paid		(263)	(147)	(764)
Other finance income (costs)		(48)	(46)	(204)
Corporate income tax paid		(212)	(147)	(3,161)
<b>Total cash flows from operating activities</b>		<b>(10,668)</b>	<b>4,486</b>	<b>(200)</b>
<b>Cash flows from investing activities</b>				
Acquisition of subsidiaries		(695)	(1)	(1)
Acquisition of associate		(2,236)	-	(4,550)
Purchase of investment property		-	-	(7)
Purchase of property, plant and equipment (excl. leased assets)		(191)	(354)	(2,403)
Proceeds from sale of property, plant and equipment		118	22	146
Purchase of intangible assets		(39)	(58)	(233)
Proceeds from sale intangible assets		-	-	19
Sale of business unit		-	-	500
Interest received		-	1	12
<b>Total cash flows from investing activities</b>		<b>(3,043)</b>	<b>(390)</b>	<b>(6,517)</b>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings		14,950	3,973	27,882
Repayments of borrowings		(14,187)	(578)	(5,119)
Repayments of lease liabilities		(236)	(206)	(951)
Contributions to the subsidiary's share capital from non-controlling shareholder		-	-	9
Buyout of non-controlling interest		(1,886)	-	-
Dividends paid		-	-	(17,686)
<b>Total cash flows from financing activities</b>		<b>(1,359)</b>	<b>3,189</b>	<b>4,135</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>(15,070)</b>	<b>7,285</b>	<b>(2,582)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	5	<b>44,930</b>	<b>47,480</b>	<b>47,480</b>
<b>Effect of exchange rate changes</b>		<b>21</b>	<b>27</b>	<b>32</b>
<b>Cash and cash equivalents at the end of the period</b>	5	<b>29,881</b>	<b>54,792</b>	<b>44,930</b>

The notes set out on pages 24-36 are an integral part of these interim financial statements.

# NOTES

## NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 3 months 2022 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 2021 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. 2021 audited annual report and 2021 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 2022 presents a true and fair view of the group's economic results based on the principle of going concern. The influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

## NOTE 2 OPERATING SEGMENTS

in thousand euros

The top 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 in Baltic states the services in the fields of general construction, civil engineering and electrical construction, additionally in Estonia road construction and concrete works services and in Norway general construction. Other operating areas (managerial services, supervision service, etc.) are insignificant to the group and they are reported 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 of a segment 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 related to the segment. Other income and expenses not 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 inter-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.



2022 3 months	Construction service	Real estate development	Total segments
Revenue	47,931	32,837	80,768
Inter-segment revenue	(181)	(12,161)	(12,342)
<b>Revenue from clients</b>	<b>47,750</b>	<b>20,676</b>	<b>68,426</b>
incl. timing of revenue recognition at a point in time	152	15,624	15,776
timing of revenue recognition over time	47,598	5,052	52,650
<b>Operating profit (loss)</b>	<b>38</b>	<b>4,099</b>	<b>4,137</b>
<b>Profit (loss) before tax</b>	<b>4</b>	<b>4,027</b>	<b>4,031</b>
incl. interest income from operating activities	-	541	541
depreciation	(544)	(148)	(692)
recognition of provisions	(1,450)	(275)	(1,725)
profit (loss) from joint venture	11	(13)	(2)
other finance income (costs)	(8)	(56)	(64)
incl. interest expenses	(8)	(77)	(85)
<b>Assets 31.03.2022</b>	<b>69,945</b>	<b>226,008</b>	<b>295,953</b>
incl. joint venture	7,064	2,313	9,377

2021 3 months	Construction service	Real estate development	Total segments
Revenue	39,244	23,790	63,034
Inter-segment revenue	(271)	(2,656)	(2,927)
<b>Revenue from clients</b>	<b>38,973</b>	<b>21,134</b>	<b>60,107</b>
incl. timing of revenue recognition at a point in time	262	18,150	18,412
timing of revenue recognition over time	38,711	2,984	41,695
<b>Operating profit (loss)</b>	<b>28</b>	<b>4,344</b>	<b>4,372</b>
<b>Profit (loss) before tax</b>	<b>(8)</b>	<b>4,246</b>	<b>4,238</b>
incl. interest income from operating activities	15	458	473
depreciation	(501)	(118)	(619)
recognition of provisions	(454)	(3)	(457)
profit from joint venture	-	7	7
other finance income (costs)	(6)	(91)	(97)
incl. interest expenses	(6)	(65)	(71)
<b>Assets 31. 03.2021</b>	<b>53,553</b>	<b>167,144</b>	<b>220,697</b>
incl. joint venture	-	2,361	2,361

2021 12 months	Construction service	Real estate development	Total segments
Revenue	247,694	130,176	377,870
Inter-segment revenue	(4,271)	(34,224)	(38,495)
<b>Revenue from clients</b>	<b>243,423</b>	<b>95,952</b>	<b>339,375</b>
incl. timing of revenue recognition at a point in time	1,846	80,536	82,382
timing of revenue recognition over time	241,577	15,416	256,993
<b>Operating profit (loss)</b>	<b>11,819</b>	<b>22,673</b>	<b>34,492</b>
<b>Profit (loss) before tax</b>	<b>12,477</b>	<b>22,149</b>	<b>34,626</b>
incl. interest income from operating activities	97	2,019	2,116
depreciation	(2,064)	(529)	(2,593)
recognition of provisions	(5,806)	(2,241)	(8,047)
reversal of provisions	513	101	614
profit (loss) from associate and joint venture	827	(28)	799
other finance income (costs)	(41)	(467)	(508)
incl. interest expenses	(34)	(346)	(380)
<b>Assets 31.12.2021</b>	<b>65,923</b>	<b>203,775</b>	<b>269,698</b>
incl. associate and joint venture	5,377	2,326	7,703

In addition to the segment assets, as at 31.03.2022 the group holds assets in the amount of EUR 44,630 thousand (31.03.2021: EUR 49,068 thousand; 31.12.2021: EUR 54,674 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

	2022 3 months	2021 3 months	2021 12 months
<b>Pre-tax profit from reporting segments</b>	<b>4,031</b>	<b>4,238</b>	<b>34,626</b>
Other operating profit (loss)	(478)	(438)	(2,291)
incl. recognition of provisions	-	-	(17)
finance income (costs)	(54)	(51)	(208)
incl. interest expenses	(35)	(32)	(131)
<b>Total profit before tax</b>	<b>3,499</b>	<b>3,749</b>	<b>32,127</b>

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

	2022 3 months		2021 3 months		2021 12 months	
Estonia	29,944	44%	37,940	63%	212,405	62%
Latvia	17,207	25%	8,640	14%	52,825	16%
Lithuania	17,426	25%	10,838	18%	63,905	19%
Norway	3,849	6%	2,689	5%	10,240	3%
<b>Total</b>	<b>68,426</b>	<b>100%</b>	<b>60,107</b>	<b>100%</b>	<b>339,375</b>	<b>100%</b>

#### CONTRACT ASSETS AND LIABILITIES

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
Accrued income from construction services (Note 6)	19,004	11,164	15,050
Prepayments for construction services (Note 13)	(4,829)	(6,423)	(7,024)
Advance payments received for construction contract works (Notes 13, 15)	(11,043)	(10,006)	(12,963)
Recognised provision for onerous construction contracts (Note 14)	(538)	(242)	(582)

**NON-CURRENT ASSETS (EXCEPT FOR FINANCIAL ASSETS) BY LOCATION OF ASSETS**

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
Estonia	26,366	17,816	24,175
Latvia	13,160	13,140	13,202
Lithuania	1,142	363	1,039
Norway	131	144	134
<b>Total</b>	<b>40,799</b>	<b>31,463</b>	<b>38,550</b>

**NOTE 3 COST OF GOODS SOLD**

in thousand euros

	2022 3 months	2021 3 months	2021 12 months
Construction services and properties purchased for resale	32,273	31,953	181,370
Materials	12,306	9,474	49,647
Labour costs	7,208	6,114	26,313
Construction mechanisms and transport	1,687	1,484	10,027
Design	1,891	884	5,022
Real estate management costs	184	90	385
Depreciation	470	415	1,731
Provisions	1,725	456	7,565
Other expenses	2,810	2,263	10,503
<b>Total cost of goods sold</b>	<b>60,554</b>	<b>53,133</b>	<b>292,563</b>

**NOTE 4 EARNINGS AND DIVIDENDS PER SHARE**

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

	2022 3 months	2021 3 months	2021 12 months
Net profit (loss) attributable to shareholders (in thousand EUR)	3,006	3,368	29,140
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700
<b>Earnings (loss) per share (in euros)</b>	<b>0.17</b>	<b>0.19</b>	<b>1.65</b>

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

Dividends payable are recognised after the approval of profit allocation by the shareholders. In accordance with the profit allocation decision, in 2022 the parent company AS Merko Ehitus will pay dividends of EUR 17,700 thousand, i.e. EUR 1.00 per share (in 2020 were paid EUR 17,700 thousand). The income tax expense of EUR 1,529 thousand related to the payment of dividends is due in 2022, of which EUR 1,519 thousand was recognised as deferred tax expense in the group in 2021.

Pursuant to IAS 12, the deferred income tax expense and liability will be recognized in AS Merko Ehitus group consolidated financial statements based on the share of net profit in the year ended that is planned to be paid out as dividends in the foreseeable future.

As at 31.03.2022 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 1,540 thousand euros (31.03.2021: EUR 1,384 thousand euros; 31.12.2021: EUR 1,519 thousand euros).

As of 31.03.2022, the parent company AS Merko Ehitus has no previously taxed dividends and income received from abroad on which income tax has been withheld (31.03.2021: EUR 3,507 thousand; 31.12.2021: EUR 0 thousand).

As at 31.03.2022, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 129,640 thousand (31.03.2021: EUR 119,260; 31.12.2021: EUR 126,814 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 0 (31.03.2021: EUR 877 thousand; 31.12.2021: EUR 0), the corresponding income tax on dividends would amount to EUR 31,897 thousand (31.03.2021: EUR 28,638 thousand; 31.12.2021: EUR 31,703 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration. Above that amount, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out 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

	31.03.2022	31.03.2021	31.12.2021
Bank accounts	29,881	54,792	44,930
<b>Total cash and cash equivalents</b>	<b>29,881</b>	<b>54,792</b>	<b>44,930</b>

## NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
Trade receivables			
Accounts receivable	25,142	22,122	35,444
Allowance for doubtful receivables	(274)	(3,518)	(3,347)
	<b>24,868</b>	<b>18,604</b>	<b>32,097</b>
Tax prepayments excluding corporate income tax			
Value added tax	3,480	923	1,021
Other taxes	6	20	50
	<b>3,486</b>	<b>943</b>	<b>1,071</b>
Accrued income from construction services	19,004	11,164	15,050
Other short-term receivables			
Short-term loans	1,115	1,417	1,115
Interest receivables	17	17	-
Dividends receivables	560	-	-
Other short-term receivables	393	179	195
	<b>2,085</b>	<b>1,613</b>	<b>1,310</b>
Prepayments for services			
Prepayments for construction services	7,494	2,602	5,547
Prepaid insurance	160	178	158
Other prepaid expenses	234	258	251
	<b>7,888</b>	<b>3,038</b>	<b>5,956</b>
<b>Total trade and other receivables</b>	<b>57,331</b>	<b>35,362</b>	<b>55,484</b>
incl. short-term loan receivables from related parties (Note 16)	1,115	-	1,115
other short-term receivables and prepayments to related parties (Note 16)	2,710	1,493	3,573

## NOTE 7 INVENTORIES

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
Materials	1,034	386	347
Work-in-progress	98,738	49,050	82,953
Finished goods	6,400	15,158	6,819
Goods for resale			
Registered immovables purchased for resale/development	80,755	60,590	66,160
Other goods purchased for resale	149	87	149
	<b>80,904</b>	<b>60,677</b>	<b>66,309</b>
Prepayments for inventories			
Prepayments for real estate properties	-	-	4,109
Prepayments for other inventories	772	1,477	56
<b>Total inventories</b>	<b>187,848</b>	<b>126,748</b>	<b>160,593</b>

## NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
Long-term loans	-	1,115	-
Long-term bank deposit	5	2	5
Long-term receivables from customers of construction services	23,873	19,340	24,074
<b>Total other long-term loans and receivables</b>	<b>23,878</b>	<b>20,457</b>	<b>24,079</b>
incl. long-term loan receivables from related parties (Note 16)	-	1,115	-

## NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
Land	12,414	12,407	12,414
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(14)	(13)	(14)
	<b>15</b>	<b>16</b>	<b>15</b>
Buildings at carrying amount			
Cost	2,631	2,631	2,631
Accumulated depreciation	(1,257)	(1,157)	(1,232)
	<b>1,374</b>	<b>1,474</b>	<b>1,399</b>
<b>Total investment property</b>	<b>13,803</b>	<b>13,897</b>	<b>13,828</b>

## NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
Land	1,407	712	712
Buildings at carrying amount*			
Cost	8,184	7,378	8,184
Accumulated depreciation	(3,145)	(2,771)	(3,048)
	<b>5,039</b>	<b>4,607</b>	<b>5,136</b>
Machinery and equipment at carrying amount*			
Cost	18,138	14,470	17,920
Accumulated depreciation	(9,651)	(9,078)	(9,636)
	<b>8,487</b>	<b>5,392</b>	<b>8,284</b>
Other fixtures at carrying amount			
Cost	4,564	4,275	4,523
Accumulated depreciation	(3,108)	(3,209)	(3,049)
	<b>1,456</b>	<b>1,066</b>	<b>1,474</b>
Prepayments for property, plant and equipment	577	2,707	744
<b>Total property, plant and equipment</b>	<b>16,966</b>	<b>14,484</b>	<b>16,350</b>

\* As of 31 March 2022 the balance of buildings at carrying amount includes leased assets in a sum of EUR 500 thousand (31.03.2021: 146 thousand; 31.12.2021: EUR 543 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 3,020 thousand (31.03.2021: EUR 2,426 thousand; 31.12.2021: EUR 2,881 thousand).

## NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
Goodwill			
Cost	75	73	73
	<b>75</b>	<b>73</b>	<b>73</b>
Software at carrying amount			
Cost	1,403	2,136	1,401
Accumulated depreciation	(936)	(1,550)	(877)
	<b>467</b>	<b>586</b>	<b>524</b>
Prepayments for intangible assets	111	62	72
<b>Total intangible assets</b>	<b>653</b>	<b>721</b>	<b>669</b>

## NOTE 12 BORROWINGS

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
<b>Lease liabilities*</b>			
Lease liabilities balance	<b>3,611</b>	<b>2,643</b>	<b>3,519</b>
incl. current portion	929	771	868
non-current portion 2...5 years	2,682	1,872	2,651
<b>Bank loans</b>			
Loan balance	<b>43,881</b>	<b>23,694</b>	<b>43,062</b>
incl. current portion	10,625	6,855	10,712
non-current portion 2...5 years	33,256	16,839	32,350
<b>Loans from entities under common control</b>			
Loan balance	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>
incl. current portion (Note 16)	-	6,000	-
non-current portion 2...5 years (Note 16)	6,000	-	6,000
<b>Loans from other related parties</b>			
Loan balance	-	<b>56</b>	-
incl. non-current portion 2...5 years (Note 16)	-	56	-
<b>Loans from other entities</b>			
Loan balance	-	-	<b>56</b>
incl. current portion	-	-	56
<b>Total loans</b>			
Loans balance	<b>49,881</b>	<b>29,750</b>	<b>49,118</b>
incl. current portion	10,625	12,855	10,768
non-current portion 2...5 years	39,256	16,895	38,350
<b>Total borrowings</b>	<b>53,492</b>	<b>32,393</b>	<b>52,637</b>
incl. current portion	11,554	13,626	11,636
non-current portion 2...5 years	41,938	18,767	41,001

\* As of 31 March 2022 the lease liabilities include a balance of EUR 18 thousand to related parties (31.03.2021: EUR 69 thousand; 31.12.2021: EUR 31 thousand) (Note 16).

## NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
Trade payables	48,065	24,965	29,413
Payables to employees	11,053	11,122	11,640
Tax liabilities, except for corporate income tax			
Value added tax	81	1,646	3,119
Personal income tax	770	550	546
Social security tax	1,851	1,374	1,270
Unemployment insurance tax	77	43	58
Contributions to mandatory funded pension	60	33	39
Other taxes	147	120	124
	<b>2,986</b>	<b>3,766</b>	<b>5,156</b>
Prepayments for construction services	4,829	6,423	7,024
Other liabilities			
Interest liabilities	17	12	20
Other liabilities	390	570	2,338
	<b>407</b>	<b>582</b>	<b>2,358</b>
Prepayments received *	36,461	16,338	34,463
<b>Total payables and prepayments</b>	<b>103,801</b>	<b>63,196</b>	<b>90,054</b>
incl. payables to related parties (Note 16)	2,535	23	2,503

\* As of 31 March 2022, 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 10,779 thousand (31.03.2021: EUR 8,524 thousand; 31.12.2021: EUR 12,435 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 25,682 thousand (31.03.2021: EUR 7,814 thousand; 31.12.2021: EUR 22,028 thousand) (Note 2).

## NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
Provision for warranty obligation for construction	3,711	3,419	3,771
Provision for costs of projects sold and work-in-progress projects	2,536	1,485	3,537
Provision for onerous construction contracts	538	242	582
Provision for legal costs and claims filed	-	202	-
Other provisions	40	18	86
<b>Total short-term provisions</b>	<b>6,825</b>	<b>5,366</b>	<b>7,976</b>

## NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
Trade payables	1,710	1,744	2,110
Prepayments received *	264	1,482	528
Interest liabilities	-	1	-
Other long-term liabilities	270	343	262
<b>Other long-term payables total</b>	<b>2,244</b>	<b>3,570</b>	<b>2,900</b>
incl. other long-term payables to related parties (Note 16)	270	344	262

\* As of 31 March 2022, 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 264 thousand (31.03.2021: EUR 1,482 thousand; 31.12.2021: EUR 528 thousand) (Note 2).

## NOTE 16 RELATED PARTY TRANSACTIONS

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 31.03.2022; 31.03.2021 and 31.12.2021, 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
	31.03.2022	31.03.2021	31.12.2021		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
AS Merko Infra	-	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	100	Estonia, Tallinn	Mining
OÜ Metsara-Metspere Kinnisvara	100	-	-	Estonia, Tallinn	Mining
Tallinna Teede AS	100	100	-	Estonia, Tallinn	Road construction
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektas	100	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu Mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	100	100	Lithuania, Vilnius	Real estate
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 Industrialais Parks	100	-	100	Latvia, Riga	Real estate
SIA Merks Mājas	100	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	-	100	-	Latvia, Riga	Real estate
SIA Ropažu Priedes	100		100	Latvia, Riga	Real estate
SIA Zakusala Estates	100		100	Latvia, Riga	Real estate
SIA Ropažu Priedes	-	100	-	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	-	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
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	56	Norway, Sofiemyr	Construction
Løkenskogen Bolig AS	62	56	62	Norway, Sofiemyr	Real estate
Associate					
AS Connecto Eesti	-	-	35	Estonia, Tallinn	Construction
Joint venture					
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate
AS Connecto Eesti	50	-	-	Estonia, Tallinn	Construction



Additional information on the changes during the reported period is provided in chapter Corporate Governance in Management report.

#### PURCHASE OF SUBSIDIARY

in thousand euros

OÜ Metsara-Metspere Kinnisvara		
Acquired ownership interest		100%
Acquisition date		16.03.2022
	Book value	Fair value
Cash	0	0
Property, plant and equipment	409	695
Liabilities	0	0
Net assets	409	695
<b>Fair value of net assets</b>		<b>695</b>
<b>Acquisition cost</b>		<b>695</b>
Subsidiary's cash and cash equivalent on acquisition		0
Paid on acquisition		(695)
<b>Cash flow from acquisition of subsidiary</b>		<b>(695)</b>
Net profit from the beginning of the year	-	
Net profit following the acquisition	-	

#### ACQUISITION OF JOINT VENTURE

in thousand euros

AS Connecto Eesti	
Additional share %	15%
Acquisition date	28.02.2022
	Fair value
Cash	1,049
Receivables	1,103
Inventories	432
Non-current assets	460
Borrowings	(156)
Other liabilities	(1,821)
<b>Fair value of net assets</b>	<b>1,067</b>
<b>Acquisition cost</b>	<b>2,236</b>
<b>Goodwill</b>	<b>1,169</b>
Paid for share of joint venture in cash	(2,236)
<b>Outflow of cash – investing activities</b>	<b>(2,236)</b>

Joint ventures are accounted for under the equity method. A holding in a jointly controlled entity is initially recognised at cost and subsequently adjusted for the post-acquisition changes that have occurred in the group's share of the net assets under common control.

The investment into the joint venture includes a goodwill of EUR 1,169 thousand as determined upon acquisition, which is largely related to the company's ability to jointly win recurring long-term contracts in procurements under the Connecto trademark as well as its readiness to participate in large-scale projects both in Estonia and abroad.

**GOODS AND SERVICES**

in thousand euros

	2022 3 months	2021 3 months	2021 12 months
<b>Provided services and goods sold</b>			
Parent company	4	3	13
Joint venture	3,989	359	6,307
Entities under common control	3,195	2,583	15,729
Members of the management	-	127	399
<b>Total services provided and goods sold</b>	<b>7,188</b>	<b>3,072</b>	<b>22,448</b>
<b>Interest income</b>			
Joint venture	17	17	68
<b>Purchased services and goods</b>			
Parent company	23	23	90
Associate and joint venture	38	-	145
Entities under common control	18	15	64
Members of the management	1	1	1
<b>Total purchased services and goods</b>	<b>80</b>	<b>39</b>	<b>300</b>
<b>Interest expense</b>			
Parent company	5		
Entities under common control	32	32	130
Other related parties	-	1	1
<b>Total interest expense</b>	<b>37</b>	<b>33</b>	<b>131</b>

**BALANCES WITH RELATED PARTIES**

in thousand euros

	31.03.2022	31.03.2021	31.12.2021
<b>Receivables from related parties</b>			
Loans granted (Notes 6,8)			
Joint ventures	1,115	1,115	1,115
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Associate and joint venture	1,884	28	1,924
Entities under common control	822	1,461	1,616
Members of the management	-	-	29
Total receivables and prepayments	<b>2,710</b>	<b>1,493</b>	<b>3,573</b>
<b>Total receivables from related parties</b>	<b>3,825</b>	<b>2,608</b>	<b>4,688</b>
<b>Payables to related parties</b>			
Lease liabilities (Note 12)			
Entities under common control	18	69	31
Short-term loans received (Note 12)			
Entities under common control	-	6,000	-
Payables and prepayments (Note 13)			
Parent company	9	9	9
Associate and joint venture	7	-	8
Entities under common control	2,456	14	2,446
Members of the management	63	-	40
Total payables and prepayments	<b>2,535</b>	<b>23</b>	<b>2,503</b>

	31.03.2022	31.03.2021	31.12.2021
Long-term loans received (Note 12)			
Entities under common control	6,000	-	6,000
Other related parties	-	56	-
<b>Total long-term loans received</b>	<b>6,000</b>	<b>56</b>	<b>6,000</b>
Other long-term payables (Note 15)			
Other related parties	270	344	262
<b>Total payables to related parties</b>	<b>8,823</b>	<b>6,492</b>	<b>8,796</b>

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

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 3 months of 2022 was EUR 780 thousand (3 months of 2021: EUR 379; 12 months of 2021: EUR 2,937 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 2022, the Management Board members of major subsidiaries received EUR 4 thousand in compensation (3 months of 2021: EUR 32 thousand; 12 months of 2021: EUR 141 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/management-and-supervisory-board/](http://group.merko.ee/en/management-and-supervisory-board/).

Shares held by members of the Supervisory Board of AS Merko Ehitus as of 31.03.2022:

		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	-	-
		<b>12,774,321</b>	<b>72.17%</b>

\* Toomas Annus controls through a holding company the majority of the votes determined by shares in AS Riverito. Thus the shares of AS Riverito and the votes determined by it in AS Merko Ehitus (12,742,686 shares) are considered to be under the control of 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 of 31.03.2022:

		NO OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	1,100	0.01%
Tõnu Toomik	Member of the Management Board	-	-
		<b>1,100</b>	<b>0.01%</b>

## NOTE 17 CONTINGENT LIABILITIES

in thousand euros

The group has obtained the following guarantees from financial institutions and issued sureties 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.

	31.03.2022	31.03.2021	31.12.2021
Performance period's warranty to the customer	29,194	27,448	28,573
Tender warranty	234	1,509	31
Guarantee for warranty period	21,454	22,057	19,639
Prepayment guarantee	11,080	14,492	15,026
Payment guarantee	0	1,332	0
Contracts of surety	1,466	1,693	1,466
<b>Total contingent liabilities</b>	<b>63,428</b>	<b>68,531</b>	<b>64,735</b>

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

## DEFINITION OF RATIOS

Gross profit margin (%)	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
Operating profit margin (%)	=	$\frac{\text{Operating profit}}{\text{Revenue}}$
EBT margin (%)	=	$\frac{\text{Pre-tax profit}}{\text{Revenue}}$
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