

AS Merko Ehitus

Consolidated
annual
report 2024



merko

AS MERKO EHITUS

GROUP

CONSOLIDATED ANNUAL REPORT

01.01.2024 – 31.12.2024

Business name: AS Merko Ehitus
Main activities: holding companies,
general contracting of construction,
real estate development
Commercial register no: 11520257
Legal form: public limited company
State: Republic of Estonia

Supervisory Board: Toomas Annus, Indrek Neivelt,
Kristina Siimar
Management Board: Ivo Volkov, Tõnu Toomik,
Urmas Somelar
Auditor: AS PricewaterhouseCoopers

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

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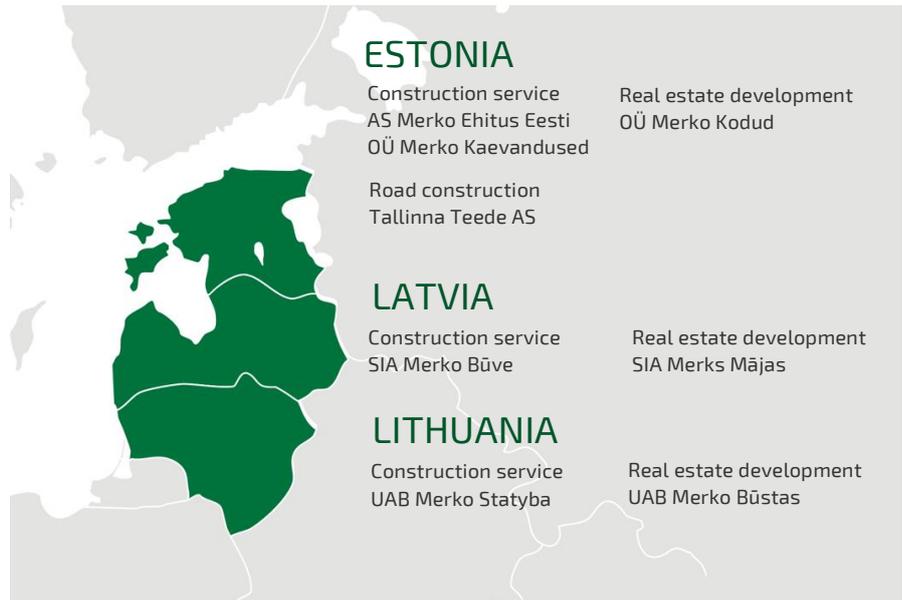
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MAIN FACTS

Companies in the Merko Ehitus group develop real estate, construct buildings and infrastructure.

We operate in Estonia, Latvia and Lithuania. We create a better living environment and build the future.

We are the largest listed construction company and residential developer in the Baltics



VALUE OFFERING

Merko is the preferred choice for construction service customers and home buyers who value quality.

Real estate development

- We are among the strongest residential developer brands. Quality makes us a reliable choice for homebuyers.
- We focus on creating large and modern living environments.
- To ensure the highest quality, Merko manages all stages of the residential development process: land acquisition, detailed planning, architectural competition, design, construction, marketing and sale of apartments and commercial spaces, and after-sales service.

Construction services

- We offer our customers complete construction service, managing the entire process and taking responsibility for the whole result.
- Complete construction service according to the customer's needs: preparation, design, engineering, construction, fit-out and warranty service.
- At the customer's request, we can also offer a property development service, from the acquisition of suitable land and the organisation of detailed planning procedures to the completion of the project.
- We have extensive experience in both private and public-private partnerships, including PPP (*Public Private Partnership*) projects.
- Merko's quality, environmental and safety management is certified to ISO standards.



COMPETITIVE ADVANTAGES

- We offer a full service
- Flexibility to deliver projects of different sizes, including major projects
- Strong management system
- Excellent teams
- Innovative technical and construction solutions
- 35 years of experience and a trusted brand
- Financial strength

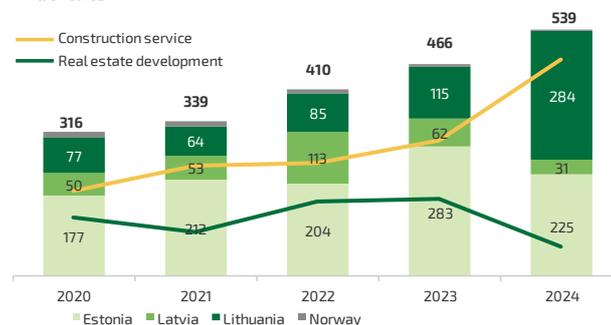
KEY INDICATORS

Income statement summary	2024	2023
Revenue (million EUR)	539.0	466.3
Gross profit (million EUR)	95.9	65.0
Gross margin (%)	17.8	13.9
EBITDA (million EUR)	75.7	48.1
EBITDA margin (%)	14.0	10.3
Operating profit (million EUR)	72.5	44.5
Operating profit margin (%)	13.4	9.5
Net profit (million EUR)	64.7	46.0
Net margin (%)	12.0	9.9

Other significant indicators	31.12.2024	31.12.2023
Assets (million EUR)	447.1	425.3
Equity (million EUR)	254.3	211.9
*Return on equity (%)	28.4	23.4
*Equity ratio (%)	56.9	49.9
Debt ratio (%)	7.5	12.9
Number of employees as at 31.12	605	635
Order book (million EUR)	340.6	477.5

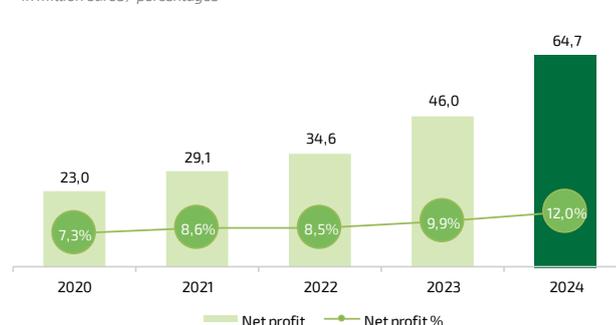
*attributable to equity holders of the parent

DISTRIBUTION OF GROUP REVENUE BY GEOGRAPHICAL LOCATION
in million euros



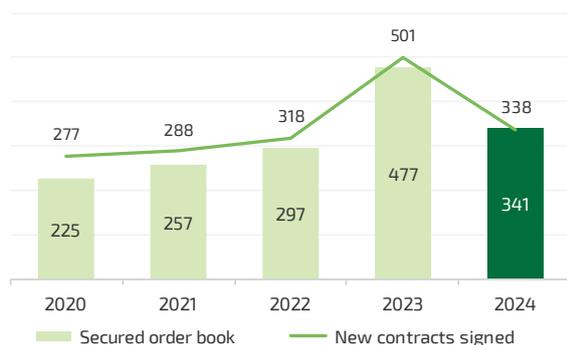
*In 2024, Merko exited the Norwegian market.

NET PROFIT / NET PROFIT MARGIN
in million euros / percentages



CONSTRUCTION SERVICES

SECURED ORDER BOOK
in million euros

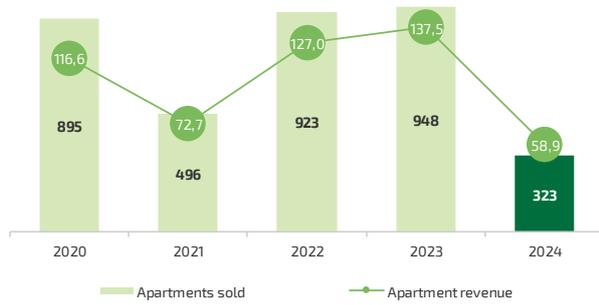


LARGEST CONSTRUCTION CONTRACTS SIGNED IN 2024

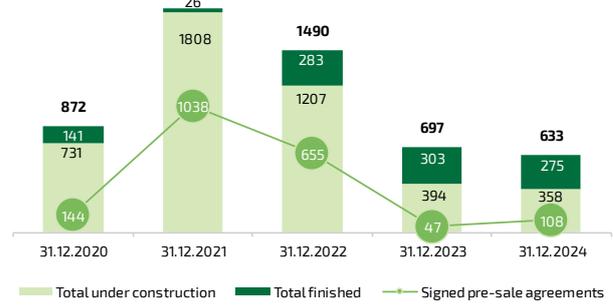
BRIEF DESCRIPTION OF CONTRACT	Cost million EUR
Design-and-build contract for the office building / Tallinn, Estonia	64.3
Design and construction contract for the fourth stage of Rail Baltica Harjumaa main line railway infrastructure (joint project) / Harjumaa, Estonia	59.9
Construction contract for the wind farm balance of plant / Telšiai, Lithuania	55.0
Design- and construction contract for additional works of the NATO training centre / Pabradė, Lithuania	20.0
Construction contract for the solar panel power plant / Vārme, Latvia	20.0

REAL ESTATE DEVELOPMENT

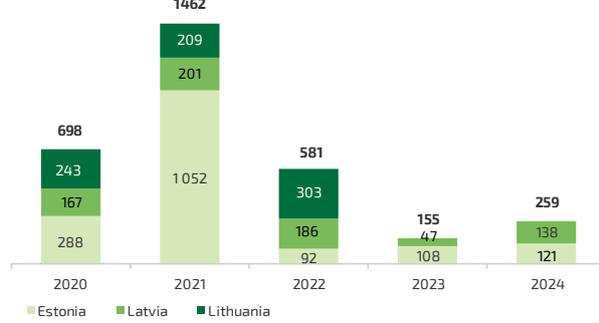
APARTMENTS SOLD / APARTMENT REVENUE
pcs / in million euros



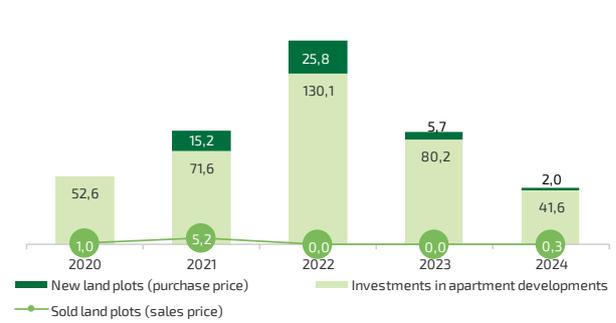
GROUP APARTMENTS INVENTORY
pcs



APARTMENTS LAUNCHED BY GEOGRAPHICAL LOCATION
pcs



INVESTMENTS IN APARTMENT DEVELOPMENT PROJECTS AND LAND PLOT ACQUISITIONS AND DISPOSALS
in million euros



STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear shareholders and readers,

2024, a year of record turnover and profit for Merko, is now in the books. This report gives an overview of the figures as well as the activities during these successful 12 months. The solid results are not just the product of chance. Now on the cusp of its 35th anniversary, Merko has been successful for years on the strength of its masterful workforce and has grown to be a clearly international company. In 2024, we did exit the Norwegian market, but we continue operations in Estonia, Latvia and Lithuania.

2024 brought a clear indication that despite their geographic proximity to each other, sentiment and market behaviour on our home markets can be diametrically opposite. The opportunities and risks are also very different in every company we operate in. It is a pleasure to note that we have so far been able to find a balance between risks and opportunities thanks to our local strong and professional teams, who have made the right choices and decisions and perform high-quality work. Our Estonian, Latvian and Lithuanian companies see clear value in being part of a larger Merko family – be it dispensing good advice, sharing experience, learning from others' mistakes, financial support, providing references or servicing clients operating across borders.

Merko is as strong as its teams. And our teams are strong. Many thanks, dear people of Merko, for an excellent 2024. A deep bow of gratitude to our construction service customers and home buyers who put value on our quality. And thank you to investors who believe in Merko.

Besides our results, various awards and honours attest to our achievements in 2024 – some were bestowed on the company as a whole, some for projects we established and developed, and others were awarded to our colleagues in Estonia, Latvia and Lithuania. We continue to consider it important to give back to society. All this, too, is covered in the report. Merko is one of the few Estonian companies whose 2024 report includes, for the first time, an ESG report. That makes the annual report a far thicker volume when printed out, so we urge you to read it in electronic form to avoid using natural resources.

2025 has started with noteworthy tumult on the political scene and markets around the world. Depending on the developments and new equilibrium, nothing can be ruled out on the construction and real estate markets – we may see sporadic sluggishness continue, or we could witness a recovery of volumes and a shift in focus.

These are turbulent times, and predicting future scenarios is a thankless endeavour. One thing is certain – Merko is poised to thrive in 2025 and beyond, thanks to its adaptability, strong team and trustworthy balance sheet.

Ivo Volkov
AS Merko Ehitus Chairman of the Management Board



IVO VOLKOV
AS MERKO EHITUS
CHAIRMAN OF THE
MANAGEMENT BOARD



PURPOSE

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

BUSINESS

We construct buildings and infrastructure and develop real estate. We operate in Estonia, Latvia and Lithuania.

PRINCIPLES

We operate as one Merko. We see opportunities, act upon them and have a long-term view. Our focus is on profitable growth.

MERKO VALUES

- I am competent
- I keep my word
- I care and take responsibility
- I initiate and make it happen
- I look for new ideas

MERKO ESSENCE



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 and Lithuania. 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.

FINANCIAL OBJECTIVES

The Management Board and Supervisory Board of AS Merko Ehitus have approved the group's strategic development directions and long-term financial objectives, which are:

- Average return on equity at least **10%**
- Dividend rate **50-70%** of annual profit
- Equity ratio at least **40%**

Given the competitive situation of the construction and real estate markets in the Baltics and the increased uncertainty of the economic environment, the strategy and financial objectives are aimed at maintaining high capitalisation and the return on invested capital.

In 2023, the group fulfilled the financial objectives set for both return on equity and equity ratio as a proportion of assets:

- Return on equity **28.4%**
- Equity ratio **57%**

The amount of dividends paid for the completed financial year and thus the dividend rate will be decided by the general meeting of shareholders

FULFILMENT OF LONG-TERM FINANCIAL OBJECTIVES 2020-2024

	2024	2023	2022	2021	2020	AVERAGE
Return on equity, ROE (on yearly basis)	28.4%	23.4%	20.4%	18.8%	16.2%	21.4%
Dividend rate	*	50%	51%	61%	77%	60%
Equity ratio 31.12.	56.9%	49.9%	47.5%	51.6%	59.6%	53.1%

*The dividend rate for 2024 depends on the decision of the general meeting of shareholders to pay dividends.

RECOGNITION IN 2024

COMPANY RECOGNITIONS

- Merko Ehitus Eesti received the silver level of the national defence supporter decoration from the Estonian Ministry of Defence for an outstanding contribution to national defence.
- Merko Statyba received recognition from the Lithuanian Ministry of the Environment for consistent efforts in creating sustainable living environments, responsible, and professional contributions to implementing legislative initiatives in the field of real estate for advancing progressive business practices.
- A Kantar Emor survey in 2024 found that Merko Eesti was the best known and most trustworthy real estate developer. Merko was also declared the best known and most prestigious real estate developer in each of the five previous years.
- The Estonian Chamber of Commerce and Industry recognized AS Merko Ehitus as the most competitive construction company in Estonia. This year's honour was the 12th in a row for the company.
- A study held by the CVKeskus.ee job site revealed that employees ranked Merko as the construction sector employer they would most want to work for in 2024 in Estonia. We placed 19th in the overall rankings.
- The annual survey conducted by the employer branding agency Instar gauged the attractiveness of 301 Estonian organizations as employers. As ranked by students in technology subjects, Merko came in first for the second year in a row, and for the third time in the history of the survey.
- MTÜ Student Estonia recognized Merko as the "Student Friend of the Year" at the Estonian student awards gala.
- Merko Ehitus Eesti received a letter of recommendation from the Tallinn University of Technology for contributing to the development of Estonian society.

EMPLOYEE RECOGNITIONS

- A technician with Merko Ehitus Eesti, Oskar Aru, received a student prize from the Estonian Concrete Association for a master's degree thesis penned in the field of building design and construction management at Tallinn University of Technology, concerning calculations of post-tensioned concrete and monolithic reinforced concrete load-bearing structures at the Rail Baltica Ülemiste railway terminal.
- Merko Ehitus Eesti project manager Martin Sigus received the silver chest pin awarded by the Estonian Ministry of Defence for his significant contribution to the development of Estonian national defence in work on the barracks at Ämari Air Base.

RECOGNITION OF OBJECTS

- Rae State Gymnasium built by Merko received the title of best wood building of the year for 2024 at the annual competition held by the Estonian Forest and Wood Industries Association.
- At the Estonian Association of Architectural and Consulting Engineering Companies competition, the Vana-Kalamaja Street reconstruction project was awarded the Building Project of the Year title. The work was carried out by Tallinna Teede AS. As a result of the project, a high-quality urban space was created, offering comfort and safety for all – pedestrians, cyclists, and drivers alike. In total, approximately 29,000 m² of public urban space was renewed, and 1.1 km of pedestrian and cycling paths were built. In spite of work taking place in cramped conditions, 37,771 metres of new utility networks were installed underground during the reconstruction.
- The Latvian Prize for Architecture for 2024 went to Merko Latvia for the second and third stage of the Viesturdārzs apartment development project.
- At the competition to select the Best Building in Latvia in 2023, two Merko projects were recognized: in the new residential building category, Viesturdārzs finished third and in the BIM category, Arena Garden Towers received mention.
- The Vilneles Skverai apartment development project was named Lithuania's best BIM project of 2024 at the internationally attended Digital Construction 2024 conference, the largest such event in the country.

PROFIT ALLOCATION PROPOSAL

in euros

Total retained earnings as at 31.12.2024	245,576,532
incl. net profit for 2024	64,667,471

The Management Board proposes profit allocation as follows:

Dividends (EUR 1.90 per share)	33,630,000
Retained earnings after profit allocation	211,946,532

Ivo Volkov Chairman of the Management Board / digitally signed / 31.03.2025

Tõnu Toomik Member of the Management Board / digitally signed / 31.03.2025

Urmas Somelar Member of the Management Board / digitally signed / 31.03.2025

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of euros

	Note	2024	2023
Revenue	3	539,049	466,304
Cost of goods sold	4	(443,162)	(401,267)
Gross profit		95,887	65,037
Marketing expenses	5	(5,030)	(4,312)
General and administrative expenses	6	(21,908)	(19,423)
Other operating income	7	5,724	4,171
Other operating expenses	8	(2,190)	(991)
Operating profit		72,483	44,482
Finance income	9	2,017	297
Finance costs	10	(2,950)	(3,017)
Loss from investments in subsidiaries	19	(5,087)	-
Profit from joint ventures	20	9,951	10,220
Profit before tax		76,414	51,982
Corporate income tax expense	11	(11,820)	(6,081)
Net profit for financial year		64,594	45,901
incl. net profit attributable to equity holders of the parent		64,668	46,048
net profit attributable to non-controlling interest		(74)	(147)
Other comprehensive income (loss), which can subsequently be classified in the income statement			
Currency translation differences of foreign entities		105	(41)
Comprehensive income for the period		64,699	45,860
incl. attributable to equity holders of the parent		64,764	45,993
attributable to non-controlling interest		(65)	(133)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	12	3.65	2.60

The notes set out on pages 15-55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2024	31.12.2023
ASSETS			
Current assets			
Cash and cash equivalents	14	91,879	77,330
Short-term deposits	15	10,000	-
Trade and other receivables	16	51,419	68,754
Prepaid corporate income tax		270	2
Inventories	18	196,521	195,435
		350,089	341,521
Non-current assets			
Investments in joint ventures	20	21,571	21,915
Other shares and securities		80	80
Other long-term loans and receivables	21	40,196	24,490
Deferred income tax assets	22	5,056	3,298
Investment property	23	12,606	16,823
Property, plant and equipment	24	17,147	16,613
Intangible assets	25	350	520
		97,006	83,739
TOTAL ASSETS		447,095	425,260
LIABILITIES			
Current liabilities			
Borrowings	27	21,303	19,673
Payables and prepayments	28	129,786	133,898
Income tax liability	11	7,101	4,260
Short-term provisions	29	7,678	10,451
		165,868	168,282
Non-current liabilities			
Long-term borrowings	27	12,102	35,142
Deferred income tax liability	22	6,148	4,441
Other long-term payables	30	8,719	5,495
		26,969	45,078
TOTAL LIABILITIES		192,837	213,360
EQUITY			
Non-controlling interests	19	-	(155)
Equity attributable to equity holders of the parent			
Share capital	32	7,929	7,929
Statutory reserve capital		793	793
Currency translation differences		(41)	(838)
Retained earnings		245,577	204,171
		254,258	212,055
TOTAL EQUITY		254,258	211,900
TOTAL LIABILITIES AND EQUITY		447,095	425,260

The notes set out on pages 15-55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Equity attributable to equity holders of the parent				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
Balance as at 31.12.2022	7,929	793	(783)	176,248	184,187	(495)	183,692
Profit (loss) for the financial year	-	-	-	46,048	46,048	(147)	45,901
Other comprehensive income (loss)	-	-	(55)	-	(55)	14	(41)
Total comprehensive income (loss) for the financial year	-	-	(55)	46,048	45,993	(133)	45,860
Transactions with owners							
Increase of share capital by non-monetary contribution and buyout of non-controlling interest	-	-	-	(189)	(189)	237	48
Liquidation of non-controlling interest	-	-	-	(236)	(236)	236	-
Dividends (Note 13)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	-	-	-	(18,125)	(18,125)	473	(17,652)
Balance as at 31.12.2023	7,929	793	(838)	204,171	212,055	(155)	211,900
Balance as at 31.12.2023	7,929	793	(838)	204,171	212,055	(155)	211,900
Profit (loss) for the financial year	-	-	-	64,668	64,668	(74)	64,594
Other comprehensive income (loss)	-	-	96	-	96	9	105
Total comprehensive income (loss) for the financial year	-	-	96	64,668	64,764	(65)	64,699
Transactions with owners							
Disposal of subsidiary (Note 19)	-	-	701	-	701	-	701
Buyout of non-controlling interest	-	-	-	(252)	(252)	220	(32)
Dividends (Note 13)	-	-	-	(23,010)	(23,010)	-	(23,010)
Total transactions with owners	-	-	701	(23,262)	(22,561)	220	(22,341)
Balance as at 31.12.2024	7,929	793	(41)	245,577	254,258	-	254,258

For share capital see also Note 31.

The notes set out on pages 15-55 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2024	2023
Cash flows from (used in) operating activities			
Operating profit		72,483	44,482
Adjustments:			
Depreciation and impairment	23-25	3,235	3,658
(Profit)/loss from sale of non-current assets	7	(2,916)	(960)
Change in receivables and liabilities related to construction contracts	3	6,302	35,359
Interest income from operating activities	7	(1,917)	(2,146)
Change in provisions	29	5,636	3,878
Change in trade and other receivables related to operating activities		826	777
Change in inventories	18	(1,860)	25,713
Change in trade and other payables related to operating activities		(14,044)	9,379
Interest received	7, 9, 16, 21	1,900	2,145
Interest paid	10, 28	(2,404)	(3,524)
Other finance income (costs)	10	(180)	(268)
Corporate income tax paid		(9,297)	(3,550)
Total cash flows from (used in) operating activities		57,764	114,943
Cash flows from investing activities			
Disposal of subsidiary	19	(4,303)	-
Acquisition of associate	20	(5)	-
Purchase of other financial investments	15	(10,000)	-
Purchase of investment properties	23	(45)	(357)
Disposal of investment property	23	6,499	-
Purchase of property, plant and equipment (excl. leased assets)	24, 27	(1,736)	(1,204)
Proceeds from sale of property, plant and equipment	7, 24	612	1,232
Purchase of intangible assets	25	(140)	(194)
Interest received	9	2,017	297
Dividends received	20	10,300	1,200
Total cash flows from investing activities		3,199	974
Cash flows from (used in) financing activities			
Proceeds from borrowings	27	18,701	48,160
Repayments of borrowings	27	(40,546)	(85,364)
Repayments of lease liabilities	27	(1,551)	(1,312)
Buyout of non-controlling interest	19	(33)	-
Dividends paid	13	(22,940)	(17,679)
Total cash flows from (used in) financing activities		(46,369)	(56,195)
Net increase/decrease in cash and cash equivalents		14,594	59,722
Cash and cash equivalents at the beginning of the period	14	77,330	17,665
Effect of exchange rate changes		(45)	(57)
Cash and cash equivalents at the end of the period	14	91,879	77,330

The notes set out on pages 15-55 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1. GENERAL INFORMATION

The consolidated financial statements of AS Merko Ehitus (hereinafter the parent) and its subsidiaries (hereinafter collectively the group) for the financial year ended 31 December 2024 were signed by the Management Board on 31 March 2025.

Pursuant to the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board and which also includes the consolidated financial statements shall be approved at the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and presented by the Management Board and require preparation of a new annual report.

AS Merko Ehitus is a corporation registered in the Republic of Estonia (Commercial Register No.: 11520257, address: Järvevana tee 9G, Tallinn) and it operates mainly in Estonia, Latvia and Lithuania. Its main activities are construction and real estate development.

From 22 July 1997, the shares of AS Merko Ehitus are listed on Nasdaq Tallinn Stock Exchange, while the shares listed as of the reporting date have been listed since 11 August 2008 – AS Järvevana (business register code 10068022, previously named AS Merko Ehitus, currently named OÜ Järvevana), the shares of which were listed, was divided on 1 August 2008, during which AS Merko Ehitus (business register code 11520257) was established and the assets and the enterprise of AS Järvevana, with certain exceptions, were transferred to the established company. As at 31 December 2024, the majority shareholder AS Riverito owned 71.99% of the Company's shares through which the ultimate controlling person is Toomas Annus.

Since 1 January 2012, AS Merko Ehitus operates as a holding entity with no independent production activities, and which owns 100% ownership interests in construction entities in Estonia, Latvia and Lithuania.

1.2. BASES FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Merko Ehitus group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention.

Several financial figures are based on management's estimates, including, for example, assessment of profitability of construction contracts, assessment of the useful lives of items of property, plant and equipment, estimation of allowances for receivables and inventories, recognition of provisions for warranty obligations. Management's estimates have been made to the best of its knowledge, but they may turn out to be inaccurate. The effect of changes in accounting estimates is reported in the financial statements of the period in which the change occurred.

Items included in the financial statements of Merko Ehitus group entities are measured using the currency of their primary economic environment (the functional currency): the euro and the Norwegian krone. The consolidated financial statements are presented in euros. The primary financial statements and notes are presented in thousands of euros, unless otherwise specified.

1.3. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS, AMENDMENTS TO PUBLISHED STANDARDS AND INTERPRETATIONS OF THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC)

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new or revised standards or interpretations became effective for the group from 1 January 2024:

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024).

The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate. The group assesses that there is no material impact of application of the amendments to its financial statements.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2024; not yet adopted by the EU).

These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022

amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The group assesses that there is no material impact of application of the amendments to its financial statements.

There are no other new revised standards or interpretations that are effective for annual periods beginning on or after 1 January 2024 that would be expected to have a material impact to the group.

NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND CHANGES

Certain new or revised standards and interpretations have been issued that are mandatory for the group's annual periods beginning on or after 1 January 2026, and which the group has not early adopted:

Annual Improvements to IFRS Accounting Standards (effective for annual periods beginning on or after 1 January 2026; not yet adopted by the EU).

IFRS 1 was clarified that a hedge should be discontinued upon transition to IFRS Accounting Standards if it does not meet the 'qualifying criteria', rather than 'conditions' for hedge accounting, in order to resolve a potential confusion arising from an inconsistency between the wording in IFRS 1 and the requirements for hedge accounting in IFRS 9. IFRS 7 requires disclosures about a gain or loss on derecognition relating to financial assets in which the entity has a continuing involvement, including whether fair value measurements included 'significant unobservable inputs. This new phrase replaced reference to 'significant inputs that were not based on observable market data'. The amendment makes the wording consistent with IFRS 13. In addition, certain IFRS 7 implementation guidance examples were clarified and text added that the examples do not necessarily illustrate all the requirements in the referenced paragraphs of IFRS 7. IFRS 16 was amended to clarify that when a lessee has determined that a lease liability has been extinguished in accordance with IFRS 9, the lessee is required to apply IFRS 9 guidance to recognise any resulting gain or loss in profit or loss. This clarification applies to lease liabilities that are extinguished on or after the beginning of the annual reporting period in which the entity first applies that amendment. In order to resolve an inconsistency between IFRS 9 and IFRS 15, trade receivables are now required to be initially recognised at 'the amount determined by applying IFRS 15' instead of at 'their transaction price (as defined in IFRS 15)'. IFRS 10 was amended to use less conclusive language when an entity is a 'de-facto agent' and to clarify that the relationship described in paragraph B74 of IFRS 10 is just one example of a circumstance in which judgement is required to determine whether a party is acting as a de-facto agent. IAS 7 was corrected to delete references to 'cost method' that was removed from IFRS Accounting Standards in May 2008 when the IASB issued amendment 'Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'. The group assesses that there is no material impact of application of the amendments to its financial statements.

IFRS 18 Presentation and Disclosure in Financial Statements (effective for annual periods beginning on or after 1 January 2027; not yet adopted by the EU).

In April 2024, the IASB has issued IFRS 18, the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to:

- the structure of the statement of profit or loss;
- required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

IFRS 18 will replace IAS 1; many of the other existing principles in IAS 1 are retained, with limited changes. IFRS 18 will not impact the recognition or measurement of items in the financial statements, but it might change what an entity reports as its 'operating profit or loss'. IFRS 18 will apply for reporting periods beginning on or after 1 January 2027 and also applies to comparative information. The group's management is engaged in impact assessment of application of the amendments to its financial statements.

IFRS 19 Subsidiaries without Public Accountability: Disclosures (effective for annual periods beginning on or after 1 January 2027; not yet adopted by the EU).

The International Accounting Standard Board (IASB) has issued a new IFRS Accounting Standard for subsidiaries. IFRS 19 permits eligible subsidiaries to use IFRS Accounting Standards with reduced disclosures. Applying IFRS 19 will reduce the costs of preparing subsidiaries' financial statements while maintaining the usefulness of the information for users of their financial statements. Subsidiaries using IFRS Accounting Standards for their own financial statements provide disclosures that maybe disproportionate to the information needs of their users. IFRS 19 will resolve these challenges by:

- enabling subsidiaries to keep only one set of accounting records – to meet the needs of both their parent company and the users of their financial statements;

- reducing disclosure requirements – IFRS 19 permits reduced disclosure better suited to the needs of the users of their financial statements.

The group's management is engaged in impact assessment of application of the amendments to its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU).

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. In 2015, the IASB decided to postpone the effective date of these amendments indefinitely. The group assesses that there is no material impact of application of the amendments to its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the group.

1.4. CONSOLIDATION

Subsidiaries include all entities under the control of the group.

Subsidiaries are consolidated in the financial statements from the date of acquiring control until the date at which control ceases. The financial figures of the parent company and the subsidiaries have been consolidated on a line-by-line basis in the consolidated annual financial statements. Upon consolidation, intra-group transactions, balances and unrealised profits arising from intra-group transactions have been eliminated. Unrealised losses have also been eliminated, unless a loss is caused by impairment.

Investments are recognised in the non-consolidated statements of the parent company and are recorded at acquisition cost, from which possible accumulated discounts resulting from the decline in asset value have been deducted.

1.5. BUSINESS COMBINATIONS

The group uses the acquisition method of accounting to account for business combinations.

TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

1.6. JOINT VENTURES

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to common control. 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 income statement of the group includes the group's share in the profits or losses of the entity under common control. Unrealised gains and losses from transactions between the group and its joint ventures are eliminated.

1.7. JOINTLY CONTROLLED OPERATIONS

Jointly controlled operations are joint operations with third parties, whereby the assets and other resources of venturers are used without the establishment of a new entity or another unit or creation of a separate financial structure. If all following terms are met, then it is a joint arrangement/ jointly controlled operations:

- Consensual decisions on important activities;
- The contract contains arbitration rules in case the parties cannot reach an agreement on important activities;
- Parties of the joint arrangement share the profit/loss;
- Subcontractor agreements are signed and the responsibility over the work of the subcontractors is shared by both parties or one party represents both;
- Both parties pay the subcontractors;
- Both parties grant the guarantee/warranty for the duty of performance;
- Both parties perform the warranty repairs;
- Customer pays for the service to a separate bank account, proceeds (income) are shared between parties according to the agreement.

Each venturer uses its own property, plant and equipment and carries its own inventories in the statement of financial position. The venturer also incurs its own expenses and liabilities and raises its own funds which represent its own obligations. In respect of its interest in jointly controlled operations, a venturer recognises in its financial statements:

- the assets that it controls and the liabilities that it incurs;

- the expenses that it incurs and its share of revenue that it earns from the sale of goods or services of the jointly controlled operation.

1.8. FOREIGN CURRENCY

Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank prevailing at the dates of the transactions. Monetary financial assets and liabilities denominated in foreign currencies at the statement date are translated into euros based on the foreign currency exchange rates of the European Central Bank prevailing at the balance sheet date. Exchange rate differences from translation are reported in the income statement of the reporting period.

1.9. FINANCIAL ASSETS

The group classifies its financial assets in those to be measured at amortised cost measurement category. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

1.10. IMPAIRMENT OF ASSETS

FINANCIAL ASSETS AT AMORTISED COST

The group assesses at each balance sheet date whether there is any indication that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or a group of financial assets is impaired includes observable data that is available to the group regarding the following events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- the future outlook of the debtor's business, including the future outlook for the particular economic sector and as well the general economic developments;
- probability that the debtor will enter bankruptcy;
- disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a financial asset or a group of financial assets, although the decrease cannot yet be measured reliably.

NON-FINANCIAL ASSETS

Signs, which could give evidence to decrease in the value of assets are assessed critically on each reporting date. Losses deriving from the decrease of value of assets is recognised in the expenses of that reporting period.

The recoverable value of group's non-current assets is the higher of the following two figures: the fair value (minus sales costs) of the asset or its value in use.

1.11. INVENTORIES

Inventories are initially recorded in the statement of financial position at cost, which consists of the purchase costs, production costs, transportation and other costs incurred in bringing the inventories to their present location and condition.

In case of separately identifiable inventory items, their cost is determined based on expenditure incurred specifically for the acquisition of each asset. If inventory items are not clearly distinguishable from each other, then the weighted average cost method is used.

Inventories are measured in the statement of financial position at the lower of acquisition cost and net realisable value. The net realisable value is the sales price less estimated costs to sell.

Expenditure incurred for real estate development is reported either as work-in-progress or finished goods, depending on the stage of completion in the line Inventories in the statement of financial position. When the development of property is financed with a loan, the borrowing costs incurred during development are included in the cost of the property. Borrowing costs incurred during the period of construction are capitalised until the property is commercially disposable, which cannot be later than when a permit for use is obtained for the property. Interest expenses associated with maintenance or usage of the property are not capitalised.

1.12. INVESTMENT PROPERTY

Investment property is real estate property, which is primarily held for the purpose of earning rental income or for capital appreciation or for both, but not for the production of goods or services, administrative purposes or sale in the ordinary course of business. Investment property is measured using the cost method, i.e. at cost less any accumulated depreciation and any accumulated impairment losses.

Buildings included in investment properties are depreciated on a straight-line basis over the period of 12.5 to 33.3 years. Land is not depreciated.

1.13. PROPERTY, PLANT AND EQUIPMENT

An item of property, plant and equipment is an asset used for production, provision of services or administrative purposes over a period longer than one year.

An item of property, plant and equipment is carried in the statement of financial position at its cost less any accumulated depreciation. Items of property, plant and equipment leased under the lease terms are accounted for similarly to purchased property, plant and equipment. Depreciation is calculated on a straight-line basis over the following useful lives:

- buildings 10-33.3 years;
- machinery and equipment 2-20 years;
- other items of property, plant and equipment 2.5-5 years;
- right of superficies 50 years.

Land is not depreciated.

At each balance sheet date, the validity of applied depreciation rates, the depreciation method and the residual values applicable to assets are assessed.

1.14. INTANGIBLE ASSETS

Intangible assets are carried in the statement of financial position at cost less any accumulated amortisation and any accumulated impairment losses. Goodwill is not amortised.

SOFTWARE AND INFORMATION SYSTEMS

The costs related to the development of information systems and software which are reported as intangible assets, are depreciated under a straight-line method over their estimated useful lives (2-10 years).

1.15. LEASED ASSETS

THE GROUP AS A LESSEE

Lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to use an asset exists if the lessor is unable to substitute an asset, the lessee has the ability to determine how to use the underlying asset and the lessee is entitled to the majority of future economic benefits generated from that right of use.

Only the assets that have a lease term shorter than 12 months can be excluded from the balance sheet and recognised as an operating lease. Such payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Leased assets (the "right-of-use assets") are generally measured at the cost minus depreciation method.

Lease liability is remeasured on the balance sheet when there is a change in the estimation of lease payments. The lessee recognises the amount of revaluation of lease liability as an adjustment of the underlying right-of-use asset. If the residual value of the underlying asset is approaching zero and additional decrease is revaluation the lease liability is recognised, the remaining amount is recognised in the income statement.

THE GROUP AS THE LESSOR

Assets leased out under operating lease terms are recognised in the balance sheet analogously to property, plant and equipment. They are depreciated over their expected useful lives on a basis consistent with similar assets. Operating lease payments are recognised as income on a straight-line basis over the lease term.

1.16. FINANCIAL LIABILITIES

All financial liabilities of the group belong to the category, which are reflected at "amortised cost".

All financial liabilities (trade payables, borrowings, and other short and long-term borrowings) are initially recognised at their fair value and are subsequently carried at amortised cost, using the effective interest rate method. The amortised cost of current financial liabilities normally equals their nominal value, therefore current financial liabilities are stated in the statement of financial position at their redemption value. To calculate the amortised cost of non-current financial liabilities, they are initially recognised at fair value of the proceeds received (net of transaction costs incurred) and an interest cost is calculated on the liability in subsequent periods using the effective interest rate method.

1.17. INCOME TAX AND DEFERRED INCOME TAX

According to the Income Tax Act of the Republic of Estonia, legal entities are not subject to income tax on profits earned. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, payments not related to business operations and adjustments of the transfer price. From 1 January 2015, the tax rate on dividends payable is 20/80 of the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account. From 01.01.2025, the tax rate is 22/78 on net dividends paid out. Under certain conditions, it is possible to redistribute received dividends without additional income tax expense. The condition for tax exemption is that the company that received the dividend and paid it forward had a stake of at least 10% in the respective company when the dividends were received. The lower tax rate of 14% or 14/86 of the net amount of dividends that previously applied to regular dividends is no longer

applicable from 1 January 2025. It is possible to apply a transitional provision for redistribution of dividends taxed at a lower tax rate received before this date.

Corporate income tax paid on dividends is recognized in the statement of comprehensive income as an income tax expense and in the statement of financial position as a deferred income tax liability to the extent of the planned dividend payment. An income tax liability is due on the 10th day of the month following the payment of dividends. Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future. The group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future. The maximum income tax liability which would accompany the distribution of Company's retained earnings is disclosed in Note 11 to the consolidated financial statements.

From January 1, 2026, a security tax of 2% will be applied to the company's annual profit before income tax. In the case of a consolidated annual report, the profit of the parent company's unconsolidated profit and loss statement is used as a basis.

Corporate income tax on profits and deferred income tax expense or income of the subsidiaries located in Lithuania as well as corporate income tax on dividends and deferred income tax cost on dividends of Estonian entities are reported in the consolidated income statement.

Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets are recognised in the group's statement of financial position if their future realisation is probable.

Legal entities in Latvia, Lithuania and Norway that are part of the group calculate taxable income and corporate income tax in accordance with the legislation of the Republic of Latvia, the Republic of Lithuania and the Kingdom of Norway. The profits in the Republic of Latvia are taxed upon their distribution with a rate of 20/80 (2023: the profits are taxed upon their distribution with a rate of 20/80). The profits of entities located in the Republic of Lithuania are taxed at the rate of 15% (2023: 15%). From 1 January 2025, will be applied the rate of 16%. The profits of entities located in the Kingdom of Norway are taxed at the rate of 22% (2023: 22%).

1.18. PROVISIONS

Provisions are constructive or legal obligations, which arise as a result of events occurring before the balance sheet date. Setting up of provisions or increasing existing provisions is recognised as an expense in the income statement of the reporting period.

Pursuant to respective building acts, the construction companies of the group provide 2-year warranties on their buildings. The calculation of warranty provisions is based on management estimates and previous periods' experience with regard to actual warranty expenses.

The expected loss arising from construction contracts must be immediately recognised as an expense. A provision is recognised for onerous construction contracts, which have not yet been completed.

A provision for expenses yet to be incurred and invoices not yet received is formed for sold apartment projects, which is recognised in the income statement as an expense and in the balance sheet as a liability.

1.19. REVENUE

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is income arising in the course of the group's ordinary activities. Revenue is recognized in the amount of transaction price. Transaction price is the amount of consideration to which the group expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The group recognises revenue when it transfers control of a good or service to a customer.

REVENUE FROM CONTRACTS WITH CUSTOMERS – CONSTRUCTION SERVICES

The group provides construction services under fixed price contracts. Revenue from contracts is recognised in the same period as the services are provided and accepted by the customer. For fixed-price contracts, revenue is recognised based on the actual service provided until the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. The proportion of services actually provided is recognised based on the ratio of contract's actual costs and contract's estimated total costs, i.e. based on the stage of completion of the project.

If the customer has ordered construction services together with the installation of specific equipment and this is delivered directly from the factory to the customer's project site, the revenue from the sale of the equipment is recognised during the reporting period as part of the construction contract as a joint performance obligation. The customer does not benefit separately from the construction service and the equipment and is interested in purchasing only the full solution.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the group exceed the payment, a contract asset is recognised (in the annual report as „accrued income from construction services“). If

the payments exceed the services rendered, a contract liability is recognised (in the annual report as „prepayments for construction services“).

The contract asset and contract liability arising from the same contract are presented net in the financial statements. If the contract includes variable consideration, revenue is recognised only to the extent that it is highly probable that there will be no significant reversal of such consideration.

The group provides construction services through a PPP (public private partnership) project, which are accounted for in accordance with the principles of the concession agreement (IFRIC 12). Revenue from providing construction services is recognized in the period in which the services are rendered and accepted by the customer. As the construction period and operating of the contractual assets last for a total of more than 10 years, the receivable from the customer is recognized as a long-term receivable, from which interest income is calculated. The receivable for interest income is also recognized as a long-term receivable, as the customer pays for the construction and operating of the contractual asset only during the course of the operating period (Note 21).

CONSTRUCTION OF RESIDENTIAL PROPERTIES

The group develops and sells residential properties. Revenue is recognised when control over the property has been transferred to the customer. The properties have generally no alternative use for the group due to contractual restrictions. However, an enforceable right to payment does not arise until legal title has passed to the customer. Therefore, revenue is recognised at a point in time when the legal title has passed to the customer.

FINANCING COMPONENT

The group only very rarely has contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. The impact of time value of money for the group is immaterial.

Income arising from interest and dividends is recognised when it is probable that future economic benefits associated with the transaction will flow to the entity and the amount of revenue can be measured reliably.

1.20. SEGMENT REPORTING

Operating segments are components of the entity for which it is possible to obtain discrete financial information to make decisions about resources to be allocated to the segment and assess its performance.

NOTE 2 MANAGEMENT ESTIMATES

The preparation of the financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. However, it can be stated that seasonality and cyclicity do not have a significant effect on the group's activities within a year. The areas involving a higher degree of judgement or complexity where assumptions and estimates have an impact on the consolidated financial statements of Merko Ehitus group, are disclosed below. The effect of changes in management's estimates are reported in the income statement of the period of the change.

REVENUE FROM CONSTRUCTION SERVICES

Revenue from contracts with customers related to providing construction services is recognised based on the ratio of contract's actual incurred costs and the contract's estimated costs, which also assumes that the stage of completion of the construction contracts can be reliably assessed as of the reporting period. A precise, systematic calculation and estimation of costs, forecasting and reporting of income and expenses has been introduced for determining the stage of completion. The estimated final result to be derived from each construction project is being constantly monitored, deviations from the budget are analysed and if necessary, the profit estimate is adjusted. As at 31 December 2024, the amount of the provision for onerous contracts was EUR 7 thousand (2023: EUR 8 thousand), which was determined after the evaluation of the stage of completion of construction contracts. The risk analysis showed that a change in the estimated costs of construction projects in the range of +/-5% would result in a change in the net profit between EUR – 21,345/+19,511 thousand (2023: EUR – 10,446/+7,774 thousand).

INVENTORY WRITE-DOWN

Inventories are valued separately by individual properties (registered immovable or building). A business plan is prepared for each property based on its nature (intended use and building rights currently effective or being effected) and the project's costs are compared with expected income. If the property's costs exceed the expected revenue to be generated from the realisation of the project (net realisable value), the group shall write down assets in the amount by which the costs exceed income. Due to the volatility of the construction market and low liquidity of the real estate market, determination of the net realisable value of the assets depends largely on management estimates. The sensitivity analysis of inventories showed that had the net realisable value been overestimated by 10% (i.e. income would be 10% lower upon the disposal of assets), the group's write-down of inventories (work-in-progress, finished goods, acquisition of real estate properties for sale/development) would have been EUR 88 thousand higher in 2024 (2023: EUR 35 thousand higher), incl. real estate properties for sale/development in the amount of EUR 88 thousand (2023: EUR 29 thousand) and work-in-progress in the amount of EUR 0 thousand (2023: EUR 6 thousand). In 2024, no impairment losses were recognized for inventories of work-in-progress, finished goods and acquisition of real estate properties for sale/development,

therefore no impairment test has been performed. In 2023, if the value had been underestimated by 10% (income would be 10% higher upon the disposal of assets), the write-down of inventories for the properties purchased would have been EUR 1,718 thousand lower. Additional information in Note 18.

VALUATION OF RECEIVABLES

For valuation of receivables, each receivable is analysed separately. For determining the need for a complete or partial write-down of receivables, the debtor's financial position, the collateral provided, the solutions offered to pay off the debt and the previous payment behaviour of the debtor are considered taking also into account the future outlook of the debtor, including its business logic and how that corresponds to the general economic developments as well as to the developments of particular economic sector (Note 16).

PROVISION FOR WARRANTY OBLIGATIONS

For determining the provision for warranty obligations, the historical cost of the group's warranty works is considered (Note 29).

VALUATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

An impairment test is carried out for property, plant and equipment and intangible assets when an event or change in circumstances indicates that impairment may have occurred. Based on management estimates, as at 31 December 2024 and 2023, no impairment tests were performed, as there were no indications of impairment of assets. As at 31 December 2024, the carrying amount of property, plant and equipment was EUR 17,147 thousand (31.12.2023: EUR 16,613 thousand) and the carrying amount of intangible assets was EUR 350 thousand (31.12.2023: EUR 520 thousand) (Notes 24, 25).

VALUATION OF INVESTMENT PROPERTY

Investment properties are recognised at cost, less any accumulated depreciation and any impairment losses. Management estimates that the carrying amount of investment properties as at 31 December 2024 does not significantly differ from their fair value, with the exception of book value of land in the amount of EUR 6,058 thousand, the fair value of which by expert opinion was EUR 16,340 thousand (31 December 2023: the carrying amount of investment properties did not significantly differ from their fair value, with the exception of book value of land in the amount of EUR 10,121 thousand, the fair value of which by expert opinion was EUR 25,370 thousand). Management's estimate regarding the fair value of investment properties is based on the existing market value of the assets. The estimated amount for which the asset can be exchanged in a transaction between independent parties at the date of estimation is considered its market value. External experts were not involved in the estimation of the fair value of investment properties, with the exception of land reclassified from inventories. Market value estimates are mostly based on market transactions, with the exception of real estate that is estimated using discounted cash flow method. As at 31 December 2024, the carrying amount of investment property was EUR 12,606 thousand (31.12.2023: EUR 16,823 thousand) (Note 23).

NOTE 3 OPERATING SEGMENTS

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

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

- construction service,
- real estate development.

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

The amount of each cost item disclosed in segment reporting is a figure presented to the group's management for decision-making purposes regarding allocation of resources to segments and assessing the performance of the segment. Unallocated expenses and income after the profit of reporting segments are accounted in segment reporting using the same principles as in the financial statements and are not used for evaluation of the results of operating segments by the group's management.

AS Merko Ehitus management board monitors the revenue and the operating profit (loss) as the main financial indicators in the segment reporting. The business result is assessed based on external revenue, operating profit and profit before tax of the business segment. The operating profit and profit before tax of the segment is composed of the income and expenditure 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.

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

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

in thousands of euros

2024	Construction service	Real estate development	Total segments
Revenue	476,546	86,367	562,913
Inter-segment revenue	(1,989)	(21,875)	(23,864)
Revenue from clients	474,557	64,492	539,049
incl. clients whose revenue is at least 10% of the group's consolidated revenue:			
client A (Estonian state)	76,336	-	76,336
client B	88,894	-	88,894
client C	60,067	-	60,067
Timing of revenue recognition at a point in time	1,550	59,569	61,119
Timing of revenue recognition over time	473,007	4,923	477,930
Operating profit (-loss)	59,420	16,450	75,870
Segment pre-tax profit (loss)	64,442	15,609	80,051
incl. interest income from operating activities (Note 7)	65	1,842	1,907
depreciation (Notes 4, 5, 6)	(2,652)	(583)	(3,235)
recognition of provisions (Notes 4, 6, 8, 29)	(5,807)	(853)	(6,660)
reversal of provisions (Notes 4, 6, 29)	1,408	-	1,408
loss from investments in subsidiaries (Note 19)	(5,087)	-	(5,087)
profit from joint ventures (Note 20)	9,396	555	9,951
other finance income (costs) (Notes 9, 10)	620	(1,374)	(754)
incl. interest income	1,561	67	1,628
interest expenses	(122)	(1,268)	(1,390)
Segment assets 31.12.2024	103,410	239,737	343,147
incl. joint ventures (Note 20)	13,339	8,232	21,571
2023	Construction service	Real estate development	Total segments
Revenue	299,338	208,332	507,670
Inter-segment revenue	(1,168)	(40,198)	(41,366)
Revenue from clients	298,170	168,134	466,304
incl. clients whose revenue is at least 10% of the group's consolidated revenue:			
client A (Estonian state)	77,025	-	77,025
client B	46,730	-	46,730
Timing of revenue recognition at a point in time	2,418	141,098	143,516
Timing of revenue recognition over time	295,752	27,036	322,788
Operating profit (-loss)	20,504	26,731	47,235
Segment pre-tax profit (loss)	26,200	29,344	55,544
incl. interest income from operating activities (Note 7)	-	2,146	2,146
depreciation (Notes 4, 5, 6)	(2,805)	(853)	(3,658)
impairment of inventories (Notes 4, 18)	-	(2,200)	(2,200)
recognition of provisions (Notes 4, 6, 29)	(5,659)	(1,128)	(6,787)
reversal of provisions (Note 4, 6, 29)	144	156	300
profit from joint ventures (Note 20)	5,771	4,449	10,220
other finance income (costs) (Notes 9, 10)	113	(1,743)	(1,630)
incl. interest income	259	-	259
interest expenses	(101)	(1,531)	(1,632)
Segment assets 31.12.2023	96,111	249,513	345,624
incl. associates and joint ventures (Note 20)	14,238	7,677	21,915

In addition to the segment assets, as at 31 December 2024 the group holds assets in the amount of EUR 103,948 thousand (31 December 2023: EUR 79,636 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 thousands of euros

	2024	2023
Pre-tax profit from reporting segments	80,051	55,544
Other operating profit (loss)	(3,388)	(2,752)
incl. recognition of provisions (Notes 6, 8, 29)	(185)	(238)
reversal of provisions	-	900
finance income (costs)	(249)	(810)
incl. interest expenses	(176)	(735)
Total profit before tax	76,414	51,982

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

Other finance income and costs, not associated with any segment, includes financial income from bank deposits, profit (loss) from exchange rate changes, non-capitalized loan interest costs and other finance income and costs.

As the basis for the figure, that is allocated to segments based on revenue proportion, is the sum of group's unallocated costs, the interest income (expenses) in the sum of EUR 132 thousand (31 December 2023: EUR -292 thousand) has not been presented separately in the respective cost item.

REVENUE BY CLIENT LOCATION

in thousands of euros and percentage

	2024		2023	
Estonia	224,655	42%	283,147	61%
Latvia	30,536	6%	61,843	13%
Lithuania	283,613	52%	115,232	25%
Norway	245	0%	6,082	1%
Total	539,049	100%	466,304	100%

CONTRACT ASSETS AND LIABILITIES

in thousands of euros

	31.12.2024	31.12.2023
Accrued income from construction services (Note 16)	8,965	8,305
Prepayments for construction services (Note 28)	(41,612)	(34,584)
Advance payments received for construction contract works (Note 28, 30)	(7,969)	(33,727)
Recognised provision for onerous construction contracts (Note 29)	(7)	(8)

During the accounting year advance payments received prior for construction contract works in a sum of EUR 31,360 thousand (2023: EUR 5,184 thousand) were recognised as revenue. As of 31 December 2024, the group's secured order book stood at EUR 340,589 thousand (2023: EUR 477,481 thousand), for which the revenue is recognised in future periods. According to management estimation, 60% of revenue is going to be recognised in 2025 and 40% in 2026.

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

in thousands of euros

	31.12.2024	31.12.2023
Estonia	42,556	42,317
Latvia	6,480	10,837
Lithuania	2,718	2,762
Norway	-	35
Total	51,754	55,951

NOTE 4 COST OF GOODS SOLD

in thousands of euros

	2024	2023
Construction services and properties purchased for resale	332,065	279,421
Materials	41,566	47,970
Staff costs	32,888	32,999
Construction mechanisms and transport	7,719	8,881
Design	7,641	7,703
Real estate management costs	1,444	1,105
Depreciation (Note 3)	2,182	2,599
Impairment of inventories (Notes 3, 18, 35)	-	2,200
Provisions (Notes 3, 29)	3,866	5,296
Other expenses	13,791	13,093
Total cost of goods sold	443,162	401,267

NOTE 5 MARKETING EXPENSES

in thousands of euros

	2024	2023
Staff costs	3,224	2,747
Advertising, sponsorship	1,195	1,022
Transport	149	133
Depreciation (Note 3)	163	137
Other expenses	299	273
Total marketing expenses	5,030	4,312

NOTE 6 GENERAL AND ADMINISTRATIVE EXPENSES

in thousands of euros

	2024	2023
Staff costs	16,667	14,485
Office expenses, communication services	595	569
Consulting, legal, auditing*	609	1,001
Transport	294	344
Computer equipment and software	713	572
Depreciation (Note 3)	890	922
Provisions (Notes 3, 29)	182	(71)
Other expenses	1,958	1,601
Total general and administrative expenses	21,908	19,423

* Customer contract fees of the audit firms accounted for during the accounting year were EUR 303 thousand for audit fees (2023: EUR 221 thousand) and EUR 111 thousand for other business activities (2023: EUR 12 thousand).

NOTE 7 OTHER OPERATING INCOME

in thousands of euros

	2024	2023
Interest income from operating activities	1,917	2,146
Profit from sale of non-current assets	2,916	960
Fines and penalties for delay received	89	175
Collection of doubtful receivables (Notes 15, 35)	17	724
Other income	785	166
Total other operating income	5,724	4,171

NOTE 8 OTHER OPERATING EXPENSES

in thousands of euros

	2024	2023
Fines, penalties	4	10
Foreign exchange losses	2	17
Gifts, donations	158	253
Doubtful receivables expense (Notes 16, 35)	575	89
Provisions (Notes 3, 29)	1,389	600
Other expenses	62	22
Total other operating expenses	2,190	991

NOTE 9 FINANCE INCOME

in thousands of euros

	2024	2023
Interest income (Note 3)	2,017	297
Total finance income	2,017	297

NOTE 10 FINANCE COSTS

in thousands of euros

	2024	2023
Interest expense (Notes 3, 27)	1,823	2,697
Foreign exchange losses	948	153
Other finance costs	179	167
Total finance costs	2,950	3,017

NOTE 11 CORPORATE INCOME TAX

in thousands of euros

The income tax on the group's profit before tax differs from the theoretical amount that would arise using the statutory tax rates applicable to profits of the consolidated entities for the following reasons:

2024	Latvia	Lithuania	Norway	Estonia	Total
Profit (loss) before tax	(5,656)	56,399	(1,818)	27,489	76,414
Tax rate applicable to profits	0%	15%	22%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	0	(8,460)	0	0	(8,460)
Tax calculated on expenses not deductible for tax purposes	(34)	(31)	-	-	(65)
Tax effect of income not subject to tax	-	(14)	-	-	(14)
Tax losses of previous periods recognised in the reporting period	-	10	-	-	10
Tax losses not recognised in the reporting period	-	(6)	-	-	(6)
Income tax withheld on dividends (Note 13)	-	-	-	(1,538)	(1,538)
Deferred income tax on dividends	-	-	-	(1,747)	(1,747)
Total income tax expense	(34)	(8,501)	-	(3,285)	(11,820)
incl. income tax expense	(34)	(10,299)	-	(1,538)	(11,871)
deferred income tax expense (Note 22)	-	1,798	-	(1,747)	51

2023	Latvia	Lithuania	Norway	Estonia	Total
Profit (loss) before tax	3,515	21,651	(1,819)	28,635	51,982
Tax rate applicable to profits	0%	15%	22%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	0	(3,248)	0	0	(3,248)
Tax calculated on expenses not deductible for tax purposes	(5)	(2)	-	-	(7)
Tax effect of income not subject to tax	-	3	-	-	3
Tax losses of previous periods recognised in the reporting period	-	122	42	-	164
Tax losses not recognised in the reporting period	-	(149)	-	-	(149)
Income tax withheld on dividends (Note 13)	-	-	-	(691)	(691)
Deferred income tax on dividends	-	-	-	(2,153)	(2,153)
Total income tax expense	(5)	(3,274)	42	(2,844)	(6,081)
incl. income tax expense	(5)	(5,899)	-	(691)	(6,595)
deferred income tax expense (Note 22)	-	2,625	42	(2,153)	514

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 (Note 1.17).

As of 31.12.2024 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 4,642 thousand euros (31.12.2023: EUR 2,894 thousand euros) and deferred income tax expense of the subsidiaries located in Lithuania in the amount of 1,506 thousand euros (31.12.2023: EUR 1,547 thousand euros) (Note 22).

As of 31.12.2024 the balance of income tax liability includes the corporate income tax on profits of the subsidiaries located in Lithuania in the amount of 7,086 thousand euros (31.12.2023: EUR 4,258 thousand euros).

As of 31.12.2024, the parent company AS Merko Ehitus has EUR 9,296 thousand (31.12.2023: EUR 1,513 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As of 31 December 2024, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 193,562 thousand (31.12.2023: EUR 162,969 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 2,621 thousand (31.12.2023: EUR 378), the corresponding income tax on dividends would amount to EUR 51,974 thousand (31.12.2023: EUR 40,364 thousand). The calculation of additional income tax on dividends is based on the income tax rate of 22% (22/78 of net dividends), effective from 01.01.2025. The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 12 EARNINGS 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.

	2024	2023
Net profit attributable to shareholders (in thousand EUR)	64,668	46,048
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700
Basic earnings per share (in euros)	3.65	2.60

In 2024 and 2023, the group did not have any potential ordinary shares to be issued; therefore, the diluted earnings per share equal the basic earnings per share.

NOTE 13 DIVIDENDS PER SHARE

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.

On 8 May 2024, the shareholders of AS Merko Ehitus approved the Supervisory Board's proposal to the shareholders to pay out the total amount of EUR 23,010 thousand as dividends from net profit, i.e. EUR 1.30 per share, which is equivalent to a 50% dividend rate and a 8.5% dividend yield for the year 2023 (using the share price as of 31 December 2023). Comparable figures in 2023 were accordingly: EUR 17,700 thousand (EUR 1.00 per share) as dividends, which is equivalent to a 51% dividend rate and a 7.1% dividend yield for the year 2022 (using the share price as at 31 December 2022).

The group incurred income tax expenses in 2024 in connection with dividend payments in an amount of 1,538 thousand euros (2023: EUR 691 thousand) (Note 11). The group withheld an additional 7% income tax, in the amount of 70 thousand euros (2023: EUR 21 thousand), on the part of the dividends paid to private shareholders taxable at 14/86 income tax rate.

In cooperation with the Supervisory Board, the Management Board proposes to pay the shareholders EUR 33,630 thousand as dividends from net profits brought forward (EUR 1.90 per share) in 2025, which is equivalent to a 52% dividend rate and a 9.1% dividend yield for the year 2024 (using the share price as at 31 December 2024).

NOTE 14 CASH AND CASH EQUIVALENTS

in thousands of euros

	31.12.2024	31.12.2023
Bank accounts	90,375	61,545
Overnight deposits	1,504	785
Term deposits with maturities of 3 months or less	-	15,000
Total cash and cash equivalents (Note 35)	91,879	77,330

NOTE 15 SHORT-TERM DEPOSITS

in thousands of euros

	31.12.2024	31.12.2023
Bank deposits with maturities greater than 3 months (Note 35)	10,000	-

The weighted average interest on bank deposits with maturities greater than 3 months was 3.5% and the average maturity as at 31.12.2024 was 208 days.

NOTE 16 TRADE AND OTHER RECEIVABLES

in thousands of euros

	31.12.2024	31.12.2023
Trade receivables (Note 35)		
Accounts receivable	37,883	54,692
Allowance for doubtful receivables	(3)	(134)
	37,880	54,558
Tax prepayments excluding corporate income tax		
Value added tax	570	661
Accrued income from construction services (Notes 3, 35)	8,965	8,305
Other short-term receivables		
Interest receivables (Notes 17, 35)	19	-
Other short-term receivables (Note 35)	88	1,029
	107	1,029
Prepayments for services		
Prepayments for construction services	2,555	2,922
Prepaid insurance	901	1,137
Other prepaid expenses	441	142
	3,897	4,201
Total trade and other receivables	51,419	68,754
incl. other short-term receivables and prepayments to related parties (Note 33)	4,746	10,743

Although in 2024 the share of overdue receivables decreased from 5.4% to 0.5% of total receivables, the amount of overdue invoices was EUR 208 thousand as of 31.12.2024 (31 December 2023: 2,954 thousand). By 7 March 2025, EUR 74 thousand or 35.5% of overdue invoices had been received as of the reporting date. In 2024, the share of overdue receivables decreased, and the average collection period of trade receivables extended to the level of 43 days (2023: 38 days).

	2024	2023
Doubtful receivables at the beginning of the period	(134)	(3,285)
Reporting period doubtful receivables expenses (Note 8)	(575)	(89)
Receivables written off during the year as uncollectible	689	2,507
Received doubtful receivables (Note 7)	17	724
Effect of exchange rates	-	9
Doubtful receivables at the end of the period	(3)	(134)

According to the management estimates, based on historical experience, there are sufficient reasons to conclude that the trade receivables reported in the financial statements will be collected from the buyers.

A more detailed overview of the group's credit risk is provided in Note 35.

NOTE 17 LOANS GRANTED

in thousands of euros

	Joint ventures (Note 33)	Total
2024		
Loan balance at beginning of the year	-	-
Granted	7,300	7,300
Loan balance at end of the year (Notes 21, 35)	7,300	7,300
Term	12-2026	
Interest rate	5.0%	
2023		
Loan balance at beginning of the year	5,000	5,000
Received	(5,000)	(5,000)
Loan balance at end of the year	-	-
Interest rate	6.0%	

NOTE 18 INVENTORIES

in thousands of euros

	31.12.2024	31.12.2023
Materials	625	358
Work-in-progress	63,459	60,244
Finished goods	43,996	43,357
Goods for resale		
Registered immovables purchased for resale/development	87,720	89,434
Other goods purchased for resale	405	1,558
	88,125	90,992
Prepayments for inventories		
Prepayments for real estate properties	13	-
Prepayments for other inventories	303	484
	316	484
Total inventories	196,521	195,435

The inventories pledged as collateral as at 31 December 2024 for loans total EUR 79,201 thousand (2023: EUR 97,434 thousand) (Note 31). In 2024, inventories have not been written down to their net realisable value (2023: EUR 2,200 thousand). Previously made write-downs have not been reversed (2023: EUR 0 thousand).

	Carrying amount before write-down	Write-down	Carrying amount after write-down
31.12.2023			
Work-in-progress	62,444	(2,200)	60,244
Total	62,444	(2,200)	60,244

NOTE 19 SHARES IN SUBSIDIARIES

	Ownership and voting rights %		Location	Area of operation
	31.12.2024	31.12.2023		
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	Estonia, Tallinn	Mining
OÜ Metsara-Metspere Kinnisvara	-	100	Estonia, Tallinn	Mining
Tallinna Teede AS	100	100	Estonia, Tallinn	Road construction
OÜ Merko Kodud	100	100	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
UAB Timana	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektai	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	Estonia, Tallinn	Real estate
UAB Balsiu Mokyklos SPV	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	Lithuania, Vilnius	Real estate
UAB MN 2 Projektas	100	100	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	100	Lithuania, Vilnius	Real estate
UAB MB 4 Projektas	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	-	100	Latvia, Riga	Construction
SIA Industrialais Parks	-	100	Latvia, Riga	Real estate
PS Merks-Ostas Celtnieks	-	65	Latvia, Riga	Construction
PS Merks Merko Infra	-	100	Latvia, Riga	Construction
SIA Merks Mājas	-	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	-	100	Latvia, Riga	Real estate
SIA Zakusala Estates	-	100	Latvia, Riga	Real estate
SIA Merko Būve	100	100	Latvia, Riga	Construction
PS MB.MEE	100	-	Latvia, Riga	Construction
SIA Merko Management Latvia	100	100	Latvia, Riga	Real estate
OÜ Merko Residential Investments	100	-	Estonia, Tallinn	Holding
SIA Merks Mājas	100	-	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	-	Latvia, Riga	Real estate
SIA Zakusala Estates	100	-	Latvia, Riga	Real estate
Merko Investments AS	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	-	100	Norway, Sofiemyr	Construction
Løkenskogen Bolig AS	100	62	Norway, Sofiemyr	Real estate
OÜ Merko Ehitus Ventures	100	-	Estonia, Tallinn	Holding

On 27 July 2023, OÜ Merko Kaevandused and OÜ Metsara-Metspere Kinnisvara, both belonging to AS Merko Ehitus group, signed a merger agreement. The merging company is OÜ Merko Kaevandused, as a result of the merger, the merged company OÜ Metsara-Metspere Kinnisvara ended without liquidation proceedings. The merger date was 1st of January 2024, after which all transactions

of the acquired company will be deemed to be made on the account of OÜ Merko Kaevandused. The Commercial Register made the final entry in its registers on 11 January 2024.

On 5 October 2023 AS Merko Ehitus' 100% subsidiaries AS Merko Ehitus Eesti and OÜ Merko Kodud signed a notarised division agreement, according to which AS Merko Ehitus Eesti transfers the assets and liabilities related to property development activities to OÜ Merko Kodud. The purpose of the division is to align legal structure with structure of the business segments of the AS Merko Ehitus group and harmonize the structure across the home markets of Merko Ehitus. The balance sheet date of the division was 1 January 2024. The division entered into force on 29 February 2024 with an entry in the commercial register.

On March 20, Merko Ehitus group's 100% subsidiary OÜ Merko Investments signed a division plan, according to which real estate development activities along with the corresponding assets and liabilities were transferred to OÜ Merko Residential Investments, which was established as a result of the division. The balance sheet date of the division was 1 April 2024. The division entered into force on 14 May 2024 with an entry in the commercial register.

On 21 March 2024, the joint venture PS MB.MEE was registered in the Latvian Commercial Register, founded by SIA Merko Būve as the lead partner and AS Merko Ehitus Eesti, both being 100% subsidiaries of AS Merko Ehitus group.

On 1 April 2024 was sold 100% share in SIA Industrialais Parks, a company belonging to AS Merko Ehitus group. Since this was a single-asset entity, the sale of the company was not recognized as a business combination but as a sale of investment property.

On 1 August 2024 came into effect the sale-purchase agreement of 100% share in SIA Merks, a company that belonged to AS Merko Ehitus group.

On 1 August 2024, the Management Board of AS Merko Ehitus, in coordination with the Supervisory Board, decided to stop offering construction services and making further investments in Norway. After completion of the existing construction contracts, the 100% subsidiary AS Peritus Entreprenør will be sold or liquidated.

On 14 August 2024 AS Merko Ehitus established a 100% subsidiary OÜ Merko Ehitus Ventures.

On September 25, Merko Ehitus group's 100% subsidiaries OÜ Merko Ehitus Ventures and AS Merko Ehitus Eesti signed an agreement, according to which 50% of the share in AS Connecto Infra (ex- AS Connecto Eesti), so far owned by Merko Ehitus Eesti, were transferred to OÜ Merko Ehitus Ventures through the division. The balance sheet date of the division was 1 January 2025. The division entered into force on 16 January 2025 with an entry in the commercial register.

On 16 December 2024 Merko Ehitus group's 100% subsidiary Merko Investments AS acquired 38% holding in the subsidiary Løkenskogen Bolig AS from the minority shareholders Aucon AS and SDV Holding AS. After the acquisition of the additional shareholding, Løkenskogen Bolig AS became a 100% subsidiary of AS Merko Investments.

On 30 December 2024 Merko Ehitus group's 100% subsidiary Merko Investments AS sold 100% share in AS Peritus Entreprenør.

SALE OF SUBSIDIARY

in thousand euros

	SIA Merks	AS Peritus Entreprenør
Disposed holding	100%	100%
Sales price in present value	98	0
Profit (loss) from sale	(4,931)	(156)
Net assets at the time of sale	5,029	156
Cash received	-	0
Subsidiary's cash and cash equivalent at sale	(4,217)	(25)
Group cash flow from the sale	(4,217)	(86)

SALE OF SUBSIDIARY IS RECOGNIZED AS A SALE OF INVESTMENT PROPERTY

in thousand euros

	SIA Industrialais Parks
Disposed holding	100%
Sales price	6,500
Profit (loss) from sale of investment properties	2,437
Net assets at the time of sale	4,063
Cash received	6,500
Subsidiary's cash and cash equivalent at sale	(1)
Group cash flow from the sale investment properties	6,499

NOTE 20 INVESTMENTS IN JOINT VENTURES

	Ownership and voting rights %		Location	Area of operation
	31.12.2024	31.12.2023		
Joint ventures				
OÜ Connecto Varad	50	-	Estonia, Tallinn	Holding
AS Connecto Infra (ex. AS Connecto Eesti)	50	50	Estonia, Tallinn	Energy Infrastructure construction
Kodusadam OÜ	50	50	Estonia, Tallinn	Real estate

On 3 December 2024 OÜ Merko Ehitus Ventures and Aardekapp OÜ established a new 50:50 company OÜ Connecto Varad.

in thousands of euros	Investment at 31.12.2023	Changes in 2024			Investment at 31.12.2024
		Acquisition	profit on entities	dividends	
Joint ventures					
OÜ Connecto Varad	-	5	-	-	5
AS Connecto Infra	14,238	-	9,396	10,300)	13,334
Kodusadam OÜ	7,677	-	555	-	8,232
Total joint ventures	21,915	5	9,951	(10,300)	21,571

in thousands of euros	Investment at 31.12.2022	Changes in 2023		Investment at 31.12.2023
		profit on entities	dividends	
Joint ventures				
AS Connecto Infra	9,667	5,771	(1,200)	14,238
Kodusadam OÜ	3,228	4,449	-	7,677
Total joint ventures	12,895	10,220	(1,200)	21,915

The investment into the joint venture is initially recorded at acquisition cost, is reflected on the equity method. Subsequently adjusted for the post-acquisition changes that have occurred in the group's share of the net assets under common control. Changes in the associated company, recognized based on the equity method in 2024, contain deferred income tax on dividends in accordance with IAS 12 and elimination of the goodwill impairment triggered by the differences in the Estonian Financial Reporting Standards and the IFRS in the total amount of EUR 648 thousand (2023: EUR -354 thousand).

As at the balance sheet date, a goodwill impairment test has been carried out with regard to AS Connecto Infra's cash generating unit holding the goodwill. The goodwill impairment test has been performed based on the principle of prudence. The recoverable value of the assets is determined as the value-in-use, based on the management estimates of the cash flow forecasts for the next 5 years. The cash flows of the forecast period are estimated based on reasonable growth rates. Management has assessed the prospects of power and communication networks over the near-term horizon, establishing the long-term growth rate for revenue and expenditure at 2.5%, and the average growth rate for turnover during the forecast period at 3.6% (31 December 2023: 3.6%), with an average EBITDA margin of 7.4% (31 December 2023: 7.1%). The weighted average cost of capital of 9.5% (31 December 2023: 10%) has been used as the discount rate, in line with the company's field of activity and risk level. The gross profit margin budgeted by the management relies on the business experience of previous periods and the competitive situation on the market. No impairment losses were evident in the reporting period, with no impairment of goodwill thus recognized.

ASSOCIATES AND JOINT VENTURES

in thousands of euros

	Assets 31.12.			Liabilities 31.12				Equity 31.12.	Income	Expenses	Net profit
	Cash	Other current assets	Non-current assets	Short-term borrowings	Other current liabilities	Long term loans	Other long-term liabilities				
2024											
OÜ Connecto Varad	10	-	-	-	-	-	-	10	-	-	-
AS Connecto Infra	24,006	36,550	6,916	15,086	31,406	893	-	20,087	135,135	(117,640)	17,495
Kodusadam OÜ	1,662	17,533	78	-	2,808	-	-	16,465	12,862	(11,751)	1,111
Total	25,678	54,083	6,994	15,086	34,214	893	-	36,562	147,997	(129,391)	18,606
2023											
AS Connecto Infra	10,568	40,971	4,715	389	31,684	777	212	23,192	105,221	(92,971)	12,250
Kodusadam OÜ	15,918	15,708	88	-	16,360	-	-	15,354	65,817	(56,920)	8,897
Total	26,486	56,679	4,803	389	48,044	777	212	38,546	171,038	(149,891)	21,147

In 2024, interest expenses have been recognised in the expenses of AS Connecto Infra total EUR 115 thousand (2023: EUR 54 thousand). Interest expenses have not been recognised in the expenses of Kodusadam OÜ as the loan usage costs are capitalized during construction period.

In connection with the joint venture, the group has no contractual obligations to finance joint venture activities with loans (31.12.2023: EUR 0) but the group has an obligation to provide construction services in future periods in amount of EUR 1,089thousand (31.12.2023: EUR 3,461 thousand).

NOTE 21 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousands of euros

	31.12.2024	31.12.2023
Long-term loan receivables (Notes 17, 35)	7,300	-
Long-term trade receivables (Note 35) *	32,896	24,490
Total other long-term loans and receivables	40,196	24,490
incl. long-term loan receivables from related parties (Note 33)	7,300	-

* incl. long-term receivables from a buyer of Balsiu School in amount of EUR 8,456 thousand (31.12.2023: EUR 8,908 thousand) and long-term receivables from a buyer of Kaunas Police Headquarters building in amount of EUR 10,844 thousand (31.12.2023: EUR 11,844 thousand).

NOTE 22 DEFERRED INCOME TAX ASSETS AND LIABILITIES

in thousands of euros

Break-down of deferred income tax assets and liabilities in subsidiaries:

31.12.2024	Lithuania	Estonia	Total
Deferred income tax assets			
effect of construction contract works	3,801	-	3,801
effect of recognition of provisions	1,047	-	1,047
other effects	208	-	208
Total deferred income tax assets	5,056	-	5,056
Deferred income tax liability			
effect of other payables	(1,506)	-	(1,506)
deferred income tax on dividends	-	(4,642)	(4,642)
Total deferred income tax liability	(1,506)	(4,642)	(6,148)
Deferred income tax expense of the financial year (Note 11)	1,798	(1,747)	51

31.12.2023	Lithuania	Norway	Estonia	Total
Deferred income tax assets				
effect of construction contract works	2,762	-	-	2,762
effect of recognition of provisions	104	-	-	104
other effects	432	-	-	432
Total deferred income tax assets	3,298	-	-	3,298
Deferred income tax liability				
effect of other payables	(1,547)	-	-	(1,547)
deferred income tax on dividends	-	-	(2,894)	(2,894)
Total deferred income tax liability	(1,547)	-	(2,894)	(4,441)
Deferred income tax expense of the financial year (Note 11)	2,625	42	(2,153)	514

NOTE 23 INVESTMENT PROPERTIES

in thousands of euros

	Land	Right of superficies	Buildings	Construction in progress	Total
Cost at 31.12.2022	10,172	29	2,455	-	12,656
Accumulated depreciation 31.12.2022	-	(15)	(1,156)	-	(1,171)
Carrying amount at 31.12.2022	10,172	14	1,299	-	11,485
Acquisition and improvements	-	-	357	-	357
Reclassification from inventories	-	-	5,200	-	5,200
Depreciation	-	-	(219)	-	(219)
Carrying amount at 31.12.2023	10,172	14	6,637	-	16,823
Cost at 31.12.2023	10,172	29	8,012	-	18,213
Accumulated depreciation 31.12.2023	-	(15)	(1,375)	-	(1,390)
Carrying amount at 31.12.2023	10,172	14	6,637	-	16,823
Acquisition and improvements	-	-	-	45	45
Sale in business combination	(4,063)	-	-	-	(4,063)
Reclassification from inventories	-	-	136	-	136
Depreciation	-	(1)	(334)	-	(335)
Carrying amount at 31.12.2024	6,109	13	6,439	-	12,606
Cost at 31.12.2024	6,109	29	8,026	45	14,209
Accumulated depreciation 31.12.2024	-	(16)	(1,587)	-	(1,603)
Carrying amount at 31.12.2024	6,109	13	6,439	45	12,606

As at 31 December 2024, the carrying amounts of investment properties do not significantly differ from their fair values, with the exception of land, the fair value of which has been estimated by valuation expert at EUR 16,340 thousand (31.12.2023: the carrying amounts of investment properties did not significantly differ from their fair values, with the exception of land, the fair value of which had been estimated by valuation expert at EUR 25,370 thousand). Fair values have mainly been estimated based on comparable transactions (Level 2). Fair value measurement was carried out using Level 3 inputs of the fair value hierarchy.

Investment properties have been acquired for the purpose of earning rental income and/or for capital appreciation. Buildings located on the plot of land have temporarily been leased out under the operating lease terms. Information about the earned rental income and direct administrative expenses of investment properties leased out is disclosed in Note 26.

As at 31 December 2024, investment properties pledged as collateral for loans total EUR 6,668 thousand (31.12.2023: EUR 10,815 thousand) (Note 31).

NOTE 24 PROPERTY, PLANT AND EQUIPMENT

in thousands of euros

	Land	Buildings	Machinery and equipment	Other fixtures	Construction in progress and prepayments	Total
Cost at 31.12.2022	1,266	8,251	19,177	4,814	906	34,414
Accumulated depreciation at 31.12.2022	-	(3,211)	(10,521)	(3,230)	-	(16,962)
Carrying amount at 31.12.2022	1,266	5,040	8,656	1,584	906	17,452
incl. leased assets (Note 26)	-	662	3,459	-	-	4,121
Currency translation differences	-	-	-	(2)	-	(2)
Acquisition and improvements	-	71	2,449	134	262	2,916
incl. leased assets	-	71	1,641	-	-	1,712
Disposals	-	-	(565)	-	-	(565)
Reclassification	-	-	536	-	(536)	-
Write-offs	-	-	-	(2)	-	(2)
Depreciation	-	(786)	(2,127)	(273)	-	(3,186)
Carrying amount at 31.12.2023	1,266	4,325	8,949	1,441	632	16,613
Cost at 31.12.2023	1,266	8,322	18,588	4,526	632	33,334
Accumulated depreciation at 31.12.2023	-	(3,997)	(9,639)	(3,085)	-	(16,721)
Carrying amount at 31.12.2023	1,266	4,325	8,949	1,441	632	16,613
incl. leased assets (Note 26)	-	561	3,708	-	-	4,269
Currency translation differences	-	-	-	(1)	-	(1)
Acquisition and improvements	-	9	2,282	60	1,130	3,481
incl. leased assets	-	9	1,736	-	-	1,745
Disposals	-	(27)	(179)	-	-	(206)
Sale in business combination	-	-	(34)	(110)	-	(144)
Reclassification	-	-	428	75	(503)	-
Write-offs	-	-	(14)	-	-	(14)
Depreciation	-	(358)	(2,023)	(201)	-	(2,582)
Carrying amount at 31.12.2024	1,266	3,949	9,409	1,264	1,259	17,147
Cost at 31.12.2024	1,266	7,468	19,264	3,584	1,259	32,841
Accumulated depreciation at 31.12.2024	-	(3,519)	(9,855)	(2,320)	-	(15,694)
Carrying amount at 31.12.2024	1,266	3,949	9,409	1,264	1,259	17,147
incl. leased assets (Note 26)	-	365	4,086	-	-	4,451

Information on leased assets is provided in Note 26, and on lease payments in Note 27.

As at 31 December 2024, property, plant and equipment pledged as collateral for loans total EUR 1,959 thousand (31.12.2023: EUR 2,072 thousand) (Note 31).

NOTE 25 INTANGIBLE ASSETS

in thousands of euros

	Goodwill	Software	Prepayments	Total
Cost at 31.12.2022	69	1,500	112	1,681
Accumulated amortisation and impairment at 31.12.2022	-	(1,099)	-	(1,099)
Carrying amount at 31.12.2022	69	401	112	582
Currency translation differences	(4)	(1)	-	(5)
Acquisitions	-	5	189	194
Reclassification	-	116	(116)	-
Amortisation and impairment	(64)	(187)	-	(251)
Carrying amount at 31.12.2023	65	334	185	520
Cost at 31.12.2023	65	1,431	185	1,681
Accumulated amortisation and impairment at 31.12.2023	(64)	(1,097)	-	(1,161)
Carrying amount at 31.12.2023	1	334	185	520
Currency translation differences	-	(2)	-	(2)
Acquisitions	-	7	133	140
Sale in business combination	-	(6)	-	(6)
Reclassification	-	308	(308)	-
Amortisation and impairment	-	(302)	-	(302)
Carrying amount at 31.12.2024	1	339	10	350
Cost at 31.12.2024	1	1,537	10	1,548
Accumulated amortisation and impairment at 31.12.2024	-	(1,198)	-	(1,198)
Carrying amount at 31.12.2024	1	339	10	350

NOTE 26 LEASED ASSETS

in thousands of euros

	Office space and warehouses	Vehicles and equipment	Total
31.12.2022			
Cost	1,083	5,622	6,705
Accumulated depreciation	(421)	(2,163)	(2,584)
Carrying amount (Note 24)	662	3,459	4,121
Additions	71	1,641	1,712
Termination of lease contracts	-	(394)	(394)
Depreciation	(172)	(998)	(1,170)
31.12.2023			
Cost	894	5,632	6,526
Accumulated depreciation	(333)	(1,924)	(2,257)
Carrying amount (Note 24)	561	3,708	4,269
Additions	9	1,736	1,745
Termination of lease contracts	-	(462)	(462)
Depreciation	(205)	(896)	(1,101)
31.12.2024			
Cost	835	5,943	6,778
Accumulated depreciation	(470)	(1,857)	(2,327)
Carrying amount (Note 24)	365	4,086	4,451

The group's consolidated statement of profit or loss and other comprehensive income includes the following amounts relating to leases:

in thousands of euros

	2024	2023	Note
Interest expense	216	175	10
Expense relating to short-term leases	40	93	4, 5, 6
Expense relating to leases of low-value assets	162	137	4, 5, 6

Consideration paid for leases recognised as fixed assets (including the leases that ended during the period) amounted to EUR 1,588 thousand in 2024 (2023: EUR 1,316 thousand).

Consideration paid for short-term cancellable leases for vehicles as right-of-use assets amounted to EUR 31 thousand in 2024 (2023: EUR 43 thousand). Rented assets have not been subleased.

LEASES - THE GROUP AS A LESSEE (INVESTMENT PROPERTIES LEASED OUT UNDER NON-CANCELLABLE OPERATING LEASE TERMS)

	31.12.2024	31.12.2023
Cost	8,077	8,063
Accumulated depreciation	(1,587)	(1,375)
Carrying amount	6,490	6,688

	2024	2023
Operating lease income received for investment properties (Note 23)	616	379
Future operating lease income:	3,883	3,946
Next year	667	633
In 2...5 years	2,797	2,727
Later than 5 years	419	586
Direct administrative expenses of investment properties (Note 23)	(254)	(185)

NOTE 27 BORROWINGS

in thousands of euros

	Lease liabilities	Loans from			total	Total borrowings (Note 35)
		banks	entities under common control (Note 33)	other entities		
2024						
Balance at beginning of the year	4,402	44,356	6,000	57	50,413	54,815
Received	1,745	18,701	-	-	18,701	20,446
Repaid	(1,551)	(34,546)	(6,000)	-	(40,546)	(42,097)
Sale in business combination	-	-	-	317	317	317
Sale/return to lessor	(76)	-	-	-	-	(76)
Loan balance as at end of the year	4,520	28,511	-	374	28,885	33,405
incl. current portion	1,031	19,898	-	374	20,272	21,303
non-current portion 2...5 years	3,489	8,613	-	-	8,613	12,102
Loan term range	01-2025 12-2029	04-2025 11-2027	-	12-2025		
Accrued interest of reporting period	214	1,934	130	31	2,095	2,309
incl. capitalised interest cost	-	496	-	-	496	496
Interest rate range	1,2%-2,49% +3-6 kuu Euribor	1,12%-2,7% +3-12 kuu Euribor	2,65%+6 kuu Euribor	4%+12 kuu Euribor		
Base currencies	EUR	EUR	EUR	EUR		

in thousands of euros

	Lease liabilities	Loans from					total	Total borrowings (Note 35)
		banks	parent company (Note 33)	entities under common control (Note 33)	related parties (Note 33)	other entities		
2023								
Balance at beginning of the year	4,302	73,560	8,000	6,000	61	-	87,621	91,923
Received	1,712	48,160	-	-	-	-	48,160	49,872
Repaid	(1,312)	(77,364)	(8,000)	-	-	-	(85,364)	(86,676)
Sale/return to lessor	(300)	-	-	-	-	-	-	(300)
Reclassification	-	-	-	-	(57)	57	-	-
Exchange rate	-	-	-	-	(4)	-	(4)	(4)
Loan balance as at end of the year	4,402	44,356	-	6,000	-	57	50,413	54,815
incl. current portion	1,092	12,524	-	6,000	-	57	18,581	19,673
non-current portion 2...5 years	3,310	31,832	-	-	-	-	31,832	35,142
Loan term range	01-2024 12-2028	01-2025 09-2027	-	04-2024	-	12-2024		
Accrued interest of reporting period	174	2,911	30	362	1	2	3,306	3,480
incl. capitalised interest cost	-	798	-	-	-	-	798	798
Interest rate range	1.0%- 2.49% +3-6 month Euribor	1.12%- 2.7% +3- 12 month Euribor	1.55%	2.65%+6 month Euribor	5%	5%		
Base currencies	EUR	EUR	EUR	EUR	NOK	NOK		

	2024	2023
Minimum future payments under lease liabilities	4,973	4,902
incl. current portion	1,207	1,284
non-current portion with the term of 2...5 years	3,766	3,618

Borrowings with floating interest rates related to Euribor are divided by the interest rate changes and the contractual repricing dates as follows:

	2024	2023
Lease liabilities		
1-5 months	1,371	1,293
6-12 months	2,784	2,548
Bank loans		
1-5 months	9,698	16,884
6-12 months	18,813	27,472
Loans from entities under common control		
6-12 months	-	6,000
Loans from other entities		
6-12 months	374	-
Total	33 040	54,197

Borrowings with the contractual fixed interest rate are divided as follows:

	2024	2023
Lease liabilities	365	561
Loans from other related parties	-	57
Total	365	618

Loan collaterals and pledged assets are presented in Note 31.

NOTE 28 PAYABLES AND PREPAYMENTS

in thousands of euros

	31.12.2024	31.12.2023
Trade payables (Note 35)	55,469	42,472
Payables to employees	18,206	14,846
Tax liabilities, except for corporate income tax		
value added tax	3,309	4,258
personal income tax	612	769
social security tax	1,947	2,075
unemployment insurance tax	77	70
contributions to mandatory funded pension	42	48
other taxes	148	113
	6,135	7,333
Prepayments for construction services (Notes 3, 35)	41,612	34,584
Other liabilities (Note 35)		
interest liabilities	88	98
other liabilities	171	537
	259	635
Prepayments received *	8,105	34,028
Total payables and prepayments	129,786	133,898
incl. payables to related parties (Note 33)	47	173

* As of 31 December 2024, 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 4,373 thousand (31.12.2023: EUR 31,360 thousand) and of prepayments received connection with residential properties (apartment buyers) in a sum of EUR 3,732 thousand (31.12.2023: EUR 2,668 thousand) (Note 3).

NOTE 29 PROVISIONS

in thousands of euros

	Provision for warranty obligation for construction	Provision for onerous construction contracts	Provision for legal costs and claims filed (Note 35) *	Provision for costs of projects sold and work-in-progress of projects	Other provisions	Total
2024						
Balance at beginning of the year	5,954	8	1,706	2,460	323	10,451
Recognised (Notes 3, 4, 6)	3,841	32	1,889	905	178	6,845
Reversed (Notes 3, 6)	(843)	-	(496)	(69)	-	(1,408)
Sale in business combination	(2,060)	-	(2,689)	(389)	-	(5,138)
Used during the year	(1,711)	(33)	-	(1,205)	(123)	(3,072)
Balance at end of the year	5,181	7	410	1,702	378	7,678
incl. current portion	5,181	7	410	1,702	378	7,678
2023						
Balance at beginning of the year	4,425	8	1,200	4,086	101	9,820
Recognised (Notes 3, 4, 6)	3,122	1	1,706	1,873	323	7,025
Reversed (Notes 3, 6)	-	-	(1,200)	-	-	(1,200)
Used during the year	(1,593)	(1)	-	(3,499)	(101)	(5,194)
Balance at end of the year	5,954	8	1,706	2,460	323	10,451
incl. current portion	5,954	8	1,706	2,460	323	10,451

* Additional information is provided in subsection "Legal risk" in Note 35.

The basic principle for making provisions for warranty obligations are the historical trends in the statistical share of construction contract volumes. Historically, the amount of provision used has not varied significantly from the amount of provision recognised.

The provisions for costs of projects sold are based on the total costs of projects as defined in business plans, which are constantly updated and realized pursuant to the work performed.

NOTE 30 OTHER LONG-TERM PAYABLES

in thousands of euros

	31.12.2024	31.12.2023
Trade payables (Note 35)	5,123	3,128
Prepayments received *	3,596	2,367
Total other long-term payables	8,719	5,495

* As of 31 December 2024, 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 3,596 thousand (31.12.2023: EUR 2,367 thousand) (Note 3).

NOTE 31 LOAN COLLATERALS AND PLEDGED ASSETS

The group has entered into commercial pledge contracts to secure loans and other liabilities, set mortgages on assets and pledged shares of its subsidiaries:

in thousands of euros

Commercial pledges	31.12.2024	31.12.2023
Movable property	46,630	58,542
Financial assets *	22,921	24,496
Total	69,551	83,038

* The financial assets of UAB Balsiu Mokyklos SPV, which OÜ Merko Property has pledged to secure the investment loan in the amount of EUR 5,508 thousand for the benefit of OP Corporate Bank plc Lithuanian branch (31.12.2023: EUR 6,033 thousand for the benefit of OP Corporate Bank plc Lithuanian branch) and the financial assets of UAB VPSP2, which UAB Merko Statyba has pledged to secure the investment loan in the amount of EUR 8,464 thousand for the benefit of AB SEB bankas (31.12.2023: EUR 9,598 thousand for the benefit of AB SEB bankas).

Mortgages	31.12.2024	31.12.2023
Inventories (Note 18)	79,201	97,434
Land and buildings (Note 24)	1,959	2,072
Investment properties (Note 23)	6,668	10,815
Total	87,828	110,321

Pledges of shares

In addition to the commercial pledge on financial assets, OÜ Merko Property has pledged the shares of its wholly-owned subsidiary UAB Balsiu Mokyklos SPV for the benefit of OP Corporate Bank plc Lithuanian branch. An investment loan in the amount of EUR 5,508 thousand (31.12.2023: EUR 6,033 thousand for the benefit of OP Corporate Bank plc Lithuanian branch) is secured by the pledge. UAB Merko Statyba has pledged the shares of its wholly-owned (100%) subsidiary UAB VPSP2 for the benefit of AB SEB bankas. An investment loan in the amount of EUR 8,464 thousand is secured by the pledge (31.12.2023: EUR 9,598 thousand AB SEB bankas).

NOTE 32 SHARE CAPITAL

There were no changes in share capital during 2024 and 2023.

The Commercial Code of the Republic of Estonia specifies the following requirements for the share capital of the entities registered in Estonia:

- the minimum share capital of a public limited company shall be at least EUR 25 thousand;
- the net assets of a public limited company shall be at least one half of the Company's share capital but not less than EUR 25 thousand.

The size of share capital or its minimum and maximum limits are set out in the articles of association of a public limited company whereas the minimum share capital shall equal at least ¼ of maximum share capital.

According to the current articles of association of AS Merko Ehitus, the Company's share capital consists of 17,700 thousand registered ordinary shares without nominal value which have been fully paid for and without amending the articles of association of the public limited company, changes can be made to the Company's share capital within the range of EUR 6,000 – 24,000 thousand.

As at 31.12.2024 and 31.12.2023, the share of capital of AS Merko Ehitus was EUR 7,929 thousand and the consolidated net assets of AS Merko Ehitus were EUR 254,258 thousand (31.12.2023: EUR 212,055 thousand), therefore the Company's equity and share capital were in compliance on both balance sheet date with the requirements established in the Republic of Estonia. The calculated value of the share was 0.447966 euros.

NOTE 33 RELATED PARTY TRANSACTIONS

In compiling the Annual 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 this 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 31.12.2024 and 31.12.2023, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

GOODS AND SERVICES

in thousands of euros

	2024	2023
Provided services and goods sold		
Parent company	-	6
Joint ventures	3,904	26,708
Entities under common control	47,003	82,058
Members of the management **	31	161
Total services provided and goods sold	50,938	108,933
Interest income		
Joint ventures	32	215
Entities under common control	6	-
Total interest income	38	-
Purchased services and goods		
Parent company	-	49
Joint ventures	18	268
Entities under common control	80	75
Total purchased services and goods	98	392
Interest expense		
Parent company	-	30
Entities under common control	130	362
Other related parties	-	1
Total interest expense	130	393

BALANCES WITH RELATED PARTIES

in thousands of euros

	31.12.2024	31.12.2023
Receivables from related parties		
Loans granted (Note 17, 21)		
Joint venture	7,300	-
Receivables and prepayments (Note 16)		
Joint ventures	142	1,852
Entities under common control	4,585	8,862
Members of the management	19	29
Total receivables and prepayments	4,746	10,743
Total receivables from related parties	12,046	10,743

	31.12.2024	31.12.2023
Payables to related parties		
Lease liabilities (Note 27)		
Entities under common control	158	216
Short-term loans received (Note 27)		
Entities under common control	-	6,000
Total Short-term loans received	-	6,000
Payables and prepayments (Note 28)		
Joint ventures	12	142
Entities under common control	35	31
Total payables and prepayments	47	173
Total payables to related parties	205	6,389

* Provided services to joint ventures consist mainly of construction services.

** In 2024 and 2023, construction and design services were provided to management members and sold apartments. These were not significant transactions for the group.

With regard to receivables from related parties, no impairments were performed in either 2024 or 2023.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The cost of remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus incl. basic salaries and performance pay, as well as taxes and changes in reserves for the 12 months of 2024 were EUR 1,824 thousand (12 months of 2023: EUR 1,843 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorisation agreements have been entered into with the members of the Supervisory Board according to which no termination benefits are paid to them upon the termination of the contract. Upon premature removal or termination of authority of the members of the Supervisory and Management Boards, AS Merko Ehitus has the obligation to pay compensation totalling EUR 330 thousand (2023: EUR 210 thousand). In the 12 months of 2024, the Management Board members of AS Merko Ehitus did not receive benefits. In 2023, a member of the management was paid the compensation for non-competition observance in the amount of one year's service fee, EUR 120 thousand.

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

Track record and photographs of the members of the Supervisory Board can be found in the management report and on AS Merko Ehitus website at group.merko.ee/en/management-and-supervisory-board/.

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31 December 2024

		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%
Kristina Siimar	Member of the Supervisory Board	-	-
		12,774,321	72.17%

* 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 three members: Ivo Volkov, Tõnu Toomik and Urmas Somelar.

Shares held by members of the Management Board of AS Merko Ehitus as at 31 December 2024

		NO. OF SHARES	% OF SHARES
Ivo Volkov	Chairman of the Management Board	4,137	0.02%
Tõnu Toomik	Member of the Management Board	-	-
Urmas Somelar	Member of the Management Board	-	-
		4,137	0.02%

NOTE 34 CONTINGENT LIABILITIES

in thousands of euros

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

	31.12.2024	31.12.2023
Performance period's warranty to the customer	42,115	39,359
Tender warranty	6	32
Guarantee warranty period	22,632	27,194
Prepayment guarantee	23,300	31,466
Payment guarantee	57	-
Contracts of surety	2,108	500
Total contingent liabilities	90,218	98,551

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).

As at 31 December 2024 the group has recognised a provision (Note 29) with regards to the guarantee for warranty period which is based upon historical experience and contractual volumes.

Tax authorities have the right to review the group's tax records within five years after submitting the tax declaration and upon detecting errors, impose additional taxes, interest and fines. The group's management estimates that there are no circumstances which might lead the tax authorities to impose additional significant taxes on the group.

For legal risks, please refer to the respective paragraph of Note 35.

NOTE 35 RISK MANAGEMENT

FINANCIAL RISKS MANAGEMENT

In its daily activities, the group has to factor in various risks in the financial sector. The most significant ones are market risk (includes interest rate risk and foreign exchange risk) and financial risk (includes credit risk and liquidity risk). These are complemented by estimations of capitalization and the fair value of financial assets, which reflect more indirect risks. Based on the group's balance sheet structure and position in the market, none of these risks have a significant impact as at the date of preparation of the financial statements. The group's risk management is based on laws, regulations, requirements and regulations arising from International Financial Reporting Standards, as well as the group's internal regulations and good business practices. The group's finance unit is responsible for management of financial risks.

CREDIT RISK

Credit risk relates to a potential damage which would occur if the parties to the contract are unable to fulfil their contractual obligations. For mitigating credit risk, the payment behaviour of clients is constantly monitored, the future outlook of their businesses is analysed, including business logic and its compliance with general economic developments and the developments of the corresponding economic sector, as well as their financial position. If necessary, third persons are engaged as a guarantor in transactions. Construction activities are partially financed by customer prepayments. As a rule, a precondition for receiving a prepayment is a bank guarantee for the prepayment submitted to the customer.

Free cash is mostly held in bank account or term deposits at banks, which are part of Swedbank, SEB, Luminor and OP Corporate Bank groups. Baltic banks, which are part of Swedbank and SEB group do not have separate ratings by Moody's. The parent company of Swedbank group, Swedbank AB, has a Moody's long-term credit rating Aa3 (2023: Aa3) and the parent company of SEB

group, Skandinaviska Enskilda Banken AB, has a Moody's long-term credit rating Aa3 (2023: Aa3). OP Corporate Bank PLC has a Moody's long-term credit rating Aa3 (2023: Aa3). Luminor Bank has a Moody's long-term credit rating A2 (2023: A3).

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 31 December 2024. The management estimates that the group cash and cash equivalents are not exposed to significant credit risk.

FINANCIAL ASSETS EXPOSED TO CREDIT RISK

in thousands of euros

	Allocation by due dates		Carrying amount	Collateral
	1-12 months	2-5 years		
31.12.2024				
Cash and cash equivalents (Note 14)	91,879	-	91,879	-
Short-term deposits (Note 15)	10,000	-	10,000	-
Trade receivables (Notes 16, 21)	37,880	32,896	70,776	-
Accrued income from construction service (Notes 3, 16)	8,965	-	8,965	-
Loans granted (Notes 17, 21, 33)	-	7,300	7,300	-
Other short-term receivables (Note 16)	107	-	107	-
Other shares and securities	-	80	80	-
Total	148,831	40,276	189,107	-
31.12.2023				
Cash and cash equivalents (Note 14)	77,330	-	77,330	-
Trade receivables (Notes 16, 21)	54,558	24,490	79,048	-
Accrued income from construction service (Notes 3, 16)	8,305	-	8,305	-
Other short-term receivables (Note 16)	1,029	-	1,029	-
Other shares and securities	-	80	80	-
Total	141,222	24,570	165,792	-

The group's customers are primarily large local entities or public sector entities (as at 31 December 2024, the public sector proportion in accounts receivable amounted to 47.8%; 31.12.2023: 42.5%) with well-known and sufficient creditworthiness.

TRADE RECEIVABLES BY DUE DATE

in thousands of euros

	31.12.2024		31.12.2023	
	Amount	Percentage	Amount	Percentage
Not overdue	70,568	99.7%	76,095	96.3%
1-30 days overdue	161	0.2%	890	1.1%
31-60 days overdue	14	0.0%	380	0.5%
61-90 days overdue	12	0.0%	193	0.2%
91-120 days overdue	1	0.0%	48	0.1%
121-180 days overdue	11	0.0%	222	0.3%
More than 180 days overdue	9	0.0%	1,220	1.5%
Total trade receivables* (Notes 16, 21)	70,776	100%	79,048	100%

* Trade receivables are presented in net amount, i.e. the sum of receivables also includes allowance for doubtful receivables from buyers.

As at the balance sheet date, the amount of overdue receivables was EUR 208 thousand (31.12.2023: EUR 2,954 thousand), of which EUR 74 thousand has been collected by 7 March 2025. In a year, the share of overdue receivables from total receivables decreased from 3.7% to 0.3%. The group keeps track of payment history for all customers separately for each receivable. Customers who have exceeded the payment deadline are handled personally in order to find solutions that ensure the best possible protection of the group's interests. According to management estimates, which are based on customers' historical payment behaviour, background assessment on the payment behaviour and business perspectives of new clients, the receivables reported in the financial statements will be paid off by the buyers. The receivables, which were not overdue at the balance sheet date, will be paid by due date. As well as invoiced trade receivables, management estimates the credit risk of accrued income from construction service to be low. The management bases its assessment on the regular monitoring of the financial position and payment behaviour of the contractual partner and the outlook of the contractor's economic sector and general economic developments. Trade receivables and receivables from customers of construction works under the stage of completion method have not been guaranteed with additional collateral as is customary in the industry.

As at balance sheet date, the loans granted to joint ventures, the economic activities of which the group has a good overview of, totalled EUR 7,300 thousand (31.12.2023: EUR 0) and therefore, no additional collateral is required.

LIQUIDITY RISK

The group's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31 December 2024, the group's current ratio was 2.1 (31.12.2023: 2.0) and the quick ratio 0.9 (31.12.2023: 0.9). In addition to available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at end of the year, the group entities had concluded overdraft contracts with banks in the total amount of EUR 51,100 thousand, of which EUR 44,047 thousand was unused (31.12.2023: EUR 57,000 thousand, of which EUR 54,599 thousand was unused). In 2024, the contracts in a total amount of EUR 51,000 thousand will expire, which renewal will be considered.

The management estimates that the group's capital structure – equity ratio of 56.9% (31.12.2023: 49.9%) and a moderate proportion of interest-bearing liabilities at 7.5% (31.12.2023: 12.9%) of the balance sheet total – ensures the group's trustworthiness for creditors. It also enables to prolong existing financial liabilities and raise additional working capital funds, if needed.

FINANCIAL ASSETS/LIABILITIES

in thousands of euros

	Allocation by due date			Total	Carrying amount
	1-3 months	4-12 months	2-5 years		
31.12.2024					
Assets					
Cash and bank deposits (Note 14, 15)	94,879	7,000	-	101,879	101,879
Trade receivables (Notes 16, 21)	32,365	5,515	32,896	70,776	70,776
Accrued income from construction services (Notes 3, 16)	8,965	-	-	8,965	8,965
Loans and interest (Notes 16, 17, 21)	19	-	7,300	7,319	7,319
Other short-term receivables (Note 16)	88	-	-	88	88
Other shares and securities	-	-	80	80	80
Total	136,316	12,515	40,276	189,107	189,107
Liabilities					
Trade payables (Notes 28, 30)	47,696	7,773	5,123	60,592	60,592
Prepayments for construction services (Notes 3, 28)	41,612	-	-	41,612	41,612
Loan and lease liabilities (Note 27) *	7,270	14,033	12,102	33,405	33,405
Other liabilities (Note 28, 30)	83	176	-	259	259
Total	96,661	21,982	17,225	135,868	135,868
Net assets / liabilities	39,655	(9,467)	23,051	53,239	53,239
	Allocation by due date			Total	Carrying amount
	1-3 months	4-12 months	2-5 years		
31.12.2023					
Assets					
Cash and overnight deposits (Note 14)	77,330	-	-	77,330	77,330
Trade receivables (Notes 16, 21)	50,691	3,867	24,490	79,048	79,048
Accrued income from construction services (Notes 3, 16)	8,305	-	-	8,305	8,305
Other short-term receivables (Note 16)	26	1,003	-	1,029	1,029
Other shares and securities	-	-	80	80	80
Total	136,352	4,870	24,570	165,792	165,792
Liabilities					
Trade payables (Notes 28, 30)	38,026	4,446	3,128	45,600	45,600
Prepayments for construction services (Notes 3, 28)	34,584	-	-	34,584	34,584
Loan and lease liabilities (Note 27) *	808	18,865	35,142	54,815	54,815
Other liabilities (Notes 28, 30)	179	456	-	635	635
Total	73,597	23,767	38,270	135,634	135,634
Net assets / liabilities	62,755	(18,897)	(13,700)	30,158	30,158

* The schedule of expected interest payments cannot be determined with reasonable accuracy. In line with the best practice of property development, the loan obligations to acquire land plots have been assumed with open-end maturities. The repayment of these loan obligations depends on the progress of related development projects and on the timing of cash flows generated from those projects after their completion. Consequently, the management is of opinion that even its best estimate of the timing of

expected interest payments would not be sufficiently accurate for the users of these financial statements and this information has not been disclosed.

MARKET RISK

INTEREST RISK

Interest risk arises from interest rate changes in the financial markets because of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor. As at 31 December 2024, the share of interest-bearing liabilities in the group's capital structure was 7.5% of the balance sheet total (as at 31 December 2023, 12.9% of the balance sheet total). According to the management, influence of changes in the interest rate environment on the group's results in 12-month perspective is insignificant. The ECB began lowering the base interest rate in June 2024, and financial market analysts expect that the reductions will continue throughout 2025. The prevailing expectation of 1.2-1.5% drop in base interest rates will insignificantly reduce the group's interest expense.

EFFECT OF CHANGES IN INTEREST RATE RISK ON FINANCE COSTS AND INCOME

As at 31 December 2024, the group's interest-bearing liabilities totalled EUR 33,405 thousand (31.12.2023: EUR 54,815 thousand), of which short-term loans and repayments of long-term liabilities in 2024 totalled EUR 21,303 thousand (31.12.2023: EUR 19,673 thousand) and long-term loans and lease liabilities totalled EUR 12,102 thousand (31.12.2023: EUR 35,142 thousand). Floating loan interest depended on Euribor. As at 31 December 2024, the break-down of interest-bearing borrowings and loans granted was as follows:

	31.12.2024	31.12.2023
Fixed rate liabilities	365	618
Liabilities with floating rate interests 1-5 months	11,069	18,177
Liabilities with floating rate interests 6-12 months	21,971	36,020
Total interest-bearing borrowings (Note 27)	33,405	54,815
Fixed rate receivables (Notes 17, 21, 33)	7,300	-

The management estimates that there have been changes in the base interest rates, which have an impact on the financial position of the group. Assuming that average Euribor would rise 10 basis points above current level over the next 12 months as compared to the beginning of the year and there is no change in the position of liabilities, interest expenses would increase by EUR 33 thousand (31.12.2023: EUR 54 thousand). All the loans granted have fixed interest rate and therefore a change in the reference rates would have no impact on the interest income.

In addition to risk arising from changes in Euribor, there is risk due to changes in the risk margin attributable to the changes in the economic environment related refinancing of liabilities. This is most directly manifested in a possible need to extend overdraft credit contracts.

FOREIGN EXCHANGE RISK

The group's economic activities are conducted mainly in the currencies of the countries of location of the companies: euros in Estonia, Latvia and Lithuania and to small extent Norway in kroner. Transactions within the group are conducted in euros as a rule. To eliminate foreign currency risks, close track is kept of the proportions of the group's assets and liabilities held in different currencies and, when it comes to entering into long-term construction contracts, the euro is the preferred currency in the Baltics, and, in Norway, the krone. As at the balance sheet date, the group's financial assets and liabilities were in euros.

	In EUR	In NOK
31.12.2023		
Assets	99.2%	0.8%
Liabilities	99.3%	0.7%

Considering the fact that the materials and services used in construction are generally sourced from the local market or supplied from within the EU, the currency risk in the group is currently minimal.

MANAGEMENT OF OTHER RISKS

OPERATIONAL RISK

Considering the group's field of business, it is essential in operational risk management that the improvement and application of safety standards and regulations continues and that supervision of compliance with environmental requirements is increased. One measure for managing operational risks is the implementation of quality and environmental management systems. Risks related to occupational health and safety in construction are assessed and managed in all units and process stages of the group. The largest construction companies of the group have implemented quality management system ISO 9001 and environmental

management system ISO 14001 and health and safety management system ISO 45001. All management systems are certified. The group employs 9 (2023: 10) full-time quality specialists who are responsible for developing quality, safety and management systems and ensuring their functioning.

Insurance is used as additional mitigation of operational risks, especially for risks that cannot otherwise be mitigated. The group concludes total risk insurance contracts with insurance companies to hedge the risk of unanticipated loss events occurring in the construction process. The general policy is entered into for one year and it compensates the customer, subcontractors and third parties for any losses caused by AS Merko Ehitus group company or its subcontractor. The risks of the projects, which the annual policy does not cover (water construction, railroad construction, bridges, etc.), are additionally mapped out and an insurance contract is concluded separately for each object taking into consideration its specifics. In concluding contracts for services involving design work, an insurance contract for professional liability is required from subcontractors or an insurance contract at own expense is concluded, covering the damage arising from design, erroneous measurement, advice and instructions. The services of insurance brokers are used in mapping out risks, concluding insurance contracts and handling loss events. In 2024, indemnity applications submitted to insurance companies totalled EUR 0.32 million (2023: EUR 0.71 million), and insurance benefits were received in the amount of EUR 0.08 million (2023: EUR 0.47 million).

A warranty provision has been provided at the group to cover for the construction errors, which have become evident during the warranty period. In 2024, warranty provisions were formed and released in the group in total amount of EUR 3.0 million (2023: EUR 3.12 million) and disbursements amounted to EUR 1.71 million (2023: EUR 1.59 million). As at the year-end, the group's warranty provision amounted to EUR 5.18 million (31.12.2023: EUR 5.95 million). For work performed by subcontractors, the subcontractors are responsible for remedying the defects that became evident during the warranty period. For critically important contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank first demand guarantees.

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 group's activities from the perspective of laws or contracts from a different position and dispute the legitimacy of the group's activities.

As of 31 December 2024, a provision has been set up at the group in the amount of EUR 0.4 million for covering potential claims and legal costs (31.12.2023: EUR 1.7 million). (Note 29).

An overview of the key legal disputes of group entities ended during 2024 and ongoing as of 31 December 2024 is presented below.

ESTONIA

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

The court cases in connection with Minister of the Environment regulation No 22 of 27 March 2015, which redrew the boundaries of species protection sites to exclude properties on Paekalda street owned by AS Merko Ehitus subsidiaries. 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 2006-2015). By a decision of 5 March 2021, the Supreme Court 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. In its decision of 19 April 2024, Tallinn Administrative Court rejected the complaint. The court ruled that the value of the disputed immovable properties has not significantly dropped. OÜ Merko Kodud appealed to Tallinn Circuit Court. The value of this claim cannot currently be reliably determined and, accordingly, the impact 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, annual and interim reports and in the [relevant subsection of the website](#).

On 13 September 2021, SIA Merks and AS Merko Ehitus contested the decision of the Latvian Competition Council in the Latvian administrative court. Before the court decision comes into effect, the fine of EUR 2.7 million levied 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. Currently it has not been possible to assess reliably the impact of potential damage claims on the company due to the large number of inputs open to change, the lack of practice of implementing joint and several liability and the ambiguity of other legal aspects.

The last court session to discuss the content of the appeal claim took place on 26 September 2023. In its judgement, announced on 25 January 2024, the court of appeal upheld the decision of the Competition Council. On 26 February 2024, SIA Merks and AS Merko Ehitus filed an appeal in cassation with the Supreme Court of Latvia in appeal against the decision of the Latvian Competition Council. The cassation appeal has been accepted and respective proceedings started, yet at the time of the preparation of the report there is no additional information about the deadlines and actions of the proceedings.

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.

SIA Merks sold with sufficient provisions to cover a potential fine.

VALUE OF ASSETS

In 2024, the group recognised EUR 575 thousand (2023: EUR 2,289 thousand) in impairment losses on assets and inventories, incl. EUR 575 thousand on the write-off of doubtful receivables (2023: EUR 89 thousand), no impairment loss of inventory was made In 2024 (2023: EUR 2,200 thousand of undervaluation of development costs in work-in-progress). The receivables expensed in prior periods were received EUR 17 thousand (2023: EUR 724 thousand). See also Notes 16 and 18 for further details.

FAIR VALUE ESTIMATION

According to the estimation of the group, the carrying values of financial assets at amortised cost (Notes 14, 15, 16, 17, 21) and financial liabilities at amortised cost (Notes 27, 28, 30) in the consolidated balance sheet as at 31 December 2024 and 31 December 2023 do not vary significantly from their fair value.

The Management Board estimates that the fair value of long-term receivables does not materially differ from their carrying amount because no material changes have occurred in risk margins of the borrowers. The fair value of receivables is measured using the discounted cash flow method in accordance with IFRS 7 on the basis of Level 3 inputs of the fair value hierarchy.

The fair value of trade receivables (31.12.2024: EUR 8,456 thousand; 31.12.2023: EUR 8,908 thousand) related to Balsiu – equals their carrying amount, as the impact of discounting is not significant. The carrying amount of future receivables related to Balsiu School is EUR 15,264 thousand (31.12.2023: EUR 16,717 thousand) and the fair value of the mentioned receivables is equal to EUR 13,009 thousand using the effective interest rate of 2.88% (31 December 2023: EUR 14,057 thousand using the effective interest rate of 2.88%). The fair value of trade receivables (31.12.2024: EUR 10,844 thousand; 31.12.2023: EUR 11,844 thousand) related to Kaunas Police Headquarters – equals their carrying amount, as the impact of discounting is not significant. The carrying amount of future receivables related to Kaunas Police Headquarters is EUR 15,685 thousand (31.12.2023: EUR 17,428 thousand) and the fair value of the mentioned receivables is equal to EUR 13,646 thousand using the effective interest rate of 2.88% (31.12.2023: EUR 14,958 thousand using the effective interest rate of 2.88%). As the amount receivable is due from the state institutions, the interest rate used for the fair value calculation is a long-term borrowing rate at the end of the period applicable to the Republic of Lithuania (www.ecb.europa.eu/stats/financial_markets_and_interest_rates/long_term_interest_rates).

Long-term receivables related to Balsiu School and Kaunas Police Headquarters are valued on the basis of Level 2 inputs of the fair value hierarchy.

A significant part of the group's long-term payables has a floating interest rate, which changes according to fluctuations of the market interest rate. In the estimation of the management, the group's risk margins have not materially changed since the loans were obtained and the interest rates on the group's debt meet the market conditions. The fair value of long-term financial obligations is determined based on discounted future contractual cash flows using the market interest rate available to the group for the use of similar financial instruments (Level 3).

To provide an indication of the inputs used to determine fair value, the group has classified its financial instruments into three levels based on the requirements of accounting standards.

Level 1: Financial instruments valued at unadjusted prices on the stock market or other active regulated market. As at 31 December 2024 and 2023, the group did not have any Level 1 financial instruments.

Level 2: Financial instruments whose values are based on valuation methods based on observable inputs. This category includes e.g. financial instruments valued based on prices of identical instruments traded on an active regulated market or financial instruments which are revalued at regulated market price but have low liquidity on the stock market.

Level 3: Financial instruments where the valuation methods used for revaluation are based on non-observable inputs.

CAPITAL MANAGEMENT

The group considers borrowings and total equity as capital. As at 31 December 2024, the total equity attributable to equity owners of the parent was EUR 254,258 thousand (31.12.2023: EUR 212,055 thousand). The group's principle is to maintain a strong equity base for the purpose of retaining its trustworthiness among its shareholders, creditors, and the market, and to ensure the group's sustainable development. Over the long term, the group's goal is to increase income for its shareholders and ensure its ability to pay dividends.

The group's equity is currently mainly tied up in the land plots portfolio invested in for the purpose of real estate development, which the group has realised according to the changes in the market primarily through its own developments. The group can additionally regulate the equity structure through dividends payable to shareholders or repayments of share capital.

The group considers it important to ensure an optimal capital structure. Therefore, it monitors that the group's equity to assets ratio is at least 40% (31.12.2024: 56.9%, 31.12.2023: 49.9%).

According to good market practice, the group uses the ratio of net debt to total capital to monitor its capital composition:

	31.12.2024	31.12.2023
Borrowings	33,405	54,815
Less: cash and cash equivalents	(91,879)	(77,330)
Net debt	(58,474)	(22,515)
Total equity attributable to owners of the parent	254,258	212,055
Total net debt and equity attributable to equity owners of the parent	195,784	189,540
Share of net borrowings	-29.9%	-11.9%

	31.12.2024	31.12.2023
Cash and cash equivalents	91,879	77,330
Short-term borrowings	(21,303)	(19,673)
Long-term borrowings	(12,102)	(35,142)
Net debt	58,474	22,515
Cash and cash equivalents	91,879	77,330
Fixed rate liabilities	(365)	(618)
Variable rate liabilities	(33,040)	(54,197)
Net debt	58,474	22,515

	Cash and cash equivalents	Borrowings	Lease liabilities	Total
Net debt 31.12.2022	17,665	(87,621)	(4,302)	(74,258)
Cash flow	59,722	37,204	1,312	98,238
Effect of exchange rate changes	(57)	4	-	(53)
New lease contracts	-	-	(1,712)	(1,712)
Termination of lease liabilities	-	-	300	300
Net debt 31.12.2023	77,330	(50,413)	(4,402)	22,515
Cash flow	14,594	21,845	1,551	37,990
Effect of exchange rate changes	(45)	-	-	(45)
New lease contracts	-	(317)	(1,745)	(2,062)
Termination of lease liabilities	-	-	76	76
Net debt 31.12.2024	91,879	(28,885)	(4,520)	58,474

NOTE 36 OTHER INFORMATION

According to the technical standards of the European Single Electronic Format (ESEF) and the understanding of the use of electronic marking at the time of the preparation of the report, machine-readable information about the following information shall appear in the notes to the financial statements, even if the corresponding information is presented for the purpose of easy readability in other parts of the annual report. In this regard, we provide references regarding the presence of information and its location as follows:

- personnel policy information on employees is provided in the Management Report on page 79 and remuneration information in the Remuneration Report on pages 146-147;
- descriptive information on key management personnel is provided in the Governance information conduct subsection of the Consolidated Sustainability Statement, Corporate Governance Recommendations (CGR) report on pages 139-140 and in the Remuneration Report on pages 146-147;
- Risk management policies and practices (incl. both general and financial instruments) are described in addition to Note 35 but also in the Management Report on page 79 and in the CGR report on page 142.

NOTE 37 SUPPLEMENTARY DISCLOSURES ON THE PARENT COMPANY

The financial information of the parent comprises separate primary statements of the parent (income statement, statement of financial position, cash flow statement and statement of changes in equity), the disclosure of which is required by the Estonian Accounting Act. The primary financial statements of the parent have been prepared using the same accounting methods and measurement bases as those used for the preparation of the consolidated financial statements, except for subsidiaries, associates and joint ventures, which are reported at cost in the separate primary financial statements of the parent.

INCOME STATEMENT

in thousands of euros

	2024	2023
Revenue	927	652
Cost of goods sold	(1)	(16)
Gross profit	926	636
Marketing expenses	(90)	(65)
General and administrative expenses	(3,214)	(3,331)
Other operating income	5,082	4,483
Other operating expenses	(1,509)	(379)
Operating profit (loss)	1,195	(1,344)
Finance costs	(474)	(940)
Finance income from investments in subsidiaries	30,793	18,110
Profit before tax	31,514	18,514
Net profit for the year	31,514	18,514

STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2024	31.12.2023
ASSETS		
Current assets		
Cash and cash equivalents	3,764	211
Receivables and prepayments	2,775	6,595
	6,539	6,806
Non-current assets		
Investments in subsidiaries	109,989	115,294
Other long-term financial assets	65,680	59,046
Property, plant and equipment	315	326
Intangible assets	-	2
	175,984	174,668
TOTAL ASSETS	182,523	181,474
LIABILITIES		
Current liabilities		
Borrowings	6,107	13,478
Trade and other payables	1,324	1,515
Short-term provisions	374	232
	7,805	15,225
Non-current liabilities		
Long-term borrowings	192	227
	192	227
TOTAL LIABILITIES	7,997	15,452
EQUITY		
Share capital	7,929	7,929
Statutory reserve capital	793	793
Retained earnings	165,804	157,300
TOTAL EQUITY	174,526	166,022
TOTAL LIABILITIES AND EQUITY	182,523	181,474

STATEMENT OF CHANGES IN EQUITY

in thousands of euros

Parent	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2022	7,929	793	156,486	165,208
Net profit for financial year	-	-	18,514	18,514
Dividends	-	-	(17,700)	(17,700)
Balance as at 31.12.2023	7,929	793	157,300	166,022
Carrying amount of holdings under control or significant influence				(115,294)
Value of holdings under control or significant influence under the equity method				161,327
Adjusted unconsolidated equity as at 31.12.2023				212,055
Net profit for financial year	-	-	31,514	31,514
Dividends	-	-	(23,010)	(23,010)
Balance as at 31.12.2024	7,929	793	165,804	174,526
Carrying amount of holdings under control or significant influence				(109,989)
Value of holdings under control or significant influence under the equity method				189,721
Adjusted unconsolidated equity as at 31.12.2024				254,258

Adjusted unconsolidated equity is used as the basis for verifying compliance with equity requirements set forth in the Commercial Code.

CASH FLOW STATEMENT

in thousands of euros

	2024	2023
Cash flows from operating activities		
Operating profit (loss)	1,195	1,344
Adjustments:		
Depreciation and impairment	98	100
(Profit)/loss from sale of non-current assets	-	(9)
Interest income from business activities	(5,082)	(4,473)
Change in provisions	234	(757)
Change in trade and other receivables related to operating activities	(247)	2,474
Change in trade and other payables related to operating activities	(352)	193
Interest received	2,516	1,944
Interest paid	(455)	(750)
Other finance income and costs	(72)	(172)
Total cash flows from operating activities	(2,165)	(106)
Cash flows from investing activities		
Investments in subsidiaries	(3)	(100)
Reduction of equity in subsidiary	5,307	5,700
Purchase of property, plant and equipment (excl. leased assets)	(1)	(11)
Proceeds from sale of property, plant and equipment	-	28
Interest received	53	1
Dividends received	30,793	18,113
Total cash flows from investing activities	36,149	23,731
Cash flows from financing activities		
Proceeds from borrowings	1,002	5,000
Loan repayments received	(8,401)	(11,180)
Repayments of lease liabilities	(92)	(100)
Dividends paid	(22,940)	(17,679)
Total cash flows from financing activities	(30,431)	(23,959)
Net increase/decrease in cash and cash equivalents	3,553	(334)
Cash and cash equivalents in the beginning of period	211	545
Cash and cash equivalents at end of the period	3,764	211

MANAGEMENT REPORT

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BUSINESS MODEL: CONSTRUCTION SERVICES TO CUSTOMERS

Merko offers strategic advisory services and high-quality full-scale solutions throughout the entire process as part of its full construction service, according to the customer's needs: preparation, design, construction, fittings and warranty-period service. At the customer request, we offer a real estate development service in addition to the construction service, from acquiring a suitable property and organizing the detailed planning procedure to the completion of the object. For the best outcome, Merko should be engaged already at the outset of the construction project planning period, and cooperation should take place in the framework of the design and construction agreement.



BUSINESS MODEL: PROPERTY DEVELOPMENTS

Merko has become one of the leading apartment developer brands in the Baltics. To ensure the best quality, we manage all phases of the development project: acquisition of the property, planning, design development, construction, sales, and service during the warranty period. As a developer of apartments, Merko focuses on developing comprehensive and modern living environments.



RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		2024	2023	2022
Revenue	million EUR	539.0	466.3	409.6
Gross profit	million EUR	95.9	65.0	53.7
Gross margin	%	17.8	13.9	13.1
Operating profit	million EUR	72.5	44.5	35.0
Operating profit margin	%	13.4	9.5	8.6
Profit before tax	million EUR	76.4	52.0	37.1
EBT margin	%	14.2	11.1	9.1
Net profit	million EUR	64.6	45.9	34.1
attributable to equity holders of the parent	million EUR	64.7	46.0	34.6
attributable to non-controlling interest	million EUR	(0.1)	(0.1)	(0.5)
Net margin	%	12.0	9.9	8.5
Other income statement indicators				
EBITDA	million EUR	75.7	48.1	37.9
EBITDA margin	%	14.0	10.3	9.3
General expense ratio	%	5.0	5.1	4.9
Labour cost ratio	%	9.8	10.8	10.3
Revenue per employee	thousand EUR	882	718	623
Other significant indicators				
		31.12.2024	31.12.2023	31.12.2022
Return on equity	%	28.4	23.4	20.4
Return on assets	%	14.8	11.8	9.2
Return on invested capital	%	29.8	20.6	15.1
Assets	million EUR	447.1	425.3	387.4
Equity	million EUR	254.3	211.9	183.7
Equity attributable to equity holders of the parent	million EUR	254.3	212.1	184.2
Equity ratio	%	56.9	49.9	47.5
Debt ratio	%	7.5	12.9	23.7
Current ratio	times	2.1	2.0	2.0
Quick ratio	times	0.9	0.9	0.6
Accounts receivable turnover	days	43	38	33
Accounts payable turnover	days	46	40	55
Number of employees as at 31.12	people	605	635	661
Average number of employees (total group)	people	611	649	657
Order book	million EUR	340.6	477.5	297.2

Calculation of ratios is provided on page 152 of the report.

ECONOMIC ENVIRONMENT IN 2024

GENERAL ECONOMIC ENVIRONMENT

	2024				2023			
	EU27	Estonia	Latvia	Lithuania	EU27	Estonia	Latvia	Lithuania
GDP annual change in current prices	+1.0%	-0.3%	-0.4%	+2.7%	+0.4%	-3.0%	+2.85%	+0.3%
Construction price index annual change	+2.4%	+1.5%	+5.6%	+5.0%	+6.9%	+5.2%	+4.7%	+7.2%
Unemployment rate (end of period)	5.8%	7.8%	7.0%	7.0%	6.0%	6.9%	7.1%	8.5%

Source: Eurostat

The keywords for 2024 shall be economic stagnation, reduced competitiveness and tax increases to cover defence needs. The expected economic recovery in Europe did not occur, and the impact of the lowering of base interest rates initiated by the ECB in the summer of 2024 will only reach the real economy in 2025, with the same delay as the impact of the increases that began in 2022. Scandinavian central banks began lowering base interest rates even later. Accordingly, European companies have not had sufficient prerequisites to transform their operations in the face of increased input prices, high competition and additional costs associated with the war in Ukraine and the green deal.

The Baltic region was also affected by the persistent uncertainty of Estonian consumers, and the entire region remained a high-risk area for foreign investors. In 2024, the trend of local investors buying out companies from foreign owners continued. The relative stability of material and energy prices had a positive impact, but the increase in labour costs due to continued adjustment to past inflation. In the second half of the reporting year, the economic recession ended, but only Lithuania had the strength to turn the economy around.

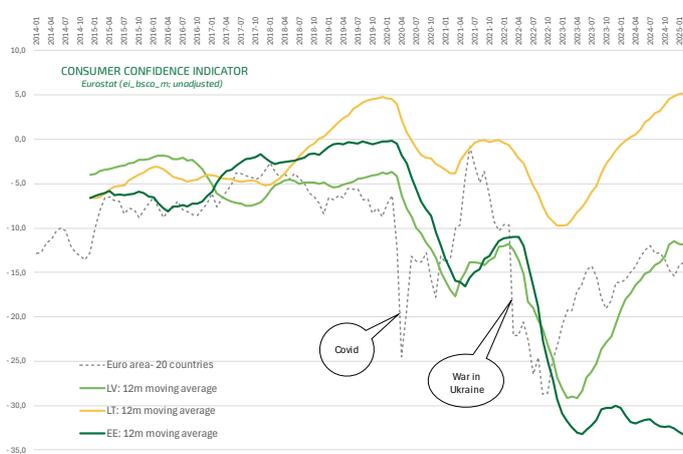
Estonia, with its exports largely oriented towards Scandinavian countries, continued to suffer from reduced demand in the Nordic region. Latvian exports fell for similar reasons. Only Lithuania experienced a smaller decline in foreign demand. Year-on-year, the gross domestic product of the euro area (EU 20 countries) grew by only +0.85% (2023 GDP growth of +0.4%). In Estonia, the GDP decline in the 2022-2024 period was measured during 8 quarters in total, although the results for the second half of 2024 may still be subject to correction of estimates. Lithuania was the only Baltic country to avoid a more lasting economic recession, starting to recover in the spring of 2023. According to preliminary data, in 2024, the gross economic output in the euro area and the entire European Union grew by more than 3% only in Denmark (+3.57%), Croatia (+3.81%) and Malta (+5.97%). Only 5 countries showed a decline in GDP over the year, with the largest decline, according to Eurostat, in Austria (-1.17%), followed by Estonia (-0.26%) and Latvia (-0.44%).

The emphasis placed on fiscal balance and the need to collect new taxes accompanying the change of government in Estonia during the summer of 2024 remained prevalent throughout the year, increasing uncertainty about the future. In Lithuania, both presidential and parliamentary elections were held in 2024, and accordingly, the situation in 2024 was rather stable overall, as a new government usually makes sweeping changes with some delay after taking office. In Latvia, the incumbent government remained throughout the year, and despite a similar debate in Estonia about the budget and new taxes, most of the society was rather satisfied with the solutions found, and uncertainty was clearly on a downward trend.

The unemployment rate remained surprisingly low despite the economic distress. The unemployment rate in the euro area remained practically unchanged, at 5.9% in December 2024 (5.8% and 6.6% in December 2023 and 2022, respectively). Of the Baltic countries, unemployment clearly increased only in Estonia, where the unemployment rate rose to 7.4% in December 2024, an increase of as much as 1.1 percentage points. Unemployment increases in Latvia and Lithuania remained less than half a percentage point. At the same time, labour costs in the industry, construction and service sectors continue to grow by double digits in Latvia and Lithuania, according to the latest published data. The low unemployment rate and continued strong wage growth may keep inflation in the Baltics above the ECB's 2% target for a longer period. Since the monetary policy of the euro area is carried out by the ECB, not by local central banks, there is no possibility in the Baltics to control inflation with monetary policy tools. Fiscal policy will remain rather expansionary due to essential defence spending and the decision to continue with the green deal support measures.

Labour cost index annual change (%)	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
Euro area	5.1	4.7	5.2	4.1	4.8	5.1	4.8
Estonia	11.1	12.5	11.5	11.0	8.2	5.2	7.9
Latvia	6.2	11.9	11.9	11.2	13.6	11.0	12.9
Lithuania	13.3	12.5	11.6	11.0	11.0	11.2	11.0

Source: Eurostat; dataset lc_lci_r2_q



CONSTRUCTION MARKET

Despite the construction volumes increase at the end of the year, Estonia fell short of 2023 overall, as the decline in housing and road construction outmatched the defence and railway procurements brought to replaced them. Latvia's construction volumes declined in 2024, the suspension of Rail Baltica works certainly played a role. In Lithuania, the market behaved in the opposite way, with market volumes continuing to grow, supported by renewable energy and defence facilities. In all Baltic countries, the market was weak in the housing and commercial property segments in 2024, although the end of the year showed clear signs of an improvement in housing construction and several commercial investors also became more active. Due to the increased uncertainty of geopolitical situation at the beginning of 2025, we will definitely see an increased demand

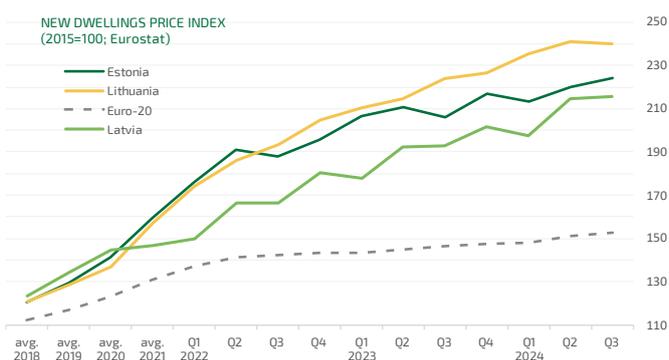
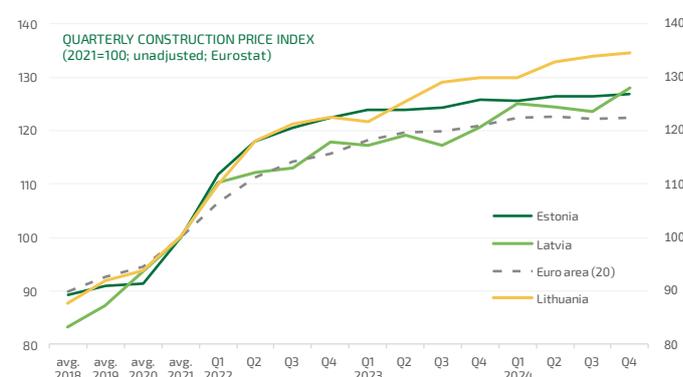
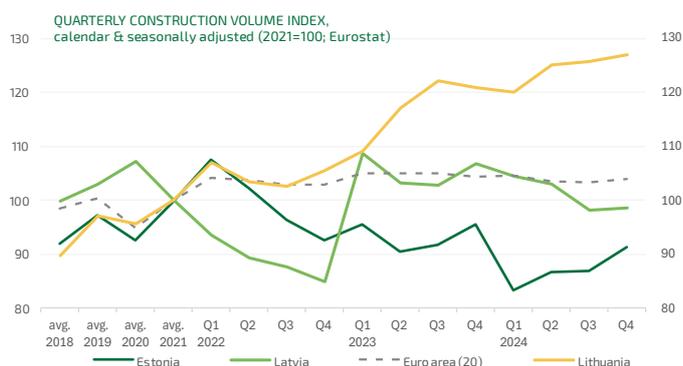
Construction prices remained relatively stable throughout 2024, with a small increase mainly due to labour costs. In the longer term, we continue to expect that upward pressure on prices will remain greater. The decline in interest costs has not caused a decline in the prices of construction machinery and material manufacturers, and there is no reason to expect wage costs to move downward. The EU market protection method (CBAM: carbon border adjustment mechanism) accompanying the green deal has led manufacturers of imported construction materials to understand that the price increase associated with carbon trading should be spread over a longer period, and prices are gradually being increased now. Logistics prices for goods that are shipped via longer routes due to various armed conflicts remain high.

Merko group was able to increase its construction volumes despite the decline in demand in the residential and commercial real estate segments. The share of the private sector decreased and the share of the public sector grew strongly due to contracts in the defence sector. The higher share of the public sector in the contract portfolio is welcome in such difficult economic times, as the introduction of countercyclical interventions, i.e. additional construction contracts, helps the economy return to growth.

APARTMENT DEVELOPMENT

The long-awaited recovery in the new residential development segment showed its first signs in the second half of 2024. Although the volume of transactions remains low for the year as a whole, the last months of the year pleased developers with an upward shift in activity. Whether this was a one-off adjustment in anticipation of the rising tax burden in the Baltics in 2025 or a more widespread return of buyers to the market, only the second half of 2025 will tell. The Lithuanian residential real estate market continued to be more active than in the other Baltic countries and prices climbed faster, as consumer confidence remains the highest in the EU. We reiterate and extend our assessment for the year that no significant increase in new housing prices is expected and that we will see stable prices with insignificant statistical fluctuations throughout 2025.

In the Baltic states, real household income has not yet recovered from the 2021–2023 inflation spike, and the affordability of new developments is also weak. According to the Baltic Housing Affordability survey by Swedbank, apartment affordability in 2024 has begun to recover slowly, although it remains below the 2018–2022 level. In the fourth quarter of 2024, an average household was able to afford a 62.0 m² apartment in Tallinn, a 56.2 m² apartment in Vilnius, and a 96.1 m² apartment in Riga. The value of 55 m² is considered a long-term threshold of normality, i.e. it indicates the ability of the average household to purchase an average housing unit (55 m²) with a loan based on its income. Accordingly, the affordability of an average apartment is good only in Riga, normal in Tallinn, but barely affordable in Vilnius.



OUTLOOK FOR 2025

The Merko group does not independently compile macroeconomic forecasts but bases its activity plans on opinions formed by the macroeconomic forecasts of Swedbank, SEB, and Luminor.

The economic forecasts available at the time of the annual report's preparation predicted growth for Lithuania, a modest recovery for Estonia, and an intermediate outlook for Latvia. The expected economic growth in the Baltics varies between +1.5% to +3.0%. Lithuania appears to be in the best position, while the variation is greatest for Latvia. Yet the Lithuanian economy stands out in the unemployment rate forecast, as it is expected to grow or stay in the 7.1-7.5% range, while unemployment is forecast to drop in Estonia and Latvia to 7.2% and 6.5% respectively. At the same time, banks predict that inflation will retreat, ranging from 2.2 to 3.3% in Latvia and Lithuania and a bit higher in Estonia – 4.0 to 4.2%.

In spite of a fragile ceasefire in one larger armed conflict and hopes of one in another war, global instability has nothing if not grown over the past year. The new American president elected during the reporting period and inaugurated in 2025 has made a flurry of decisions on new tariffs, along with taking steps to shutter international aid programmes and walk out of climate deals. All this has hampered the international rule of law and trade. As a result, there is less confidence about the viability of the international economic model, which BRICS countries – above all, China – are trying to leverage for greater influence. On the business front, investors are focused on safe, tried-and-true home markets.

There is a general reluctance to make definitive predictions about foreign investment and, more broadly, private sector investments in the Baltic region. The mere existence of an aggressive neighbour to the east of the Baltics continues to chill the flow of foreign investment into the region and in the long term is certain to reduce demand for assets like business real estate. The establishment of infrastructure for national defence purposes and renewable energy generation plants continues, and most of the state's available budget capacity and EU structural funds are being channelled to these areas.

The rise of uncertainty, the looming choice for the European Union between defence spending or green deal costs and deeper European integration (the Draghi report) are likely to be the keywords for 2025. In spite of, or indeed perhaps because of this, the European economy is highly likely to see a recovery, since the defence spending can no longer be postponed and expectations that the Americans will continue to play global policeman as they have in the past have been dashed. Instead, faster and more specific decisions can be expected, above all in countries directly bordering conflict zones, and budgetary funds will probably be redirected from areas that provide emotional satisfaction to increasing physical security, defence capabilities and raw material and energy independence. The changes that serve as catalysts for economic growth will mean contracts for production and construction companies. Although ever-increasing administrative expenses will not disappear overnight, optimists are hoping that there will be real steps to reduce bureaucracy in the development and construction of priority projects and technologies.

CONSTRUCTION SERVICES

In 2025, the Baltic construction sector will see single-digit growth in construction volumes, primarily stemming from the beginnings of a recovery in the real estate market, supported by orders for renewable energy, defence infrastructure and Rail Baltica work. A shortage of workforce is not anticipated, but upward pressure on wages will persist to compensate for the inflation of 2022-2023. Demand for construction of wind turbines is strong and liquid and will continue to be. The share of public sector contracts is set to grow, both thanks to military projects, and segments of the Rail Baltica where actual construction is launched.

Risks in the construction sector will tend to ease from last year and order volumes will turn to growth. Desynchronization of the Baltic states from the Russian energy system was successful and it is now possible to focus more on the stability of energy prices, which is an input for all industries, leading to growth in construction of energy generation infrastructure and transmission grids. Major Baltic companies have been hit hard by the recession, but the probability of insolvency or systemic debt spiral will decline. Strong capitalization and sufficient liquidity still characterize the main contractors' segment, allowing temporary setbacks to be absorbed.

Judging by the strong financial position of the Merko Ehitus group, there is every reason to expect a successful showing in 2025. We will continue to be selective about projects with a longer duration and we will keep a close eye on developments in the economic environment, regulations and the political situation in general. A key goal of ours is to remain profitable.

APARTMENT DEVELOPMENT

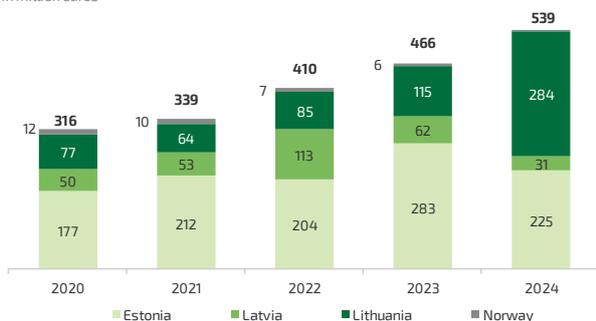
We expect that a gradual recovery in the new homes market will span the entire year, above all in Tallinn and Riga. More risk-averse foreign investors have likely left the market, so newly-built homes will again become a primary way in which locals can upgrade their living conditions. Gradual recovery in net income will increase the pool of people who can afford to buy a new home. In Vilnius the market is expected to settle down but not decline: significantly higher consumer confidence has kept the market there the most active one in the Baltics, but the slow growth in net incomes does not quite justify the activity and price level.

Merko Ehitus's long-term view of apartment development activity remains unchanged. The group is currently developing integral living environments, focusing on larger city districts, offering consistent quality and well-designed spatial solutions – and will continue to do so. In the shorter term, the group will make investment decisions based on the actual activity level on the market. In 2025, development projects will not be launched at a rate greater than what the market can bear. In the medium to long term, notwithstanding its strong financial health, Merko Ehitus will slow down preparations for development project designs; since legal acts may impose additional requirements on apartment developments (calling for shelters or consideration of life cycle impact), which may lead to the need for a redesign.

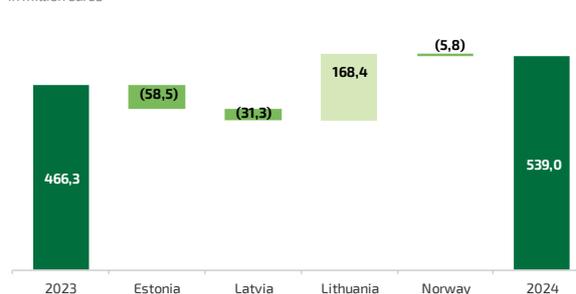
OPERATING RESULT

REVENUE AND PROFIT

DISTRIBUTION OF GROUP REVENUE BY GEOGRAPHICAL LOCATION
in million euros

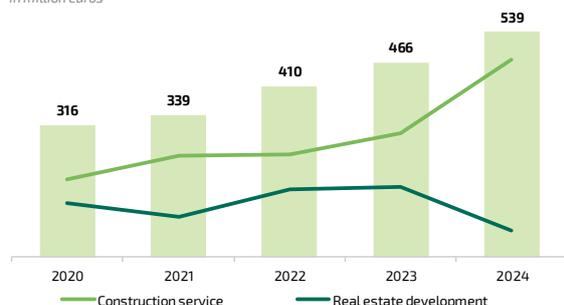


CHANGES IN GROUP REVENUE
in million euros

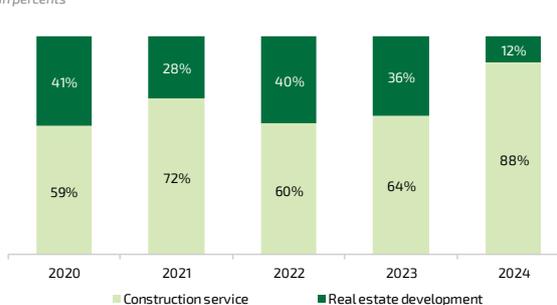


In 2024, the revenue of Merko Ehitus group was EUR 539.0 million, (2023: EUR 466.3 million). 52.6% of the period's revenue was generated in Lithuania, 41.7% in Estonia and 5.7% in Latvia (2023: 24.7% in Lithuania, 60.7% in Estonia, 13.3% in Latvia and 1.3% in Norway). Compared to 2023, the group's revenue increased by EUR 73 million or 15.6%, including a 146.1% increase in Lithuania, and the revenue decreased by 20.7% in Estonia, 50.6% in Latvia and 96.0% in Norway. The group's sales revenue increased in the construction service business area, as a result of several major construction contracts, in real estate development business area sales were more than twice lower compared to 2023.

DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
in million euros



DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
in percents



In the structure of sales revenue, construction service accounted for 88% of the group's total sales revenue (2023: 64%). The construction service continues to be selective, focusing on the appropriate risk-return ratio for the group in new projects. Bids below cost price are avoided, as there is no need to increase the portfolio of construction contracts with higher-risk projects.

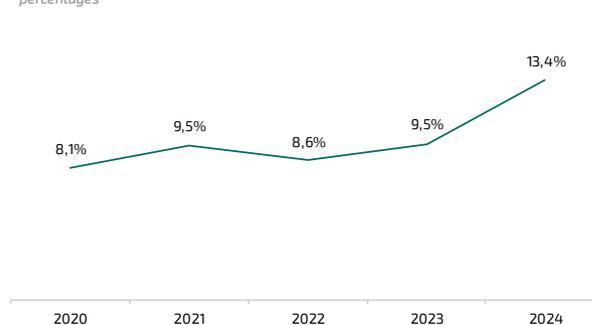
By country, Lithuania sales continued to account for the largest share of revenue – 53% (2023: 25%). The group finds it strategically important for the business operations to be diversified both geographically and in terms of business segments. Thus, the group continues to strengthen and implement its competitive advantages outside Estonia and is closely monitoring the development and opportunities throughout the Baltics.

In 2024, the group's operating profit totalled EUR 72.5 million (2023: EUR 44.5 million). The operating profit margin in 2024 (13.4%) increased by 3.9 pp compared to last year (2023: 9.5%). The operating profit was stemmed from the right decisions in terms of focusing on selected sectors and specific projects, and the teams' superb work both in terms of efficient implementation of projects and management of risks and expenses.

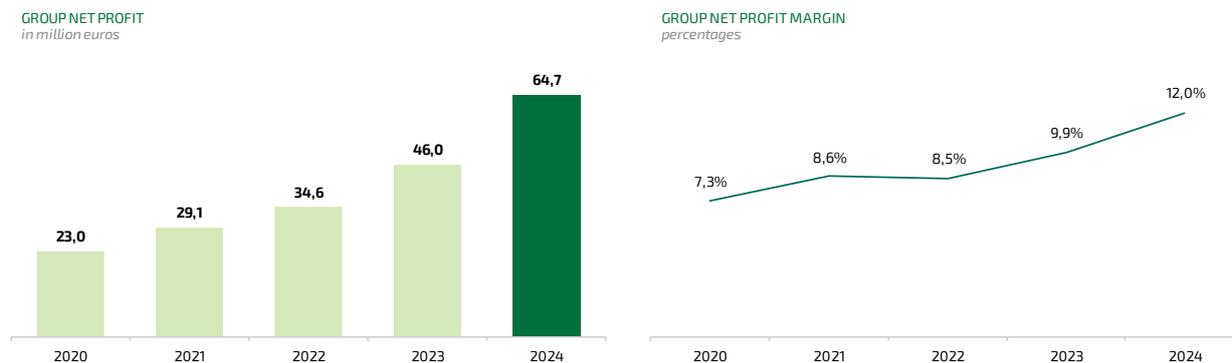
GROUP OPERATING PROFIT
in million euros



GROUP OPERATING PROFIT MARGIN
percentages



In 2024, the group's pre-tax profit totalled EUR 76.4 million and the net profit attributable to owners of the parent company was EUR 64.7 million, compared to the pre-tax profit of EUR 52.0 million and net profit attributable to owners of the parent company of EUR 46.0 million in 2023. The group's profit before tax margin was 14.2% (2023: 11.1%) and net margin was 12.0% (2023: 9.9%).



BUSINESS ACTIVITIES

The group operates in Estonian, Latvian and Lithuanian market through its subsidiaries.

See additionally the detailed management structure on page 138.



Depending on the country, the group companies provide construction and real estate development services in the following operating areas:

- **GENERAL CONSTRUCTION:** construction of various buildings, including commercial and office buildings, retail and entertainment centres, hotels and spas, as well as public buildings, dwellings and specific industrial buildings. In the context of main contracting, we provide high quality complete solutions to meet the client's needs.
- **CIVIL ENGINEERING:** design and construction of infrastructure facilities. The field includes port, waste handling and road infrastructure (bridges, tunnels, overpasses, roads), various environment protection facilities, drinking water and waste- water treatment facilities, water and sewerage mains built using both open and no-dig methods, and various other engineering and technical sites.
- **ENERGY INFRASTRUCTURE CONSTRUCTION:** Merko participates in providing energy infrastructure construction services through joint ventures operating under the Connecto brand/trademark. Connecto designs, builds, and maintains electricity, telecommunications, and gas networks.
- **ROAD CONSTRUCTION:** Tallinn Teede AS performs various road maintenance services in Estonia: road construction, maintenance repair of roads, supervision of excavation works and the condition of roads, provision of repair services for machinery.
- **CONCRETE WORKS:** solutions for buildings and infrastructure constructed of prefabricated or concrete panels by group companies and out-of-house customer.
- **REAL ESTATE DEVELOPMENT:** development of apartment projects, long-term real estate investments and real estate projects for business purposes.

One of the keys to Merko's success is the wide scale of its operations – if a certain business segment has more or less work, it is possible to re-assign staff and manage risks. A professional team of project managers and engineers and experience in implementing complex projects using contemporary engineering solutions are also a competitive advantage. Merko's strength is also in completing simultaneously various complex and long-term projects, while providing high quality construction services to customers with different requests.

Merko group's investments in 2024 are presented in detail in Notes 23–25 to the financial statements.

The legal structure of the Merko group is presented in detail in Notes 19 and 20 to the financial statements.

CONSTRUCTION SERVICE

The construction service in Baltic states consists of services in the fields of general construction, civil engineering and concrete works and, through the joint ventures operating under Connecto brand, Merko provides services for the construction of energy infrastructure. In addition, the group company Tallinn Teede AS offers road construction services in Estonia.

million EUR

	2024	2023	CHANGE
Revenue	474.6	298.2	+59.2%
% of total revenue	88.0%	63.9%	
Operating profit	59.4	20.5	+189.8%
Operating profit margin	12.5%	6.9%	

In 2024, the revenue of the construction service segment was EUR 474.6 million (2023: EUR 298.2 million). Compared to the previous year, sales revenue in the business area increased by 59.2%. However, the group will continue to remain selective regarding its construction contracts and will not set the main objective of growth in sales revenue. The construction service segment revenue for 2024 made up 88.0% of the group's total revenue, having increased by 24.1 pp compared to the year before (2023: 63.9%).

In 2024, the group earned an operating profit of EUR 59.4 million in this segment (2023: EUR 20.5 million). The operating profit margin was 12.5%, which is 5.6 pp higher than the comparable ratio in 2023 (6.9%). The operating profit margin was 12.5% (12M 2023: 6.9%). The operating profit was mainly affected by faster-than-expected progress in contract execution and the resulting savings in site costs, as well as successful tactics and actions in mitigating material and subcontracting price risks.

Private sector demand continued to shrink throughout 2024 in response to increased economic uncertainty, and this led to a decline in construction volumes in the Baltics for the year as a whole. The public sector's priorities have also changed, there has been a significant increase in the procurement of defence-related objects, but due to the rigidity inherent in the sector, procurement processes have been delayed and, accordingly, the introduction of contra-cyclical orders to the market is slow and meagre. Overall, public procurement is prevalent on the market, with a prominent exception for private sector investment in the renewable energy segment.

Among the substantial projects in process that started in 2024 and earlier and will continue in 2025 were, in Estonia, the construction works of the Hampton by Hilton and Hyatt hotel buildings, Arter Quarter, Defence Forces' buildings in the Ämari campus, tram line connecting Old Harbour and Rail Baltic's Ülemiste passenger terminal and the first phase of Ülemiste terminal as well as the fourth stage of Rail Baltica Harjumaa main line section and road viaducts in Tõdva. In Lithuania, larger projects were construction of wind farm infrastructure works in Kelmė, Pagėgiai and Telšiai region and a substation in Kelmė as well as various NATO training centres buildings and infrastructures were underway. In Latvia, the group was working on the construction of a solar panel power plant in Vārme parish and student hotel in Riga.

LARGEST PROJECTS COMPLETED IN 2024

PROJECT NAME		LOCATION	COUNTRY
Hampton by Hilton hotel	new	Tartu mnt 49, Tallinn	Estonia
Educational building of the Rae state gymnasium	new	Aruküla road 22, Rae Parish, Harju County	Estonia
Metec factory	new	Tehno road 8, 12, 14, Kambja Parish, Tartu County	Estonia
Logistic centre at Paemurru 1	new	Paemurru 1, Maardu	Estonia
Barracks in the military campus	new	Ämari, Vasalemma Parish, Harju County	Estonia
NATO training center buildings	new	Riešė, Vilnius	Lithuania

REAL ESTATE DEVELOPMENT

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

million EUR

	2024	2023	CHANGE
Revenue	64.5	168.1	-61.6%
incl. revenue from sale of apartments	58.9	137.5	
incl. construction service to joint venture projects	1.9	24.7	
% of total revenue	12.0%	36.1%	
Operating profit	16.5	26.7	-38.5%
Operating profit margin	25.5%	15.9%	

A total of 323 apartments (incl. 31 apartments in a joint venture) were sold in 2024 at the total value of EUR 58.9 million (excl. VAT), compared to 948 apartments (incl. 213 apartment in a joint venture) and EUR 137.5 million in 2023. In addition, the group sold 11 commercial areas (incl. 10 in a joint venture), in 2023: 27 commercial areas (incl. 13 in a joint venture). Of the 323 apartments sold 126 were located in Estonia, 83 in Latvia, 114 in Lithuania. In the revenue and operating profit of the real estate development segment also the sale of commercial premises and parking spaces of the real estate development projects and the result of projects under development of joint venture are reflected, as well as the result of public-private-partnership contracts, based on which the group companies provide property management services for earlier constructed buildings.

In 2024, the share of revenue from the real estate development segment formed 12.0% of the group's total revenue (2023: 36.1%), having decreased over the year by 24.1 pp. Compared to the previous year, 625 apartments fewer were handed over to customers in our own developments. The group had 608 fewer apartments in readiness for final sale agreements in 2024 compared to 2023, meaning that the potential to convert into sales revenue in the reporting year from preliminary sale agreements signed under law of obligations, concluded in earlier periods, was significantly lower.

In 2024, operating profit of the real estate development segment amounted to EUR 16.5 million (2023: EUR 26.7 million) and the operating profit margin was 25.5% (2023: 15.9%), which increased by 9.6 pp compared to the same period previous year. The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, incl. the land acquisition price. Profitability also depends on the distribution of sales revenue in the development business segment between sub-activities (sale of apartments, construction services for joint projects, sale of immovable properties and -investment property). In case of construction services for joint projects, the profit from construction is recognised in the course of construction and the profit from development is realised at a later stage, upon sale of apartments to the final customer, based on the equity method.

Managing a substantial portfolio of immovables requires careful and detailed planning of the whole process: the development of apartment buildings starts by planning, designing and construction, and ends with the sale of completed apartments and warranty service. The underlying idea of our development activities is to value land through detailed planning and building development, to find customers for the property and sell the property as developed real estate.

Homes developed and built by Merko are characterised by integrated living environments, energy efficiency, good sound insulation from indoor and outdoor noise as well as healthy interior climate. Effective ventilation in apartments, as well as stairwells, elevators and car parks help to minimize the risk of airborne diseases.

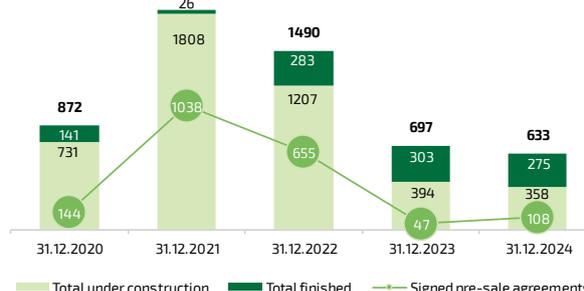
The objective of the group is always to create homes that architecturally fit the specific region, have an attractive living environment, functional design solutions, quality interior design materials, optimal construction cost and energy efficiency. A home that is being offered for customers must be of high quality and maintain its value in years to come.

In real estate development joint projects, Merko brings its knowledge and experience of real estate development and construction to the partnership and the other party provides the plot and/or investment. The relationships between the parties are regulated by a stakeholders' contract that specifies the liability, rights and responsibility of each partner.

APARTMENTS SOLD / APARTMENT REVENUE
pcs / in million euros



GROUP APARTMENTS INVENTORY
pcs

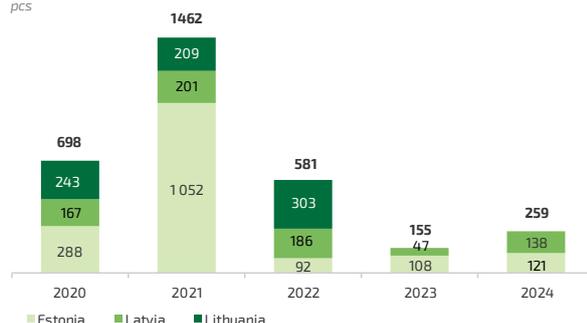


At the end of the period, Merko Ehitus group's inventory of apartments amounted to 633 units, of which 275 were completed and 358 in construction. 108 apartments were covered with preliminary agreements, incl. 11 completed apartments and 97 apartments under construction. The sale of these apartments had not yet been finalised and the apartments had not been delivered to customers, as the development sites are still under construction or the sites were completed at the end of the reporting period and the sales transactions have not all been finalised yet.

As at 31 December 2024, Merko Ehitus group had a total of 525 apartments for active sale (as at 31 December 2023: 650 apartments), for which there are no pre-sale agreements and of which 264 have been completed and 261 are under construction. The number of apartments on sale as at 31 December 2024 has decreased by 125 apartments compared to 31 December 2023.

In 2024, the group invested a total of EUR 41.6 million (2023: EUR 80.2 million) in new development projects launched in 2024 as well as projects already in progress from previous year.

APARTMENTS LAUNCHED BY GEOGRAPHICAL LOCATION
pcs



INVESTMENTS IN APARTMENT DEVELOPMENT PROJECTS AND LAND PLOT ACQUISITIONS AND DISPOSALS
in million euros



The group's long-term aim is to continue investing in residential real estate projects. The actual annual volumes depend, more broadly, on global developments and, more narrowly, on the situation of the apartment markets in the Baltic states as well as very directly on the pace of construction permit issuance.

One of the group's objectives is to keep the land plot portfolio at a level that ensures stable inventory of property development projects, considering the market conditions. As at 31 December 2024, the group's inventories included land plots with development potential, where the construction works had not started, of EUR 87.7 million (31.12.2023: EUR 89.4 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY AS AT 31.12.

million EUR

	31.12.2024	31.12.2023
Estonia	30.9	32.5
Latvia	23.0	23.9
Lithuania	32.4	31.5
Norway	1.4	1.5
Total	87.7	89.4

In 2024, the group has obtained new land plots for real estate development purposes and paid land-plot related levies worth EUR 2.0 million (in 2023, new land plots were acquired at a cost of EUR 5.7 million).

THE APARTMENT DEVELOPMENTS COMPLETED IN 2024

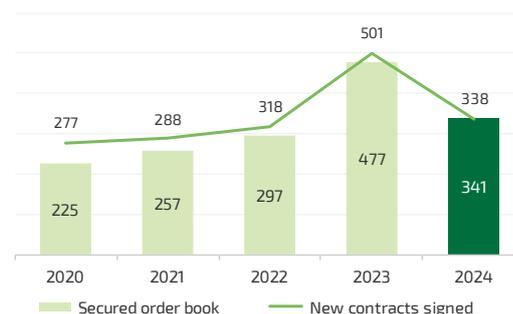
PROJECT		LOCATION	NUMBER OF APARTMENTS
Sõpruse pst 26//28 (Tihase)	new	Tallinn, Estonia	46 apartments
Paekalda 19 and 21 (Lahekalda 5th stage)	new	Tallinn, Estonia	108 apartments
Allveelaeva 4 (Noblessner)	new	Tallinn, Estonia	148 apartments
Hipokrāta 18 (Merks Mežpilsēta 2nd stage)	new	Riga, Latvia	47 apartments

SECURED ORDER BOOK

As at 31 December 2024, the group's secured order book (excluding own property developments) amounted to EUR 340.6 million as compared to EUR 477.5 million as at 31 December 2023. The secured order book excludes the group's proprietary residential development projects and work related to developing real estate investments.

In 2024, new construction contracts worth EUR 338.0 million were signed (excludes property developments), compared to EUR 500.8 million in the prior year.

SECURED ORDER BOOK
in million euros



LARGEST CONSTRUCTION CONTRACTS SIGNED IN 2024

in millions of euros (as announced during 2024 on Nasdaq Baltic stock exchange)

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION DATE	COST
Design-and-build contract of an office building located at Tartu mnt 1, Tallinn	Estonia	In early 2028	64.3
Design and construction contract for the construction of the fourth stage of Rail Baltica Harjumaa main line railway infrastructure on Saku-Harjumaa border section. In carrying out the works, AS Merko Ehitus Eesti is the leading partner with a 51:49 ratio	Estonia	Autumn 2028	59.9
Construction contract for performing the construction works of the wind farm balance of plant in Telšiai district	Lithuania	First half of 2026	55.0
Design- and construction contract for additional works on the construction of new infrastructures of the NATO training centre in Pabradės	Lithuania	In early 2026	20.0
Construction contract for the construction of solar panel power plant located in Vārme parish	Latvia	August of 2025	20.0

In 2024, the volume of concluded contracts in the private sectors accounting for 48% of the balance of the group's secured order book (31.12.2023: approximately 56%).

CASH FLOWS

The change in short-term investments and cash equivalents in 2024 of Merko Ehitus group was positive by EUR 14.6 million and as at 31 December 2024 the group had cash and cash equivalents in the amount of EUR 91.9 million (31.12.2023: EUR 77.3 million).

The operating cash flows of 2024 were positive by EUR 57.8 million (2023: positive by EUR 114.9 million), cash flow from investing activity was positive by EUR 3.2 million (2023: positive by EUR 1.0 million) and the cash flow from financing activity was negative by EUR 46.4 million (2023: negative by EUR 56.2 million).

CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The cash flow from operating activities had positive effect from EBITDA of EUR 75.7 million (2023: positive effect of EUR 48.1 million), from operating activities came from changes in receivables and liabilities related to construction contracts of EUR 6.3 million (2023 positive effect of EUR 35.4 million), from the changes in trade and other receivables related to operating activities of EUR 0.8 million (2023: positive effect of EUR 0.8 million) and from the change in the provisions of EUR 5.6 million (2023: positive effect of EUR 3.9 million). The negative effects to cash flow came from the change in trade and other payables related to operating activities of EUR 14.0 million (2023: positive effect of EUR 9.4 million) and from the change in inventories of EUR 1.9 million (2023: positive effect of EUR 25.7 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments. While the negative cash flow was in 2024 due to the increase in the volume of inventories related to the construction of apartments, in 2023 the positive cash flow in the sale of apartments was due to a decrease in inventories. The interest paid in the amount of EUR 2.4 million (2023: EUR 3.5 million) and corporate income tax was paid in the amount of EUR 9.3 million (2023: EUR 3.6 million).

Cash flows from investing activities include negative effect include negative effect from the disposal of subsidiary in the amount of EUR 4.3 million (2023: EUR 0), from the acquisition of non-current assets in the amount of EUR 1.9 million (2023: EUR 1.4 million) as well from the purchase of other financial investments in the amount of EUR 10.0 million (2023: EUR 0). The positive effect came from the sale of non-current assets in the amount of EUR 0.6 million (2023: EUR 1.2 million), from the sale of investment property of EUR 6.5 million (2023: EUR 0), EUR 10.3 million from the dividends received from the joint venture (2023: EUR 1.2 million) and EUR 2.0 million interest received from banks (2023: EUR 0).

To support cash flows from operating activities the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (7.5% of total assets as at 31.12.2024; 12.9% as at 31.12.2023).

In cash flows from financing, the larger negative factors were dividend payment of EUR 22.9 million (2023: EUR 17.7 million), the repayments of lease liabilities in the amount of EUR 1.6 million (2023: net negative cash flow of EUR 1.3 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 1.7 million (2023: negative cash flow in the net amount of EUR 1.6 million) and from the net change in loans received and repaid in connection with development projects in the amount of EUR 18.8 million (2023: net negative cash flow of EUR 13.2 million), which resulted from the repayment of loans taken for residential development projects, as well from the change in loans related to other activities in the amount of EUR 1.3 million (2023: net negative cash flow of EUR 22.4 million).

RISK MANAGEMENT

Day-to-day risk management is part of the strategic management of the group. All major risks must be identified and managed optimally so that the company achieves its strategic and financial objectives. We consider it important to assess the risks of a group on an aggregated basis and not on the basis of the impact factors of a single risk. Constant attention to risk management makes it possible to exclude or minimise potential economic losses.

The main risks we consider are business, market, financial and operational risks, which in turn include interest rate, currency, credit, liquidity, capitalisation and legal risks. Based on the group's long-term average consolidated turnover, profits, capitalisation and market position, we have set the materiality limit at EUR 3 million. In the last 5 years, none of the above risks has had an impact beyond the materiality threshold. It must not be seen as a guarantee that there will be no future risk events beyond the materiality limit. Therefore, risk management is an ongoing process integrated into day-to-day activities to minimise the likelihood of risk materialisation.

The management board of each of the subsidiaries of the group develops, implements and maintains in good order the processes embedded into the activities of the respective company, to steer and manage the risks affecting the activities and results of the group. Each group entity and business unit shall ensure that the risks are managed on an ongoing basis in the light of the objectives assigned to it. Taking risks is a normal part of doing business, but one must be convinced that if the risk materialises, the purposeful and sustainable operations arising from the strategy of the company and business unit can continue. Risk management shall be coordinated by the management board of the group. The group assesses prudently the risks affecting both current business and investments.

Risk management, in a generalised manner, consists of the following steps and activities which, if applied in associated manner, enable the risks to be manageable:

- awareness and understanding of the risks involved in business activities;
- risk mapping and measurement;
- the development and implementation of risk management measures (prevention, mitigation, transfer, etc.);
- analysis of occurrences of risk realisation and repeating the previous steps.

When a risk with an impact exceeding the significance limit appears or materializes, an analysis of the risk and its causes is started immediately, and the holding company of the group is informed of the potential or materialized risk. According to the nature, impact and manageability of the risk, the management of the group decides on the urgency of action, measures to be taken and allocation of resources to manage the risk.

Business risk

Under business risks, we mean the inherent risks of working in our core business markets – the general construction and residential real estate development, which are the basis for profitable operations.

A more comprehensive description of business risks and their management can be found on the group's website <https://group.merko.ee/en/investors/risk-management/business-risk/>, where the current business risk management policy is presented.

Market risk

Under market risk, we mean the impact from the changes in different markets, where group companies do not participate daily professionally, on the financial position of the group. In particular, international money and capital markets are such markets that have an impact on the financial position of the group.

A more comprehensive description of market risks and their management can be found on the group's website <https://group.merko.ee/en/investors/risk-management/market-risk/>, where the current market risk management policy is presented.

Financial risk

Under financial risks, we mean the risks inherent in the management of the financial situation of the group and of each company within the group, as well as third-party solvency risks.

A more comprehensive description of financial risks and their management can be found on the group's website <https://group.merko.ee/en/investors/risk-management/financial-risk/>, where the current financial risk management policy is presented.

Operational risk

By operational risks, we mean risks caused due to insufficient or non-functioning processes, people, equipment, systems or external events (attacks, disruptions in supply chains, tightening regulations).

A more comprehensive description of operational risks and their management can be found on the group's website <https://group.merko.ee/en/investors/risk-management/operational-risk/>, where the current operational risk management policy is presented.

SHARE AND SHAREHOLDERS

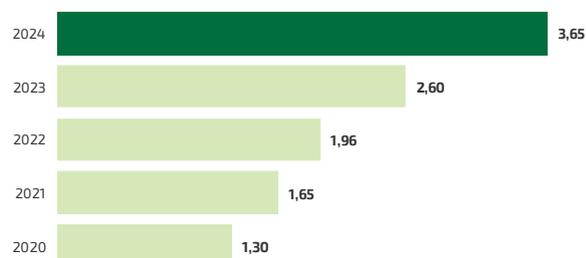
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As at 31 December 2024, the company has 17,700,000 shares. The number of shares did not change during 2024.

In 2024, 23,384 transactions were conducted with the shares of Merko Ehitus in the course of which 0.79 million shares were traded (4.5% of shares outstanding), with the total monetary value of transactions at EUR 13.6 million (comparative data for 2023: 28,455 transactions, in the course of which 0.84 million shares were traded (4.7% of shares outstanding) and the total monetary value of transactions was EUR 12.8 million). The lowest share price was EUR 15.10, and the highest share price was EUR 21.55 (2023: EUR 14.14 and EUR 16.36 respectively). The closing price of the share as at 31 December 2024 was EUR 20.85 (31.12.2023: EUR 15.30). As at 31 December 2024, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 369.0 million, increased by 36.3% compared to the end of the equivalent period in the prior year (31.12.2023: EUR 270.8 million).

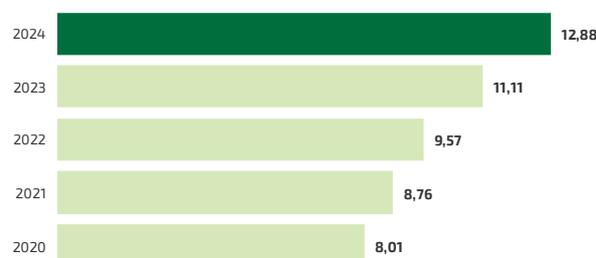
INFORMATION ON SECURITY

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

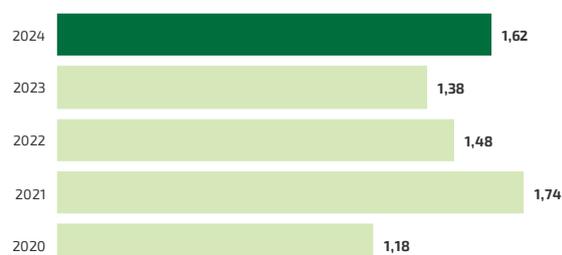
EARNINGS PER SHARE (EPS) euros



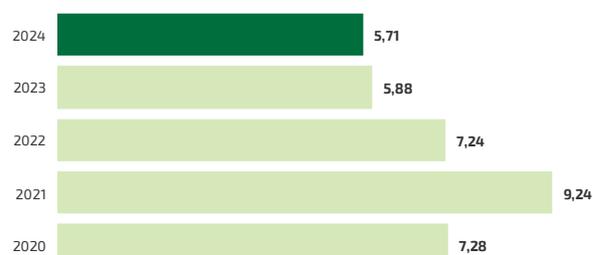
EQUITY PER SHARE euros



P/B RATIO times



P/E RATIO times



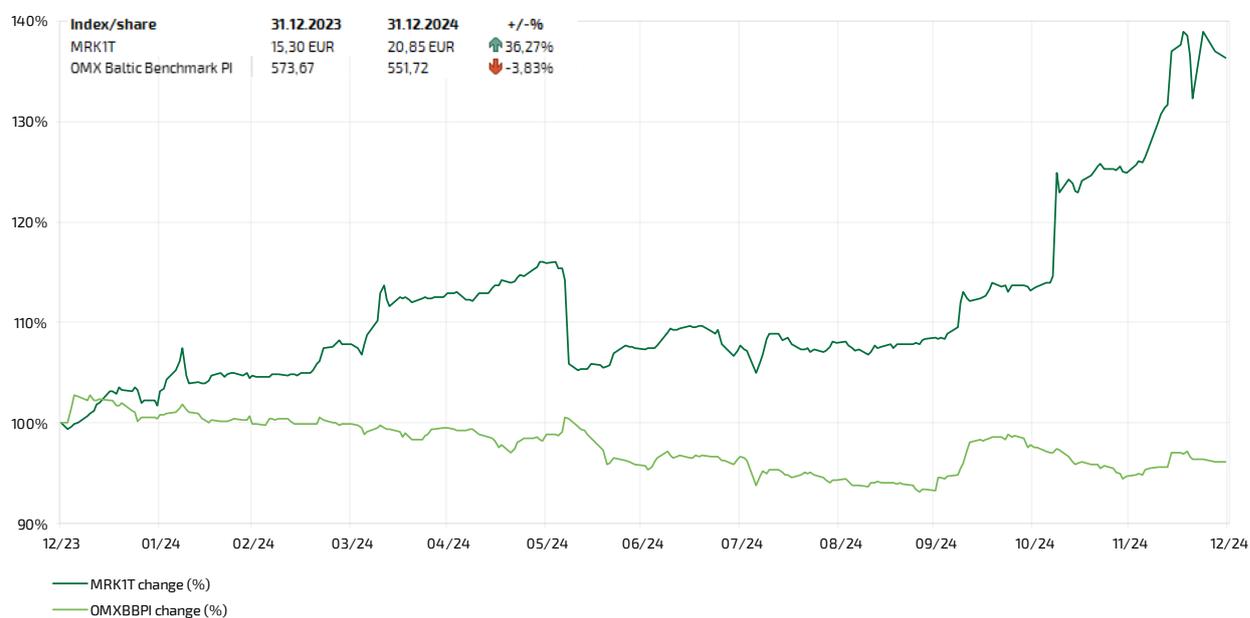
TRADING HISTORY OF SECURITY, IN EUROS

	2024	2023	2022
Highest	21.55	16.36	16.96
Lowest	15.10	14.14	11.60
Average	17.00	15.18	14.50
Closing as at 31.12	20.85	15.30	14.16
Change as at 31.12, %	+36.27	+8.05	-6.96
Traded shares, pcs	791,511	840,670	1,218,741
Turnover, million EUR	13.57	12.85	18.16
Market value as at 31.12, million EUR	369.0	270.8	250.6

STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.12.2024

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	6	0.05%	1,366,789	7.72%
10 001 – 100 000	45	0.35%	971,925	5.49%
1001-10 000	532	4.13%	1,423,225	8.04%
101-1000	2,848	22.12%	950,647	5.37%
1-100	9,444	73.34%	244,728	1.39%
Total	12,876	100%	17,700,000	100%

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX BALTIC BENCHMARK PRICE INDEX IN 2024



SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.12.2024 AND CHANGE COMPARED TO THE PREVIOUS YEAR

	NUMBER OF SHARES	% OF TOTAL 31.12.2024	% OF TOTAL 31.12.2023	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	429,500	2.43%	2.42%	1,000
Firebird Republics Fund Ltd	356,335	2.01%	1.81%	36,749
Firebird Avrora Fund Ltd	208,178	1.18%	1.07%	18,061
OÜ Alar Invest	136,000	0.77%	0.77%	-
Clearstream Banking AG	118,533	0.67%	0.64%	4,902
Firebird Fund L.P.	118,243	0.67%	0.59%	14,522
Siseinfo OÜ	100,000	0.56%	0.56%	-
Hans Palla	61,000	0.34%	0.34%	-
Alforme OÜ	50,000	0.28%	0.28%	-
Total largest shareholders	14,320,475	80.91%	80.47%	75,234
Total other shareholders	3,379,525	19.09%	19.53%	(75,234)
Total	17,700,000	100%	100%	-

DIVIDENDS AND DIVIDEND POLICY

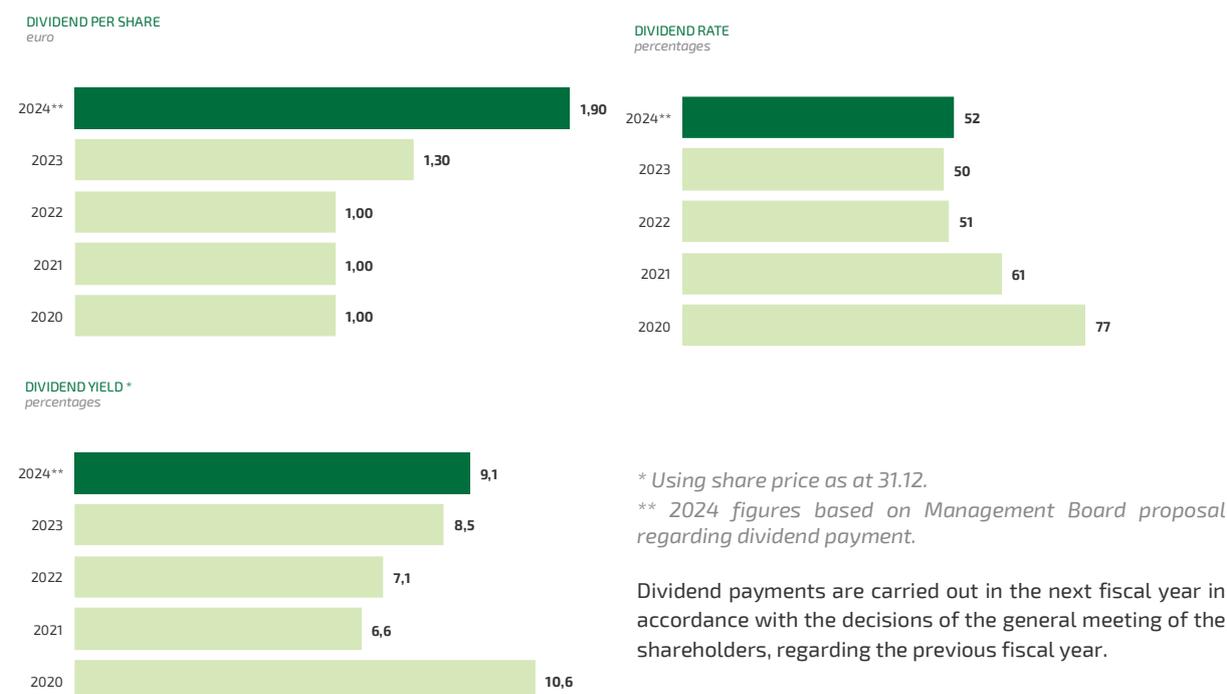
The distribution of dividends to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

According to AS Merko Ehitus long-term financial objectives, 50-70% of the annual profit are distributed to shareholders as dividends.

On 8 May 2024, the general meeting of shareholders of AS Merko Ehitus approved the Supervisory Board's proposal to the shareholders to pay out the total amount of EUR 23.0 million (EUR 1.30 per share) as dividends from net profit brought forward, which is equivalent to a 50% dividend rate and an 8.5% dividend yield for the year 2023 (using the share price as of 31 December 2023). Comparable figures in 2023 were accordingly: EUR 17.7 million (EUR 1.00 per share) as dividends, which is equivalent to a 51% dividend rate and a 7.1% dividend yield for the year 2022 (using the share price as at 31 December 2022).

The Management Board, in coordination with the Supervisory Board, proposes to pay the shareholders EUR 33.6 million as dividends from net profits brought forward (EUR 1.90 per share) in 2025, which is equivalent to a 52% dividend rate and a 9.1% dividend yield for the year 2024 (using the share price as at 31 December 2024).

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



SUSTAINABILITY AND SOCIAL RESPONSIBILITY

SIGNIFICANT PROJECTS COMPLETED IN 2024



PROJECTS IN THE EDUCATIONAL SPHERE

Over the years, Merko has built dozens of school buildings and in 2024, the Rae State Gymnasium in Harju County was added to our portfolio. The school building has three above-ground and one below-ground storeys, plus outside areas for sports and outdoor education, access roads and paths, a parking facility along with electric car charging points and a bicycle parking facility for as many as 195 bicycles. The school is attended by 540 students and employs 60 teachers.

The school building, which was built as part of the Estonian state gymnasiums programme, relies on timber throughout the structure. The primary elements use cross-laminated timber panels, combined with each other, glulam posts and beams. On the exterior, the siding is wood, while on the interior, structural timbers have been skilfully and intelligently integrated with other materials. All this adds up to a study environment with a calm and very wood-infused atmosphere. The use of wood also continues in the fences and bicycle parking area outdoors, and even the concrete surfaces were given a distinctive wood pattern using formwork and boards. The state high school won the title of Estonia's best wood building in 2024.



PROJECTS IN THE ENERGY SECTOR

We have built various energy infrastructure projects in Estonia, Latvia and Lithuania. In 2024 in Lithuania, we focused mainly on renewable energy projects, including wind farms, which have key importance for ensuring the country's energy independence. Merko has become Lithuania's leading builder of wind energy infrastructure – the first foundations for turbines were installed by UAB Merko Statyba in 2015, and the company installed its 200th wind turbine foundation in 2024.

In 2024, Merko's Lithuanian team constructed a total of 88 turbine foundations, on three sites in Kelmė region and one in Pagėgiai region, where Merko built transformer substations for wind farms, and installed necessary infrastructure for the farms and substations. In addition, also in 2024, the company began constructing foundations in the Telšiai region for 20 new-generation wind turbines along with supporting infrastructure. We also begin work on infrastructure for foundations for three wind generators at a facility in the Pasvalys region, along with related infrastructure (power cables and roads).

In Latvia, Merko is currently working on building a solar power plant in Vārme Municipality in Kuldīga County, which is scheduled for completion at the end of summer this year. The work includes installation of solar panels that will put out 93.5 MW, 18 medium voltage substations, 232 switchboard panels, radiation sensors, and weather station, access roads, and drainage systems, laying and connecting medium voltage cables, and testing and commissioning the plant.



PROJECTS IN THE NATIONAL DEFENCE SECTOR

Merko has made a significant contribution to national defence through construction of various buildings and infrastructures in all three Baltic states. While the focus in recent years lay on reinforcing infrastructure along Estonian southeastern border, in 2024 emphasis shifted to building national defence infrastructure in Lithuania, where buildings for the NATO training centre in Vilnius were completed and work continued on a training centre in Pabradė. Infrastructure at the latter includes, among other things, a lodging building, a multipurpose building, classrooms, offices, mess, halls, gymnasium, parking areas, new roads, and helicopter pads. This is Lithuania's biggest training centre, which will allow thousands of soldiers to train together and test their readiness. When it is completed, it will be the Baltic states most modern centre, capable of hosting up to 3,000 allied personnel.

In 2024, three new lodging facilities were completed in Estonia's Ämari Air Base, and technical utility networks were expanded to meet the greater needs of the base and allow further buildings to be planned here in future. The barracks have a total floor space of around 15,000 m² for the use of conscripts in NATO troops, workstations for active duty, personnel and housekeeping in warehouse areas. The Estonian Ministry of Defence acknowledged the efforts and significant contribution made by us to the development of a national defence in Estonia. Merko Ehitus Eesti received the silver level of the "National defence supporter" decoration, and Martin Sigus, who led the construction work on the barracks at the airbase, received the silver chest-pin from Estonian Ministry of Defence. In 2024, Merko Eesti won its first design-build alliance contract in the field of national defence and launched work on the national defence building at the Estonian Defence Forces' Raadi base in Tartu.



PROJECTS WITH INTERNATIONAL SUSTAINABILITY CERTIFICATES

Merko has the capability and long-term experience to design and build sites that meet the requirements of international sustainability certificates. Last year saw the completion of the bulk of the construction work on the Arter Quarter in Tallinn. The near-zero-energy buildings in this development were designed and built to conform to the Excellent level of the BREEAM certificate. A logistics centre in Maardu that serves the goods flows of the companies in the TKM Group also meets the same level of the BREEAM certificate. In 2024, Merko started construction of the City Plaza 2 office building in downtown Tallinn, and that one, too, will have the same certification level when completed.

MAJOR RESIDENTIAL ENVIRONMENTS BUILT BY MERKO

One of the group's strategic business areas is the development of residential real estate, and in this field, we have reached the vanguard of the best brands in the Baltics. We focus on large and contemporary living environments. To ensure the best possible quality, we manage the entirety of the development process starting from planning of buildings in the surrounding environment, design, development, and construction, all the way up to sales of apartments and commercial units within the residential developments, also providing warranty service. Over 34 years, we have built high-quality homes for close to 11,000 families and have hundreds of new homes finished and under way in Tallinn and its vicinity, Tartu, Riga and Vilnius. The companies in the Merko group are involved in shaping a multifaceted living environment, both in its various apartment projects, and on a broader level in the urban space. The goal of our activities is to leave a positive imprint on the environment and minimize the potential impact from our construction activity. The major companies in the group all measure their CO2 footprint and the results are available in our ESG report.

VILNELES SKVERAI / VILNIUS

In 2024, Merko continued work on the Vilnelės Skverai living environment in the Markučiai neighbourhood, close to the Old Town of Vilnius. It consists of a total of 26 new residential buildings with more than 1,000 apartments, and 446 homes have been completed in the first two stages. In the beginning of 2025, eight 6- and 7-storey buildings will be completed, containing 303 apartments. All have either a balcony or patio. The underground parking garage has 355 spaces, electric car charging points, bicycle parking and storage rooms. All of the residential buildings are grouped around a shared courtyard with a pleasantly landscaped recreational area and children's playgrounds. The storefronts on the ground floors of the buildings provide various vital services to the residents.

LAHEKALDA / TALLINN

This development is set on a naturally scenic promontory between the Kadriorg and Pirita districts and will be home to more than 1,000 families when it is completed. By the end of 2024, 10 buildings with 494 apartments have been completed. The interior courtyards and common areas have recreational and play areas for residents. In addition to an outdoor gym and an alley lined with swings, we also improved the development with a community garden, greenhouse, and a sculptural artwork depicting cattails. In future, there will also be a nursery school, small grocery store in a park, further improving the integral and contemporary living environment.

MEŽPILSĒTA / RIGA

Mežpilsēta is a new residential development project in one of the Latvian capitals greenest districts, Mežciems, where three 5-storey buildings were completed in 2022 with 117 apartments. Within the second stage last year, a 6-storey energy class A building with 47 homes was completed. Each apartment includes a storage unit in the basement, and that level also has a furnished recreational room with a patio that can be used by all residents for various leisure activities. Parking spaces are right outside the building, as is a children's playground and outdoor seating.

UUS-VEERENNI / TALLINN

Uus-Veerenni in the Tallinn city centre will be home to 1,400 families when it is completed. By the end of 2024, we had built 38 residential buildings with 504 apartments and 20 business premises. Parking spaces for cars are located in an underground parking garage, while visitors' bicycles can be parked by the buildings and residents can leave their bikes in storage on the parking levels. The interior courtyard has a variety of vegetation and recreational and play areas, offering possibilities for residents of different ages. In years past, we have also, besides a nursery school, developed a park and a movable activity area of a temporary nature, which is an enriching combination of sustainable solutions, art, exercise equipment, and play features, as well as an outdoor library and reading corner. In 2024, we added a community garden, small grocery store and community room. A building with 63 apartments is currently under construction and will be ready in summer of 2026.

TIHASE / TALLINN

In 2024, the Tihase development with two aboveground building blocks was completed in the Kristiine district of Tallinn, including 46 apartments and three commercial units. The luxury tier of the apartments in the 5-storey buildings come with a sauna, a roof deck that is sealed from the elements for winter use, and outdoor plunge pool. Behind the buildings is a fenced in secure courtyard with plenty of space for children to frolic and adults to take time out. Besides the play and recreational areas, the courtyard has plenty of greenery and fruit-bearing trees. Adorned by a striking graphic artwork, the underground level has parking spaces complete with electric car charging point installation readiness and storage units for keeping bikes and PLEVs. Bikes can be securely stored, maintained and washed in the common bicycle room.

LUCAVSALA / RIGA

In 2024, Merks Mājas launched an apartment development project on the Daugava River island of Lucavsala in Riga. The first stage of the project consists of three interconnected building complexes with a total of 214 apartments and two commercial units. Last year the construction of the first 9-storey building began, which will have 54 apartments and will be completed by the second quarter of 2025. The second and third building with 160 apartments is in the planning process. The apartments have an efficient, ergonomic layout with particular emphasis on home office use. Each department has a balcony, patio, or loggia, which serves as an extension of the living area and affords good views outside. The surroundings offer greenery, sports facilities, and possibilities for both active pursuits and relaxation.

ARENA GARDEN TOWERS / RIGA

Merks Mājas launched this apartment development project in the Skanstē district of Riga, one of the Latvian capitals fastest developing areas, known as a modern centre in the city. The development consists of four 13-storey apartment buildings with almost 400 apartments and two commercial units. Last year construction of the first stage began, which will result in the completion of a 13-storey energy class A building with 84 new homes by the second half of 2026. The building features different apartment types, including custom two-storey loft apartments with 6.3 m high ceilings and a private roof deck. Arena Garden Towers is Merko's first apartment development project in Latvia that uses energy piles for heating and cooling. The interior courtyard enclosed between the buildings can be accessed only through the buildings themselves, making it secure in private. Various recreational amenities are planned for the courtyard, along with the playground and an urban garden with gazebos. A terrace with a kitchen will be established on the roof of the building, offering residents yet another recreational area and panoramic views of Riga.

ÕIELEHE / OUTSKIRTS OF TALLINN

In 2024, Merko launched the Õielehe apartment development in the hamlet of Jüri in Rae Municipality near Tallinn. Surrounded by greenery and located right next to illuminated recreational trails, this living environment includes 121 apartments in 10 separate apartment buildings, plus 23 new homes in four row houses. Construction of stage one began last year, which will result in the completion by spring 2025 of two 2-storey energy class A apartment buildings with a total of 22 apartments. Each apartment comes with a personal balcony or patio. The parking space is for cars include readiness for installation of electric car charging equipment. A home-like courtyard with recreational and play areas and luxuriant vegetation belongs to the buildings.

SOCIAL RESPONSIBILITY

We take responsibility for our decisions and actions that have an impact on employees, clients, partners in local communities, the environment and society at large. We partner for the benefit of Estonia's future in five major areas – we beautify the urban space, we establish facilities for recreational sports, we enshrine culture and artistic heritage, we encourage education and inspire the next generation, and we help those in need.

SPORT AND RECREATION

In this area, Merko focuses on creating exercise and sporting opportunities for everyone in Estonia, helping to increase the number of years lived in good health. Our largest sponsorship project continues to be the Estonian recreational trails project, Estonian Health Trails, which we launched back in 2005 with Swedbank and Enefit, with the aim of giving as many inhabitants of Estonia as possible year-round and free-of-charge use of outdoor trails and popularizing active lifestyle, resulting in increase of years lived in good health. Over 20 years, the three founders have contributed a total of 6.5 million euros into developing various trails. As a result of partnering with the national government, local municipalities, and EU funds, total investments into the trail infrastructure exceeds 65 million euros.

Estonia has a total of 130 recreational trails that are kept maintained and can be used year-round, totalling more than 1,100 km, serviced by maintenance crews of 200 people. Trail maps and signs aid in navigation and opportunities are further enriched by the addition of ropes courses, stretching and outdoor gym equipment, bike tracks and pump tracks. Visitor totals

were 7.6 million in 2024. Visitor statistics are gathered by the trail foundation, SA Eesti Terviserajad, using motion detectors on 75 longer recreational trails. The ones that saw the most visitors last year were in Tallinn and the vicinity, as well as near other large, larger cities and towns: Pae Park trail in Tallinn (663,000 visitors), Harku trail (382,000), Keila trail (377,000), Nõmme trail (352,000), Pirita trail (251,000), Reiu-Raeküla trail in Pärnu (199,000), and Merimetsa (188,000) and Järve trails (184,000) in Tallinn.

In 2024, SA Eesti Terviserajad's focus lay on raising the quality and multifunctional of the existing trails. Using co-financing from the foundation, six outdoor gym areas were installed on the Harku trail, strength-training area on Klooga trail, an outdoor gym on Äkkeküla trail and a ropes course on Vaela trail, the covered rest areas along the Kuremaa trails and a ski bridge at Valgehobusemäe were renovated and a new trail segment for Saku trail was added. Additionally, the foundation funded the design of a new segment of a trail and the construction of a new ski bridge in Keila, the design of a housekeeping and service building at Kuningamäe, replacement of the lighting solution at Tamsalu trail with energy-efficient LEDs, and construction of maintenance buildings for the trails at Pariisi and Antsla. Through co-financing from the foundation, summer and winter trail maintenance equipment was upgraded for the trails in Padise, Harju-Risti, Vasalemma, Klooga, Keila, Saku, Kuressaare, Kudjape, Tõrva, Kehra, Aegviidu, Nelijärve, Rakvere, Türi, Haapsalu, Kohtla-Järve and Kirikumäe. The foundation supported purchases of snow cannons for Järvakandi, Lähthe and Kohila trails and establishment of a new pump-house for Kõrvemaa. Last year, new maintenance and service buildings were completed at Kadrina, Keila, Palivere and Paluküla trails; and a cornerstone was laid for service buildings at Hiiumaa, Tähtvere and Äkkeküla, all of which will be completed in 2025. Several new trails joined the foundation's network: Kangru, Klooga, Kohtla-Järve and Vaela and a new segment of the Karulaugu trail along with lighting was opened.

Based on the model of Estonian Health Trails, Merko established a recreational trail at the end of 2022 on the island of Zaķusala in the Daugava River in Riga and continued support of the project in 2024. Called Green Trail, the free-of-charge track welcomes all levels of users from beginners to professional athletes. Depending on snow conditions, the trail can also be used in winter for skiing, and at other times of the year, other seasonal modes of use. A disc golf course was added in 2024 as well.

In the field of sport, we sponsored the Estonian championships in road bike racing organized by the Estonian Cyclists' Union. In 2024 our Latvian affiliate continued to sponsor promising cross-country skier Patrīcija Eiduka to help her continue her professional development. In Lithuania, we continued sponsoring the ice hockey association and contributed to organizing training for youth players at the Geležinis Vilkas football school in Balsiai.

CULTURE AND ART HERITAGE

The long-standing partnership between Merko and the Art Museum of Estonia continued in 2024. Merko, in conjunction with the Art Museum of Estonia Friends of Art Society and other partners, helped to purchase 200 new chairs for Niguliste Museum to broaden the possibilities for the location as a venue for exhibitions and concerts. The oaken furniture designed by the Dutch company Casala is easily movable, allowing more use of the middle part of the museum for both exhibitions and concerts. The museum donated the previous set of benches to Pöide Church on Saaremaa.

To enshrine the history of concrete architecture and construction, we supported a series of programs that aired on Estonian Television, called "Made to Last". The eight-part series covered stories about a number of projects that have since become urban landmarks or were technically complicated, which were either built by Merko as a general contractor or where Merko's own specialists performed the concrete work.

In Latvia, Merko provided support for the publication of the book "Konstantīns Pēkšēns and His Time", which looks at the life and work of Latvia's first professional architect, and one of the most acclaimed architects of all time.

EDUCATION AND NEXT GENERATION

Since 2007, we have been providing scholarships for engineering students and young teaching staff at the Tallinn University of Technology to help ensure a vibrant next generation in civil engineering and allow teachers to provide better education in this field to future master builders. The young researcher/lecturer scholarship for 2024 went to a doctoral student in the field of civil engineering and architecture at Tallinn University of Technology, Martin Talvik. Martin is extraordinarily thorough and meticulous in his work as a civil engineer, serving as a fine example for young students just starting out as well as for experienced civil engineers. The engineering scholarship for 2024 went to three students in design and building management: Kirke Männik, Marten Erik Johandi and Ranar Pügi.

In Estonia, we organized the Merko children's day for the eighth year. At this event, employees' children come to work with their mothers and fathers to learn about the fascinating world of construction. Last year, 135 children accompanied their parents to visit two distinctive construction sites – the Hyatt Place Hotel, the first one in the Baltics to meet the standards of the Hyatt chain, and the construction of the tram line leading to the Old City Harbour.

At our Talents of the Future event oriented at our interns and scholarship recipients, we introduced the history and ethos of our company, and talked about the construction digitalization capability and what the BIM team at Merko is doing. We also visited sites where our interns told fellow students about key experiences they have gained through their time at Merko. At Uus-Veerenni, they witnessed excavation work on the apartment building at Tiiu 14 and on a tour of the Rail Baltica Ülemiste terminal job site, became acquainted with the structural challenges of underground concrete work. Event participants also visited the Arter Quarter and Hyatt Hotel construction sites.

In Lithuania, Merko participated in Junior Achievement's Job Shadow programme, in which students at secondary schools in Vilnius, Kaunas and Klaipėda got to learn about different jobs at Merko in the course of a day-long event. In addition, Merko and Lithuania in collaboration with Junior Achievement, organized a job site visit for Grigiškių Šviesos upper secondary school students. In Latvia, Merko provided support for the commemoration of the centenary of the Latvian Association of Civil Engineers.

URBAN SPACE

Besides building construction sites and new contemporary living environments that improve the quality of the urban space, we also beautify public areas with various artworks.

At the Noblessner harbour complex, where Merko has developed a number of apartment buildings in cooperation with BLRT, a metal and light installation called Pesa (Nest) sits atop a former lighting tower as of March 2024. Inspired by a picture of a stork's nest drawn by a five-year-old girl named Stina, the work is viewable from the complex itself, as well as by people walking down Kalaranna Street. Commissioned by Merko, the work is meant to enliven the urban space and encourage the revitalization of old and out-of-use industrial sites. The work was executed by the design agency Velvet and the Estonian lighting design studio UN-LIKE and the bare branches that give the nest its shape were made from scrap metal left over from Merko construction sites and later painted to match the colour of the tower.

In 2024, Merko provided both art and outdoor infrastructure for the community at Lahekalda residential development in Tallinn. Starting in May, a work called "Reed-cane" designed by Kalle Pruuden, Siim Poomann and Kersti Lootus adds an aesthetic touch to the area. The reed cane is a very simple yet intricate plant that symbolizes a primeval quality and hardiness, being well suited both conceptually and in form to the development perched on an escarpment overlooking the sea. It strikes a note of good cheer and an element of surprise, both during the daytime when it reflects the sun and at night when it has an illuminated backdrop.

Merko also gave Lahekalda a community garden where residents can grow flowers and vegetables in planter boxes and also find reading material on an open bookshelf. There is also a walkway lined with swings and an outdoor gym for the convenience of Lahekalda locals. The buildings at Lahekalda are surrounded by greenery, and Merko is also building a park in the middle of the development with even more recreational potential.

In December 2024, Merko opened a self-service shop at the Uus-Veerenni development and a space for common use, with ample countertop space and a practical sink, with a variety of tools and sports equipment and other hobby materials on the shelves. Called the Community Pantry, it's great for everyday activities that need more space than an apartment can afford. A temporary park located in the area reserved for future stages of development offers, seasonally, a ground for sledding, team sports and picnics, while a community garden can be used to grow herbs, vegetables and other produce. The temporary park was devised based on a philosophy of reuse and can later be moved to a different location. A permanent park completed earlier in the development provides both benches and play features for kids, as well as a community bookshelf and reading corner, and a walk lined with artworks.

OTHER PROJECTS

In 2024, Merko continued making donations to the Cystic Fibrosis Association of Latvia. In Lithuania, meanwhile, we continued supporting the Balsiai neighbourhood community: we helped purchase construction and finishing materials for renovating the recreational and study facilities at Balsiai community centre and supported training for teachers and the teaching process. We also supported Vilnius's Markučiai community in carrying out various activities.

SAFETY CULTURE

Merko's strategy goal in the field of workplace accidents is zero tolerance policy, which is described in detail in Merko's ESG report. Safety-conscious action is the pillar operations of the group companies and our goal is to ensure a safe workplace environment and prevent accidents. We provide employees with the work equipment and personal protection gear they need and hold occupational health and safety training, including in service; supervisory personnel and those with more involvement with a given topic undergo training regularly. One workplace accident took place in 2024 among all of the employees working for group companies. We map and analyse dangerous situations to minimize accidents in our construction activity and improve workplace safety culture.

TRAINING

Merko's success is predicated on collaboration between professionals in their field and top young players of the future. We ensure a supportive and growth oriented, workplace environment, and fair and competitive salary commensurate with their contribution at work. To gauge employee satisfaction and collect feedback, we conduct performance reviews regularly as well as satisfaction surveys among all employees at regular intervals.

The goal of training activities at Merko is to support employee development, strengthen teams, and share experiences. Learning processes are guided by a methodology, where most of the learning process takes place through practical experiences and supervision and mentoring of our employees; we lay great emphasis on sharing knowledge and cooperation. Today, our quality management tool kit includes five main methods for sharing know-how and best practices: in-house training, quality and safety, seminars, quality newsletters, a database of project solutions for key junctions, and project specific quality summaries.

There were three quality seminars and one safety seminar in 2024 at Merko Ehitus Eesti. In addition, there were several engineering related training courses, and courses that focused on energy performance requirements, use of software and artificial intelligence, and planning and managerial capabilities. In 2024, Merko Ehitus Eesti launched a development programme, intended for project managers, real estate development, managers, and other team leaders. It focuses on self-management, interaction with the team, cooperation, and project management skills. The Merko Kodud team focused on improving the customer experience. A cyber security training program for all employees was also launched.

We support and recognize our employees in their quest for additional education and professional certification and adding to their skillsets. We enable them to participate in out-of-house professional training, courses and conferences. To promote healthy lifestyles, we encourage our employees to get regular exercise and participate in sports, and we compensate expenditures related to these activities. We also provide health insurance and promote vaccinations. We make a point of congratulating our employees on important occasions in their life and, as a supporter of family values, we organize company events meant for employees and their family members, including children, of course. Long-serving employees enjoy additional perquisites in the form of additional days of holiday. When they are serving on national defence exercises, our employees retain their usual salary.

As an employer, Merko treats all employees equally, and does not tolerate discrimination in any form. We follow the principles of treatment in our cooperation with customers, subcontractors, service providers, and other partners as well. These principles can be found in the group's code of ethics. The topic of business ethics is dealt with in more detail on the group's website <https://group.merko.ee/en/corporate-responsibility/>.

With the goal of paving the way to a skilled next generation of professionals in the construction field, we supplement the academic education provided at schools by sharing practical experience and knowledge. We organize tours of construction sites and job shadowing days for young people, Merko employees give lectures at schools, we take part at university, student events, we offer internship opportunities, and we award Merko scholarships.

Merko is committed to giving young engineers a strong foundation for starting and advancing their career. In summer 2024, Merko had 14 interns. Ten of them gained experience at our Estonian companies, including eight from the Tallinn University of Technology and two from the Tallinn University of Applied Sciences. By speciality, eight are studying building design and construction management, one is studying interior climate and water technology and one is studying business administration with a focus on human resources management. Merko's Latvian companies had two interns who were second-year students at the Riga Technical University, both of whom worked as assistance to construction managers, and whose internships were organized in cooperation with the Riga Technical University Development Fund. In Lithuania, we had two interns in 2024: a student from Vilnius College of Technologies and Design is now working as a site technician on the Telšiai wind turbine site, and a student from the Kaunas University of Applied Engineering Sciences is working in the concrete field.

At the end of the year, Merko also hosted six work shadows in Estonia, who came to learn about the work done by civil engineers. Five of them were from the Tallinn University of Applied Sciences, and one was from the senior grades of St. John's School. The students learned about activities at Merko and BIM projects. The day concluded with a visit to a job site.

CONSOLIDATED SUSTAINABILITY STATEMENT

GENERAL INFORMATION

GENERAL PRINCIPLES (BP-1)

This Sustainability Statement is included within the Management Report, which forms part of the 2024 Annual Report. Previously, sustainability-related information has been published as separate chapters in the Management Report and GRI Report. Going forward, this Consolidated Sustainability Statement will replace the GRI Report, which will no longer be published as part of the 2024 Management Report.

The sustainability statement has been prepared in accordance with CSRD requirements, incorporating input from AS Merko Ehitus group subsidiaries. It does not include information on the joint ventures Connecto Infra AS and Kodusadam OÜ, in which the group holds a 50% stake, as their impacts are classified as indirect value chain impacts and are therefore not reflected in the 2024 report. The information is presented in a consolidated form for consolidation group entities, following the principles of financial statement consolidation. The data has been aggregated and disclosed with careful consideration of significant risks, impacts, and opportunities. This marks the first comprehensive ESRS-compliant sustainability statement, with information and metrics presented based on the best available knowledge at the time of preparation. The report will undergo continuous improvement, meaning its composition, presentation, and structure may evolve or become more precise in the future.

The information and data in this report are presented in a consolidated format at the group level. Where significant differences exist between business segments or regions, these data are highlighted and the data is provided in finer detail.

The report distinguishes between three different time horizons of different lengths: short (<1 year), medium (2-5 years) and long-time horizon (>5 years).

In the first three reporting years, according to Chapter 10 of ESRS 1, companies with no more than 750 employees are subject to transitional provisions, allowing certain mandatory data points to be disclosed voluntarily. As of 31 December 2024, AS Merko Ehitus group had 605 employees, meeting the criteria for applying these transitional provisions. Consequently, the value chain has been described solely from the perspective of double materiality assessment.

The report does not use the options described in Section 7.7 of ESRS1 to exclude classified and sensitive information or information related to intellectual property.

DISCLOSURES IN RELATION TO SPECIFIC CIRCUMSTANCES (BP-2)

In accordance with the gradual transition provisions outlined in Annex C of ESRS 1, this report does not include information on the following sub-topics:

Subject	Data	Description
ESRS E1	E1-6	Scope 3 and the company's total GHG footprint
ESRS E1	E1-9	Assessment of the quantitative financial impact of climate change
ESRS E5	E5-6	Assessment of the quantitative financial impact related to resource use and the circular economy
ESRS S1	All	Data points regarding own workforce
ESRS S2	All	Data points regarding the employees of the value chain
ESRS S4	All	Data points regarding consumers and end-users

The transitional provisions primarily apply to the collection and disclosure of sustainability information related to the value chain and third parties, which entails the following concerns:

- 1) Merko's contractual partners and subcontractors are mainly medium-sized and small-sized companies, for whom the reporting obligation does not extend for the time being due to the gradual implementation of the CSRD. As a result, these companies did not have internal processes and administrative capacity to collect and submit the necessary information in the 2024 reporting period. The problem is expected to ease somewhat in the coming years, when the CSRD reporting obligation will be extended to listed small and medium-sized enterprises and unlisted large companies. Nevertheless, the problem of data availability will remain in the case of small companies that are not listed on the stock exchange, and the related data collection problems are expected to be alleviated through the change in more general market practices accompanying the green transition.

- 2) Merko does not have sufficiently high-quality input information to assess the impacts of the value chain until there is a wider adoption of Environmental Product Declarations (EPDs) by material producers that are machine readable. The requirement to publish EPDs will be implemented in Europe in the near future through the Life Cycle Assessment (LCA) obligation of buildings, and in Estonia it is planned to be implemented nationally in stages from 2025, becoming mandatory presumably from 2030.

SUSTAINABILITY MANAGEMENT AT MERKO

THE ROLES AND RESPONSIBILITIES OF GOVERNING BODIES (GOV-1)

Managing environmental and sustainability issues is a natural and inseparable part of Merko's management system, which is not distinguishable from the rest of management.

The company's highest governing body is the General Meeting of Shareholders, which convenes on regular and extraordinary meetings. The agendas for these meetings are approved by the Supervisory Board before publication, which also submits topics for discussion and voting. The notice of the General Meeting includes the agenda items, the Supervisory Board's proposals with explanations, procedural instructions for participation, and guidelines on how and when shareholders can propose additional agenda items. Additionally, the General Meeting is responsible for decisions regarding the appointment and removal of Supervisory Board members.

The Supervisory Board is responsible for planning the company's activities, overseeing its management, and monitoring the work of the Management Board. It reports the results of its oversight to the General Meeting. The Supervisory Board is composed of three members, two of whom are independent. It does not include any employee representatives, and its activities are coordinated by the Chairman. Its primary role is to approve the group's most significant strategic and tactical decisions while supervising the Management Board's activities. The Supervisory Board operates in accordance with the company's Articles of Association, the guidelines set by the General Meeting, and applicable legislation.

The Supervisory Board is also responsible for shaping the overall strategy and guidelines for environmental and sustainability matters, among other key areas. In 2023, a dedicated working group was established by the Supervisory Board to plan and coordinate the preparations for sustainability reporting. This group consists of three members: one from the Supervisory Board, one from the group's Management Board, and an employee responsible for sustainability reporting. Sustainability topics are regularly discussed within the working group, and specialists from various fields are consulted as needed to provide additional expertise.

AS Merko Ehitus operates as a holding company with subsidiaries in Estonia, Latvia and Lithuania. The group's Management Board is responsible for the day-to-day management and representation of AS Merko Ehitus, including the implementation of strategic environmental and sustainability guidelines set by the Supervisory Board when necessary. The Management Board is composed of three members, and its activities are coordinated by the Chairman of the Management Board. The Management Board primarily focuses on the strategic assessment and planning of resources, risks, and the company's overall impact. As part of this process, strategies, policies, and guidance materials are developed as needed to support the achievement of objectives. Sustainability matters are communicated to the Management Board through a designated member who also serves on the Supervisory Board's working group.

The Management Boards of the subsidiaries are responsible for implementing the strategies, policies, and guidance established at the group level in their daily operations. To achieve this, subsidiaries and partner companies adopt the most effective and appropriate measures based on their specific circumstances and operational context, establishing suitable work arrangements to meet the set objectives. This includes developing work processes for the continuous assessment and management of environmental and sustainability impacts, risks, and opportunities, as well as clearly defining roles and responsibilities. Sustainability-related issues requiring escalation are addressed by the subsidiaries' management boards as needed and are regularly communicated to the group's Management Board. Sustainability targets are monitored in alignment with the standard performance management process.

The members of Merko group's management bodies possess extensive management experience and professional expertise in the construction and real estate development sectors, enabling them to make well-informed decisions on strategy and sustainability matters. When necessary, they can consult employees with relevant expertise within the company or engage external specialists if in-house expertise is unavailable. Both management members and specialists regularly participate in professional development and training programs to enhance their knowledge and skills.

Gender balance in management bodies is regulated by the Securities Market Act, and the company does not have a separate policy on this matter. The selection of management body members and the recruitment of employees are based primarily on professional capabilities and competence, without distinction based on gender. Merko Ehitus group aims to comply with

legal requirements, and a specific policy will be implemented when such a requirement is formally established at the legislative level.

The roles, composition, and work experience of the management bodies are discussed in greater detail in the governance practices chapter of the sustainability statement.

EXCHANGE OF INFORMATION (GOV-2)

Merko's business activities are project-based, which means that internal information exchange across different parties and management levels is also primarily project-driven. Daily communication on sustainability topics mainly occurs between environmental specialists, workplace safety specialists, and site teams, as these roles oversee compliance with construction site regulations and manage various sustainability-related impacts and risks. Any rule deviations identified during monitoring, as well as changes in risk and impact assessments, are reported to project teams and escalated to quality management leaders when necessary. The exchange of information on management has been evenly distributed between different participants in the process, and there are no clearly distinguishable parties in this regard.

The exchange of information between project teams and management occurs daily, with urgent issues escalated to the Board immediately when necessary. Additionally, the management boards of the subsidiaries hold monthly discussions on ongoing projects. During these meetings, emerging environmental and sustainability aspects requiring attention are reviewed, and appropriate management measures are determined.

The management boards of the subsidiaries and the group collaborate closely to ensure the company's best interests, with urgent issues escalated to the group's management as part of regular communication. At least once per quarter, a joint meeting of the group's Management Board and Supervisory Board is held, during which the Management Board provides updates on key developments in the company's business activities. These meetings also serve as a platform to review the achievement of short- and long-term goals and discuss potential risks. In the absence of urgent matters, the group's management bodies receive updates as needed through the monthly meetings of the subsidiaries' supervisory boards.

Sustainability topics are an integral part of Merko's regular business processes and are escalated to the subsidiaries' and group's management boards only in cases where significant deviations from established norms are identified or there are notable changes in risk assessments. In the absence of such cases, the management of the subsidiaries receives an annual overview of quality and sustainability topics during a regular management system review. During this review, employees responsible for these areas provide management with an update on past activities and results, highlight specific cases requiring attention, assess overall process performance and quality, and review the company's environmental, quality, and safety goals for the upcoming periods. In 2024, there were no extraordinary sustainability-related cases above the materiality threshold discussed by administrative, management and supervisory bodies.

INTEGRATION OF SUSTAINABILITY-RELATED PERFORMANCE IN INCENTIVE SCHEMES (GOV-3)

Considering environmental impact and sustainability aspects, as well as ensuring compliance with regulations, is an integral part of daily construction processes. Due to Merko's business model and the lack of direct operational environmental impacts, the group does not have specific environmental or sustainability-related targets, nor does it implement motivation systems or management remuneration principles tied to their achievement. However, these aspects are indirectly covered by the standard performance-based compensation system, where adherence to environmental and sustainability regulations is a fundamental prerequisite for delivering a successful construction service.

STATEMENT ON SUSTAINABILITY DUE DILIGENCE (GOV-4)

The management of environmental impact and sustainability aspects is integral to the provision of construction services and is mandated by legislation. As a result, the obligation to ensure due diligence in these areas has been embedded into Merko's daily operations and is monitored through a unified quality management system. The control of process effectiveness can be categorized into three main levels:

- a) Legislative control – compliance with the requirements arising from the law is supervised by various national and local government agencies and supervisory bodies. The compliance of the building designs with the detailed plan, including adherence to environmental restrictions, is assessed during the building permit approval process. Additionally, state and local supervisory authorities conduct inspections through random site visits and information requests, such as energy usage reports, to ensure compliance with environmental and workplace regulations.
- b) Voluntary inspection – ISO certification is an additional commitment undertaken by the company to align its management processes with the enhanced requirements necessary for certification. During the certification audit, an external party thoroughly evaluates and analyzes various industry-specific management aspects. If compliance is confirmed, an ISO certificate is issued or renewed. The environmental management systems of Merko group's key subsidiaries comply with ISO 14001 standards.

- c) Internal control – Merko's key subsidiaries have established quality departments or designated roles responsible for implementing the quality management system. Employees in these roles oversee the assessment of environmental aspects on construction sites. They conduct random site visits to verify the accuracy of submitted environmental assessments, ensure compliance with established procedures, and identify any additional environmental risks or impacts that may arise.

RISK MANAGEMENT AND INTERNAL CONTROLS OVER SUSTAINABILITY REPORTING (GOV-5)

The environmental and sustainability-related risks addressed in the sustainability statement are mainly operational risks, which are handled and managed on the same basis as other operational risks. Operational risks are primarily risks caused by inadequate or ineffective processes, people, equipment, systems or external events (e.g. tightening regulations), which is why careful improvement, implementation and monitoring of safety standards and guidelines is important in managing operational risks, taking into account the group's business area. Merko's general risk management principles are described in more detail in the risk management chapter of the annual report.

The most important risks from a sustainability perspective are environmental risks and risks related to humans. Risk management and internal control are ongoing processes that are fully integrated into daily operations. At the subsidiary level, these processes are developed, implemented, and maintained by the respective management boards. Within the organization, quality and environmental management systems—including an environmental management system—have been established to support risk management and internal control. On construction sites, risk management is carried out by project teams following established protocols, with environmental and occupational safety specialists overseeing compliance. At the group level, the internal control function is outsourced to an external service provider, who collaborates with the company to assess process performance and identify potential bottlenecks.

No internal control system dedicated specifically for sustainability reporting has been established; instead, the general principles of internal control are applied. The collection of sustainability-related data is closely connected to accounting controls, as the majority of sustainability metrics are derived from expense invoices processed by accounting, and taxonomy report data originates from financial reporting. Business conduct and governance practices are subject to the same control mechanisms as general management processes within the company. The introduction of sustainability reporting created a need to extract quantitative information, in addition to financial data, from invoices. Initially, this is performed manually, and during the period of rapid methodological development related to data compilation, validation of data provided by subsidiaries has primarily relied on cognitive review methods. Therefore, the possibility of human error exists at this stage. In the near term, the company plans to implement more systematic internal control procedures for sustainability data collection.

ENVIRONMENTAL RISKS

Environmental risk assessments are conducted individually for each project, with separate environmental and waste management plans prepared for every construction site. Each site undergoes an evaluation to identify potential environmental risks, resulting in tailored environmental and waste management plans. The environmental assessment process involves compiling a site-specific risk inventory, which is evaluated using a risk-level matrix to determine the extent and priority of each risk. For higher-priority risks, the project team defines additional protective measures and identifies specific construction phases or activities where these risks could potentially materialize. Additionally, the waste management plan forecasts waste volumes and outlines procedures to manage waste effectively during the project lifecycle. It specifies measures for waste reduction, handling, and disposal.

Environmental risks primarily arise from inadequate management processes (such as unforeseen circumstances or incomplete risk assessments) or non-compliance with established procedures. Therefore, ensuring consistent adherence to established rules and operational procedures is essential for effective risk management. Internal oversight to guarantee compliance is conducted by quality and environmental specialists, who perform random inspections on construction sites. During these inspections, specialists verify the accuracy of environmental risk assessments, confirm adherence to procedures, evaluate environmental practices, and provide immediate recommendations for additional preventive measures when needed.

Significant non-compliance with the established rules and possible realization of risks will be reported and such cases will be escalated to the management level, where the need for additional measures and process changes to prevent similar incidents in the future will be decided.

The most common environmental risks associated with construction sites are:

- Air pollution and emissions (dust, gases, etc.)
- Noise pollution and vibration
- Improper disposal or release of construction waste into the environment
- Management and handling of liquid fuels

HUMAN RISKS

The primary risk affecting people in construction activities is occupational accidents. As the main contractor, Merko is responsible for managing and mitigating all personnel-related risks on construction sites. This responsibility means that, in addition to ensuring the safety of its own employees, Merko must also manage risks involving subcontractors. Occupational safety is therefore given constant attention in the company's operations: employees working in hazardous areas are provided with necessary work and personal protective equipment, and safety-related issues are regularly emphasized during information meetings and through internal communication channels. Occupational accident statistics are systematically collected and reported internally, covering both the company's own employees and subcontractors.

The occupational health and safety management system of the group's construction companies is certified in accordance with ISO 45001. Every workplace accident is treated as an exceptional event and is subject to an analysis that assesses both the causes of the incident and additional prevention measures. To ensure the effective operation and continuous improvement of the safety management system, key subsidiaries have established quality management positions staffed by qualified and experienced specialists. These specialists conduct random site visits to construction projects to monitor compliance with safety requirements.

STRATEGY

STRATEGY, BUSINESS MODEL AND VALUE CHAIN (SBM-1)

The construction sector is a thoroughly regulated industry, with its operational framework largely determined by legislative requirements. Environmental impacts of construction activities, employment relationships, workplace safety standards, and corporate governance and management practices are extensively regulated by law. From a sustainability reporting perspective, Merko considers the primary new development to be related to greenhouse gas emissions, an area that has previously seen limited regulation. Currently, the state is developing carbon emission limits for new buildings, placing responsibility on construction service providers to organize their business operations accordingly.

Given the extensive legislative requirements already in place, sustainability and environmental protection are not treated as separate areas within Merko's business activities. Instead, they are integrated into everyday processes, forming a natural and integral component of regular operations. In Merko's view, existing legislative frameworks adequately manage sustainability-related impacts and risks, rendering additional internal measures unnecessary. Compliance with legislative requirements effectively ensures the optimal management of environmental and sustainability aspects from the perspective of both the state and society, an approach that Merko believes is both efficient and appropriate.

Due to the high degree of regulation within the sector, Merko has not set separate environmental and sustainability targets, as the legislative requirements already significantly constrain or limit opportunities to independently influence environmental outcomes. Internally, compliance success is measured by striving for zero precepts from supervisory authorities. The absence of such precepts demonstrates effective adherence to regulatory requirements and processes, whereas receiving an official precept indicates a need for internal process analysis and improvement.

Merko's strategic goal is to differentiate itself from competitors through quality. To achieve this, shared values and operating principles have been established at the group level, defining commitments to employees, customers, partners, investors, and society. Four main strategic focus areas, which align closely with Merko's sustainability goals, have been agreed upon:

- 1) Quality – Delivering high-quality products and services through efficient, systematic, and preventive internal processes.
- 2) Environment – Acting in an environmentally conscious and responsible manner, in the course of which great attention is paid to minimising environmental risks and preventing damage in order to reduce the company's environmental footprint.
- 3) Workplace Safety and Security – Maintaining a safe and secure working environment as a core aspect of valuing employees.
- 4) Personnel development – Treating employees as professional partners and recognizing that active, motivated employees represent the company's greatest asset.

BUSINESS MODEL

Merko operates in two primary business segments, both of which function as project-based businesses. In each segment, client requirements are implemented according to specifications provided by architects and designers. The primary distinction between these segments is that, for construction services, the clients are typically external third parties, whereas, in real estate development, Merko itself acts as the client.

- **Construction services** – This segment involves providing construction services to customers under general contracting arrangements, primarily serving public institutions and private customers. Essentially, it is a service-oriented business model. Projects are acquired through public procurement processes, where Merko competes equally with other providers under standardized conditions established by the contracting authority. The service provider's role in construction projects is primarily limited to organizational and project management functions necessary for executing the tasks defined in the procurement specifications and construction project documentation. Actual construction work is typically performed by subcontractors. The main contractor's responsibilities generally do not extend to determining technical parameters, material choices, environmental impacts during construction or the building's lifecycle, or other significant sustainability-related factors. These responsibilities ultimately rest with the client. However, Merko implements additional measures during construction activities as necessary to minimize disruptions caused by the construction process. In addition to building construction, the construction services business segment also includes road construction and sand and gravel quarries, which are intended for the extraction of fill materials used in construction work. These activities represent a minor portion of the business, comprising less than 10% of the group's consolidated financial indicators.
- **Residential real estate development** – This segment focuses on creating complete living environments, characterized by architecturally appealing apartment buildings featuring functional layouts, high-quality interior finishes, and energy-efficient designs tailored to the specific target customer group and the local environment. Clients primarily include private individuals and investors, whose combined preferences shape market demand. In this segment, Merko operates as the primary customer within the value chain, analysing market trends and customer expectations, developing suitable building concepts with external partners, commissioning designs and construction from third-party providers, and managing marketing and sales efforts. The objective of this business model is to construct apartments that are attractive to customers, align with market demand, and harmonize with their surroundings. Key factors influencing consumer demand include financial accessibility and consumer awareness. All constructed buildings must comply fully with applicable environmental and sustainability regulations and standards established by legislation.

Revenue, thEUR	2024
Construction services	476,546
Real estate development	86,367
Total segments	562,913

From a strategic perspective, Merko does not anticipate significant changes in its business models for construction services or real estate development in the near future due to climate change or evolving sustainability requirements. Environmental impacts from construction activities are primarily managed through decisions regarding construction technologies and materials during early planning and design phases. Although technical solutions and preferred materials may evolve in response to the green transition, the fundamental nature of providing high-quality construction services, aligned with legislative requirements and market demands, is expected to remain unchanged.

In real estate development, increased consumer awareness regarding sustainability is likely to influence market expectations significantly. Consumers are expected to increasingly seek residential properties with reduced environmental footprints and specific sustainability criteria and will likely be willing to pay a premium for these attributes. Consequently, Merko contributes to addressing climate change by constructing buildings that align with evolving environmental demands and sustainability standards.

EMPLOYEES

Employees play a critical role in implementing Merko's strategy and achieving its objectives. As construction activities are fundamentally carried out by employees, human resources represent a vital asset and key influencing factor in executing the company's business model. Due to the highly regulated nature of construction, including compliance with legislative and environmental standards, Merko emphasizes employing qualified personnel skilled in handling building materials, familiar with appropriate work methods, and knowledgeable of legal and environmental requirements. Retaining qualified employees necessitates addressing motivational factors effectively.

Merko's workforce can be divided into three primary categories:

- 1) skilled workers (road construction workers, concrete workers, etc.)
- 2) construction support roles (project managers, budgeters, etc.)
- 3) general support roles (sales, finance, management, etc.)

A substantial portion of skilled workers in Merko's value chain are subcontractors' employees involved by general contractor. Merko's own skilled workforce primarily consists of employees specialized in road construction and concrete works. For building construction, the workforce predominantly involves roles related to project preparation, while real estate development primarily includes support functions such as planning and sales. The mining business segment and fixed-term contract employees represent an insignificant portion of the workforce from a social impact perspective.

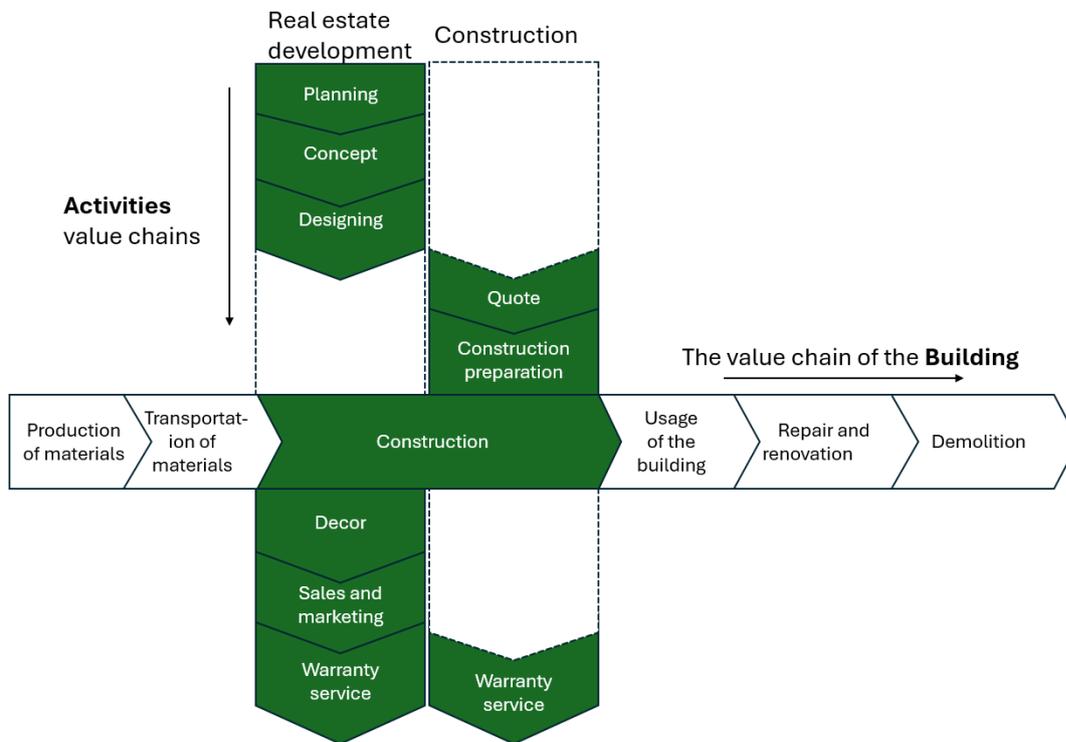
Geographically, Merko's workforce is distributed across Estonia, Latvia, and Lithuania.

Country	Number of employees
Estonia	423
Latvia	57
Lithuania	125
Total	605

VALUE CHAIN

In order to better understand and define the environmental impacts of the built environment and the construction sector, a distinction must be made between the value chains of buildings and construction activities:

- **Building value chain-** A building is essentially an object whose value chain encompasses all stages of its life cycle, from raw material extraction and production to eventual demolition. The Life Cycle Assessment (LCA) method is commonly used to evaluate and quantify the environmental impact at each stage, promoting uniform assessment methods and encouraging further research in this area.
- **Construction activities value chain-** This value chain specifically involves the processes required to construct, renovate, or demolish buildings or structures. The primary distinction from a building's value chain lies in its focus: the construction activities value chain defines and examines the specific activities necessary during the construction phase of a building's overall life cycle.



In environmental impact assessments, the building value chain perspective is often used to evaluate the footprint of construction activities. From the viewpoint of a construction service provider like Merko, the construction activities value chain offers a more accurate representation, providing clearer insights into opportunities for influencing sustainability and environmental impacts.

Merko's business operations, including general contracting and real estate development, fall under different NACE classifications but are complementary stages within the same overall process from the building value chain perspective. In this view, road construction and mining activities are classified under the value chain of construction activities.

VALUE CHAIN OF GENERAL CONTRACTING IN CONSTRUCTION

The value chain for construction activities is characterized by the uniqueness of each project and a high degree of fragmentation. Each project involves distinct specifications, conditions, and multiple parties. Construction companies typically compete by submitting bids according to clearly defined procurement conditions, seeking primarily to differentiate themselves from competitors by offering lower prices. All bidders must consider and adhere to identical procurement requirements established by the client. Upon winning a construction bid, a general contracting agreement is signed with the

client. Subsequently, the general contractor enters into contracts with subcontractors for the execution of specific tasks. These subcontractors perform most of the physical construction activities.



REAL ESTATE DEVELOPMENT VALUE CHAIN

The value chain of the development starts with the purchase of a suitable property and differs from the value chain of construction services mainly by the early planning phase and concept development, as well as later sales and marketing activities.

For the construction of a building on the property, a detailed plan is required, where the parameters and purpose of use of the permitted buildings are defined. The property purchased by the developer may or may not have a valid detailed plan and it has yet to be established. Throughout the detailed planning phase, assessments of potential environmental impacts related to the property and its planned buildings are conducted. If environmental risks are identified, additional conditions or restrictions are imposed to mitigate these risks.

Several parties are involved in the planning process of the development value chain, and Merko's most important influence at this stage is the coordination of the activities of these parties and, as a developer, the creation of a value proposition that meets market demand and expectations as well as possible. For this purpose, market trends and previous demand are analysed, and the concept, technical requirements and parameters of the object that best suits the property are developed, which must meet the requirements arising from the detailed plan as well as the expectations of potential customers. The optimal architectural solution that satisfies these established requirements is typically selected through an architectural competition. A jury evaluates submissions, considering compliance with the defined criteria and parameters. The selected design should offer the best combination of functional efficiency, aesthetic quality, and environmental sustainability, resulting in reduced environmental impacts and more efficient resource use throughout the life cycle of the developed property.



STAKEHOLDER INTERESTS AND VIEWS (SBM-2)

It is strategically important for Merko to be aware of the expectations of its stakeholders and to ensure sufficient exchange of information between them, which enables the company to be more flexible and able to react more quickly to changes in market trends.

As the main contractor, Merko's most important stakeholders are the company's own employees, shareholders, investors and banks. In the real estate development business segment, apartment buyers and customers will be added as an interest group. In order to exchange information and collect feedback with the main stakeholders and stakeholders, various engagement activities have been defined, which depend on the nature of the communication of the coherent groups and the expected need for information:

INTEREST GROUP	RELATIONSHIP TYPE	ENGAGEMENT ACTIVITIES
Own employees	CONTINUOUS	Employees' daily cooperation and communication with the company's colleagues and managers at different levels, annual performance appraisals, the company's website, intranet and internal magazine, company information days and other events, internal trainings, social media.
Shareholders, investors, banks	CONTINUOUS	The stock exchange system and stock exchange announcements, a subpage of the website aimed at investors, investor meetings, materials and events.
Partners, subcontractors and suppliers	RECURRING	Daily cooperation and communication during the construction process, meetings and events, public communication.
Supervisory authorities	RECURRING	Legitimate representation of the interests and wishes of society through the processing of various permits and the verification of legal requirements.
Clients and apartment buyers	SINGLE	Daily cooperation and communication during the construction and sales process, meetings and events, customer feedback and satisfaction surveys, company website, public communication. Additional communication channels for apartment buyers: the apartment development project's website and sales materials, a sales manager and, in the case of certain development projects, an on-site sales office, events involving apartment buyers, and social media.
Wider public	RANDOM	Social responsibility activities and support and cooperation projects, cooperation with various organisations, public communication, social media

The involvement and communication of the rest of the stakeholders usually takes place in a formal form through stock exchange announcements, contracts and other similar activities.

The information exchanged during engagement activities reaches different levels of management and thus helps the company to ensure sufficient market awareness for making business decisions. Project-based business models for construction and real estate development ensure that at the beginning of each project, various strategic and sustainability-related stakeholder and stakeholder expectations are reassessed at the management level, which necessitates regular exchange of information and helps to better match the company's strategy and sustainability aspects with the expectations of stakeholders.

Employees represent Merko's primary and strategically significant stakeholder group, as they are crucial to the successful implementation of the company's strategy. From the employees' perspective, key priorities include understanding the company's overall objectives and well-being, transparent management practices and business results, clarity regarding action plans, and decisions that impact employee welfare. Conversely, from the company's perspective, gathering feedback on employee motivation and well-being is essential. Equally important is fostering daily, two-way direct communication about work processes, ensuring all parties remain informed, promoting transparency, and building mutual trust. Employee feedback is carefully considered at multiple management levels when making business decisions and in efforts to enhance work organization and conditions.

The frequency and methods of employee involvement and information sharing can vary depending on factors such as topic, management level, and the urgency of the information. The primary methods and frequencies of communication are detailed in the table below:

FREQUENCY	COMMUNICATION CHANNEL	CONTENT
Daily	Direct, Emails	Work-specific content between different parties
Monthly	Meetings of the management of subsidiaries	Regular exchange of information, topical issues, business plans and potential bottlenecks between the group's management and subsidiaries
Quarterly	Management meetings, Presentation of quarterly results	Strategic issues, exchange of information between the management of the group and its subsidiaries and employees, specifying priorities if necessary
2-3 times a year	Information days and events, internal magazine	Informing all employees, collecting feedback, encouraging communication and exchange of information. Motivating employees and increasing loyalty.
1 time per year	Performance appraisal	Information exchange between the employee and the manager, goal-setting and feedback. Topics related to employee motivation and well-being.
Needs-based	Intranet, newsletters	Organisational announcements, process changes, urgent news.

As a result of the involvement of stakeholders and interest groups, Merko believes that there is no need for changes in the current strategy and business model in the near future.

IMPACTS, RISKS AND OPPORTUNITIES

MATERIAL IMPACTS, RISKS AND OPPORTUNITIES (SBM-3)

Material impacts, risks, and opportunities for the Merko group were identified through a double materiality assessment, which is explained in more detail in a dedicated chapter. Impacts were evaluated across the entire building value chain, separately addressing both the construction service provision and real estate development business segments. Among other factors, impacts related to the environment, people, and the company's business practices were assessed, particularly regarding their implications for the company's resilience. The tables below provide a list of impacts, risks and opportunities that have been identified as material. The tables describe the nature of the impacts and potential mitigation options. In addition, separate columns distinguish between actual or potential impacts, in which part of the value chain the identified impacts occur, and the time horizon (<1 year: short, 1-5 years: medium, >5 years: long). In cases where multiple options correspond to an impact, each relevant option is indicated accordingly within the table. More detailed information and descriptions of the identified impacts, risks and opportunities can be found in the thematic chapters of the sustainability statement.

ENVIRONMENT

E1. Climate change

Impact/risk/opportunity	Type	Value chain	Time horizon	Description	Mitigation options
GHG emissions in the value chain	Actual negative impact	Upstream, Downstream	short medium long	Production and logistics of building materials, and the subsequent use of GHG emissions from	Greater use of renewable energy, more energy-efficient production methods, choice of materials with a lower GHG footprint in

				buildings.	construction projects, recycling opportunities, local production of building materials
GHG emissions in construction	Actual negative impact	Merko	short	GHG emissions from the combustion of fuels and the use of thermal energy and electricity during construction activities	Increased use of renewable energy, more energy-efficient machinery and equipment
Energy use in the value chain	Actual negative impact	Upstream, Downstream	medium long	Quantities of energy used in the production of building materials and in the subsequent operation of buildings	Increased use of renewable energy, planning of more energy-efficient buildings, more energy-efficient production processes, selection of building materials and building solutions with lower energy consumption in construction projects, consumption habits of end consumers
Energy use in construction	Actual negative impact	Merko, Upstream	short	Amounts of energy used in construction, asphalt production and Merko's support functions	Increased deployment of renewable energy, more energy-efficient machinery and equipment
Construction of energy-efficient buildings	Actual positive opportunity	Upstream	medium long	Larger public sector order for the construction of more energy-efficient buildings	
Local renewable energy production	Actual positive opportunity	Merko, Downstream	medium long	Local renewable energy production allows to reduce the amount of energy purchased	

E5. Resource use and circular economy

Impact/risk/opportunity	Effect type	Value chain	Time horizon	Description	Mitigation options
Use of natural resources	Actual negative impact	Upstream	medium long	Procurement of natural resources for the production of building materials	Possibilities of material recycling, planning of resource-efficient buildings, introduction of alternative building materials
Waste generation	Actual negative impact	Upstream, Merko	short medium	Waste generation in the production processes, packaging and construction of building materials	Control of waste sorting, increasing the proportion of waste sorting, optimal planning of building materials
Depletion of natural resources	Potential risk	Upstream	long	The depletion of specific natural resources due to the overconsumption of resources and the increase in the price of certain building materials	Recycling of materials and circular economy, introduction of alternative materials

SOCIAL IMPACTS

S1. Own employees

Impact/risk/opportunity	Effect type	Value chain	Time horizon	Description	Mitigation options
Occupational accidents	Potential risk	Upstream, Merko	short	Risk of injury and health risks associated with construction work	Occupational safety training, safety equipment, occupational safety processes on construction sites
Employee recruitment	Potential risk	Merko	medium long	Difficulties in recruiting employees with appropriate professional experience and competence	Increasing the company's attractiveness as an employer, cooperation with educational institutions, offering internship opportunities
Employee development	Actual Positive	Merko	short, medium,	Maintaining and improving the	Providing diverse development opportunities for employees,

	effect		long	professional competence of employees	supporting the acquisition of education, offering internship programs, cooperation with educational institutions
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S2. Employees in the value chain

Impact/risk/opportunity	Effect type	Value chain	Time horizon	Description	Mitigation options
Occupational accidents	Potential risk	Upstream, Merko	short	Risk of injury and health risks associated with construction work	Occupational safety training, safety equipment, occupational safety processes on construction sites
Ethical Business Practices	Actual positive impact	Upstream, Merko	medium, long	Honest and ethical business activities create preconditions for long-term business relationships and mitigate business risks	Honest and transparent activities, prevention of corruption risks

S4. Consumers and end-users

Impact/risk/opportunity	Effect type	Value chain	Time horizon	Description	Mitigation options
Noise, vibration, dust, etc. Disturbances	Actual negative impact	Upstream, Merko	short, medium	Construction work may cause temporary noise, vibration, dust and traffic disruption	Involvement of communities in the planning process, agreed times for activities with a greater impact of disturbance
Regulatory risks	Potential risk	Downstream	medium long	Due to regulatory norms, the prices of construction services and buildings may increase for end consumers.	Information activities in society regarding the impact of different regulations on process participants and end users

BUSINESS BEHAVIOR

G1. Ethical Business Practices and Business Culture

Impact/risk/opportunity	Effect type	Value chain	Time horizon	Description	Mitigation options
Reliability, openness and transparency of the company	Actual positive impact	Merko	medium long	A company's positive reputation and reliability help to increase business success and competitiveness	Business ethics trainings for all employees, providing feedback opportunities (hotline)
Selection of cooperation partners	Actual positive impact	Merko	short, medium, long	Merko's business segments are highly dependent on the activities of subcontractors, suppliers and material distributors.	Selection criteria for cooperation partners, background checks, anti-corruption activities.
Prevention and avoidance of corruption and bribery	Actual positive impact	Merko	short medium long	Failure to comply with ethical business practices can undermine a company's competitiveness, leading to reputational damage, loss of trust from investors and customers, and legal and financial sanctions.	Informing and training employees, preventive activities and control, escalating potential incidents to the highest levels of management of the company
Reputational damage	Potential risk	Merko	short medium long		
Decline in competitiveness	Potential risk	Merko	medium long		

The majority of environmental impacts across the value chain occur during two main phases: the production of building materials, due to resource consumption, and later, during the operational phase, from the building's energy usage. The active construction phase, in which Merko primarily conducts its business activities, involves the consumption of project-specified building materials, energy, and fuels. Merko's operations directly interact with the physical environment, soil, and wildlife; however, opportunities to directly influence these environmental factors remain limited. The type and extent of resource use and environmental impact in construction projects are largely defined by the project's specifications and procurement requirements. Consequently, these impacts can be most effectively managed proactively during the early planning stages, where factors such as the intended use of the building or structure, selection of materials, construction methods, and other

parameters are established. Decisions made at this stage significantly influence resource consumption during construction and subsequent energy consumption throughout the building's operational phase. The government plays a critical role in setting regulatory limits for these parameters, thereby influencing and shaping customer and client preferences.

FINANCIAL MATERIALITY

Due to its resource-intensive nature, the overall value chain of a building has significant financial effects, distributed across different stages and stakeholders within the value chain. The financial effects are primarily concentrated in the early stages, particularly during the production of building materials and throughout construction activities.

The financial effects of construction activities primarily arise from the procurement of construction materials and subcontracting. Since the costs of building materials are largely dictated by the preferences of the end-user and the trade-offs determined during the planning and permitting phases, the possibilities for influencing overall financial effects during active construction are highly limited. Consequently, the financial effects linked to climate change and sustainability have been assessed as not material:

- The prices of building materials may rise in the near future due to end-user preferences driven by the green transition. However, typical construction projects last between two and four years—a period considered too short for the direct effects of climate change to become evident. Furthermore, contracts for the supply of most materials are usually finalized concurrently with the signing of construction contracts, thereby mitigating additional financial risks associated with material procurement.
- An anticipated increase in demand for more sophisticated buildings requiring greater technical expertise—also driven by the green transition—places additional requirements on the professional skills of subcontractors workforce. However, these considerations are already factored into the procurement process and accompanying business plans for new construction projects.
- The progress of the works, and thus the financial side, may be slightly affected by the weather, potentially causing delays in work processes or additional costs for additional fuel/cooling. Project durations are too short for these weather changes to be directly linked to climate change aspects that could not previously be taken into account during the procurement process.

The financial effect associated with social aspects is primarily indirect and relates to employee satisfaction, engagement, and workplace safety. These factors contribute to reduced employee turnover, improved productivity, and lower associated costs related to recruitment, training, and staffing project teams.

The potential financial consequences arising from risks or fines were assessed as unlikely since these would be isolated incidents, and there have been no similar occurrences in recent history or during the reporting period. Merko also evaluated the likelihood and magnitude of financial impacts related to social factors and concluded that these impacts are not material.

MERKO'S ROLE AND CONTRIBUTION TO CLIMATE CHANGE ADAPTATION

Considering the environmental and financial aspects outlined above, Merko believes that climate change has an insignificant effect on its business model and strategy. The company does not foresee any direct increase in climate-related risks or significant impacts on its business strategy in the near future. As a provider of construction services and real estate development, Merko contributes to climate change adaptation primarily by meeting customer and market expectations, aligned with current legislative requirements. The company's impact on climate change adaptation is realized through delivering projects with enhanced environmental performance—a demand Merko is already well-prepared to fulfill.

DOUBLE MATERIALITY ASSESSMENT PROCESS (IRO-1)

Merko's double materiality assessment was conducted using a top-down approach, where the general framework for evaluating significance was first developed at the group level. A preliminary list of impacts, risks, and opportunities was then compiled and further refined with input from key stakeholders and specialists from the most important subsidiaries. Several factors influenced the decision to adopt a top-down approach rather than a bottom-up method:

- a) The large number of subsidiaries **of the Merko group**. Most of the Merko group's subsidiaries are important in terms of financial reporting, but they do not have actual construction activities, full-time employees, and related sustainability impacts, which is why they are classified as not material from the perspective of sustainability reporting. The top-down approach made it possible to define a list of subsidiaries with significant impact in the preparatory phase, which should be included in the analysis of double materiality in the following stages.
- b) **Major legislative regulation**. Sustainability and environmental impacts in the construction and real estate development sectors are highly regulated. Many environmental aspects related to construction activities are already subject to legal requirements, which Merko has integrated into its internal processes. Similarly, key aspects related to employment and corporate management are governed by legislation. Given this regulatory

framework, Merko determined that its existing risk management system was sufficient for the initial stages of assessment, eliminating the need for separate data collection. The top-down approach enabled a more systematic and efficient involvement of subsidiary representatives, focusing their input on areas requiring specialized expertise while avoiding unnecessary resource expenditures on well-documented information.

- c) **Merko's strategic goals, policies (including ESG policy), beliefs regarding the company's culture and the principles of business ethics** have been applied on a top-down basis. It was therefore considered practical to use a similar hierarchical flow of information when gathering relevant input from subsidiaries.
- d) **Avoiding Local Optimum Bias** – Business volumes across Merko's subsidiaries vary significantly, which could lead to distortions in assessments due to localized priorities. For example, sustainability aspects that a smaller subsidiary considers important may be not material at the group level. The top-down approach mitigated such distortions and ensured that input data remained proportionate and relevant for an accurate significance assessment.

IMPACT, RISK AND OPPORTUNITIES ASSESSMENT PROCESS

- 1) Defining a list of the most important subsidiaries to be included into the double materiality assessment process. The assessment was based on the list of companies used in financial reporting, in which case the actual construction activity and the presence of at least one full-time employee in the company were used as a materiality criterion.
- 2) From the perspective of sustainability reporting, the following subsidiaries were considered important:

Country	Subsidiary	Field of Activity
Estonia	AS Merko Ehitus Eesti	General contracting of construction
	AS Merko Kodud	Real estate development
	AS Tallinna Teed	Road construction
	OÜ Merko Kaevandused	Aggregate extraction
Latvia	Merks Majas	Real estate development
Lithuania	Merko Statyba	General contracting of construction
	Merko Bustas	Real estate development

The rest of the companies (including Norwegian businesses and Merks in Latvia, where there were no new business activities in 2024) do not have a significant impact from a sustainability reporting perspective. Compared to financial reporting, the impact of OÜ Merko Kaevandused, which is insignificant from the point of view of financial reporting, is assessed separately in sustainability reporting and is classified as 'Other business activities'.

- 3) Initial mapping of impacts, risks and opportunities at the group level. The identification of impacts was carried out across the entire value chain, analysing both the building lifecycle and construction activities. To structure the information effectively, the sustainability topics listed in Annex A AR16 of ERS1 were used as a reference. This process resulted in an initial list of sustainability-related impacts, risks, and opportunities, along with relevant metrics. These findings would later be refined with additional input from key subsidiaries in subsequent stages.
- 4) Involvement of Subsidiaries in Defining the List of Impacts, Risks, and Opportunities. Sustainability reporting coordinators were appointed in each country to serve as primary contacts for sustainability-related communication between the group and its subsidiaries. Their role included coordinating regional data collection and impact assessments. Their key task was to review the preliminary list of impacts, risks, and opportunities, assess its relevance for their respective subsidiaries, and provide feedback on any missing elements or country-specific factors.
- 5) Data collection and stakeholder engagement. Input was gathered primarily through interviews and discussions with sustainability reporting coordinators, management team members, and industry specialists. These interviews were conducted both via video calls and in-person meetings. Discussions focused on linking identified impacts, risks, and opportunities to Merko's business operations, internal processes, and regulatory requirements. The company's employees played a central role as key stakeholders in this process. They were engaged through sustainability reporting coordinators and industry specialists who maintain close professional relationships with partners, suppliers, and customers, thereby incorporating external stakeholder perspectives into the assessment. Shareholders and investors were consulted through direct interviews with shareholder representatives and investor meetings. However, stakeholders with only casual or one-time interactions with the company were not included, as their involvement was deemed unnecessary.
- 6) Double materiality assessment. The final double materiality assessment was conducted by the Supervisory Board, Merko's highest governing body. Their decision was based on preparatory work carried out both at the subsidiary

level and across the group. As part of the preparatory work, a comprehensive overview document on sustainability impacts, risks, and opportunities was prepared and submitted to the Board to support decision-making. This document provided a detailed overview of identified impact areas, their relevance to Merko's business activities, stakeholder input, and proposed ESG indicators for implementation.

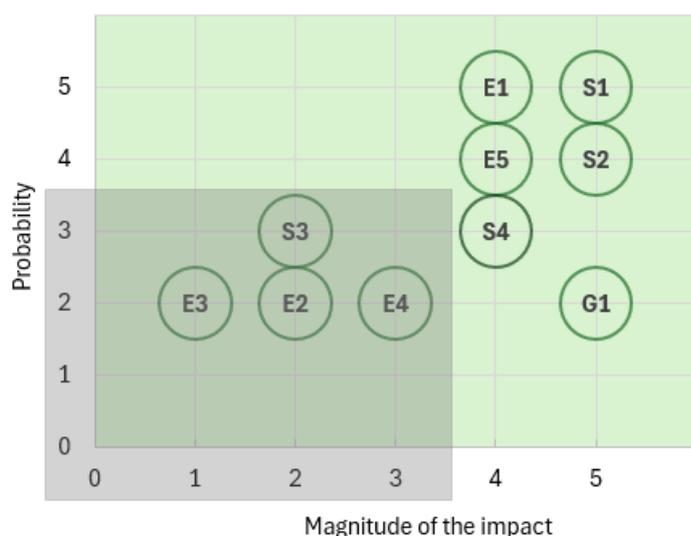
ASSESSMENT METHODOLOGY

The double materiality assessment was carried out from the perspective of impact materiality and financial materiality, and its purpose was to identify topics that have a significant impact on people and the surrounding environment (impact materiality) and that have an actual or potential impact on the group's business results, risks and opportunities.

Impact materiality was assessed as a combination of the magnitude of the impact and the likelihood of impact occurring on a 5-point scale, where 5 denoted a high impact, 3 a medium impact, and an assessment of 1 indicated minimal or no impact. From the perspective of sustainability reporting, impacts with an impact significance of at least 4 and a probability of occurrence greater than once a year were assessed as important.

The evaluation methodologies differed depending on the topics and the nature of the impacts, which were divided into three categories:

- Actual impacts that are permanent in nature and also existed during the reporting period under review (GHG emissions, energy use, water use, resource use, employee development, etc.). The assessment of such topics focused only on the assessment of the threshold of the magnitude and significance of the impact.
- Potential risks refer to one-off or irregular events for which Merko has implemented preventive measures, such as pollution risks, biodiversity impacts, occupational accidents, and potential violations of business ethics. For these risks, both the likelihood of occurrence and the potential impact were evaluated. Additionally, the level of effort required to manage and mitigate these risks was assessed. Risks that are already regulated by legal requirements—such as pollution and biodiversity risks—and for which no official compliance notices have been issued were assigned a low significance score (1 or 2). This is because managing these risks does not require additional efforts beyond legal compliance. However, if a regulatory notice were issued, it would indicate process deficiencies, thereby increasing the significance score. Conversely, risks related to business ethics and occupational safety require ongoing improvements to internal processes and additional proactive measures beyond legal requirements. As a result, these risks were assigned higher materiality scores to reflect the continuous efforts needed for their management and mitigation.
- Opportunities: activities or events that have the potential to influence the magnitude or likelihood of sustainability impacts. The evaluation methodology focuses on assessing the relationship between the magnitude and cost of impact. From Merko's point of view, such impacts are mainly related to waste management, employee development and the company's culture, which have a clear perceptible impact on the company's operating result and the reduction of several indirect negative risks.



Financial materiality was assessed in a separate process for all identified impacts, risks and opportunities. Based on the group's long-term average consolidated turnover, profit, capitalisation and market position, the significance limit of the Merko group has been set at EUR 3 million. As a result of the evaluation, no impacts, risks or opportunities exceeding this threshold could be identified.

SUSTAINABILITY MANAGEMENT PROCESSES AND POLICIES (MDR-P)

Sustainability at Merko is managed holistically through an integrated quality and environmental management system. The environmental management systems of the group's key subsidiaries comply with ISO 14001 standards, while occupational health and safety management aligns with the ISO 45001 standard. The core principles guiding Merko's sustainability efforts are outlined in the following group-wide policy documents, which subsidiaries must adhere to when implementing local management processes:

- 1) [The Code of Business Ethics](#), Establishes principles for ethical and honest business conduct, covering areas such as conflict of interest management, confidentiality, insider information handling, data protection, bribery, corruption, and other key ethical considerations. The document also outlines principles related to environmental protection and sustainability, providing guidance on how to address various ethical dilemmas.
- 2) [Risk management principles](#), Defines the general framework, responsibilities, and processes for risk management. It categorizes key risk types, including business risk, market risk, financial risk, and operational risk, detailing their potential manifestations and mitigation strategies.
- 3) [ESG policy](#), Sets out a unified ESG vision and principles across the group, defining key environmental, social, and corporate governance guidelines and their connection to sustainability. The policy also addresses sustainability due diligence and the broader impacts across the value chain.

The implementation of these policies in everyday life has been delegated from the group level to subsidiary management boards, as they possess deeper sector-specific and regional expertise, as well as a better understanding of market conditions and local regulatory differences. Subsidiary management boards are responsible for ensuring that all prescribed management system activities are planned, executed, monitored, and continuously improved.

Due to the specifics of the construction industry, day-to-day sustainability management is project-based. Before the commencement of each new construction project, a comprehensive environmental analysis is conducted. Project teams assess the scope of work, potential environmental impacts, associated risks, and anticipated waste generation—categorized by type and quantity. Based on this assessment, a waste management plan is developed for each project, with additional environmental protection measures implemented if necessary. The management of environmental, occupational safety and other risks at construction sites is carried out by relevant specialists in the field, who carry out supervision, and regularly prepare sustainability reports for both national institutions and internal information exchange.

KEY ACTIVITIES DURING THE REPORTING YEAR (MDR-A)

- Annual regular quality management review by the group's management. During this review, the performance of occupational safety and environmental management systems was assessed, and potential areas for improvement were discussed with subsidiary management.
- To systematically collect the sustainability metrics established by the group's Supervisory Board, a structured reporting process between subsidiaries and the group was formalized. Regular data collection began in 2024, supported by the development of a standardized reporting format, the appointment of responsible personnel, and an agreed-upon reporting frequency. The reporting process was set up as a quarterly report.
- In addition to its own activities, by 2026, the group will integrate ESG compliance monitoring for subcontractors and suppliers into its daily operational guidelines. Permanent business relationships will not be established with individuals or organizations that fail to adhere to ESG principles. When selecting partners under equal conditions, preference will be given to those whose ESG compliance has been positively assessed by independent international evaluators or methodologies. However, ESG compliance will not be assessed for clients or partners in construction services where the end beneficiary is a public sector institution or the state, nor for apartment buyers.
- The format, content, and focus of the sustainability statement were developed in preparation for its first publication and external audit.

ENVIRONMENTAL INFORMATION

CLIMATE CHANGE

INTEGRATION OF SUSTAINABILITY-RELATED PERFORMANCE IN INCENTIVE SCHEMES (GOV-3)

From the perspective of sustainability reporting under the CSRD, all business areas and companies, without exception, have an impact on climate change, either directly or indirectly. The direct impact is associated with the company's activities,

during which or as a result of which greenhouse gases are emitted into the atmosphere. The indirect impact, as a consequence of the company's operations, arises from greenhouse gas emissions generated by third parties.

In Merko's case, greenhouse gas emissions related to its business activities are predominantly indirect, primarily due to the climate impact associated with the production of building materials. This is a factor that a construction and real estate development company has limited ability to directly influence. Consequently, no performance-based incentive systems or management remuneration principles have been established specifically for addressing these impacts. However, these aspects are indirectly integrated into the general performance-based compensation system, where adherence to environmental and sustainability regulations is a fundamental requirement for the successful execution of construction services.

CLIMATE CHANGE ADAPTATION AND TRANSITION (E1-1)

The core aspect of providing construction services, including road construction, is the performance of construction work in accordance with the specifications and conditions set out in the project. In these cases, the primary climate impact of construction activities is largely determined by the contracting authority during the procurement phase. Compared to this, the additional climate impact from the consumption of motor fuels, electricity, and heat energy during the active construction phase is relatively minor.

In the real estate development segment, Merko itself assumes the role of the contracting authority. However, the design and climate impact of the buildings being developed are shaped by a combination of legal requirements and market analysis. Current regulations mandate that new buildings must already comply with significantly stricter climate standards than before. For example, apartment buildings must meet the requirements of energy class A. While Merko is prepared to develop buildings that exceed these energy efficiency standards, there has been no demand in the Baltic markets for such higher-efficiency buildings due to their increased price levels. Developing a supply that does not align with market demand would significantly heighten business risks, making such investments unfeasible.

Merko believes that the so-called 'green transition' in construction, which, according to scientists, would help to limit global warming by 1.5 degrees set by the Paris Climate Agreement, can only be achieved if end customers actively demand construction projects with a lower climate impact. This transition requires shifts in customer preferences (including those of public sector buyers) and additional state-driven measures to incentivize the market toward more environmentally friendly buildings.

CLIMATE CHANGE IMPACTS, RISKS AND OPPORTUNITIES

Across the value chain of a building, the following major physical risks can be highlighted:

Effect	Description
Extreme weather conditions	Severe storms, floods, heat waves can damage buildings and infrastructure, and cause disruptions or interruptions in work processes and supply chains.
Energy availability and rising energy costs	Increasing energy demand, restrictions on traditional energy sources, and the need to balance fluctuations in renewable energy production volumes may lead to an increase in energy costs.
Temperature increase	Higher temperatures can create heat islands in certain areas, which has an impact on human health and safety.
Sea level rise and floods	Real estate and construction projects located in coastal areas may suffer from rising water levels and saltwater intrusion, as well as the structures of buildings located in such areas may require additional fortifications and different working methods.
Reduced water availability	As a result of climate change, the normal circulation of groundwater may be damaged, which affects the availability of clean drinking water. Additional investments may be necessary for the introduction of surface water as drinking water.
Deterioration of the quality of materials	A changing climate can affect the properties and longevity of building materials or set additional criteria and restrictions on their usability in the construction process.
Urban infrastructure load	Changes in urban planning due to climate change may bring about uncertain risks and new requirements for construction activities.

The transition to a low-carbon economy involves several key transition risks:

Effect	Description
Regulatory risks	Additional requirements and restrictions arising from legislation and standards on the energy efficiency of buildings, building parameters, planning process, etc., may have a major impact on the costs related to the construction and development of buildings.
Market risks	In the segment of buildings with a lower environmental impact and a low carbon footprint, there may be a lack of sufficient solvent demand.

Investment risks	The lack of environmentally friendly investments on the market may make it difficult to compile a portfolio of works.
Reputational risks	Building buildings that do not meet the highest climate change mitigation standards can damage the company's reputation and lead to criticism of not contributing to climate change mitigation.
Technological risks	The accelerated introduction of innovative building materials and construction methods may increase the risks to the actual and/or useful life of buildings, the need for premature reconstruction works.

A group-wide resilience analysis of Merko was conducted to assess the potential impact of the identified risks on both the company's business operations and the broader value chain. This analysis evaluated the likelihood of these risks materializing over both short-term (1-year) and long-term (10-year) horizons, as well as their potential effects on Merko's business activities, business model, strategy, and value chain as a whole. As part of the assessment, the probability of risk realization was analysed under two scenarios: one where climate change remains within the 1.5-degree limit set by the Paris Climate Agreement, and another where climate change exceeds this threshold. The Merko group's financial unit was responsible for conducting this analysis.

The results of the analysis concluded that, in both the one-year and ten-year timeframes, the probability of these risks materializing is low. Over the past ten years, none of these risks have had a noticeable impact on Merko's business operations, supporting the assessment that, under the assumption of continued business operations, climate change will not have a direct or perceptible impact on the company in any of the scenarios examined. As a result, no changes to Merko's strategy or business model are deemed necessary. Additionally, the company's adaptation to and transition in response to climate change will not require additional investments or lead to any significant tangible impacts on its business model, strategy, value chain, or day-to-day operations.

Merko's business is project-based and primarily concentrated in the construction, renovation, and demolition stages of the building value chain, with minimal involvement in the production of building materials through aggregate extraction. The nature of work at these stages varies from project to project, depending on project specifications and procurement conditions. Considering environmental impact and sustainability aspects, as well as ensuring regulatory compliance, is an integral part of daily construction processes. Across the value chain, it is expected that technical requirements and construction parameters will evolve in response to the need for more climate-resilient buildings. However, due to Merko's project-based business model, the company is already prepared to construct buildings with a lower climate impact. Cross-value chain risks are assessed in the early planning phase and are incorporated into project design and procurement processes. At the start of each project, a comprehensive risk and impact assessment is conducted, reducing the likelihood of unforeseen risks arising during the construction phase. Given that construction projects typically last between two and four years, this timeframe is too short for the long-term effects of climate change to have a direct impact.

Merko's exposure to physical climate risks is low, as its business activities take place on a project-by-project basis at construction sites. The company's most important assets include real estate, vehicles, and construction machinery. However, the majority of completed real estate projects are transferred to customers immediately after completion, and most office spaces across all operating countries are leased. The largest real estate assets owned by Merko include two office buildings and an asphalt plant in Tallinn. Regarding construction machinery, Merko owns only heavy machinery used in road construction and mining, while equipment used for building construction is primarily owned by subcontractors or rental companies. The company's vehicle fleet is mostly leased. The risks associated with real estate handed over to end-users are thoroughly assessed during the planning stage, ensuring that buildings comply with sustainability and climate resilience requirements. Once transferred to customers, the primary sustainability impact of these buildings is related to energy consumption during use. The resilience analysis did not identify any significant risks or impacts that would necessitate major changes in the future operation of buildings. The greatest climate impact remains energy consumption, and efforts to reduce the carbon footprint of energy production will further contribute to minimizing the environmental impact of buildings.

ASSESSMENT OF CLIMATE-RELATED IMPACTS, RISKS AND OPPORTUNITIES (ESRS 2, IRO-1)

Merko's prioritisation of environmental impacts related to climate change was conducted as part of double materiality assessment, which is described in more detail in the chapter 'Materiality assessment process'.

During the assessment, the CO₂ footprint calculations of previous years and the impact areas with the highest carbon emissions were analysed. Among other things, an additional coverage analysis was carried out to identify possible impact areas that were not included in the previous calculations. As a result, compared to previous CO₂ calculations, the data of the subsidiary AS Tallinna Teed, as well as energy use and fuel consumption data from Merko's holding company, were incorporated into the analysis.

Based on the analysis of the 'Construction Roadmap 2040', which was completed in spring 2023 as part of the Rohetiiger ('Green Tiger' in Estonian) programme, the construction and real estate sector accounted for an estimated 40.3% of Estonia's greenhouse gas emissions in 2021 ([REFERENCE; only in Estonian](#)). The largest share of this proportion, estimated at 68%,

came from energy consumption during the operational phase of buildings, followed by building construction (13.3%) and the production and export of materials (13.2%).

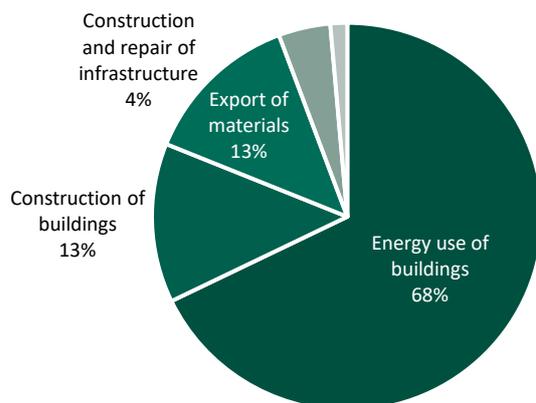


Figure: Greenhouse gas distribution of the construction and real estate sector (based on data from the Construction Roadmap 2040).

Merko's business activities in the value chain of buildings are mainly concentrated in the stages of construction, renovation and demolition works, which, according to various estimates, account for a total of about 10-20% of the carbon emissions of the built environment. The main point of influence of all the activities referred to is energy use through the burning of motor fuels and the use of purchased heat and electricity.



Figure: Location of Merko's business activities in the value chain of the building.

KEY INFLUENCES RELATED TO MERKO'S OPERATIONS

The climate impact of the construction phase of buildings and structures primarily arises from the direct greenhouse gas emissions resulting from the combustion of motor fuels from construction machinery and support functions (Scope 1), and the indirect climate impact accompanying the production of purchased electricity and heat energy used for the operation of various equipment, lighting construction sites, and heating and drying of buildings and portable cabins (Scope 2). Additionally, through the supply chain, the indirect climate impact of third parties—related to the production and transportation of materials—also contributes to the construction phase emissions (Scope 3).

The climate impact of road construction mainly consists of greenhouse gas emissions from asphalt production and construction activities. The biggest contributor to the construction work is the direct use of heavy machinery motor fuels. In the case of asphalt production, a distinction must be made between direct and indirect climate impact. The direct impact is related to the production of asphalt mix in an asphalt plant, where the quantities of electricity and heat energy used are directly correlated with the volume of orders, which is why their deliberate reduction is detrimental to business. The indirect impact of asphalt production is manifested through the climate impact of bitumen, which is used as an input to the production process. Since asphalt mix composition varies according to customer specifications, the bitumen proportion differs from project to project. Road construction operations within the Merko group are exclusively based in Estonia.

The climate impact of the mining business segment primarily arises from the direct fuel consumption of heavy machinery. Some indirect climate impact also results from soil emissions released from excavated quarries, but Merko has not yet conducted a separate assessment of these impacts due to the small business volume of its mining operations. Mining activities within the Merko group are limited to Estonia and primarily serve to supply other subsidiaries with filling soil.

The climate impact of real estate development is largely determined by the energy efficiency of the buildings being constructed. The architectural and structural solutions for these projects are developed in collaboration with third parties, while the climate impact of the actual construction process—including both building and road construction—has already been covered in the previous sections.

Opportunities to reduce the climate impact directly related to Merko's operations:

Mitigation measure	Who?
Increased deployment of renewable energy	Merko
Local energy production capacities of the buildings to be constructed	Merko
More energy-efficient machinery and equipment	Merko, subcontractors
Precise planning of materials	Merko
Preference for local materials where possible (impact of transport)	Merko, subcontractors
Alternative materials with a lower climate impact	Clients, designers
Factory production	Clients, designers
Logistics optimization	Merko, subcontractors

Merko has not conducted detailed analyses on the volumes of carbon locked in products and assets. In the company's view, the market does not currently prioritize climate-neutral products, primarily due to customer and client price sensitivity. As a result, there has been no commercial necessity for such an assessment to date.

Merko believes that in the near future, the greatest impact on reducing climate impact will come from the wider adoption of climate-friendly energy sources and advancements in building material production. Energy plays a critical role throughout the entire building value chain, affecting not only the manufacturing of construction materials but also construction activities and the greenhouse gas emissions from buildings during their operational phase. One of the most promising advancements in building material production is the development of carbon capture technologies for cement and steel manufacturing. These innovations could significantly reduce the carbon footprint of concrete and concrete products, which are among the most widely used materials in construction. In asphalt production, promising developments include bitumen replacement technologies and energy consumption optimization. However, despite their potential, these technological advancements face several bottlenecks. The development and testing of these solutions is a time-intensive process, meaning that their full-scale impact is likely to be realized only in the long term (10–20 years).

KEY INFLUENCES RELATED TO VALUE CHAIN

Energy use during the operational phase of buildings

In terms of energy use, a distinction is made between electricity and thermal energy, each having somewhat different consumption profiles. From a climate impact perspective, the patterns of using these energy forms differ. The climate impact of energy consumption depends primarily on the source of energy production, while actual energy usage is influenced by factors such as occupant behaviour, building technical systems, comfort features, and other related parameters. Due to legislative requirements, modern buildings must comply with energy classes A and B, significantly affecting their thermal energy consumption. At the same time, modern buildings typically include various advanced technical systems and comfort features, which tend to increase electricity consumption. Energy consumption during the use phase of buildings is influenced by several factors, including user behaviour, building technology, additional comfort systems, and other parameters. Legal standards require new buildings to achieve higher energy efficiency, predominantly affecting heat energy usage. Consequently, contemporary buildings meet stricter energy efficiency standards, primarily affecting thermal energy consumption. Given these factors, reducing climate impacts depends on changes in building designs, user behaviour, and the energy sources utilized. Due to the increasing share of renewable and climate-friendly energy, both the environmental impact and greenhouse gas emissions associated with energy use in buildings are expected to decline in the near future.

Opportunities to reduce the climate impact of energy use in buildings across the value chain:

Mitigation measure	Who?
Increased use of renewable energy in the management of buildings	End Consumers
Increasing the energy efficiency of buildings	Clients
Consumption habits	End Consumers
Energy saving planning in the preparation of a construction project	Clients
Use of building materials with a lower carbon footprint	Clients

Merko has no direct opportunities to influence the energy use of buildings.

Production of building materials

It is estimated that the largest sources of emissions in building material production are cement and steel manufacturing, as both processes involve direct greenhouse gas emissions as well as an indirect CO₂ footprint resulting from the energy consumption of production. However, assessing the overall climate impact of building material production remains a controversial topic, and as far as Merko is aware, no scientific research has yet influenced current material selection preferences in the construction industry. A key point of debate is the choice of the time period for assessing climate impact. One of the primary uncertainties lies in scientific evaluations of concrete and concrete products' ability to absorb CO₂ from the atmosphere over time through carbonation processes. These long-term absorption effects are interpreted differently in various scientific studies, making it challenging to determine the overall climate impact of concrete as a building material.

Measures to reduce the climate impact of the production of building materials across the value chain:

Mitigation measure	Who?
Increased use of renewable energy in production processes	Producers
Establishment of local energy production plants	Producers
Streamlining production processes and innovating	Producers
Decarbonisation of production processes	Producers
Developing alternative low-carbon materials	Producers
Increasing circularity and recycling	Manufacturers, designers
Local production and logistics optimization	Manufacturers, resellers

Merko has no direct influence over the production of building materials. The extraction of aggregates, which falls within Merko's operational scope, has been classified under the direct environmental impacts of construction activities rather than as part of building material production.

MEASURES, INDICATORS AND TARGETS RELATED TO CLIMATE CHANGE ADAPTATION (E1-2, E1-3, E1-4)

Merko has not established separate transition plans, measures or targets related to climate change, as the possibilities for influencing climate change are limited and there are no perceived risks to the company's operations arising from climate change. The general environmental impact management principles described in the group-level ESG policy are considered sufficient, and no further measures are planned to be implemented in the near future.

For monitoring purposes, the direct greenhouse gas emissions of the group's subsidiaries are calculated, but due to the cyclical nature of the construction sector and the different stages of completion of projects, the greenhouse gas emission values are not comparable over the years. Therefore, there are no plans to establish such targets at the moment or in the coming years.

From Merko's perspective, the most critical factor in the transition process is the preservation of professional expertise and know-how. This is ensured through continuous employee training and development activities, maintaining the company's readiness and flexibility to adapt to market trends and changing demand.

ENERGY CONSUMPTION AND MIX (E1-5)

Merko's energy use profile consists of electricity and heat consumption, as well as the combustion of motor fuels used in vehicles and construction machinery. Energy use is analysed across three scopes, in accordance with the sustainability reporting framework.

Scopes 1 and 2 relate to Merko's direct operations and activities, meaning that this portion of energy consumption can be measured through cost and fuel invoices submitted to the company. Scope 3, however, includes the energy use of subcontractors at construction sites, where energy costs may be shared between Merko and its subcontractors, depending on contract terms. From a business perspective, this cost-sharing approach is logical, as it creates a control mechanism to ensure energy use is efficient and purpose-driven. However, from a sustainability reporting perspective, it poses challenges related to data availability. For the 2024 report, energy consumption data from Merko's subcontractors and suppliers is not yet sufficiently available and is therefore not included. To address future sustainability reporting requirements, discussions with subcontractors on data collection and reporting mechanisms have already begun, and the development of corresponding processes is underway.

Energy consumption and mix	2024 Total	Scope 1	Scope 2	Scope 3
1) Fuel consumption from coal and coal products (MWh)	0	-	-	
2) Fuel consumption from crude oil and petroleum products (MWh)	9,518	9,518	-	
3) Fuel consumption from natural gas (MWh)	10,393	-	10,393	
4) Fuel consumption from other fossil sources (MWh)	0	-		
5) Consumption of purchased or acquired electricity, heat, steam and cooling from fossil sources (MWh)	1,239	-	1,239	
6) Total fossil energy consumption (MWh) (calculated as the sum of lines 1 to 5)	21,151	9,518	11,633	
<i>Share of fossil sources in total energy consumption (%)</i>	<i>97%</i>	<i>100%</i>	<i>95%</i>	
7) Consumption from nuclear sources (MWh)	0	-	0	
<i>Share of consumption from nuclear sources in total energy consumption (%)</i>	<i>0%</i>	<i>-</i>	<i>0%</i>	
8) Fuel consumption from renewable sources, including biomass (also comprising industrial and municipal waste of biologic origin, biogas, renewable hydrogen, etc.) (MWh)	0	0	-	
9) Consumption of purchased or acquired electricity, heat, steam and cooling from renewable sources (MWh)	558	-	558	
10) The consumption of self-generated non-fuel renewable - energy (MWh)	0	-	0	
11) Total renewable energy consumption (MWh) (calculated as the sum of lines 8 to 10)	558	0	558	
<i>Share of renewable sources in total energy consumption (%)</i>	<i>3%</i>	<i>0%</i>	<i>5%</i>	
Total energy consumption (MWh) (calculated as the sum of lines 6, and 11)	21,709	9,518	12,191	

According to the European Commission Delegated Regulation (EU) 2022/1288, Merko operates in two sectors with a high climate impact – sectors F (construction) and L (real estate activities) according to the NACE classification. Accordingly, the information on the energy intensity indicators below is presented.

Energy intensity per net revenue	2024
Net revenue for the period, thEUR	539,049
Energy consumption for the period (scope 1 and 2), MWh	21,709
Total energy consumption from activities in sectors per net revenue from activities in high climate impact sectors (MWh/thEUR)	0.040

GREENHOUSE GAS EMISSIONS (E1-6)

Merko's carbon footprint is primarily linked to energy and fuel consumption, as well as the climate impact of building materials within the value chain. While earthworks and waste management may contribute to a small portion of carbon emissions, their impact is negligible compared to the main sources. Based on this assessment, these categories—along with other factors outlined in the ESRS standard—were classified as non-significant. The carbon footprint calculation follows the principles of the GHG Protocol Corporate Standard and distinguishes three scopes of impact:

- Scope 1 focuses on the assessment of the GHG footprint arising directly from Merko's activities (used motor fuels);
- Scope 2 focuses on the GHG footprint of electricity and heat energy purchased for the company's offices and rental premises under the company's control;
- Scope 3 evaluates the indirect climate impact across the value chain, influenced by third-party activities and decisions.

The input information for these calculations were collected from significant country-specific subsidiaries. The emission factors used in the calculations are mainly based on the data of the Ministry of Climate Change's 'Organisation GHG footprint model', supplemented by data from the Carbon Database Initiative online platform for location-based electricity emissions—the most reliable publicly available data as of 31.12.2024. Due to data availability challenges, transitional provisions have been applied for Scope 3 emissions, meaning that this data is not included in the current report. In 2024, completed but unsold apartments (finished products) have also been included in Scope 3, based on the recognition that they are heated based on the needs of the owners of the sold apartments in the same building, not the company's preferences. Starting from future sustainability statements, 2024 will be used as the base year for carbon footprint assessments.

	2024
Scope 1 GHG emissions	
Gross Scope 1 GHG emissions (tCO ₂ eq)	2,402
Percentage of Scope 1 GHG emissions from regulated emission trading schemes (%)	0%
Scope 2 GHG emissions	
Gross location-based Scope 2 GHG emissions (tCO ₂ eq)	3,425
Gross market-based Scope 2 GHG emissions (tCO ₂ eq)	3,028
Significant Scope 3 GHG emissions (not included in the 2024 report)	
Total Gross indirect (scope 3) GHG emissions (tCO ₂ eq)	
1. Purchased goods and services	
2. Capital goods	
3. Fuel and energy related activities (not included in Scope 1 or Scope 2)	
4. Upstream transportation and distribution	
5. Waste generated in operations	
6. Business traveling	
7. Employee commuting	
8. Upstream leased assets	
9. Downstream transportation	
10. Processing of sold products	
11. Use of sold products	
12. End-of-life treatment of sold products	
13. Downstream leased assets	
14. Franchises	
15. Investments	
Total GHG emissions	
Total GHG emissions (location-based) (tCO ₂ eq)	5,827
Total GHG emissions (market-based) (tCO ₂ eq)	5,430
Total location-based GHG emissions per net revenue (tCO ₂ eq/revenue)	0.011
Total market-based GHG emissions per net revenue (tCO ₂ eq/revenue)	0.010

SCOPE 1 - USE OF MOTOR FUELS

In 2024, Merko's total carbon emissions from the combustion of motor fuels amounted to 2,402 tCO₂eq. Among the countries in which Merko operates, Estonia accounted for the largest share (82%) of Scope 1 emissions, followed by Lithuania (14%) and Latvia (4%). By fuel type, petrol contributed 41% of the total emissions, while diesel accounted for 59%. The notably high share of emissions in Estonia is attributed to both larger business volumes and the fact that, unlike in general construction, road construction machinery is owned by AS Tallinna Teed, a subsidiary of the group. As a result, these emissions are classified under Scope 1. Additionally, since heavy road construction machinery primarily operates on diesel, which has a higher emission factor than petrol, this further skews the distribution of emissions between countries.

While mining operations are also based in Estonia, their business volume and associated fuel consumption are relatively low compared to total fuel consumption. Therefore, mining activities do not significantly influence the overall distribution of

emissions between countries. In building construction, most construction and heavy machinery is owned by subcontractors or rental companies, meaning that these emissions fall under Scope 3, which is not included in this report.

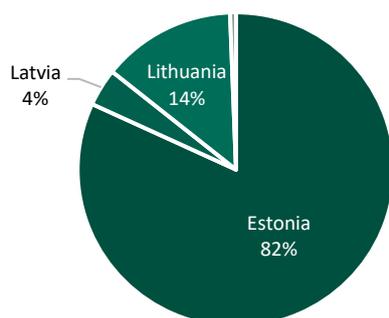


Figure: Scope 1 GHG contribution by country

SCOPE 2 – USE OF ELECTRICITY AND HEAT ENERGY

The electricity and thermal energy footprint reported under Scope 2—which covers Merko's office activities and support functions—amounted to 3,425 tCO₂eq (location-based footprint) in 2024. Among the countries, Estonia accounted for the largest share, primarily due to the energy consumption of road construction operations, where the size of the footprint is directly correlated with business volumes. By energy type, natural gas had the greatest impact, with its use in the asphalt plant contributing 64% of the total Scope 2 emissions. Meanwhile, the carbon footprint from electricity use was reduced due to Merko's office buildings in Estonia operating on certified renewable electricity.

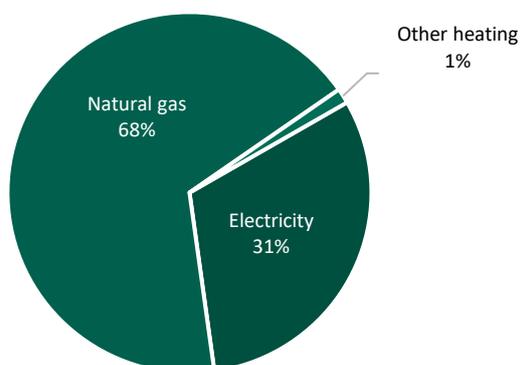


Figure: Scope 2 location-based GHG contribution by energy types.

SCOPE 3 – CLIMATE IMPACT FROM THE VALUE CHAIN

The climate impact arising from Merko's value chain is primarily linked to building material production, subcontractor activities, and fuel and energy consumption at construction sites. Since most subcontractors and building material manufacturers are not yet subject to CSRD reporting requirements, their climate impact data is either unavailable or still in development. Therefore, a transitional provision will be used in the 2024 sustainability statement, and no quantitative data will be provided due to the problematic availability of Scope 3 data.

It is estimated that the largest climate impact within the construction value chain comes from GHG emissions associated with building material production. This stage involves the industrial processing of natural resources into construction materials, where emissions arise from both direct particle volatilization during production and the indirect carbon footprint from energy consumption.

Merko believes that additional time is needed to determine scientifically validated climate impact values for materials, as significant discrepancies have been identified between real-world emission measurements and established emission factors. For instance, some scientific studies suggest that concrete can reabsorb a portion of CO₂ emitted during cement production over a building's lifespan. However, current cement emission factors only account for production-phase emissions, without considering carbon absorption over time.

A similar issue exists with bitumen GHG calculations. Merko believes that bitumen's actual impact on climate change may not align with the standardized impact defined in reporting guidelines. Unlike fuels, bitumen is not produced through oil extraction but as a residual byproduct of oil refining—a process that primarily extracts more valuable chemical compounds. Since bitumen is not combusted, it does not lead to direct large-scale GHG emissions. Instead, its GHG footprint is determined by how emissions from crude oil processing are distributed across different products in the value chain accounting system.

In order to meet the requirements set by the customers, the capacity to produce asphalt with binders replacing bitumen has been developed, but this does not reduce the volumes of oil pumping and refining residues mentioned above.

For GHG footprint assessment related to motor fuel and energy use at construction sites, clearer regulations and market expectations are needed. Without these, smaller subcontractors who are not subject to CSRD requirements may lack the incentive to share relevant sustainability data. Since this information remains incomplete, it has not been included in the current report.

GREENHOUSE GAS REMOVALS, EMISSION REDUCTION PROJECTS AND IN-HOUSE PRICING

Internal carbon pricing has not been implemented at Merko, as the company believes that it does not currently create additional value. Similarly, separate carbon reduction projects have not been launched, as Merko's business model is centered on providing construction services, where carbon emissions primarily result from executing commissioned work and fulfilling customer requirements.

RESOURCE USE AND CIRCULAR ECONOMY

ASSESSMENT OF MATERIAL IMPACTS, RISKS AND OPPORTUNITIES RELATED TO RESOURCE USE AND CIRCULAR ECONOMY (ESRS 2, IRO-1)

Merko's environmental impact assessment related to the use of natural resources and the circular economy was conducted as part of double materiality assessment, which is described in more detail in the chapter 'Double materiality assessment process'. The assessment covered the entire value chain across all business segments, mapping out the connections between construction activities and resource use, as well as identifying potential decision-making and influence points within the process.

The evaluation reaffirmed that construction is inherently a resource-intensive industry, with its primary environmental impact occurring throughout the life cycle of building materials. The greatest influence on natural resource consumption takes place during the building's planning phase, where the types and quantities of building materials are defined along with the building concept and project design. Since natural resources primarily serve as raw materials for building material production, the built environment as a whole plays a significant role in optimizing natural resource use.

Construction services, by nature, involve assembling buildings using materials specified in project plans. During the active construction phase, service providers handle large volumes of building materials, but they have no direct influence over the types or quantities of materials predetermined in the project specifications.

The primary area of influence for construction activities regarding natural resource use and circular economy principles lies in waste management. Waste generation is an unavoidable aspect of construction, and the responsibility of the construction service provider is to ensure that waste is collected systematically and correctly so it can be transferred to waste management partners. This approach prevents pollution caused by waste disposal into the environment and creates the necessary conditions for potential circular economy reuse of materials.

Merko's primary role in construction services in relation to resource use is waste management at construction sites. Proper sorting of construction waste enhances the possibility of recycling, which in turn reduces the demand for raw materials extracted directly from nature to some extent.

In the road construction business segment, the main resource impact comes from the use of building materials and recycling practices. The amount of materials used is directly tied to business volumes, meaning that reducing material usage without affecting operations is not feasible. However, natural resource consumption can be mitigated through the reuse of milled bitumen chips as aggregate in asphalt production. This approach is limited by procurement conditions, which define the composition requirements of asphalt mixtures.

In real estate development, Merko influences resource use planning during the concept development of the area to be built and the planning of construction volumes. When possible, and when all other conditions remain equal, preference is given to more environmentally friendly materials in development projects.

Merko's mining operations focus on aggregate extraction, which is directly linked to natural resource use. Extraction volumes are driven by market demand, and the company's main responsibility is to comply with legal requirements and implement environmental risk mitigation measures.

The communication of all the listed business lines with the affected communities is on a needs-based basis and is mainly related to the mining business (construction of access roads, dust and noise control, etc.). As a rule, in the construction and

real estate business, the involvement of communities and interest groups is not required in connection with the use of resources, and the most important topics are pre-defined through a detailed plan and construction project.

As part of the double materiality assessment, the potential financial materiality related to resource use and waste management was evaluated. In the construction services sector, the primary risk identified was potential fines related to waste management. In construction services and real estate development, another potential risk is a sharp increase in building material costs. However, this risk is largely mitigated through procurement contracts, and due to the typical duration of construction projects, such price increases are not directly linked to climate change. The likelihood of either risk materialising was assessed as low.

Due to the importance of waste management, Merko considers the topic of the use of natural resources and the circular economy as a whole to be material. The financial impact and environmental impact related to resource use were assessed as not material.

MANAGEMENT OF RESOURCE USE AND WASTE MANAGEMENT (E5-1)

The resource use aspects of construction activities are defined in the construction project, and the construction service provider's role is to execute the project in accordance with the procurement conditions and design specifications. Given this, Merko believes that no additional regulations are needed beyond the existing project requirements and legal framework, and as a result, no internal resource-use guidelines have been established within the company.

Merko's resource impact management is focused on waste management. The generation of waste is inevitable in the construction process, which is why the waste management of the construction site is of great importance from the point of view of pollution prevention, possible circular economy and compliance with legal requirements. Aspects related to construction waste and waste management at construction sites are regulated through legislation and internal site-based waste management plans, which are part of the quality management process. Within Merko's larger subsidiaries, dedicated quality departments oversee the implementation and supervision of quality management processes. In smaller subsidiaries, this function is carried out by full-time or part-time quality specialists. On construction sites, the site teams are responsible for organizing and enforcing waste management practices, ensuring that waste management plans are followed. Quality specialists monitor waste management implementation and process quality by conducting random site visits and preparing waste management reports.

From a circular economy perspective, Merko has not established separate guidelines or processes, as most construction waste cannot be directly recycled. From a business standpoint, materials represent one of the largest cost components in construction activities. Therefore, in areas where material residues can be reused—such as in road construction—this practice is already implemented for cost optimization. In other cases, waste processing and recycling responsibilities are delegated to professional waste management partners, who handle the circular economy aspects of construction waste.

ACTIVITIES AND OBJECTIVES RELATED TO RESOURCE USE AND WASTE MANAGEMENT (E5-2, E5-3)

Merko has not established separate objectives specifically for resource use and waste management, instead relying on legal requirements to structure the processes necessary for managing these impacts. Optimal resource use is inherently ensured through the company's general profitability targets, as building materials represent the largest cost component in the construction value chain. Consequently, efficient resource use is integrated into the business model, ensuring materials are used optimally and waste is minimized. Effective material consumption planning plays a key role in profitability, as accurate material estimates help prevent resource wastage.

In waste management, it is essential to systematically collect and sort all surplus and unused materials to mitigate pollution risks and create opportunities for circular economy reuse. Waste management planning begins in the preparation phase of the construction site with the process of assessing environmental aspects. In the course of this, the nature of the works planned on the site is assessed and a waste management plan is drawn up. The waste management plan includes a list of the types and quantities of waste that are expected to be generated at the object in question, the circumstances related to the collection and storage of waste are determined, and the selected waste management partner is indicated.

Reporting plays a crucial role in monitoring waste management, identifying bottlenecks, and providing feedback to construction site teams. However, since waste sorting rates vary depending on project type and construction stage, comparing data across periods is not meaningful, making it difficult to establish quantitative targets. Therefore, Merko has not set group-level targets for resource use or waste management. Instead, detailed waste reporting is conducted at the subsidiary level, categorized by waste type, quantity, and construction site. At the group level, aggregated waste data is reported to track trends and monitor sorting rates.

In 2024, Merko restructured its waste management reporting to align with sustainability reporting requirements, establishing uniform reporting principles across subsidiaries and standardizing reporting periods. In 2025, further efforts will be made to streamline reporting processes. From a resource use perspective, Merko plans to initiate resource use reporting to assess indirect resource impacts across the value chain. However, due to data availability challenges, this initiative is not yet feasible for the current reporting period.

By 2026 at the latest, the group plans to integrate ESG compliance monitoring into its daily operational guidelines, including waste management and resource use compliance for subcontractors and suppliers. Permanent business relationships will not be established with entities that fail to meet ESG principles. Additionally, when all other conditions are equal, preference will be given to partners whose ESG compliance has been positively assessed by independent international evaluators or methodologies.

USE OF NATURAL RESOURCES (E5-4)

The resource use of a building is determined by factors such as its intended purpose, size, shape, and other design parameters, all of which are defined during the early planning phase. An important additional aspect is the construction of underground floors, which significantly increases resource consumption due to the additional materials and excavation work required. The resources specified in the construction project are realized at the construction site through the actual use of building materials. The environmental impact of resource use is primarily reflected through the construction value chain, where the largest strain on natural resources occurs during the production of building materials.

Construction primarily relies on non-renewable natural resources as inputs, for which large-scale, more environmentally friendly alternatives have not yet been found. On one hand, the scarcity of alternatives is due to the fact that the raw materials used in the most common construction materials—such as concrete, steel, and glass—are still abundantly available in nature, and their replacement is not currently necessary from the perspective of resource depletion. On the other hand, a limiting factor is the technical properties and reliability of alternative materials, which require extensive and long-term research to ensure the safety of constructed buildings.

Efforts to introduce alternative and renewable materials in construction are ongoing, with experiments exploring increased use of wood in structural elements and small-scale trials incorporating straw, reeds, and other recyclable natural materials. However, in Merko's view, concrete will remain the most reliable and practical material for large and complex buildings in the foreseeable future. Rather than relying on material substitutions, the company expects that improvements in the production processes of traditional building materials—with a focus on reducing their environmental impact—will play an increasingly important role in sustainable construction.

The material needs of Merko's business lines, and consequently the impact on natural resources, are largely determined by market demand. Resource use is categorized into direct and indirect impacts:

- a) **The direct use of resources** is associated with the operations of Merko Kaevandused, a subsidiary engaged in the extraction of construction sand, gravel and crushed stone. The volume of mining is dictated by market demand, and in 2024, the total mining volume reached 278,132 tons.
- b) **The indirect use** of resources is primarily linked to the volume of building materials used in construction projects and the scale of buildings developed within the real estate segment:
 - a. The main contracting of construction services (including road construction) is ordered by third parties, and the use of resources is determined through the procurement process and construction projects.
 - b. In the real estate development segment, Merko assumes the role of a client, and its impact on resource use is reflected in the conceptual planning of buildings. The design of buildings is driven by market demand, with the primary objective of aligning the project concept with the expectations and preferences of potential customers. Architectural and construction-technical solutions are selected through competitive processes, and in accordance with modern best practices, ensuring that resource efficiency is considered in the spatial design.

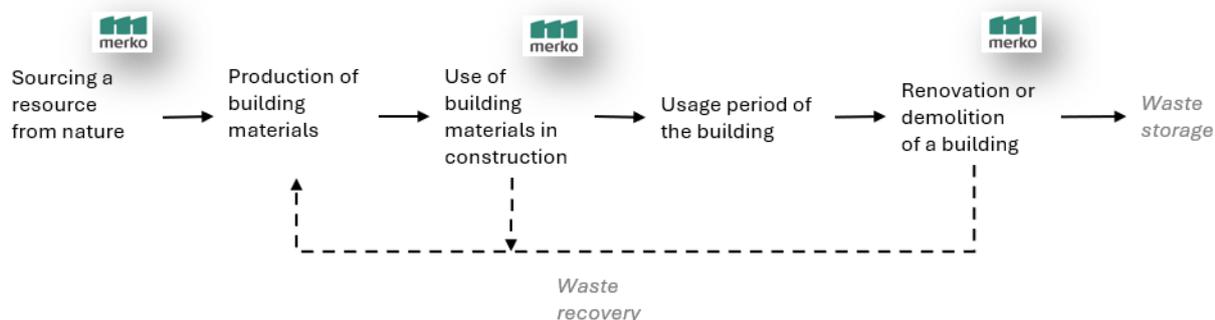
A large number of different building materials are used in the course of construction activities, of which concrete and steel are estimated to account for the largest share in the construction of buildings, and sand and crushed stone as aggregates in road construction. The quantities of materials and the timing of commissioning depend on the nature and degree of completion of the construction projects in the work portfolio. For example, in the construction phase of the foundation and walls of a building, concrete and steel are estimated to account for the largest share of materials, while in the later stages of interior finishing, more paints, tile mixtures and other more specific materials are used. As construction projects typically span several years, material usage fluctuates significantly depending on the project phase. These variations, along with differences between projects, create substantial distortions in annual material consumption data, making year-over-year comparisons unreliable.

Currently, data availability on resource use at construction sites is inconsistent, and the quality of information varies, preventing Merko from accurately measuring resource consumption across all sites. In 2024, the company established standardized principles for collecting resource use statistics for the largest material categories (cement, steel, wood, bitumen, and filler sand). An initial overview of resource use was prepared for smaller markets with fewer ongoing projects, such as Latvia and Lithuania. In 2025, data collection will expand to include individual projects in Estonia, alongside the further development of material classification principles.

In the near future, the problem of resource use data collection is expected to be solved through the mandatory LCA assessment of new buildings and the wider use of electronic product certificates. Advancements in IT solutions are expected to simplify and enhance data collection processes, addressing current challenges in tracking material consumption.

WASTE MANAGEMENT(E5-5)

The value chains of construction, road construction, real estate development and mining are closely linked to the life cycle of building materials.



Of the building materials used during the construction process:

- Buildings are completed and handed over to the customer or end-user. In this case, natural resources remain preserved within the built structures in the form of building materials, where they remain until the building undergoes renovation or demolition. Once a building reaches the end of its lifecycle, its materials become waste, which is then either stored or recycled, depending on its composition and reuse potential.
- Construction waste is generated, which, depending on the type of material and available recycling options, this waste is either reused directly on-site, transported away from the construction site for storage, or delivered to a waste handler for recycling or disposal.

Building materials such as concrete and steel, which are estimated to account for the largest share of construction materials, do not typically generate significant surpluses during the construction process. Instead, these materials are primarily associated with demolition activities that take place during site preparation. Whenever possible, such waste is repurposed as soil filler on the same or other construction sites. Any excess materials that cannot be reused are handed over to waste management partners. In road construction, milled asphalt chips can be incorporated as aggregates in the construction of new roads to minimize material waste.

The majority of waste generated during construction activities consists of smaller amounts of residues of more specific materials. A distinction can be made between leftovers of used materials and materials that have not been used. Since each construction project is unique, the types and quantities of construction waste vary significantly from project to project. The direct reuse of leftover materials is often limited, as most construction waste cannot be immediately reused due to circular economy constraints (except for unused materials). Recycled materials typically require prior processing, but this renders the original manufacturer's certifications invalid, and according to legal requirements, such materials cannot be directly used again in construction. Applying for new product certifications for small quantities of waste-derived materials is not financially viable, as it involves high costs without significant business benefits. Additionally, Merko's subsidiaries do not have the expertise or capacity to handle the recycling and recertification process independently. As a result, most construction waste is removed from sites as waste, and recovery of materials is managed indirectly through waste sorting and waste management partners. Merko places strong emphasis on high-quality waste sorting, ensuring that waste management partners can more efficiently process and recycle waste volumes. To monitor waste handling efficiency, the group's subsidiaries track both the quantities of waste generated and the proportion of sorted materials. Merko does not have detailed, reliable information about how these materials are recycled or their role in the circular economy after they leave the site.

An important by-product of the construction process is excavated soil and stones, which are not classified as construction waste under legal definitions. From a natural resource use perspective, these materials do not represent a significant resource, as soil properties remain largely unchanged over time. The main environmental impact of excavation is fuel consumption from the machinery used for digging and transportation, which is covered in the climate change chapter.

Despite not being a significant resource in itself, excavated soil and stones represent the largest by-product of construction activities in terms of volume, requiring a new location and application after the completion of construction. The amount of excavated soil varies significantly depending on the nature of the construction project, with buildings or structures that include underground floors generating substantially larger volumes of soil. In most cases, excavated soil is reused on-site for landscaping or site filling. When excess soil cannot be used internally, it may be sold, though this remains an irregular activity that has not been systematically mapped at Merko, as its measurement does not provide significant added value.

Information related to waste management is collected at the level of the subsidiaries of the countries, the consolidated input of which is presented in the data tables below

Group waste generation	2024
Hazardous waste,	7.3
Non-hazardous waste,	7,267
Total amount of waste, t	7,274
Sorted waste,	3,397
Mixed waste,	3,878
Share of sorted waste, %	47%

2024, tonnes	Total	Hazardous waste	Non-hazardous waste
Preparing for reuse	Information not available, transitional provision applied		
Recycling			
Other disposal operations			
Total quantity diverted from disposal	0	0	0
Incineration	Information not available, transitional provision applied		
Landfill			
Other disposal operations			
Total quantity for disposal	7,274	7.3	7,267
Total amounts of waste	7,274	7.3	7,267

EU TAXONOMY OF SUSTAINABLE ECONOMIC ACTIVITIES

The reports presented below have been prepared in accordance with Regulation (EU) 2020/852 of the European Parliament and of the Council (the so-called Taxonomy Regulation) and the European Commission Delegated Regulations (EU) 2021/2178, 2021/2139 and 2023/2486, which complement it in technical aspects (reporting requirements and screening criteria).

METHODOLOGY FOR PREPARING REPORTS

The performance indicators presented in the taxonomy report have been calculated based on the general accounting principles used in the preparation of the annual report (see Note 1 to the annual report). The activities of the Merko Ehitus group are project-based (construction and real estate development projects), therefore we chose the project-based approach as the basis for preparing the reports. The project-based accounting rules effectively eliminate the occurrence of double counting in reporting. In both the construction service and housing development segments, at the start of the project, an analysis is made according to the nature of the project and the project documentation to determine which activities and environmental sustainability criteria of Delegated Regulation 2021/2139 or 2023/2486 the project meets. First, the activities described as construction-related are assessed; if no description of the activity corresponding to the project is found among them, then the conformity of the descriptions of other activities is assessed. If the project meets the criteria for "substantial contribution" set out in the regulation and there is no violation of any of the "do no significant harm" principles or minimum safeguards¹, then the project is classified as environmentally sustainable. If the project meets the description of the activity but does not meet the criteria for "substantial contribution" or there is a violation of at least one of the "do no significant harm" principles or minimum safeguards, then the project is classified as taxonomy-eligible but not environmentally sustainable. If the project does not meet description of any of the activities set out in Regulation 2021/2139 or 2023/2486, then the project is classified as an activity not covered by the taxonomy. When assessing compliance with the activities described in the regulations, the best available knowledge is used, and in the case of choosing between activities with similar content descriptions, preference is given to activities whose compliance with the screening criteria can be assessed independently by Merko Ehitus, for avoidance of dependency from third-party data input.

The criteria for substantial contribution are applied to the analysis of projects with maximum conservatism, i.e. if Delegated Regulation 2021/2139 or 2023/2486 presents several criteria for the environmental sustainability of the relevant activity and there are no clearly defined rules of meeting only one or some of the criteria, then the project is classified as environmentally sustainable only if it meets all the criteria.

Although all activities are an integral part of Merko Ehitus, in order to focus on what is important and limit unreasonable expenditures on low-value activities, Merko Ehitus has only analysed the turnover related to core activities (construction services and real estate development). Activities not related to core activities accounted for 0.324% of turnover, which is of insignificant value and we found that a deeper analysis of such activities does not add value. Accordingly, such activities are shown in the turnover report as the taxonomy non-eligible activities. Capital expenditures also remain classified as taxonomy non-eligible activities for reporting purposes if they are not described as an independent project or their purpose cannot be linked with sufficient accuracy to the activities described in the taxonomy. Smaller one-off capital expenditures have not been analysed in terms of substantive compliance or assessed for their compliance with the screening criteria for the same reasons as turnover not covered by core activities.

The operating expense report has been prepared using the exception provided for in the last paragraph of Annex I, point 1.1.3.2. of Delegated Regulation 2021/2178. Operating expenses are not material to Merko Ehitus' business model, as most operating expenses occur only when projects exist, and in the course of economic cyclicity, a decrease in projects leads to a proportional decrease in operating expenses. For a more detailed description of Merko Ehitus' business model, see the chapter "Strategy, business model and value chain (SBM-1)" of the consolidated sustainability statement. The lion's share of general administrative expenses (see Note 6 to the annual accounts) is made up of general administrative personnel costs (76%), also materially not containing costs which are described in the taxonomy (Annex I, point 1.1.3.1. of Regulation 2021/2178) for research and development, building renovation measures, short-term rental, maintenance and repair or other direct costs related to the day-to-day servicing of tangible fixed assets.

In project-based activities, capital and operating expenses directly related to the project are reported as part of the project, and independent capital and operating expenses occur in the areas of general management and support services of the company. There is no direct and clearly identifiable link between the capital and operating expenses of general management and support services and the specific project. Since general management and support services exist regardless of the share of environmentally sustainable projects in the operating volumes, we have, for the sake of conservatism and to prevent greenwashing, we have proceeded from the principle that the corresponding expense must itself have an environmentally sustainable nature and characteristics in order to be reported as environmentally sustainable. Regulation 2021/2178 allows capital and operating expenses necessary for the implementation of activities not covered by the taxonomy to be classified as environmentally sustainable if such expenses are used to acquire assets or services from an economic activity that is in line with the taxonomy and it constitutes an individual measure that allows the main activity to permanently reduce CO2 emissions.

The preparation of reporting is complicated by the complex structure of Annex 1, point 1.1.2.2. of Delegated Regulation 2021/2178 on the classification of capital and operating costs as environmentally sustainable, which requires the establishment and disclosure of an appropriate program as a prerequisite for classification as environmentally sustainable

¹ Minimum safeguards are the procedures set out in Article 18 of the Taxonomy Regulation, compliance with which is described in the Governance Information chapter of the consolidated sustainability statement.

capital and operating costs. Merko Ehitus group has not established such a program for environmentally sustainable capital and operating costs.

Based on the principle of conservatism, the Merko Ehitus group considers it an unreasonably high risk of greenwashing when preparing reports on capital and operating expenses to attribute the environmental sustainability label to capital and operating expenses that are not environmentally sustainable in terms of their content or characteristics, through the share of turnover from environmentally sustainable projects.

TAXONOMY PERFORMANCE INDICATORS

Sales revenue (total amount presented in taxonomy report 2) is presented in the consolidated statement of comprehensive income of the annual accounts. The key performance indicator (KPI) for environmentally sustainable sales revenue has increased to 33% (2023: 9%), as there were more contracts in 2024 with turnover meeting the screening criteria. The major construction projects are the wind farm infrastructure facilities in Kelmė, Pagėgiai and Telšiai districts, the substation in Kelmės and the construction of the solar power park in Vārme. In our opinion, the construction of the aforementioned facilities complies with point 7.6 of Annex I to Delegated Regulation 2021/2139.

Capital expenditure (total amount presented in taxonomy report 3) is presented in notes 23 to 25 to the annual accounts under lines "Acquisitions and improvements" and "Reclassification from inventories". There was no environmentally sustainable capital expenditure, the KPI is 0%.

There is no correspondence of operating expenses (total amount given in the taxonomy report 4) with the annual accounts, the definition of operating expenses set out in Annex I, point 1.1.3. of Delegated Regulation 2021/2178 does not correspond to the definition of operating expenses in conventional financial accounting. There were no environmentally sustainable operating expenses, the KPI was 0%.

In accordance with the updates of Delegated Regulation 2021/2178, a report on activities related to nuclear energy and natural gas has been added to Template 1 of Annex XII to that Regulation, which must be submitted even in the absence of a KPI.

TAXONOMY REPORTS

No changes have been made to the accounting methods during the reporting period, except for changes directly resulting from the content updates (additional requirements) of the European Commission Delegated Regulations 2021/2178, 2021/2139 and 2023/2486. A description of the general accounting methods is provided in Note 1 to the annual accounts.

A change has been made to the presentation method so that empty or inapplicable rows or columns are not omitted, the report is presented in the form as published in Delegated Regulation 2021/2178.

The reports have been submitted in accordance with the templates set out in Regulation 2021/2178, which were in force in 2024. The regulation leaves it up to each submitter to decide whether they want to fill in columns 5-17 for activities covered by the taxonomy but not environmentally sustainable (A.2). Merko Ehitus has decided not to fill them in and accordingly, in reports 2-4, the row with the subtitles of the columns "Eligible/Non-eligible" have been deleted and the relevant cells have been presented with a darkened background.

Report 1. Report in Annex XII to Delegated Regulation 2021/2178

Information referred to in Article 8(6) and (7) of Delegated Regulation 2021/2178 for each applicable KPI.

Annex XII Report Template 1. Nuclear and fossil gas related activities

Row	Nuclear energy related activities	
1.	The undertaking carries out, funds or has exposures to research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle.	NO
2.	The undertaking carries out, funds or has exposures to construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies.	NO
3.	The undertaking carries out, funds or has exposures to safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades.	NO
	Fossil gas-related activities	
4.	The undertaking carries out, funds or has exposures to construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels.	NO
5.	The undertaking carries out, funds or has exposures to construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels.	NO
6.	The undertaking carries out, funds or has exposures to construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels.	NO

Report 2. Delegated Regulation 2021/2178 Annex II Template: Proportion of turnover from products or services associated with Taxonomy-aligned economic activities.

Financial year 2024	Year			Substantial contribution criteria						DNSH criteria									
Economic Activities (1)	Code (2)	Turnover (3)	Proportion of Turnover (4)	Climate Change Mitigation (5)	Climate Change Adaptation (6)	Water (7)	Pollution (8)	Circular Economy (9)	Bio-diversity (10)	Climate Change Mitigation (11)	Climate Change Adaptation (12)	Water (13)	Pollution (14)	Circular Economy (15)	Bio-diversity (16)	Minimum Safeguards (17)	Proportion of A.1. or A.2. Turnover, year N-1 (18)	Category enabling activity (19)	Category transitional activity (20)
<i>Text</i>		<i>Thous. EUR</i>	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
Installation, maintenance and repair of renewable energy technologies	CCM7.6.	179 983	33%	Y	N	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	9%	E	
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		179 983	33%	100%	0%	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	9%		
Of which enabling		179 983	33%	100%	0%	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	9%	E	
Of which transitional		0	0%	0%						N	N	N	N	N	N	N	0%		T
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) ()																			
Construction of new buildings	CCM7.1.\CCA7.1.\CE3.1.	293 657	54%														61%		
Infrastructure for rail transport	CCM6.14.\CCA6.14.	22 625	4%														0%		
Infrastructure enabling road transport and public	CCA6.15.	41 039	8%														14%		
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		357 321	66%														75%		
A. Turnover of Taxonomy eligible activities (A.1+A.2)		537 304	100%	33%	0,0%	0,0%	0,0%	0,0%	0,0%								85%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
Turnover of Taxonomy-non-eligible activities		1 745	0%																
TOTAL		539 049	100 %																

Explanation based on Annex I, clause 1.2.3.1.b) of Annex 2021/2178): in point A.1. The share of domestic consumption in the reported sales turnover is zero.

There were no activities that would significantly contribute to the achievement of several environmental objectives, so the table in footnote (c) of templates II of Annex 2021/2178 is not provided, the same data are provided in the presented reporting form.

Report 3. Delegated Regulation 2021/2178 Annex II Template: Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities.

Financial year 2024	Year		Substantial contribution criteria							DNSH criteria						Minimum Safeguards (17)	Proportion of A.1. or A.2. CapEx, year N-1 (18)	Category enabling activity (19)	Category transitional activity (20)
Economic Activities (1)	Code (2)	CapEx (3)	Pro-portion of CapEx (4)	Climate Change Mitigation (5)	Climate Change Adaptation (6)	Water (7)	Pollution (8)	Circular Economy (9)	Bio-diversity (10)	Climate Change Mitigation (11)	Climate Change Adaptation (12)	Water (13)	Pollution (14)	Circular Economy (15)	Bio-diversity (16)				
Text		Thous. EUR	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%	0%	0%	0%	0%	0%	0%		N	N	N	N	N	N	0%		
Of which enabling		0	0%	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	0%	E	
Of which transitional		0	0%	0%						N	N	N	N	N	N	N	0%		T
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) ()																			
Acquisition and ownership of buildings	CCM7.7.\ CCA7.7.	1 190	31%														0%		
Construction of new buildings	CCM7.1.\CCA 7.1.\CE3.1.	1 857	49%																
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		3 047	80%														0%		
A. CapEx of Taxonomy eligible activities (A.1+A.2)		3 047	80%	0%	0%	0%	0%	0%	0%								0%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
CapEx of Taxonomy-non-eligible activities		755	20%																
TOTAL		3 802	100 %																

There were no activities that would significantly contribute to the achievement of several environmental objectives, so the table in footnote (c) of templates II of Annex 2021/2178 is not provided, the same data are provided in the presented reporting form.

Report 4. Delegated Regulation 2021/2178 Annex II Template: Proportion of OpEx from products or services associated with Taxonomy-aligned economic activities.

Financial year 2024	Year			Substantial contribution criteria						DNSH criteria									
Economic Activities (1)	Code (2)	OpEx (3)	Pro-portion of OpEx (4)	Climate Change Mitigation (5)	Climate Change Adaptation (6)	Water (7)	Pollution (8)	Circular Economy (9)	Bio-diversity (10)	Climate Change Mitigation (11)	Climate Change Adaptation (12)	Water (13)	Pollution (14)	Circular Economy (15)	Bio-diversity (16)	Minimum Safeguards (17)	Proportion of A.1. or A.2. OpEx, year N-1 (18)	Category enabling activity (19)	Category transitional activity (20)
<i>Text</i>		<i>Thous. EUR</i>	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)	0	0%	0%	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	0%		
Of which enabling	0	0%	0%	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	0%	E	
Of which transitional	0	0%	0%							N	N	N	N	N	N	N	0%		T
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) ()																			
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)	0	0%															0%		
A. OpEx of Taxonomy eligible activities (A.1+A.2)	0	0%	0%	0%	0%	0%	0%	0%	0%								0%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
OpEx of Taxonomy-non-eligible activities	0	0%																	
TOTAL	0	100 %																	

There were no activities that would significantly contribute to the achievement of several environmental objectives, so the table in footnote (c) of regulation 2021/2178 Annex II is not provided, the same data are provided in the presented reporting form.

GOVERNANCE INFORMATION

THE ROLE OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES (ESRS 2, GOV-1)

The highest governing body of the Merko group is the **General Meeting of Shareholders**, whose competence of which is regulated by legislation and the company's Articles of Association. The general meeting decides, among other things, on the appointment and removal of the members of the supervisory board, the approval of the results of the financial year, and the amendment of the company's articles of association. The annual general meeting of shareholders takes place at least once a year. The agendas for both annual and extraordinary general meetings are approved by the supervisory board before publication. The supervisory board also submits relevant topics for discussion and voting at the general meeting, ensuring that key strategic matters are addressed within the framework of corporate governance.

The main role of the **Supervisory Board** is to approve the group's most important strategic and tactical decisions and to supervise the activities of the group's Management Board. In carrying out its responsibilities, the Supervisory Board adheres to the company's Articles of Association, the guidelines of the General Meeting, and applicable legislation. The Chairman of the Supervisory Board is responsible for organizing and overseeing the board's work.

Within AS Merko Ehitus, the Supervisory Board has established an **Audit Committee**, which serves as a working body that advises the board on oversight-related matters. However, subsidiaries within the group have not formed separate audit committees.

The **Management Board** serves as the executive body responsible for representing and managing the daily operations of AS Merko Ehitus in accordance with legal requirements and the company's Articles of Association. The board is required to operate in the most economically efficient manner, always acting in the best interests of the company and its shareholders, while also ensuring the sustainable development of the company in line with its strategic goals and objectives. The Management Board and the Supervisory Board work in close cooperation, maintaining continuous collaboration to ensure that the company's long-term interests and objectives are met effectively.

The **Chairman of the Management Board** is responsible for performing the daily duties of the CEO of AS Merko Ehitus, overseeing the management and representation of the company, and ensuring compliance with the Articles of Association and applicable laws. Additionally, the Chairman is tasked with organizing the work of the supervisory boards of both the Management Board and the most important subsidiaries, coordinating strategy development and its implementation, and overseeing strategic business development and financial management. The other members of the Management Board have distinct responsibilities, including managing the property portfolio, coordinating construction and development segment activities across group companies, financial management, investor relations, and ensuring compliance with regulatory and governance requirements.

The powers and responsibilities of the **Supervisory Boards of AS Merko Ehitus subsidiaries** are derived from their Articles of Association and the group's internal rules. As a general practice, supervisory boards are composed of members from the management and supervisory boards of the company that is the main shareholder of the respective subsidiary. The appointment of a subsidiary's manager or management board member falls under the authority of the subsidiary's supervisory board, which is responsible for selecting and approving key leadership positions within the organization.

Merko's management bodies include persons with long-term management experience and qualifications.

Supervisory Board

Toomas Annus, Chairman of the Supervisory Board

Positions held:

- 1997-2008 and 2011-... AS Merko Ehitus, Chairman of the Supervisory Board
- 1999-2009 and 2014-... AS Kapitel (AS E.L.L. Kinnisvara until 2017), Chairman of the Supervisory Board
- 2009-2014 AS E.L.L. Kinnisvara, Member of the Management Board
- 2008-... Järvevana OÜ, Member of the Management Board
- 1996-... AS Riverito, Chairman of the Management Board
- 1989-1996 AS EKE Merko and its legal predecessor EKE MRK, Chief Executive Officer

Education:

Tallinn University of Technology, industrial and civil engineering

Number of shares controlled: 12,742,686 (AS Riverito)

Indrek Neivelt, Member of the Supervisory Board

Positions held:

- 2008-... AS Merko Ehitus, Member of the Supervisory Board
- 2020-... OÜ Respiray, Chairman of the Management Board
- 2006-... AS Ldiamon, Chairman of the Supervisory Board
- 2016-... AS Pocopay, Member of the Management Board, positions in the Boards of subsidiaries belonging to the group
- Has held various executive positions in Hansapank (now Swedbank), incl. Director General of the group, Chairman of the Management Board and also in Bank Saint Petersburg as the Chairman of the Supervisory Board.

Education:

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

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

Kristina Siimar, Member of the Supervisory Board

Positions held:

2022-... AS Merko Ehitus, Member of the Supervisory Board
2014-2017 and 2022-... AS Kapital (AS E.L.L. Kinnisvara until 2017), Member of the Supervisory Board
2022-... OÜ Skaala Investments (OÜ Notorious), Member of the Management Board
2024-... AS Plaifm Estonia, Member of the Supervisory Board
2017-2021 Luminor Group, Member of the Management Board
2010-2017 Swedbank Group, Stockholm, various executive management positions
2001-2010 Hansapank / Swedbank Baltic banking, Financial Director and Member of the Management Board

Education:

INSEAD University in France (Entrepreneurship: Building New Business Ventures)
Massachusetts Institute of Technology (MIT), Sloan School of Management (Driving Strategic Innovation)
Tallinn University of Technology, MBA

Number of shares controlled: -

Management Board**Ivo Volkov**, Chairman of the Management Board

Positions held:

2024-... AS Merko Ehitus, Chairman of the Management Board
2020-2023 AS Merko Ehitus Eesti, Chairman of the Management Board
2016-2019 PKC Group Plc, Vice President of Operations, Europe and South America; PKC Eesti AS, Member of the Management Board
2014-2015 PKC Group Plc, Regional Director, South America
2012-2014 PKC Eesti AS, Chairman of the Management Board
2009-2012 Cargotec Estonia AS, Chairman of the Management Board
2004-2009 Elcoteq SE, various executive positions
Chairman of the Supervisory Board of Merko Ehitus Eesti AS, UAB Merko Statyba ja UAB Merko Bustas, Member of the Supervisory Board of Tallinna Teede AS.

Education:

Tallinn University of Technology, Business Administration, MBA

Number of shares controlled: 4,137

Tõnu Toomik, Member of the Management Board

Positions held:

2013-... AS Merko Ehitus, Member of the Management Board
2008-2013 AS Merko Ehitus, Member of the Supervisory Board
1997-2022 AS Kapital (AS E.L.L. Kinnisvara until 2017), Member of the Supervisory Board
1997-2008 AS Merko Ehitus, Chairman of the Management Board
1996-... AS Riverito, Member of the Management Board
1993-1996 AS EKE Merko, various positions
Member of the Supervisory Board of Merko Ehitus Eesti AS, UAB Merko Statyba ja UAB Merko Bustas, Chairman of the Supervisory Board of Tallinna Teede AS.

Education:

Tallinn University of Technology, industrial and civil engineering

Number of shares controlled: -

Urmas Somelar, Member of the Management Board

Positions held:

2023-... AS Merko Ehitus, Member of the Management Board
2021-2023 AS Merko Ehitus, Head of Finance
2018-2021 Arricano Real Estate Plc, Chairman of the Supervisory Board
2017-2018 Versobank AS, Member of the Management Board
2015-2017 Riigi Kinnisvara AS, Chairman of the Management Board
2008-2015 Swedbank group, various positions
Member of the Supervisory Board of AS Merko Ehitus Eesti, Tallinna Teede AS, UAB Merko Statyba and UAB Merko Bustas.

Education:

University of Tartu, Finance and Credit

Number of shares controlled: -

The structure of Merko's management system and the roles and responsibilities of the management bodies are described in more detail in 'The roles and responsibilities of governing bodies (GOV-1)' chapter.

ASSESSMENT OF MATERIAL IMPACTS, RISKS AND OPPORTUNITIES (ESRS 2, IRO-1)

The materiality assessment of the impacts related to Merko's management processes and governance was conducted as part of the double materiality assessment, which is described in more detail in the chapter 'Double materiality assessment process'.

During the assessment, several key aspects of Merko's business operations were analysed, including the general level of regulatory oversight, the role and frequency of business communication in daily activities, and the potential risks associated with non-compliance with established business ethics and management principles. The analysis concluded that the success of Merko's business activities is highly dependent on the quality of its management processes, the transparency of business operations, and strict adherence to established processes and behavioural standards. Ensuring compliance with these principles is essential for maintaining operational efficiency, stakeholder trust, and long-term business sustainability.

The construction and real estate development sectors are highly regulated and investment-intensive, and historically, these industries have been identified as having an elevated risk of bribery and corruption. These risks are primarily concentrated in the value chain stages related to detailed planning, building permits, and public procurement processes. Given these risk factors, conducting background checks on participants within the value chain and ensuring strict compliance with regulations and ethical standards are critical measures for risk mitigation.

Reputational damage can arise not only from confirmed instances of unethical behaviour or corruption but also from mere suspicions or allegations. Since 2019, the Latvian subsidiary SIA Merks, part of the Merko group, has been involved in administrative proceedings initiated by the Latvian Competition Council. According to the investigation, SIA Merks is considered one of nine companies alleged to have engaged in prohibited cooperation among construction firms. Merko firmly maintains that these allegations are both factually and legally unfounded. However, from a reputational standpoint, the issue remains significant until the conclusion of the legal process. Further details regarding the case can be found in the risk management subchapter of Note 35 to the financial statements, as well as [in the corresponding subsection](#) of Merko's website.

Construction activities are highly dependent on the value chain and the relationships with subcontractors and suppliers. As the main contractor, Merko is responsible for ensuring the quality of construction services, as well as compliance with project requirements and legal regulations. The greatest reputational risk for the main contractor arises from potential unethical behaviour by subcontractors, making robust management processes essential. Additionally, strong supplier relationships are critical for maintaining smooth business operations, as delays in the delivery of building materials can directly impact construction schedules and work processes. Mutual trust and transparent business practices play a key role in sustaining long-term relationships within the supply chain.

During the double materiality assessment, the potential financial impact of management-related topics was evaluated. The analysis found that any directly identifiable financial impact of changes in management processes on business activities is either insignificant or non-existent. The prevention of financial risks related to management is thoroughly regulated by legislation and is primarily preventive in nature. However, financial impacts may arise if Merko fails to comply—either intentionally or negligently—with established legal requirements and internal rules. In such cases, the financial consequences could materialize directly through fines or indirectly through reputational damage, which may affect the company's business relationships and market position.

As a result of the double materiality assessment, it was concluded that management-related topics are material for Merko, particularly in the areas of business ethics, business communication, and corruption prevention.

BUSINESS CONDUCT POLICIES AND CORPORATE CULTURE (G1-1)

Merko's business practices are established at the group level and are outlined in the company's Articles of Association, which have been integrated into the internal regulations of its key subsidiaries. The subsidiaries' internal rules provide more detailed principles and guidelines for day-to-day operations and processes. Additionally, at the group level, Merko has adopted the "Our Merko" Code of Conduct, which defines the company's core values, preferred behavioural standards, and commitments to key stakeholders.

A fundamental principle of Merko's corporate culture is its commitment to high standards of honesty, reliability, and openness. Ethical business practices are a core value of the company, playing a crucial role in ensuring profitable growth, maintaining stakeholder trust, and supporting fair competition and equal treatment. The AS Merko Ehitus group maintains a zero-tolerance policy toward corruption in any form. In all of its operations, Merko adheres to the Financial Supervision Authority's Code of Good Corporate Governance, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights.

All employees of the Merko group are required to adhere to ethical principles in their professional activities. To support this commitment, the group has established a [Code of Business Ethics](#), which all employees are obliged to familiarize themselves with and comply with fully. For more detailed information on Merko's approach to business ethics, the topic is further elaborated on the group's website <https://group.merko.ee/en/corporate-responsibility/>.

[Anonymous reporting channels](#) have been created for reporting possible cases of unethical behaviour or suspicions of it, which are intended for use by the company's own employees, as well as cooperation partners and other parties. The notification and information analysis system is built in a way that would protect the whistleblower as effectively as possible, ensuring security, confidentiality and, if desired, anonymity at all stages of the process. Cases of business conduct are resolved on the basis of the service provided by a professional and independent external partner (Ernst & Young Baltic AS at the time of preparation of the report), and no separate procedure has been established for this. Reports sent via the website form, hotline and e-mail do not reach the direct managers, but are first directed to the cooperation partner, who investigates the reports and forwards to Merko summaries of the contents only of the clues that need to be investigated. Summaries of content are forwarded to Merko's managers whose area of competence is affected by the tips, while it is ensured that the information forwarded does not contain references to the source of the information.

Reports submitted through the whistleblowing channel are investigated and resolved by the Merko managers to whom the reports are addressed. These managers are obligated to keep the information confidential and use it solely for the purpose of resolving the case. The group's Management and Audit Committee, which perform a supervisory function, are also informed about the cases and may be involved in their resolution. If the reports concern the activities of the group's Management, a summary of the case is submitted exclusively to the Supervisory Board.

The effectiveness of ethical business practices and the integrity of Merko's business culture are monitored through statistics on communication channels, which are compiled and reported by the external cooperation partner. These statistics are provided as quarterly overview reports to national management teams, the group's management, the Audit Committee, and the company's legal counsel. In 2024, one tip-off was received, but no internal investigation was initiated (compared to 2023, when one tip-off was also received, but an investigation was deemed unnecessary). There is no separate predefined process for investigative activities; instead, each case is assessed individually and handled on a case-by-case basis. For a more detailed overview of the notification channels, further information is available on the Merko website: <https://group.merko.ee/vastutustundlik-ettevote/notification-channels/>.

All employees receive business ethics training upon joining the company, as compliance with the Code of Business Ethics is an integral part of internal procedures. Additional training is provided on a need-to-know basis, based on the findings and outcomes of reported cases.

The key persons of Merko Ehitus are required to submit a declaration of personal interests, which includes details on company holdings, membership in management bodies of companies or other legal entities, participation in professional associations, registered economic activities, and any other circumstances that may create a conflict of interest. This declaration is reviewed and, if necessary, updated once a year. In 2024 and 2023, the group did not identify any cases of conflicts of interest among its key personnel.

MANAGEMENT OF RELATIONSHIPS WITH SUPPLIERS (G1-2)

There are numerous parties involved in the construction and real estate development value chains. In the context of construction services, a large portion of construction-specific work is carried out by subcontractors, while the procurement of building materials relies on material resellers and suppliers. Similarly, in real estate development activities, relationships with designers and architectural firms play a crucial role. Therefore, establishing and maintaining strong business relationships with subcontractors and suppliers represents a strategically important area for Merko.

To build and sustain successful business partnerships, it is essential that Merko's subsidiaries act as trustworthy and transparent business partners, treat all involved parties fairly and equitably, and uphold the values that are integral to Merko's corporate identity. Among participants in the value chain, subcontractors involved in construction work and suppliers of building materials represent the most common business partnerships. In both cases, business partners are selected carefully, with high standards and criteria for responsible behaviour and ethical business conduct. To ensure this, background checks are performed on potential partners during the selection process, assessing their compliance with Merko's established criteria and identifying any potential conflicts of interest. The selection process itself adheres to the principles of fairness and equal treatment, and all cooperation partners are expected to consistently follow ethical business practices.

At present, Merko does not define separate criteria related to sustainability and social impact in the selection of business partners, but it is based on the principle that all other things being equal, preference is always given to more sustainable cooperation partners with a smaller environmental footprint.

PREVENTION AND DETECTION OF CORRUPTION AND BRIBERY (G1-3, G1-4)

Merko upholds a zero-tolerance policy for corruption and any other form of violations, as these are fundamentally unacceptable according to the company's core values. To enforce this standard, significant attention is given to preventive measures and employee training. All employees across the group are required to follow the Code of Business Ethics, which is introduced to all new employees upon joining the company. Additionally, internal and external training programs on corruption prevention and ethical business conduct are regularly conducted to increase awareness and strengthen compliance practices. These initiatives ensure that all roles exposed to risks receive appropriate training and that managers and employees remain informed and vigilant.

Certain functions within the company are considered more exposed to corruption risks, particularly those involved in detailed planning, building permits, and procurement activities. Meanwhile, the risk of theft is recognized as a more general issue that is evenly distributed across the organization. Any potential violations are thoroughly investigated, and decisions on further action are made based on the findings of the investigation. Cases requiring escalation are handled with involvement from different levels of management, ensuring thorough and appropriate resolution.

To ensure transparency and regulatory compliance, special oversight roles have been established. In Estonia, these responsibilities fall under the quality department, while in Latvia and Lithuania, the task has been assigned to specialists within the respective subsidiaries. Additionally, internal audits are conducted by an external service provider, which assesses the effectiveness of processes and identifies potential bottlenecks. The modernisation of the internal control system will be carried out on the principle of reasonableness, proceeding from a specific need.

In 2024, there were no confirmed cases of corruption.

Metric	Unit	Goal	2024	2023
Number of confirmed corruption and bribery cases	#	0	0	0

POLITICAL INFLUENCE AND LOBBYING ACTIVITIES (G1-5)

To minimize risks related to corruption and bribery, Merko Ehitus does not support any politicians, political parties, or political organizations, and it is the group's policy not to make political donations. Political lobbying is also avoided through background checks in the recruitment process. None of the members of the management bodies have worked in a public sector institution in the last two years.

CONSOLIDATED SUSTAINABILITY STATEMENT APPENDICES

APPENDIX 1: List of disclosure requirements fulfilled in the preparation of the sustainability statement (IRO-2)

ESRS 2 General Requirements

	Disclosure requirement	Page
BP-1	General basis for the preparation of sustainability statement	80
BP-2	Disclosures in relation to specific circumstances	80
GOV-1	The role of the administrative, management and supervisory bodies	81; 113-114
GOV-2	Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies	82
GOV-3	Integration of sustainability-related performance in incentive schemes	82; 95
GOV-4	Statement on due diligence	82-83
GOV-5	Risk management and internal controls over sustainability reporting	83-84
SBM-1	Strategy, business model and value chain	84-87
SBM-2	Interests and views of stakeholders	87-88
SBM-3	Material impacts, risks and opportunities and their interaction with strategy and business model	88-91
IRO-1	Description of the processes to identify and assess material impacts, risks and opportunities	91-93; 97-99, 103-104; 115
IRO-2	Disclosure requirements in ESRS covered by the undertaking's sustainability statement	117-119
MDR-P	Policies adopted to manage material sustainability matters	94
MDR-A	Actions and resources in relation to material sustainability matters	95

ESRS E1 Climate Change

Disclosure requirement		Page
E1-1	Transition plan for climate change mitigation	95
E1-2	Policies related to climate change mitigation and adaptation	99
E1-3	Actions and resources in relation to climate change policies	99
E1-4	Targets related to climate change mitigation and adaptation	99
E1-5	Energy consumption and mix	100
E1-6	Gross Scopes 1, 2, 3 and Total GHG emissions	100-103

ESRS E5 Resource Use and Circular Economy

Disclosure requirement		Page
E5-1	Policies related to resource use and circular economy	104
E5-2	Actions and resources related to resource use and circular economy	104-105
E5-3	Targets related to resource use and circular economy	104-105
E5-4	Resource inflows	105
E5-5	Resource outflows	105-107

ESRS G1 Business Behaviour

Disclosure requirement		Page
G1-1	Corporate culture and business conduct policies and corporate culture	115-116
G1-2	Management of relationships with suppliers	116
G1-3	Prevention and detection of corruption and bribery	117
G1-4	Confirmed incidents of corruption or bribery	117
G1-5	Political influence and lobbying activities	117

The reporting obligation in the 2024 sustainability statement will not apply to the disclosure requirements not indicated in the above list.

APPENDIX 2: List of data points in cross-cutting and topical standards that derive from other EU legislation

Disclosure Requirement and related datapoint	SFDR reference	Pillar 3 reference	Benchmark Regulation reference	EU Climate Law reference	Page
ESRS 2 GOV-1 Board's gender diversity paragraph 21 (d)	Indicator number 13 of Table #1 of Annex 1		Commission Delegated Regulation (EU) 2020/181612 , Annex II		81
ESRS 2 GOV-1 Percentage of board members who are independent paragraph 21 (e)			Delegated Regulation (EU) 2020/1816, Annex II		81
ESRS 2 GOV-4 Statement on due diligence paragraph 30	Indicator number 10 Table #3 of Annex 1				82-83
ESRS 2 SBM-1 Involvement in activities related to fossil fuel activities paragraph 40 (d) i	Indicators number 4 Table #1 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/245313 Table 1: Qualitative information on Environmental risk and Table 2: Qualitative information on social risk	Delegated Regulation (EU) 2020/1816, Annex II		Not material
ESRS 2 SBM-1 Involvement in activities related to chemical	Indicator number 9 Table #2 of		Delegated Regulation (EU) 2020/1816, Annex II		Not material

Disclosure Requirement and related datapoint	SFDR reference	Pillar 3 reference	Benchmark Regulation reference	EU Climate Law reference	Page
production paragraph 40 (d) ii	Annex 1				
ESRS 2 SBM-1 Involvement in activities related to controversial weapons paragraph 40 (d) iii	Indicator number 14 Table #1 of Annex 1		Delegated Regulation (EU) 2020/181814 , Article 12(1) Delegated Regulation (EU) 2020/1816, Annex II		Not material
ESRS 2 SBM-1 Involvement in activities related to cultivation and production of tobacco paragraph 40 (d) iv			Delegated Regulation (EU) 2020/1818, Article 12(1) Delegated Regulation (EU) 2020/1816, Annex II		Not material
ESRS E1-1 Transition plan to reach climate neutrality by 2050 paragraph 14				Regulation (EU) 2021/1119, Article 2(1)	95
ESRS E1-1 Undertakings excluded from Paris-aligned benchmarks Point 16(g)		Article 449a: Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 1: Banking book Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity	Delegated Regulation (EU) 2020/1818, Article 12.1 (d) to (g), and Article 12.2		Not material
ESRS E1-4 GHG emission reduction targets paragraph 34	Indicator number 4 Table #2 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 3: Banking book – Climate change transition risk: alignment metrics	Delegated Regulation (EU) 2020/1818, Article 6		99
ESRS E1-5 Energy consumption from fossil sources disaggregated by sources (only high climate impact sectors) paragraph 38	Indicator number 5 Table #1 and Indicator n. 5 Table #2 of Annex 1				100
ESRS E1-5 Energy consumption and mix paragraph 37	Indicator number 5 Table #1 of Annex 1				100
ESRS E1-5 Energy intensity associated with activities in high climate impact sectors paragraphs 40 to 43	Indicator number 6 Table #1 of Annex 1				100
ESRS E1-6 Gross Scope 1, 2, 3 and Total GHG emissions paragraph 44	Indicators number 1 and 2 Table #1 of Annex 1	Article 449a; Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 1: Banking book – Climate change transition risk: Credit quality of exposures by sector, emissions and residual maturity	Delegated Regulation (EU) 2020/1818, Article 5(1), 6 and 8(1)		100-103
ESRS E1-6 Gross GHG emissions intensity paragraphs 53 to 55	Indicators number 3 Table #1 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 3: Banking book – Climate change transition risk: alignment metrics	Delegated Regulation (EU) 2020/1818, Article 8(1)		101
ESRS E1-7 GHG removals and carbon credits				Regulation (EU) 2021/1119,	Not material

Disclosure Requirement and related datapoint	SFDR reference	Pillar 3 reference	Benchmark Regulation reference	EU Climate Law reference	Page
paragraph 56				Article 2(1)	
ESRS E1-9 Exposure of the benchmark portfolio to climate-related physical risks paragraph 66			Delegated Regulation (EU) 2020/1818, Annex II Delegated Regulation (EU) 2020/1816, Annex II		Not material
ESRS E1-9 Disaggregation of monetary amounts by acute and chronic physical risk paragraph 66 (a) ESRS E1-9 Location of significant assets at material physical risk paragraph 66 (c).		Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 paragraphs 46 and 47; Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk.			Not material
ESRS E1-9 Breakdown of the carrying value of its real estate assets by energy-efficiency classes paragraph 67 (c).		Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 paragraph 34; Template 2: Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral			Not material
ESRS E1-9 Degree of exposure of the portfolio to climate related opportunities paragraph 69			Delegated Regulation (EU) 2020/1818, Annex II		Not material
ESRS E2-4 Amount of each pollutant listed in Annex II of the EPRTR Regulation (European Pollutant Release and Transfer Register) emitted to air, water and soil, paragraph 28	Indicator number 8 Table #1 of Annex 1 Indicator number 2 Table #2 of Annex 1 Indicator number 1 Table #2 of Annex 1 Indicator number 3 Table #2 of Annex 1				Not material
ESRS E3-1 Water and marine resources paragraph 9	Indicator number 7 Table #2 of Annex 1				Not material
ESRS E3-1 Dedicated policy paragraph 13	Indicator number 8 Table 2 of Annex 1				Not material
ESRS E3-1 Sustainable oceans and seas paragraph 14	Indicator number 12 Table #2 of Annex 1				Not material
ESRS E3-4 Total water recycled and reused paragraph 28 (c)	Indicator number 6.2 Table #2 of Annex 1				Not material
ESRS E3-4 Total water consumption in m3 per net revenue on own operations paragraph 29	Indicator number 6.1 Table #2 of Annex 1				Not material
ESRS 2- IRO 1 - E4 paragraph 16 (a) i	Indicator number 7 Table #1 of Annex 1				Not material
ESRS 2- IRO 1 - E4 paragraph 16 (b)	Indicator number 10 Table #2 of Annex 1				Not material
ESRS 2- IRO 1 - E4 paragraph 16 (c)	Indicator number 14 Table #2 of Annex 1				Not material
ESRS E4-2 Sustainable land / agriculture practices or policies paragraph 24 (b)	Indicator number 11 Table #2 of Annex 1				Not material
ESRS E4-2 Sustainable oceans / seas practices or policies paragraph 24 (c)	Indicator number 12 Table #2 of Annex 1				Not material

Disclosure Requirement and related datapoint	SFDR reference	Pillar 3 reference	Benchmark Regulation reference	EU Climate Law reference	Page
ESRS E4-2 Policies to address deforestation paragraph 24 (d)	Indicator number 15 Table #2 of Annex 1				Not material
ESRS E5-5 Non-recycled waste paragraph 37 (d)	Indicator number 13 Table #2 of Annex 1				106-107
ESRS E5-5 Hazardous waste and radioactive waste paragraph 39	Indicator number 9 Table #1 of Annex 1				106-107
ESRS 2- SBM3 - S1 Risk of incidents of forced labour paragraph 14 (f)	Indicator number 13 Table #3 of Annex I				Transitional provisions
ESRS 2- SBM3 - S1 Risk of incidents of child labour paragraph 14 (g)	Indicator number 12 Table #3 of Annex I				Transitional provisions
ESRS S1-1 Human rights policy commitments paragraph 20	Indicator number 9 Table #3 and Indicator number 11 Table #1 of Annex I				Transitional provisions
ESRS S1-1 Due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8, paragraph 21			Delegated Regulation (EU) 2020/1816, Annex II		Transitional provisions
ESRS S1-1 processes and measures for preventing trafficking in human beings paragraph 22	Indicator number 11 Table #3 of Annex I				Transitional provisions
ESRS S1-1 workplace accident prevention policy or management system paragraph 23	Indicator number 1 Table #3 of Annex I				Transitional provisions
ESRS S1-3 grievance/complaints handling mechanisms paragraph 32 (c)	Indicator number 5 Table #3 of Annex I				Transitional provisions
ESRS S1-14 Number of fatalities and number and rate of work-related accidents paragraph 88 (b) and (c)	Indicator number 2 Table #3 of Annex I		Delegated Regulation (EU) 2020/1816, Annex II		Transitional provisions
ESRS S1-14 Number of days lost to injuries, accidents, fatalities or illness paragraph 88 (e)	Indicator number 3 Table #3 of Annex I				Transitional provisions
ESRS S1-16 Unadjusted gender pay gap paragraph 97 (a)	Indicator number 12 Table #1 of Annex I		Delegated Regulation (EU) 2020/1816, Annex II		Transitional provisions
ESRS S1-16 Excessive CEO pay ratio paragraph 97 (b)	Indicator number 8 Table #3 of Annex I				Transitional provisions
ESRS S1-17 Incidents of discrimination paragraph 103 (a)	Indicator number 7 Table #3 of Annex I				Transitional provisions
ESRS S1-17 Non-respect of UNGPs on Business and Human Rights and OECD paragraph 104 (a)	Indicator number 10 Table #1 and Indicator n. 14 Table #3 of Annex I		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818 Art 12 (1)		Transitional provisions
ESRS 2- SBM3 - S2 Significant risk of child labour or forced labour in	Indicators number 12 and n. 13 Table #3 of Annex I				Transitional provisions

Disclosure Requirement and related datapoint	SFDR reference	Pillar 3 reference	Benchmark Regulation reference	EU Climate Law reference	Page
the value chain paragraph 11 (b)					
ESRS S2-1 Human rights policy commitments paragraph 17	Indicator number 9 Table #3 and Indicator n. 11 Table #1 of Annex 1				Transitional provisions
ESRS S2-1 Policies related to value chain workers paragraph 18	Indicator number 11 and n. 4 Table #3 of Annex 1				Transitional provisions
ESRS S2-1 Nonrespect of UNGPs on Business and Human Rights principles and OECD guidelines paragraph 19	Indicator number 10 Table #1 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818, Art 12(1)		Transitional provisions
ESRS S2-1 Due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8, paragraph 19			Delegated Regulation (EU) 2020/1816, Annex II		Transitional provisions
ESRS S2-4 Human rights issues and incidents connected to its upstream and downstream value chain paragraph 36	Indicator number 14 Table #3 of Annex 1				Transitional provisions
ESRS S3-1 Human rights policy commitments paragraph 16	Indicator number 9 Table #3 of Annex 1 and Indicator number 11 Table #1 of Annex 1				Transitional provisions
ESRS S3-1 Non-respect of UNGPs on Business and Human Rights, ILO principles or and OECD guidelines paragraph 17	Indicator number 10 Table #1 Annex 1		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818, Art 12 (1)		Transitional provisions
ESRS S3-4 Human rights issues and incidents paragraph 36	Indicator number 14 Table #3 of Annex 1				Transitional provisions
ESRS S4-1 Policies related to consumers and end users paragraph 16	Indicator number 9 Table #3 and Indicator number 11 Table #1 of Annex 1				Transitional provisions
ESRS S4-1 Non-respect of UNGPs on Business and Human Rights and OECD guidelines paragraph 17	Indicator number 10 Table #1 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818, Art 12 (1)		Transitional provisions
ESRS S4-4 Human rights issues and incidents paragraph 35	Indicator number 14 Table #3 of Annex 1				Transitional provisions
ESRS G1-1 United Nations Convention against corruption paragraph 10 (b)	Indicator number 15 Table #3 of Annex 1				115-116
ESRS G1-1 Protection of whistle-blowers paragraph 10 (d)	Indicator number 6 Table #3 of Annex 1				115-116
ESRS G1-4 Fines for	Indicator number 17		Delegated		117

Disclosure Requirement and related datapoint	SFDR reference	Pillar 3 reference	Benchmark Regulation reference	EU Climate Law reference	Page
violation of anti-corruption and anti-bribery laws paragraph 24 (a)	Table #3 of Annex 1		Regulation (EU) 2020/1816, Annex II)		
ESRS G1-4 Standards of anticorruption and anti-bribery paragraph 24 (b)	Indicator number 16 Table #3 of Annex 1				117

APPENDIX 3: Due diligence table

Core elements of due diligence	Paragraphs in the Sustainability Statement
a) Embedding due diligence in governance, strategy and business model	82-83
b) Engaging with affected stakeholders in all key steps of the due diligence	85-86; 87-88; 104
c) Identifying and assessing adverse impacts	83-84; 88-91
d) Taking actions to address those adverse impacts	88-91; 96-97; 104-105
e) Tracking the effectiveness of these efforts and communicating	95; 99; 104-105

MANAGEMENT DECLARATION

The Management Board declares and confirms that according to their best knowledge, the year 2024 annual accounts, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, present a correct and fair view of the assets, liabilities, financial position and profit or loss of AS Merko Ehitus and the undertakings involved in the consolidation as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial status of AS Merko Ehitus and the undertakings involved in the consolidation as a whole and contains a description of the main risks and doubts.

Ivo Volkov	Chairman of the Management Board	/ digitally signed /	31.03.2025
Tõnu Toomik	Member of the Management Board	/ digitally signed /	31.03.2025
Urmas Somelar	Member of the Management Board	/ digitally signed /	31.03.2025



Independent Practitioner's Limited Assurance Report on Aktsiaselts MERKO EHITUS Consolidated Sustainability Statement

To the Shareholders of Aktsiaselts MERKO EHITUS

Limited assurance conclusion

We have conducted a limited assurance engagement on the consolidated sustainability statement of Aktsiaselts MERKO EHITUS (the "Company"), included in CONSOLIDATED SUSTAINABILITY STATEMENT of the MANAGEMENT REPORT (the "Consolidated Sustainability Statement"), as at 31 December 2024 and for the year then ended.

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Consolidated Sustainability Statement is not prepared, in all material respects, in accordance with Section 31, subsection 4 of the Accounting Act implementing Article 29(a) of EU Directive 2013/34/EU, including:

- compliance with the European Sustainability Reporting Standards (ESRS), including that the process carried out by the Company to identify the information reported in the Consolidated Sustainability Statement (the "Process") is in accordance with the description set out in note Double materiality assessment process (IRO-1); and
- compliance of the disclosures in note EU Taxonomy of sustainable economic activities within the Environmental Information section of the Consolidated Sustainability Statement with Article 8 of EU Regulation 2020/852 (the "Taxonomy Regulation").

Basis for conclusion

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance engagements other than audits or reviews of historical financial information ("ISAE 3000 (Revised)")*, issued by the International Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion. Our responsibilities under this standard are further described in the Practitioner's responsibilities section of our report

Our independence and quality management

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies International Standard on Quality Management (Estonia) 1 (revised), which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

AS PricewaterhouseCoopers
Tatari 1, 10116 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, www.pwc.ee

Translation note:

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Responsibilities for the Consolidated Sustainability Statement

Management Board of the Company is responsible for designing and implementing a process to identify the information reported in the Consolidated Sustainability Statement in accordance with the ESRS and for disclosing this Process in note Double materiality assessment process (IRO-1) of the Consolidated Sustainability Statement. This responsibility includes:

- understanding the context in which the Group's activities and business relationships take place and developing an understanding of its affected stakeholders;
- the identification of the actual and potential impacts (both negative and positive) related to sustainability matters, as well as risks and opportunities that affect, or could reasonably be expected to affect, the Group's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium-, or long-term;
- the assessment of the materiality of the identified impacts, risks and opportunities related to sustainability matters by selecting and applying appropriate thresholds; and
- making assumptions that are reasonable in the circumstances.

Management Board of the Company is further responsible for the preparation of the Consolidated Sustainability Statement, in accordance with Section 31, subsection 4 of the Accounting Act implementing Article 29(a) of EU Directive 2013/34/EU, including:

- compliance with the ESRS;
- preparing the disclosures in note EU Taxonomy of sustainable economic activities within the Environmental Information section of the Consolidated Sustainability Statement, in compliance with Article 8 of EU Regulation 2020/852 (the "Taxonomy Regulation");
- designing, implementing and maintaining such internal control that the Management Board determines is necessary to enable the preparation of the Consolidated Sustainability Statement that is free from material misstatement, whether due to fraud or error; and
- the selection and application of appropriate sustainability reporting methods and making assumptions and estimates that are reasonable in the circumstances.

Those charged with governance are responsible for overseeing the Group's sustainability reporting process.

Inherent limitations in preparing the Consolidated Sustainability Statement

In reporting forward-looking information in accordance with ESRS, the Management Board of the Company is required to prepare the forward-looking information on the basis of disclosed assumptions about events that may occur in the future and possible future actions by the Group. Actual outcomes are likely to be different since anticipated events frequently do not occur as expected.

Practitioner's responsibilities

Our responsibility is to plan and perform the assurance engagement to obtain limited assurance about whether the Consolidated Sustainability Statement is free from material misstatement, whether due to fraud or error, and to issue a limited assurance report that includes our conclusion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Consolidated Sustainability Statement as a whole.

As part of a limited assurance engagement in accordance with ISAE 3000 (Revised) we exercise professional judgement and maintain professional scepticism throughout the engagement.

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Our responsibilities in respect of the Consolidated Sustainability Statement, in relation to the Process, include:

- obtaining an understanding of the Process, but not for the purpose of providing a conclusion on the effectiveness of the Process, including the outcome of the Process;
- considering whether the information identified addresses the applicable disclosure requirements of the ESRS; and
- designing and performing procedures to evaluate whether the Process is consistent with the Company's description of its Process set out in note Double materiality assessment process (IRO-1).

Our other responsibilities in respect of the Consolidated Sustainability Statement include:

- identifying where material misstatements are likely to arise, whether due to fraud or error; and
- designing and performing procedures responsive to where material misstatements are likely to arise in the Consolidated Sustainability Statement. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Summary of the work performed

A limited assurance engagement involves performing procedures to obtain evidence about the Consolidated Sustainability Statement. The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

The nature, timing and extent of procedures selected depend on professional judgement, including the identification of disclosures where material misstatements are likely to arise in the Consolidated Sustainability Statement, whether due to fraud or error.

In conducting our limited assurance engagement, with respect to the Process, we:

- obtained an understanding of the Process by:
 - performing inquiries to understand the sources of the information used by management (e.g., stakeholder engagement, business plans and strategy documents); and
 - reviewing the Company's internal documentation of its Process; and
- evaluated whether the evidence obtained from our procedures with respect to the Process implemented by the Company was consistent with the description of the Process set out in note Double materiality assessment process (IRO-1).

In conducting our limited assurance engagement, with respect to the Consolidated Sustainability Statement, we:

- obtained an understanding of the Group's reporting processes relevant to the preparation of its Consolidated Sustainability Statement by:
 - obtaining an understanding of the Group's control environment, processes and information system relevant to the preparation of the Consolidated Sustainability Statement, but not for the purpose of providing a conclusion on the effectiveness of the Group's internal control.
 - obtaining an understanding of the roles and responsibilities in the preparation of the Consolidated Sustainability Statement, including communication within the Group and between the Management Board and those charged with governance

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- evaluated whether the information identified by the Process is included in the Consolidated Sustainability Statement;
- evaluated whether the structure and the presentation of the Consolidated Sustainability Statement is in accordance with the ESRS;
- performed inquiries of relevant personnel and analytical procedures on selected information in the Consolidated Sustainability Statement;
- performed substantive assurance procedures on selected information in the Consolidated Sustainability Statement;
- where applicable, compared disclosures in the Consolidated Sustainability Statement with the corresponding disclosures in the consolidated financial statements and MANAGEMENT REPORT;
- evaluated the methods, assumptions and data for developing estimates and forward-looking information;
- obtained an understanding of the Company's process to identify taxonomy-eligible and taxonomy-aligned economic activities and the corresponding disclosures in the Consolidated Sustainability Statement.

Other matter

The comparative information included in the Consolidated Sustainability Statement of the Company as at 31 December 2023 and for the year then ended was not subject to an assurance engagement. Our conclusion is not modified in respect of this matter.

AS PricewaterhouseCoopers

Original report is signed in Estonian language

Janno Hermanson
Certified auditor in charge, auditor's certificate no.570

31 March 2025
Tallinn, Estonia

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Independent auditor's report

To the Shareholders of Aktsiaselts MERKO EHITUS

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Aktsiaselts MERKO EHITUS (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2024, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 31 March 2025.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2024;
- the consolidated statement of financial position as at 31 December 2024;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59¹ of the Auditors Activities Act of the Republic of Estonia.

The non-audit services that we have provided to the Company and its subsidiaries in the period from 1 January 2024 to 31 December 2024 are disclosed in the management report and note 6 to the consolidated financial statements.

AS PricewaterhouseCoopers
Tatari 1, 10116 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, www.pwc.ee

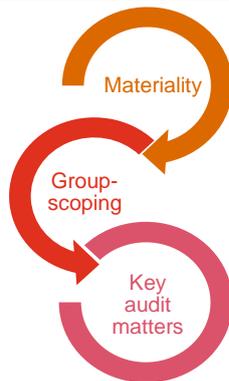
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Our audit approach

Overview



- Overall group audit materiality is EUR 5.35 million, which represents approximately 1% of the Group's consolidated revenue.
- A full scope audit was performed by Group's audit team or, under our instructions, by PwC network firms for Group's entities covering 99% of the Group's revenues and 85% of the Group's assets. Selected audit procedures were performed on remaining balances.
- Revenue recognition on construction contracts
- Valuation of inventory relating to property developments

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group audit materiality	EUR 5.35 million
How we determined it	Materiality to the financial statements as a whole: approximately 1% of consolidated revenue
Rationale for the materiality benchmark applied	We have calculated overall materiality using consolidated revenue benchmark, as by our estimate it is the key metric used by the Group's management, shareholders and creditors, in evaluating the performance of the Group.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

Revenue recognition on construction contracts (refer to Note 1 'Summary of significant accounting policies – subsection 1.19 'Revenue' and Note 3 'Operating Segments' for further details).

In 2024 the Group has recognised revenue of EUR 539 million, EUR 474.6 million is related to construction services.

The Group's revenues from construction services are generated from a large portfolio of construction contracts with different terms regarding service fee, use of subcontractors or partners and profit sharing. Revenue from construction contracts is recognised by reference to the progress towards satisfaction of performance obligations (percent of completion). Determining the percent of completion requires the management to estimate the cost to complete the contract, as well as any possible adjustments to the contractual fee, at each balance sheet date.

Accounting estimates are subjective by nature and rely on many sources of information, both within the Group and external, about the expected outcome of a contract. The complexity of the estimation, resulting from both the large number of varying contractual terms and estimation uncertainties regarding the expected outcome of construction contracts could lead to errors that may become material, when aggregated.

As such, auditing the revenue recognition on construction contracts requires a significant amount of audit time and resources and is due to above considered to be a key audit matter.

How our audit addressed the key audit matters

We audited revenue recognition on construction contracts through a combination of controls testing and substantive testing.

We assessed if Group had appropriately applied the guidance in the revenue recognition standard IFRS 15, including for revenue recognised over time.

We performed testing of the design, implementation and operating effectiveness of internal controls supporting identification of contractual terms, selection of suitable accounting policies and assessment of the percent of completion.

The controls testing was supported by substantive audit procedures. We selected a sample of contracts and performed substantive procedures that included, but were not limited to:

- reconciling the contract fee used in calculating the revenue based on the percent of completion to the contract;
- reconciling incurred contract costs included in revenue calculation to accounting records and testing the proper allocation of costs to individual contracts;
- testing correct periodisation of contract costs;
- checking the formula used for calculation of revenue based on the percent of completion;
- investigating the estimates of margins during current and comparative periods applied for revenue calculation of the same contracts to identify potential management bias;
- reviewed the general ledger entries relating to sales revenue based on risk-based selection and examined the evidence underlying unusual entries; and
- applied the principles of unpredictability in developing and performing revenue audit procedures.

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We also evaluated the correctness of disclosures in relation to the construction contracts.

Valuation of inventory relating to property developments (refer to Note 1 'Summary of significant accounting policies – subsection 1.11 'Inventories', Note 18 'Inventories' and Note 35 'Risk management' subsection 'value of assets' for further details).

As at 31 December 2024 the Group's statement of financial position includes inventory in the amount of EUR 195 million, of which EUR 44 million were finished apartments, EUR 63 million unfinished apartments and EUR 88 million land purchased for development and resale (mostly with the aim of being developed as residential property).

Inventories are carried at the lower of cost and net realisable value.

With property prices, especially those of residential property, following the economic cycle and exhibiting substantial fluctuation over time, net realisable value of the inventory of finished and unfinished apartments and property for resale needs to be carefully monitored against the carrying amount. Should the net realisable value of a property fall below its carrying amount, a write-down to net realisable value is necessary. Determining the net realisable value of property requires estimates of the expected selling price and may require estimates of the cost to complete the development of the property.

Due to the magnitude and related estimation uncertainty, valuation of inventory of finished and unfinished apartments and land to be developed for sale is considered a key audit matter.

We assessed the management's expertise to perform valuation of property. The management is experienced in property valuation and the outcomes of completed development projects have usually met the profitability estimates.

We evaluated the model prepared by the management for determining the net realisable value and identifying any necessary write-down.

We performed testing of the inputs used in the valuation model. Our work targeted individual properties on our assessment of the risk, based on the location, carrying amount and any specific conditions related to a property. For inputs based on estimates, which include unit costs applicable for completing the construction and sales price, we assessed the reasonableness of the inputs by comparing them with historical data from completed projects and available market information such as construction price indexes. Where possible, we compared the estimated sales prices with comparable market transactions and with the prices agreed in promissory sales contract.

It was evident from our work that sufficient attention had been paid to each property's individual characteristics including their construction quality, geographic location and relevant legal or contractual obligations.

We also assessed the appropriateness of disclosures provided in respect of net realisable value of inventory, including sensitivity analysis.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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The Group comprises a number of subsidiaries that are further disclosed in Note 19 and two joint ventures, information about which is disclosed in Note 20. A full scope audit was performed by PwC Estonia or, under our instructions, by other PwC network firms covering 99% of the Group's revenues and 85% of assets. The remaining entities of the Group were immaterial, therefore we only performed selected audit procedures on these components relating to specified account balances or disclosures.

Where work was performed by component auditors, we determined the level of involvement we needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

At the Group level, we reviewed the consolidation to ensure that there were no misstatements affecting the consolidated financial statements.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises Main facts, Statement of the chairman of the management board, Merko Group, Management report (including the Consolidated Sustainability Statement), Management declaration, Corporate Governance report, the remuneration report and other notes to the consolidated annual report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the Management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act of the Republic of Estonia. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared (excluding for the Consolidated Sustainability Statement which a separate assurance report is issued by us) in accordance with the requirements of the Accounting Act of the Republic of Estonia.

In accordance with the Securities Market Act of the Republic of Estonia with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 135³ (3) of the Securities Market Act of the Republic of Estonia.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management report has been prepared (excluding for the Consolidated Sustainability Statement which a separate assurance report is issued by us) in accordance with the requirements of the Accounting Act of the Republic of Estonia; and
- the Remuneration Report has been prepared in accordance with Article 135³ (3) of the Securities Market Act of the Republic of Estonia.

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If, based on the work we have performed on the Management report and other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement in the Management report or in this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the

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audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purpose of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged as part of our audit engagement letter by the Management Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of Aktsiaselts MERKO EHITUS for the year ended 31 December 2024 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

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The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and those charged with governance

The Management Board of the Company is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for overseeing the financial reporting process, which should also be understood as the preparation of consolidated financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (Estonia) 3000 (revised) "Assurance Engagements other than Audits and Reviews of Historical Financial Information" (ISAE (EE) 3000 (revised)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE (EE) 3000 (revised) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality management requirements and professional ethics

We apply the provisions of the International Standard on Quality Management (Estonia) 1 (revised) and accordingly maintain a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

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- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

Appointment and period of our audit engagement

We were first appointed as auditors of Aktsiaselts MERKO EHITUS, as a public interest entity for the financial year ended 31 December 2008. Our appointment has been renewed by tenders and shareholders resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for Aktsiaselts MERKO EHITUS, as a public interest entity, of 17 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of Aktsiaselts MERKO EHITUS can be extended for up to the financial year ending 31 December 2027.

AS PricewaterhouseCoopers

Original report is signed in Estonian language

Jüri Koltsov
Certified auditor in charge, auditor's certificate no. 623

1 April 2025
Tallinn, Estonia

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CORPORATE GOVERNANCE RECOMMENDATIONS REPORT

CORPORATE GOVERNANCE AND STRUCTURE

Adherence to the principles of Corporate Governance Recommendations is part of the management of AS Merko Ehitus. Generally, this system is regulated by relevant legislation, the company's articles of association and the company's internal policies. Starting from 1 January 2006, issuers of shares listed on the Nasdaq Tallinn Stock Exchange are recommended to adhere to the principles of Corporate Governance Recommendations approved by the Financial Supervisory Authority that covers good practices of enterprise management and treatment of shareholders. AS Merko Ehitus has followed these principles throughout 2024.

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

AS Merko Ehitus operates as a holding company whose companies in Estonia, Latvia and Lithuania offer complete solutions in the field of construction and real estate development. In the construction sector, the group's largest companies are AS Merko Ehitus Eesti, OÜ Merko Kodud, Tallinna Teede AS, SIA Merks Mājas, UAB Merko Statyba ja UAB Merko Bustas.

The main activity of the holding company is development and implementation of the strategies of Merko Ehitus group's separate business areas primarily through long-term planning of resources. The holding company AS Merko Ehitus has a two-member Management Board: Andres Trink and Tõnu Toomik.

The overview of the Management Board and Supervisory Board have been presented in the Governance information subsection of the Consolidated Sustainability Statement.

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 group management, we in some cases differentiate the management structure and legal structure. The group's management is carried out on a country basis. The group's country and business area detailed management structure as at 31 December 2024 is the following:



**In Estonia, the sister companies Merko Ehitus Eesti AS, Merko Kodud OÜ and Tallinna Teede AS are from the group's point of view managed based on the same principles, but have their executive management formed completely independent from each other.*

Group's legal structure is primarily based on regulatory considerations and not in all cases there is a direct linear linkage with the group's effective management structure. The detailed list of group companies is in Notes 19 and 20 of the financial statements.

GENERAL MEETING OF SHAREHOLDERS

The Company's highest governing body is the General Meeting of Shareholders, the authorities of which are regulated by legislation and the articles of association of the Company. The general meeting of shareholders decides, among others, amendments to the articles of association, the appointment and recall of members of the Supervisory Board, appointment of the auditor, approval of the results of the financial year and the payment of dividends. In amending the articles of association, the general meeting of shareholders follows the regulation as per the Estonian Commercial Code. A resolution on amendment of the articles of association shall be adopted if at least two-thirds of the votes represented at a general meeting are in favour. The annual general meeting of shareholders is held at least once a year and shall approve the annual report within six months of the end of the financial year.

The annual general meeting of shareholders was held on 8 May 2024. The general meeting resolved to approve the annual report and the profit allocation proposal for 2023. The dividends in the sum of EUR 23.0 million (EUR 1.30 per share) paid out to the shareholders on 21 June 2024.

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 Corporate Governance Recommendations, AS Merko Ehitus calls the annual and extraordinary general meeting of shareholders by notifying the shareholders through Nasdaq Tallinn Stock Exchange and by publishing a meeting call in one national daily newspaper and on its website at least 3 weeks in advance. The

general meeting shall be held at the place shown in the notice, on a working day and between 9 a.m. and 6 p.m., enabling most of the shareholders to participate in the General Meeting of Shareholders.

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

General meetings can be attended by any shareholder or his or her authorised representative. AS Merko Ehitus does not allow participation in general meetings by electronic means of communication 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. On behalf of the company, usually the Chairman of the Management Board and the Chairman of the Supervisory Board shall participate in the General Meeting of AS Merko Ehitus, and if necessary, other members of the Management and Supervisory Boards shall be involved. If necessary, the company's auditor shall participate.

The annual general meeting of shareholders of AS Merko Ehitus held in 2024 was attended by Ivo Volkov (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Urmas Somelar (Head of Finance) and Janno Hermanson (Auditor).

The group is not aware of any agreements between its shareholders on the coordination of exercising the shareholders' rights.

SUPERVISORY BOARD

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

According to the Articles of Association of Merko Ehitus, the Supervisory Board has 3 to 5 members who shall be elected for the term of three years. As of 31 December 2024, the Supervisory Board of AS Merko Ehitus had three members: Toomas Annus (The Chairman), Indrek Neivelt and Kristina Siimar.

According to the requirements of the Corporate Governance Recommendations, Kristina Siimar and Indrek Neivelt were independent members of the Supervisory board.

The meetings of the Supervisory Board generally take place once a month, except in summer months. In 2024, the Supervisory Board held 11 regular meetings. No extraordinary Supervisory Board meetings were held. Participation of members of the Supervisory Board at meetings:

NAME	PARTICIPATION IN MEETINGS	PARTICIPATION %
Toomas Annus	11	100%
Indrek Neivelt	11	100%
Kristina Siimar	11	100%

The Supervisory Board fulfilled all its obligations laid down in legal acts.

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

No termination benefits are paid to the members of the Supervisory Board upon the termination or non-extension of the contract. In the 2024 and 2023 financial years, the members of the Supervisory Board were remunerated as follows (in euros):

NAME	2024	2023
Teet Roopalu	-	15,978
Indrek Neivelt	38,347	38,347
Kristina Siimar	38,347	38,347
TOTAL	76,694	92,672

Remuneration, less the statutory taxes, to the members of the Supervisory Board is paid on a monthly basis. As from 1 November 2018, the Chairman of the Supervisory Board has forgone the member's fee at his own request.

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

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

The responsibilities of Ivo Volkov, 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 strategic business development and finance. Tõnu Toomik is responsible for the management of the portfolio of properties and coordination of construction and development segments activities across the whole group. Urmas Somelar is responsible for the financial management, investor relations and compliance.

As of 31 December 2024, the Management Board of AS Merko Ehitus had three members: Mr. Ivo Volkov (Chairman), Mr. Tõnu Toomik and Mr. Urmas Somelar.

Members of the Management Board have entered into three-year contracts of service with the company. The procedure and principles of remuneration of Management Board members are written in the Remuneration report on pages 146-147.

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

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the most significant subsidiaries that are wholly owned by AS Merko Ehitus as at 31 December 2024:

COMPANY *	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti (56,716,939 euros)	Ivo Volkov (Chairman), Tõnu Toomik, Martin Rebane, Urmas Somelar	Jaan Mäe (Chairman), Veljo Viitmann
OÜ Merko Kodud (51,743,125 euros)	-	Indrek Tarto
OÜ Merko Residential Investments (18,291,084 euros)	-	Ivo Volkov, Urmas Somelar
SIA Merks Mājas (39,478,080 euros)	-	Egija Smila (Chairman), Roberts Rēboks
UAB Merko Statyba (51,873,578 euros)	Ivo Volkov (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Chairman), Jaanus Rāstas
UAB Merko Bustas (14,373,173 euros)	Ivo Volkov (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Manager)

* The figures in brackets indicate the amount of equity held by the parent company's owners in significant subsidiaries as at 31 December 2024.

Changes in the management of group subsidiaries

The Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Members of the Management Board, Mr. Jaan Mäe and Mr. Veljo Viitmann from 1 January 2024 for three years. As of 1 January 2024, the Management Board of AS Merko Ehitus Eesti will continue with two members: Mr. Jaan Mäe (Chairman) and Mr. Veljo Viitmann.

AS Merko Ehitus appointed Mr. Ivo Volkov as a Member of the Supervisory Board of AS Merko Ehitus Eesti for the three-year period, starting from 1 January 2024. With the same decision, the powers of the current council member Tõnu Toomik were extended until 31 December 2026. The Supervisory Board of AS Merko Ehitus Eesti will continue with four members: Mr. Ivo Volkov (Chairman), Mr. Tõnu Toomik, Mr. Martin Rebane and Mr. Urmas Somelar.

With the 21 March 2024 decisions of AS Merko Ehitus, the powers of Ivo Volkov, Tõnu Toomik and Urmas Somelar, the current Supervisory Board members of UAB Merko Statyba and UAB Merko Bustas, were extended for the next three years.

The Management Board of AS Merko Ehitus decided to appoint Ms. Egija Smila as the country head for the group's Latvian subsidiaries for a period of three years, with the term of authority beginning on 1 May 2024. In addition, Ms. Egija Smila was appointed as a Member of the Management Board of SIA Merks Mājas, with the term of authority beginning on 15 May 2024.

The sole shareholder of SIA Merks Mājas, part of AS Merko Ehitus group, decided to appoint Mr. Roberts Rēboks as a Member of the Management Board of the company, starting from 6 June 2024. With effect from 22 July 2024, the Management Board of SIA Merks Mājas continued with two members: Mrs. Egija Smila and Mr. Roberts Rēboks.

The structure of the group is disclosed in Note 19 to the financial statements.

AUDIT COMMITTEE

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

As at 10 January 2011, the company's Supervisory Board set up a 3-member audit committee. From 5 May 2023, the members of the audit committee of AS Merko Ehitus are: Indrek Neivelt (the Chairman), Kristina Siimar and Viktor Mõisja.

A member of the committee is elected for indefinite period, but at the decision of the Supervisory Board, a member of the committee may be recalled at any given time.

Members of the audit committee are not separately remunerated.

REPORTING AND FINANCIAL AUDIT

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

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

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

Financial audits are conducted based on International Standards on Auditing. The auditor of AS Merko Ehitus is approved by the general meeting of shareholders. The selection process is managed by the Supervisory Board and its findings are presented to the general meeting for approval. By the resolution made by the general meeting in 2023, the financial auditor for annual reports of 2023-2025 is AS PricewaterhouseCoopers (PwC). Auditors authorised to sign the report differ, depending on the country of residence of the group company. Chartered auditor Jüri Koltsov is responsible for the consolidated audit report.

AS Merko Ehitus considers it important to ensure independence of the financial auditor and to avoid conflicts of interest. In 2024, PwC provided to AS Merko Ehitus advisory services permitted under Estonian Audit Act. We find that the financial audit conducted in 2024 was in compliance with regulative acts, international standards and expectations. PwC presented the results in two stages: a) as part of an interim audit and b) with regard to the final audit before the independent auditor's report was issued. The auditor's independent report is presented on pages 129-137.

In 2024, the PwC fees for audit of AS Merko Ehitus group amounted to EUR 297 thousand (2023: EUR 198 thousand).

CONFLICT OF INTEREST AND HANDLING OF INSIDER INFORMATION

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

The members of the Management and Supervisory Board of AS Merko Ehitus are users of inside information (so-called insiders). They have signed a relevant statement, are aware of inside information rules of AS Merko Ehitus and together with people connected with them are registered in the list of the group's insiders. Moreover, the list of insiders includes the financial unit employees of the parent company who have access to the group's consolidated operating results as well as members of the Management and Supervisory Boards of the more important subsidiaries together with the employees who are responsible for preparing and presenting accounting information.

As at 31 December 2024, the group's insider register lists 145 persons with permanent access (31.12.2023: 100 persons). The group keeps records on insiders in accordance with requirements set forth in the Securities Market Act, the Regulation (EU) No 596/2014 of the European Parliament and of the Council (market abuse regulation) and Nasdaq Tallinn rules and regulations.

To the best of our knowledge, in the financial year 2024 there were no cases of any misuse of insider information or conflicts of interest. No transactions with related parties were made at other than market terms. No transactions between the company and its member of the board, a person close to or connected to the member of the board were carried out in the financial year of 2024, which would be regarded as significant for the company.

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

An overview of transactions with related parties in 2024 is provided in Note 33 of the financial statements.

DISCLOSURE OF INFORMATION

In disclosing information, AS Merko Ehitus shall follow Estonian law, the rules and regulations of Nasdaq Tallinn Stock Exchange and guidelines of the Financial Supervision Authority of Estonia and immediately disclose important information regarding the group's activities to the shareholders after obtaining reasonable assurance as to its correctness and that the disclosure of such information shall not harm the interests of the group and its business partners. The main principles of communication with investors and the general public are stated in the group's disclosure policy.

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

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

Important information shall be disclosed through the stock exchange system and on the group's website. In 2024, AS Merko Ehitus published 35 stock exchange releases through the stock exchange system.

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

We will publish 2025 consolidated interim reports as follows:

DATE	EVENT
16.05.2025	2025 3 months unaudited interim report
07.08.2025	2025 6 months and II quarter unaudited interim report
06.11.2025	2025 9 months and III quarter unaudited interim report

Our objective is to support fair pricing of Merko shares through constant and continued distribution of information to all market participants. Moreover, our objective is to maintain the loyalty of existing shareholders towards the company and to create interest in new shareholders and analysts. To achieve this goal, quarterly and annual reports, stock exchange releases and presentations are prepared and investor meetings are held with shareholders and analysts. We also collect and analyse feedback from investors and analysts to increase the value of information to be disclosed.

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

The investor calendar published on the AS Merko Ehitus website <https://group.merko.ee/en/investors/reports-and-investor-calendar/> provides an overview of investor meetings both past and upcoming. Current shareholders can request their participation in planned meetings shown on the investor calendar. Requests should be made in a timely fashion. In addition to the investor meeting date, time and names of participants, Merko's website has a section with the presentations used at the meetings. In 2024, AS Merko Ehitus organised 1 investor meetings (2023:0).

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

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

IVO VOLKOV	URMAS SOMELAR	AS MERKO EHITUS
Chairman of the Management Board	Head of group Finance Unit / Contact Person for Investor Relations	Delta Plaza, 7th Floor
phone +372 650 1250	phone +372 650 1250	Pärnu mnt 141, 11314 Tallinn, Estonia
fax +372 650 1251	fax +372 650 1251	phone +372 650 1250
e-mail ivo.volkov@merko.ee	e-mail urmas.somelar@merko.ee	group.merko.ee

DECLARATION OF CONFORMITY TO CORPORATE GOVERNANCE RECOMMENDATIONS

The Corporate Governance Recommendations (CGR) are based on the principle of comply or explain, according to which a publicly traded company shall explain its standpoints and activities with regard to those CGR provisions, which it does not comply with.

We have assessed the structure and functions of the management of AS Merko Ehitus as per CGR. Above we have described significant components of corporate governance. Having assessed the compliance of the structure and functioning of the company's management system, we find that our organisation and activities are consistent with CGR. Also, our activities comply with the Estonian legislation that regulates several principles provided in the recommendations in more detail. We hereby declare that AS Merko Ehitus has followed all corporate governance recommendations, with the following exceptions:

CORPORATE GOVERNANCE RECOMMENDATIONS ²	EXPLANATIONS BY MANAGEMENT AND SUPERVISORY BOARDS
1.3.1 The Chairman of the Supervisory Board and members of the Management Board cannot be elected as Chair of the General Meeting.	Urmas Somelar was elected chairman of the 2024 general meeting. The shareholders' meeting considered it possible to elect a member of the management board to chair the general meeting, as there were no items on the agenda that might have affected the members of the management board or in respect of which a member of the management board might have had an interest in exerting influence.
1.3.2 Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.	Indrek Neivelt, a member of the supervisory board, participated in the 2024 general meeting instead of the chairman of the supervisory board pursuant to the internal agreement of the supervisory board. The participation of all members of the supervisory board was not deemed necessary as no proposals for additional items on the agenda were tabled by shareholders within the statutory period.
1.3.3 Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.	AS Merko Ehitus did not provide the possibility to observe and attend the regular general meeting in 2024 through means of communication as such need has not been identified so far.
<p>3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number dependent members.</p> <p>An independent member is a person, who has no such business, family or other ties with the Issuer, a company controlled by the Issuer, a controlling shareholder of the Issuer, a company belonging to the Issuer's group or a member of a directing body of these companies, that can affect their decisions by the existence of conflict of interests. The independence requirements are presented in the annex of the Corporate Governance Recommendations.</p> <p>ANNEX. Requirements of independence</p> <p>Independent is the member of the Supervisory Board, who:</p> <p>(h) has not been an independent member of the Supervisory Board for more than ten (10) years;</p>	<p>The supervisory board of AS Merko Ehitus consists of four members, of which Kristina Siimar and Indrek Neivelt are independent members. Indrek Neivelt has been a member of the supervisory board since 6 November 2008, i.e. for more than ten years. Still, the management and supervisory boards are convinced that Indrek Neivelt remains independent from the Issuer, any company controlled by the Issuer, the controlling shareholder of the Issuer, any company belonging to the Issuer's group and any member of a management body of these companies, when making decisions as the member of the supervisory board. Indrek Neivelt continues to comply with all other requirements of independence and as a member of the supervisory board acts in the best interests of all the shareholders.</p>
5.2 The Issuer shall publish the disclosure dates of information subject to disclosure throughout a year (including the annual report, interim reports and notice calling a general meeting) at the beginning of the fiscal year in a separate notice, called financial calendar.	AS Merko Ehitus disclosed the financial calendar for 2025 on 18 December 2024. It did not include the date on which the notice calling general meeting is going to be disclosed, as it will be announced later as a result of the decisions of the Management Board and the Supervisory Board.
6.1.1 On meeting of the Supervisory board, where the annual account shall be reviewed the auditor of the Issuer shall participate upon invitation of the Supervisory Board.	The auditor does not usually attend the AS Merko Ehitus Supervisory Board meeting. Auditor presents an overview about the results of the performed audit as a written report to the audit committee, which has been formed by the Supervisory Board as its work body. In case the members of the audit committee find it necessary to receive additional explanations, they may turn to the auditor using means of communication or invite the auditor to the audit committee meeting to provide explanations.

According to subsection 24² (4) of the Accounting Act, a large undertaking whose securities granting voting rights have been admitted for trading on a regulated securities market of Estonia or another Contracting State shall describe in the corporate

² Corporate Governance Recommendations, Finantsinspektsioon (FSA in Estonia), https://www.fi.ee/failid/HYT_eng.pdf

governance report the diversity policies carried out in the company's management board and senior management and the results of the implementation thereof during the accounting year. If no diversity policies have been implemented during the accounting year, the reasons for this should be explained in the corporate governance report.

Merko Ehitus has not deemed it necessary to implement diversity policies as it bases its decisions on onboarding, work assessments and remuneration of its managers and employees on the group's best interests as well as the education, competencies and work results of the managers and employees, and not on their sex and gender, age, ethnicity, or other such characteristics. The group has enacted a code of business ethics, which also includes the principle of equal treatment of employees. In 2024, no such violations were identified in the group, which would have suggested discrimination of employees or violations of human rights. Also, no work-related complaints were submitted to labour dispute committees against the group in 2024.

REMUNERATION REPORT

REMUNERATION OF EXECUTIVES

Pursuant to legal acts, AS Merko Ehitus releases an overview of remuneration paid to executives and its conformity to the remuneration principles. The principles of remuneration of executives and the corresponding procedure are developed and approved by the AS Merko Ehitus supervisory board, thus preventing and mitigating any conflict of interest. Most recently, the supervisory board approved a full updated set of the remuneration principles for executives on 14 December 2021, which was approved at general meeting of shareholders in 2022. Amendment proposals submitted at the meeting by shareholders in regard to the executive remuneration principles will be reviewed and taken into account if supported by a simple majority at the meeting.

In the 2024 and 2023 financial years, the Management Board members' recognized cost of remuneration incl. basic salaries and performance pay, as well as taxes and changes in reserves for the reporting year were as follows (in euros):

	2024	Performance pay ROE component	Performance pay strategic objectives component	2023
Ivo Volkov	114,051	-	-	-
Incl. basic salaries (reporting period)	114,051	-	-	-
Tõnu Toomik	502,079	126,360	233,640	388,647
Incl. basic salaries (reporting period)	142,079	-	-	148,647
Incl. performance pay (previous period)	360,000	126,360	233,640	240,000
Urmas Somelar	485,104	119,340	240,660	60,600
Incl. basic salaries (reporting period)	125,104	-	-	60,600
Incl. performance pay (previous period)	360,000	119,340	240,660	-
Andres Trink*	100,000	-	100,000	958,741
Incl. basic salaries and compensation for non-performance of competition	-	-	-	308,741
Incl. performance pay (previous period)	100,000	-	100,000	650,000
Total taxes	418,495	-	-	453,291
Total changes in reserves**	235,555	-	-	(21,511)
TOTAL	1,855,284	245,700	574,300	1,839,767

*Performance pays represent the gross performance-based pay allocated and paid for the previous year's performance and recognized in the reporting year. ** Changes in reserves also include the reserve formed to cover performance pays to be paid in subsequent years for this reporting year.*

**Andres Trink service contract expired on 31.12.2023, in addition to the usual remuneration at the end of the service contract a compensation for non-competition in the amount of one year's service fee was paid, and an advance part of the performance pay calculated for 2023.*

The performance-based pay allocated to executives for their performance in 2024 financial year conform to the remuneration principles, motivating the executives to achieve and maintain a high calibre of return on equity and to launch and implement strategic initiatives for strengthening the group's position on its home markets. No exceptions to the remuneration policies were made in allocating remuneration to the executives for the results of the financial year 2024.

In 2024, none of the executives received remuneration from other companies belonging to the group and they were not granted or offered shares or share options as remuneration. Nor did the group's supervisory board initiate any reclaims of performance bonuses in regard to the executives.

REMUNERATION OF EMPLOYEES

The group's objective is to pay its employees a competitive salary. In addition to basic remuneration, performance-based remuneration is paid.

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 2024, the labour cost was EUR 52.8 million (2023: EUR 50.2 million), up 5.1% from the previous year.

Benefits that are standard for full-time employees and not offered to part-time employees are not separately disclosed in Merko group companies, except with regard to part-time employees employed under a contract for a specified term, who are not entitled to all of the benefits offered to group employees.

The following table shows, for each of the last five financial years, the annual change in the group's performance, and the average remuneration paid to employees and executives. The growth of the employees' average remuneration during the five-year period (56.8%) is distributed differently as compared to the growth in the average remuneration to executives in the five-year period (10.6%) but overall is clearly higher.

	2024	2023	2022	2021	2020
Net profit attributable to equity holders of the parent (million EUR)	64.7	46.0	34.6	29.1	23.0
Return on equity (%)	28.4	23.4	20.4	18.8	16,2
Average number of fulltime employees (people)	611	649	657	651	661
Labour cost (million EUR)	52.8	50.2	42.3	38.4	36.4
Average labour cost per year for employees (thousand EUR)	86.4	77.4	64.4	59.0	55.1
Number of managers	3	2.6*	2	2	2
Average labour cost per year for managers (thousand EUR)	574.1	712.2	613.2	378.8	518.9
Change in labour costs of employees (%)	11.6	20.2	9.2	7.0	4.5
Change in labour costs of managers (%)	-19.4	16.1	61.9	-27.0	27.9

Pursuant to the principles of accrual accounting, the labour costs also include the expense borne by the company in the reporting year on forming reserves and does not equal the actual disbursements during the reporting year; instead it includes considerations to be paid out in future periods.

**The number of members of the Management Board increased to 3 members on 01.06.2023, i.e. the number of members is shown in the table as an annual average.*

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KEY FINANCIAL INDICATORS IN 2020-2024

CONSOLIDATED INCOME STATEMENT

in thousands of euros

	2024	2023	2022	2021	2020
Revenue	539,049	466,304	409,633	339,375	315,918
Cost of goods sold	(443,162)	(401,267)	(355,975)	(292,563)	(272,169)
Gross profit (loss)	95,887	65,037	53,658	46,812	43,749
<i>% of revenue</i>	17.8%	13.9%	13.1%	13.8%	13.8%
Marketing expenses	(5,030)	(4,312)	(4,077)	(3,611)	(4,212)
General and administrative expenses	(21,908)	(19,423)	(15,860)	(13,925)	(13,412)
Other operating income	5,724	4,171	3,144	3,508	2,320
Other operating expenses	(2,190)	(991)	(1,834)	(582)	(2,979)
Operating profit (loss)	72,483	44,482	35,031	32,202	25,466
<i>% of revenue</i>	13.4%	9.5%	8.6%	9.5%	8.1%
Finance income	2,017	297	1	12	1
Finance costs	(2,951)	(3,017)	(1,450)	(886)	(866)
Profit (loss) from joint ventures	4,865	10,220	3,516	799	(144)
Profit (loss) before tax	76,414	51,982	37,098	32,127	24,457
<i>% of revenue</i>	14.2%	11.1%	9.1%	9.5%	7.7%
Corporate income tax expense	(11,820)	(6,081)	(2,995)	(3,104)	(1,954)
Net profit (loss) for the financial year	64,594	45,901	34,103	29,023	22,503
incl. attributable to equity holders of the parent	64,668	46,048	34,640	29,140	22,994
<i>% of revenue</i>	12.0%	9.9%	8.5%	8.6%	7.3%
Attributable to non-controlling interests	(74)	(147)	(537)	(117)	(491)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2024	31.12.2023	31.12.2022	31.12.2021	31.12.2020
ASSETS					
Current assets					
Cash and cash equivalents	91,879	77,330	17,665	44,930	47,480
Short-term deposits	10,000	-	-	-	-
Trade and other receivable	51,419	68,754	77,959	55,484	32,657
Prepaid corporate income tax	270	2	38	114	306
Inventories	196,521	195,435	225,661	160,593	126,332
	350,089	341,521	321,323	261,121	206,775
Non-current assets					
Investments in joint ventures	21,571	21,915	12,895	7,703	2,354
Other shares and securities	80	80	-	-	-
Other long-term loans and receivables	40,196	24,490	22,982	24,079	17,979
Deferred income tax assets	5,056	3,298	693	622	653
Investment properties	12,606	16,823	11,485	13,828	13,922
Property, plant and equipment	17,147	16,613	17,452	16,350	14,521
Intangible assets	350	520	582	669	711
	97,006	83,739	66,089	63,251	50,140
TOTAL ASSETS	447,095	425,260	387,412	324,372	256,915
LIABILITIES					
Current liabilities					
Borrowings	21,303	19,673	49,687	11,636	13,649
Payables and prepayments	129,786	133,898	96,248	90,054	55,846
Corporate income tax liability	7,101	4,260	1,241	681	1,202
Short-term provisions	7,678	10,451	9,820	7,976	6,347
	165,868	168,282	156,996	110,347	77,044
Non-current liabilities					
Long-term borrowings	12,102	35,142	42,236	41,001	15,409
Deferred income tax liability	6,148	4,441	2,355	3,112	3,001
Other long-term payables	8,719	5,495	2,133	2,900	4,026
	26,969	45,078	46,724	47,013	22,436
TOTAL LIABILITIES	192,837	213,360	203,720	157,360	99,480
EQUITY					
Non-controlling interests	-	(155)	(495)	(227)	4,207
Equity attributable to equity holders of the parent					
Share capital	7,929	7,929	7,929	7,929	7,929
Statutory reserve capital	793	793	793	793	793
Currency translation differences	(41)	(838)	(783)	(791)	(814)
Retained earnings	245,577	204,171	176,248	159,308	145,320
	254,258	212,055	184,187	167,239	153,228
TOTAL EQUITY	254,258	211,900	183,692	167,012	157,435
TOTAL LIABILITIES AND EQUITY	447,095	425,260	387,412	324,372	256,915

OTHER KEY FIGURES

attributable to equity holders of the parent

		2024	2023	2022	2021	2020
EBITDA	million EUR	75.7	48.1	37.9	34.8	28.2
EBITDA margin	%	14.0	10.3	9.3	10.3	8.9
General expense ratio	%	5.0	5.1	4.9	5.2	5.6
Staff costs ratio	%	9.8	10.8	10.3	11.3	11.5
Revenue per employee	thousand EUR	882	718	623	521	478
ROE	%	28.4	23.4	20.4	18.8	16.2
ROA	%	14.8	11.8	9.2	10.0	8.4
ROIC	%	29.8	20.6	15.1	16.9	13.1
Equity ratio	%	56.9	49.9	47.5	51.6	59.6
Debt ratio	%	7.5	12.9	23.7	16.2	11.3
Current ratio	times	2.1	2.0	2.0	2.4	2.7
Quick ratio	times	0.9	0.9	0.6	0.9	1.0
Accounts receivable turnover	days	43	38	33	31	35
Accounts payable turnover	days	46	40	55	39	37
Number of employees as at 31.12	people	605	635	661	670	666
Average number of employees	people	611	649	657	651	661
Secured order book as at 31.12	million EUR	341	477	297	257	225
New contracts signed	million EUR	338	501	318	288	277

SHARE-RELATED KEY FIGURES

attributable to equity holders of the parent

		2023	2023	2022	2021	2020
Earnings per share (EPS)	EUR	3.65	2.60	1.96	1.65	1.30
Equity per share	EUR	12.88	11.11	9.57	8.76	8.01
Dividend per share	EUR	*	1.30	1.00	1.00	1.00
Dividend rate	%	*	50	51	61	77
Dividend yield	%	*	8.5	7.1	6.6	10.6
P/B ratio	times	1.62	1.38	1.48	1.74	1.18
P/E ratio	times	5.71	5.88	7.24	9.24	7.28
Share price trend						
Average	EUR	17.00	15.18	14.50	14.41	8.80
Highest	EUR	21.55	16.36	16.96	17.14	10.60
Lowest	EUR	15.10	14.14	11.60	9.48	6.56
Share price as at 31.12	EUR	20.85	15.30	14.16	15.22	9.46
Market value as at 31.12	million EUR	369.0	270.8	250.6	269.4	167.4
Share turnover trend						
Share turnover	million EUR	13.57	12.85	18.16	29.78	13.97
Transactions	pcs	23,384	28,455	40,602	46,961	22,033
Shares traded	million pcs	0.79	0.84	1.22	2.06	1.62
Ratio of shares traded	%	4.5	4.7	6.9	11.6	9.2
Number of shares	million pcs	17.70	17.70	17.70	17.70	17.70
Number of shareholders as at 31.12	pcs	12,876	12,876	11,587	9,309	5,658

* Ratios related to dividends for 2025 will depend on the decision of the general meeting of shareholders to pay dividends.

DEFINITIONS OF RATIOS

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

REVENUE BREAK-DOWN OF THE PARENT PRESENTED ACCORDING TO THE ESTONIAN CLASSIFICATION OF ECONOMIC ACTIVITIES

Revenue break-down of the parent of AS Merko Ehitus for the year 2024 is presented according to Estonian Classification of Economic Activities EMTAK, as required under the Commercial Code § 4 p.6:

in thousands of euros

EMTAK code		2024	2023
	Real estate activities		
6420	activities of holding companies	924	646
6820	renting and operating of own or leased real estate	3	6
	Total revenue	927	652