



# AS MERKO EHITUS

## GROUP

### 2023 3 months consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Financial year:	01.01.2023 – 31.12.2023
Reporting period:	01.01.2023 – 31.03.2023
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt, Kristina Siimar
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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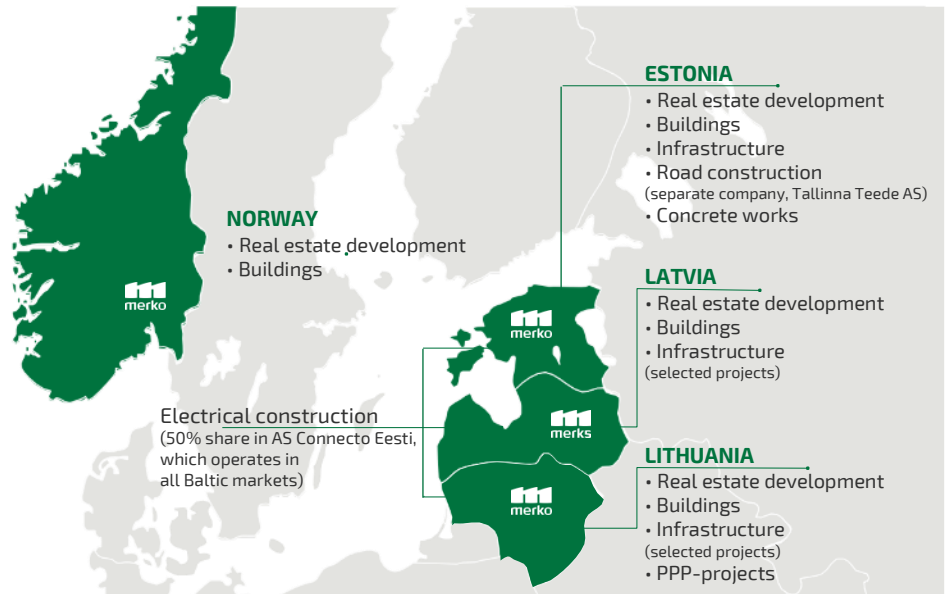
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# BRIEF OVERVIEW OF THE GROUP

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

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

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



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

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

International quality, environmental protection and occupational safety **certificates ISO 9001, ISO 14001, ISO 45001**

## SHARES

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

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

## 2022 KEY FIGURES

Revenue **409.6 million** euros

Net profit **34.6 million** euros

**661** employees





## STRATEGY

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



# MANAGEMENT REPORT

## COMMENTARY FROM MANAGEMENT

Q1 2023 revenue for Merko Ehitus was EUR 76 million, representing 11% growth compared to the same period a year ago. Net profit for the first quarter was EUR 5.9 million – nearly double that of Q1 2022. Merko delivered 145 apartments to new homeowners in Q1.

According to the management of Merko Ehitus, despite the good profit growth in Q1, it had entered a completely different apartment market situation than was in 2020 and 2021 when transaction volume and prices peaked. Today are drawing up the final contracts under property law for apartments pre-sold earlier, and this is also showing up in current financial results. The pace of new sales of apartments has dropped steeply compared to spring 2022 and is several times lower than before. Because of that, Merko group has launched fewer development projects in the last 12 months, which in turn means fewer apartments in the next few years. On the positive side of things, the demand for new homes has increased somewhat in Q1.

In Q1 2023, the group companies entered into new construction contracts worth EUR 170 million and the balance of secured order-book grew by approximately 10% to EUR 412 million. The secured order-book of the group companies is currently strong, which in the sense of construction volumes does counterbalance the impacts of the apartment market declining in the next few years. The project management business directly relies on the volume of construction orders, and these in turn depend on investment confidence and the general health of the economy. The outlook in this area is not good and rapid inflation will mean a number of risks on the construction contract expense side.

In Q1, Merko delivered 145 apartments to buyers and launched the fifth phase of Lahekalda apartment development in Tallinn, with the construction of the above-ground structures. The decision to build the project to completion depends on the market situation. As of the end of Q1, the group had 1,004 apartments under construction, of which more than 40% were covered by preliminary sale contracts. The largest apartment developments were Uus-Veerenni, Noblessner and Lahekalda in Tallinn, Erminurme in Tartu, Viesturdärzs, Mežpilsēta and Magnolijas in Riga and Vilneles Skverai in Vilnius.

In Q1 of 2023, the largest sites under construction in Estonia were the third phase of the Mustamäe medical campus of the North Estonia Medical Centre, Rae and Pelgulinna state gymnasiums, Arter Quarter and the infrastructure along the south-eastern border of the Republic of Estonia, Defence Forces buildings on Tapa base, a tram line between Old City Harbour and Rail Baltic's Ülemiste passenger terminal and the renovation of Vana-Kalamaja Street. Projects in progress in Latvia were the GUSTAVS business centre, Elemental Business Centre office buildings and NATO infrastructure in Ādaži. In Lithuania, infrastructure for several wind farms and buildings and infrastructure for NATO training centres.

**2023 3M**  
**REVENUE**  
**76 MILLION EUROS**

**PROFIT**  
**BEFORE TAX**  
**6.1 MILLION EUROS**

## OVERVIEW OF THE 3 MONTHS RESULTS

### PROFITABILITY

2023 3 months' pre-tax profit was EUR 6.1 million (3M 2022: EUR 3.5 million), which brought the pre-tax profit margin to 8.0% (3M 2022: 5.1%).

Net profit attributable to shareholders for 3 months 2023 was EUR 5.9 million (3M 2022: EUR 3.0 million) and 3 months net profit margin was 7.8% (3M 2022: 4.4%).

### REVENUE

2023 3 months' revenue was EUR 75.8 million (3M 2022: EUR 68.4 million). 3 months' revenue increased by 10.7% compared to same period last year. The share of revenue earned outside Estonia in 3 months 2023 was 46.7% (3M 2022: 56.2%).

### SECURED ORDER BOOK

As of 31 March 2023, the group's secured order book was EUR 412.2 million (31 March 2022: EUR 376.1 million). In 3 months 2023, group companies signed contracts in the amount of EUR 170.3 million (3M 2022: EUR 171.2 million).

### REAL ESTATE DEVELOPMENT

In 3 months 2023, the group sold a total of 145 apartments; in 3 months 2022, the group sold 126 apartments. The group earned a revenue of EUR 19.4 million from sale of own developed apartments in 3 months 2023 and EUR 15.5 million in 3 months 2022.

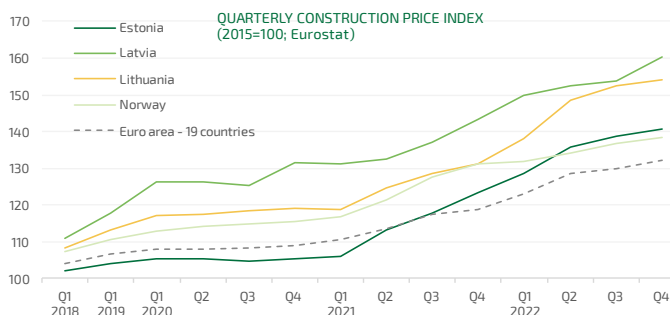
### CASH POSITION

At the end of the reporting period, the group had EUR 14.3 million in cash and cash equivalents, and equity of EUR 190.1 million (50.0% of total assets). Comparable figures as of 31 March 2022 were EUR 29.9 million and EUR 170.3 million (50.0% of total assets), respectively. As of 31 March 2023, the group's net debt was EUR 72.8 million (31 March 2022: EUR 23.6 million).

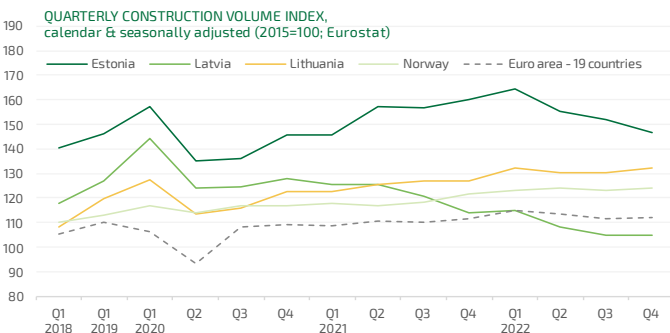
# OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

## CONSTRUCTION SERVICES

The growth of construction prices has not abated and is one of the producer prices that continue impressive growth in spite of politicians and central bankers hoping for the contrary. The prices of some materials after spring and summer of 2022 have adjusted downwards, but this is offset by the continuing growth of other ones, and the increase in prices of workforce and construction machinery as well. Construction timber, which was long in decline, is probably the only one of the larger inputs where we can still see a persistent decreasing trend. But the drop is more than offset by the increase in prices of machinery and labour and the increase in loan interest rates, which affects the entire economy. Based on economic forecasts, the tax increases known to be on the horizon and additional requirements under discussion because of the green transformation, we feel it is not merited to expect the rise in construction prices to end. Instead, it is likely that the price rise will taper somewhat in the second half of the year, before the influence of the end of crisis relief measures again forces prices upwards. In the medium to long term, we anticipate that producers will have to face additional expenses due to the green transformation and carbon trading and price rises at different rates until 2026.



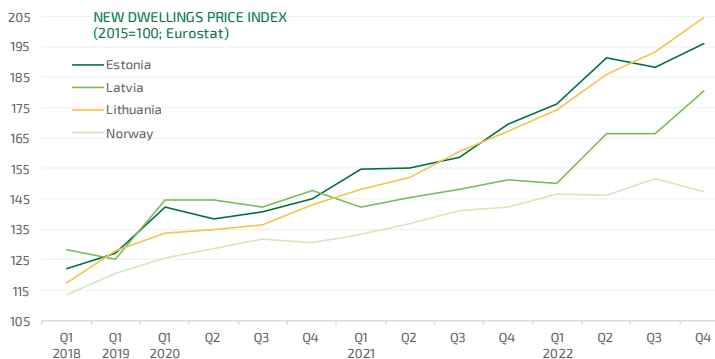
Lithuania is the only Baltic state that, in Q4 2022, managed to restore its construction volumes. In Estonia, volumes were still falling and in Latvia, the decline slowed after reaching late-2017 levels. At the time of this report, the statistics on construction volumes in Q1 2023 had not yet been released. An estimate can be provided based on large contracts concluded in the second half of 2022. It is highly likely that Lithuania's volumes increased in Q1 and that in Estonia, volumes will return to growth in Q2 at the latest, when the drop in road construction volumes will not have an influence and the successful repeat procurements for Rail Baltica Estonia will start to show up in the form of completed works. The trend should also reverse in Latvia, since it tends to be unlikely that the index will drop below 100% due to the same factors – Rail Baltica, military and renewable energy projects all are waiting construction.



Longer-term developments are less likely to be all that positive – the construction market will be suppressed by high base interest rates, wage pressure arising as a response to inflation and the continuing Ukraine war. A negative factor in Estonia is the new government's announced hike in income tax and VAT, which will pose difficulty for private-sector customers and force them to review their business plans. In all markets, the residential renovation that lies ahead due to the green transformation will get bogged down in design, contract and funding bottlenecks for some time. The current growth shown by renewable energy and state-commissioned projects may not have a sequel if tax changes and the aims of the changes continue to sow uncertainty in the economy and activities preceding construction cannot be made more effective. Nothing rosy appears to lie ahead in the coming years for building contractors.

## DEVELOPMENT OF APARTMENTS

Contrary to expectations, the price rise seen in statistics did not end in 2022 and new housing prices were driven up by contracts signed earlier for properties that reached the handover stage. The price of new housing projects in Latvia experienced a hefty increase in statistical data. Yet the price rise has lost almost all of its momentum, since the preliminary contracts under the law of obligations signed in 2021 account for an ever-smaller volume and influence. Prices of older and lower-energy-performance housing on the aftermarket have already fallen and probably will continue to do so, reflecting the expense on renovations needed to attain the required performance level. We reiterate our assessment that the price rise is replaced by a plateau and slight lateral movement of prices. Transaction activity in all of the Baltics is quietly rising after the doldrums in Q4 2022 and the post-election tax furor in Estonia also tends to support demand in the short-term in the new housing market niche, since the coalition agreement does not mention many of the oft-discussed property taxes and the VAT hike in 2024 will tend to motivate purchases of homes that will be completed in 2023. The still-low volume of new developments will keep supply and demand balanced with no market forces emerging to force prices downward.



## BUSINESS ACTIVITIES

The group business reporting is divided into two business segments:

- construction service;
- real estate development.

### CONSTRUCTION SERVICE

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

million EUR

	3M 2023	3M 2022	VARIANCE	12M 2022
Revenue	49.3	47.8	+3.2%	246.9
% of total revenue	65.0%	69.8%		60.3%
Operating profit	0.5	0.0	+1337.4%	8.5
Operating profit margin	1.1%	0.1%		3.4%

In the 3 months of 2023, the revenue of the construction service segment was EUR 49.3 million (3M 2022: EUR 47.8 million). The sales revenue of construction service has increased by 3.2% compared to the same period last year. The construction service segment revenue for 3 months 2023 made up 65.0% of the group's total revenue (3M 2022: 69.8%). In this segment, the group earned an operating profit of EUR 0.5 million for 3 months (3M 2022: EUR 0.0 million). The operating profit margin was 1.1% (3M 2022: 0.1%). The operating profit was mainly affected by the decrease of the share of fixed-price contracts in turnover of the reporting period.

Larger projects in progress in the first quarter in construction service segment in Estonia included the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre, Pelgulinna and Rae state gymnasiums, Arter quarter, construction works of the Republic of Estonia's southeast land border, Defence Forces' buildings in the Tapa campus, tram line connecting Old Harbour and Rail Baltic's Ülemiste passenger terminal as well as reconstruction of Vana-Kalamaja street. In Latvia, larger ongoing projects included the construction works of the GUSTAVS business centre, Elemental Business Centre office buildings and NATO base in Ādaži. In Lithuania, larger projects were construction of wind farm turbine foundations and infrastructure as well as NATO training centres buildings and infrastructures were underway. In Norway, the group worked on the reconstruction of smaller scale contracts.

### REAL ESTATE DEVELOPMENT

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

million EUR

	3M 2023	3M 2022	VARIANCE	12M 2022
Revenue	26.5	20.7	+28.1%	162.7
incl. revenue from sale of apartments	19.4	15.5		127.0
incl. construction service to joint venture projects	6.2	4.6		32.0
% of total revenue	35.0%	30.2%		39.7%
Operating profit	5.7	4.1	+38.6%	30.3
Operating profit margin	21.5%	19.8%		18.6%

In 3 months 2023, the group sold a total of 145 apartments (incl. 32 apartments in a joint venture) and 3 commercial premises (incl. 2 in a joint venture); in 3 months 2022, 126 apartments and 1 commercial premise. The group earned a revenue of EUR 19.4 million (VAT not included) from sale of developed apartments in 3 months 2023 and EUR 15.5 million (VAT not included) in 3 months 2022. In the revenue and operating profit of the real estate development segment also are reflected the sales of commercial premises and parking spaces of the real estate development projects and the result of public-private-partnership contracts, based on which the group companies provide construction service and property management services.

In the case of development projects in joint venture, the real estate development business segment revenue reflects the construction services provided to the project by the group and the operating profit includes the realised construction profit for the



period. The profit from development gained from sale of those apartments to end-customers is recognised in the group's reporting based on the equity method.

In 3 months of 2023, real estate development segment revenues increased by 28.1% compared to the same period last year and formed 35.0% of the group's total revenue (3 months of 2022: 30.2%).

The segment's operating profit for the 3 months of 2023 amounted to EUR 5.7 million (3 months of 2022: EUR 4.1 million) and the operating profit margin was 21.5% (3 months of 2022: 19.8%). The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, including the land acquisition price.

In 3 months of 2023, the group continued with the construction of the above-ground volumes of stage V of Lahekalda residential development project, but apartments are not counted as ready-to-sell apartments. The decision to complete the construction will be taken depending on the market situation (3 months of 2022: the group did not launch apartments construction). In the 3 months, the group invested a total of EUR 28.0 million (3 months of 2022: EUR 26.5 million) in the ongoing development projects.

One of the group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As of 31 March 2023, the group's inventories included land plots with development potential, where the construction works have not started, in the amount of EUR 89.4 million (31.03.2022: EUR 80.7 million).

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

million EUR

	31.03.2023	31.03.2022	31.12.2022
Estonia	32.5	25.9	27.6
Latvia	24.1	26.7	23.6
Lithuania	31.3	26.5	31.3
Norway	1.5	1.6	1.6
<b>Total</b>	<b>89.4</b>	<b>80.7</b>	<b>84.1</b>

In 3 months of 2023, the group has obtained new land plots for real estate development purposes at acquisition cost of EUR 5.6 million (3 months of 2022: in the amount of EUR 14.5 million).

## SECURED ORDER BOOK

As of 31 March 2023, the group's secured order book amounted to EUR 412.2 million, compared to EUR 376.1 million as of 31 March 2022, having increased by 9.6% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 3 months of 2023, EUR 170.3 million worth of new contracts were signed, which is decreased by 0.5% compared to the same period of the previous year (3 months of 2022: EUR 171.2 million).

#### LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FIRST QUARTER OF 2023

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Design and construction contract for the construction of new infrastructures of the NATO training complex in Pabrade	Lithuania	In early 2026	110.0
Construction contract to perform the construction of foundations for wind turbines, electrical cables and roads in a wind farm in Kelmé district	Lithuania	Q2 of 2025	30.0
Construction contract for the construction of electrical substation for a wind farm in Kelmé district	Lithuania	Q2 of 2025	14.5

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

- On 12 April 2023, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and KMG Infra OÜ signed a design and construction contract with OÜ Rail Baltic Estonia for the construction of the first stage of Rail Baltica Ülemiste joint terminal. In carrying out the works, AS Merko Ehitus Eesti is the leading partner with a 50:50 ratio. The contract value is approximately EUR 44.8 million and project is scheduled to be completed in September 2026.

As of 31 March 2023, the private sector orders accounted for approximately 54% of the total balance in the group's secured order book (31.03.2022: approximately 76%). Both the public and private sectors are re-evaluating the soundness and profitability of investments in a dynamic input price environment. While the superior flexibility and faster response of the private sector has delayed a number of investments, in the public sector the high-priority planned investments are moving forward despite the increase in prices.

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

## CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 14.3 million (31.03.2022: EUR 29.9 million). As the group's cash position continues to be strong, the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As of the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 53.0 million, of which EUR 22.4 million was unused (31.03.2022: EUR 49.0 million, of which EUR 45.1 million was unused).

The 3-month cash flow from operating activity was positive at EUR 1.8 million (3 months of 2022: negative EUR 10.7 million), cash flow from investing activity was negative at EUR 0.3 million (3 months of 2022: negative EUR 3.0 million) and the cash flow from financing activity was negative at EUR 4.9 million (3 months of 2022: negative EUR 1.3 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 6.4 million (3 months of 2022: positive effect of EUR 4.4 million), from the changes in receivables and liabilities related to construction contracts of EUR 3.2 million (3 months 2022: negative effect of EUR 6.1 million) and from the changes in trade and other receivables related to operating activities of EUR 23.3 million (3 months of 2022: positive effect of EUR 3.0 million). The negative effects to cash flow from operating activities came from the change in trade and other payables related to operating activities of EUR 7.7 million (3 months of 2022: positive effect of EUR 18.3 million) and from the change in the provisions of EUR 2.9 million (3 months of 2022: negative effect of EUR 2.3 million) as well from the change in inventories of EUR 18.9 million (3 months of 2022: negative effect of EUR 27.1 million). The cash flows from inventories are mainly affected by the construction and sales cyclicity of developed apartments: the negative cash flow is due to the increase in the volume of inventories related to the construction of apartments, then the positive cash flow is due to the decrease in inventories in the sale of the apartments. Interest was paid EUR 0.8 million (3 months of 2022: EUR 0.3 million) and corporate income tax was paid at EUR 0.5 million (3 months of 2022: EUR 0.2 million).

To support cash flows from operating activities, including increased volumes in apartment development, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (22.9% as of 31.03.2023; 15.7% as of 31.03.2022, 23.7% as of 31.12.2022).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 0.5 million, which is mainly related to the renewal of equipment in the field of construction (3 months of 2022 EUR 0.2 million) and the positive effect came from the sale of non-current assets in the amount of EUR 0.2 million (3 months of 2022: EUR 0.1 million).

In cash flows from financing, the larger negative factors were the repayments of lease liabilities in the amount of EUR 0.3 million (3 months of 2022: net negative cash flow of EUR 0.2 million) and the change in loans related to net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 0.5 million (3 months of 2022: negative cash flow in the net amount of EUR 0.3 million) as well from the net change in loans received and repaid in connection with development projects in the amount of EUR 9.9 million (3 months of 2022: net negative cash flow of EUR 2.7 million), which resulted from the repayment of loans taken for residential development projects. Positive cash flow from financing activity resulted from the change in loans related to other activities in the amount of EUR 5.7 million (3 months of 2022: net positive cash flow of EUR 3.8 million).

## RATIOS

(attributable to equity holders of the parent)

<b>INCOME STATEMENT SUMMARY</b>		<b>3M 2023</b>	<b>3M 2022</b>	<b>3M 2021</b>	<b>12M 2022</b>
Revenue	million EUR	75.8	68.4	60.1	409.6
Gross profit	million EUR	10.0	7.9	7.0	53.7
Gross profit margin	%	13.2	11.5	11.6	13.1
Operating profit	million EUR	5.7	3.7	3.9	35.0
Operating profit margin	%	7.5	5.3	6.5	8.6
Pre-tax profit	million EUR	6.1	3.5	3.7	37.1
Pre-tax profit margin	%	8.0	5.1	6.2	9.1
Net profit	million EUR	5.8	3.1	3.3	34.1
attributable to equity holders of the parent	million EUR	5.9	3.0	3.4	34.6
attributable to non-controlling interest	million EUR	(0.1)	0.1	(0.1)	(0.5)
Net profit margin	%	7.8	4.4	5.6	8.5
<b>Other income statement indicators</b>		<b>3M 2023</b>	<b>3M 2022</b>	<b>3M 2021</b>	<b>12M 2022</b>
EBITDA	million EUR	6.4	4.4	4.6	37.9
EBITDA margin	%	8.5	6.4	7.6	9.3
General expense ratio	%	6.7	7.1	6.1	4.9
Labour cost ratio	%	14.9	15.6	14.3	10.3
Revenue per employee	thousand EUR	118	104	92	623

<b>OTHER SIGNIFICANT INDICATORS</b>		<b>31.03.2023</b>	<b>31.03.2022</b>	<b>31.03.2021</b>	<b>31.12.2022</b>
Return on equity	%	21.5	18.2	16.5	20.4
Return on assets	%	9.7	9.3	9.1	9.2
Return on invested capital	%	15.5	16.0	14.2	15.1
Assets	million EUR	380.2	340.6	269.8	387.4
Equity	million EUR	189.5	170.1	160.8	183.7
Equity attributable to equity holders of the parent	million EUR	190.1	170.3	156.6	184.2
Equity ratio	%	50.0	50.0	58.1	47.5
Debt ratio	%	22.9	15.7	12.0	23.7
Current ratio	times	2.0	2.2	2.6	2.0
Quick ratio	times	0.4	0.7	1.1	0.6
Accounts receivable turnover	days	33	32	31	33
Accounts payable turnover	days	54	45	33	55
Average number of employees	people	643	659	654	657
Secured order book	million EUR	412.2	376.1	281.2	297.2

Ratio definitions are provided on page 36 of the report.

## RISK MANAGEMENT

Risk management is part of strategic management and is inseparable from daily operations of the group. In managing risks, the main objective of the group is to determine most significant risks and to manage these risks in a balanced way so that the group achieves its strategic and financial objectives.

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

### *Legal risk*

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

As of 31 March 2023, a provision has been set up at the group in the amount of EUR 1.2 million for covering potential claims and legal costs (31.03.2022: no provision has been formed).

Below is presented an overview of the key legal disputes and proceedings, which have taken place or ended during 2023 or are ongoing as of 31 March 2023 and which concern group entities is presented:

### **Estonia**

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

The court cases in connection with Minister of the Environment regulation No 22 of 27 March 2015, which redrew the boundaries of species protection sites to exclude properties on Paekalda street owned by AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ (now merged with AS Merko Ehitus Eesti, part of AS Merko Ehitus group). On 2 February 2016, AS Merko Ehitus group companies filed a complaint in Tallinn Administrative Court for compensation of damage. The claims consist of direct patrimonial damage (reduction in the value of immovable property and expenditures made on development activity) and claims for revenue foregone (failed development activity in 2005-2007). On 22 April 2019 the Tallinn Administrative Court partially satisfied the appeal and ordered the Republic of Estonia to pay AS Merko Ehitus Eesti EUR 760 thousand and late interest until the principal claim is duly discharged. The court also ordered that procedural costs of EUR 12 thousand be paid to AS Merko Ehitus Eesti. Both sides filed an appeal to the Tallinn District Court, which partially annulled the decision of the Tallinn Administrative Court and sent the case back to Administrative Court to determine the amount of compensation. Both parties to the dispute filed cassation appeals with the Supreme Court. By a decision of 5 March 2021, the Supreme Court dismissed the cassation appeal of AS Merko Ehitus Eesti, but sent the appeal regarding the claim for compensation for direct property damage caused by the lawful activities of the Republic of Estonia to the Tallinn Administrative Court for reconsideration. The Tallinn Administrative Court suspended the proceedings in the administrative case until the procedure for the detailed planning of the properties has been completed. The impact of this claim has not been taken into account in the group's reporting.

### **Latvia**

#### Latvian Competition Council administrative proceeding

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

The first court hearing set to discuss the substance of the appeals took place on 12 October 2022, but the hearing was spent on submitting and discussing the various parties' requests. Eleven court hearings to review the substance of the complaints were scheduled for the first half of 2023, of which the five that have now been held were used to hear the plaintiffs' petitions and arguments.

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

Considering that judicial proceedings have reached the stage of substantive discussions and based on the principle of conservatism, the group formed in fiscal year 2022 a provision of 1/3 of the potential fine claim, i.e. EUR 900 thousand. This does not reflect the group's assessment of the expected outcome; it reflects the conservative principles applied in the group.

#### SIA Ostas Celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas Celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas Celtnieks" according to its share in the consortium. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. The court hearing took place on 28 July 2022, with the court dismissing the claim on the ground that the claim had been submitted by an incorrect person (a formal legal person of the consortium). On 25 October 2022, SIA Merks lodged an appeal which was accepted. Regional court gave parties the

opportunity to reach a mutual agreement, the next hearing will take place on 5 June 2023. The impact of this requirement has not been taken into account in the group's reporting.

#### Salaspils County Council

On 29 July 2022, SIA Merks filed a lawsuit against the Salaspils County Government in the Court of Economic Affairs in order to find a solution to the disagreements arising from the interpretation of the Salaspils kindergarten construction contract. Salaspils county government filed a counterclaim. At the end of 2022, SIA Merks signed the Delivery-acceptance deed and based on the expert decision, submitted a claim to the court against the Salaspils county government in the amount of EUR 1,635 thousand (EUR 1,304 thousand being the principal claim and EUR 331 thousand late interest). The next court hearing is scheduled for 9 May 2023. The group has not made any provisions as of the date of the report.

#### SIA Hanza 14

In August 2022, the Arbitration Institute of the Stockholm Chamber of Commerce (Stockholm Arbitration) accepted SIA Hanza 14's application for annulment of the non-entry into force of the construction contract signed on 16 June 2020 and for SIA Merks to fulfil its contractual obligations. The non-entry into force of the construction contract was announced by Merko Ehitus with a [stock exchange announcement](#) on 28 August 2020. SIA Merks received a statement of claim from SIA Hanza 14 to which SIA Merks filed a defence statement to the court. SIA Merks continues to maintain that the contract became null and void as a result of the preconditions set forth in the construction contract not being met. The imperative condition which constituted grounds for rendering the contract null and void provided for the expiry of the contract without legal consequences or obligations for parties, much as if it had not been signed in the first place. Accordingly, the group has not made any provision to cover theoretical claims.

#### *Impact of the war in Ukraine*

Due to the multiplicity of impacts and the hybrid activities of all parties, it is still not possible to estimate the impact of the war with accounting accuracy, as energy prices are simultaneously considered an important factor in triggering high inflation. On the one hand, sanctions, energy price increases and inflation have led to a general rise in input prices. On the other hand, the relatively cheaper labour provided by the war refugees has held back the wage growth expectations of the local workforce, and the additional demand they have generated in the housing market has kept the apartment market stronger despite the rising uncertainty. The assessment of the different impacts continues to be difficult, the consolidation into a single impact assessment is currently beyond the capabilities. Undoubtedly, the war has had an extremely negative effect on the economic situation, both through the increase in input prices and the decrease in the pace of construction orders and housing sales, and the group has not been able to fully pass these negative effects on to buyers. On the other hand, we cannot rule out as a direct result of ongoing war, increasing uncertainty and, stemming reduction of investments and purchases in the economy as a whole, which has the effect of escalating internal competition within the sector and exerting downward pressure on margins. Quantifying this negative net effect at the group level requires stabilization of the economy at new equilibrium.

## EMPLOYEES AND LABOUR COSTS

As of 31 March 2023, Merko Ehitus group employed 657 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 13 (-1.9%). The number of employees increased in Estonia and decreased in Latvia, Lithuania and Norway.

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

The group defines labour cost as salary (incl. fixed salary, additional pay, holiday pay, and performance pay), taxes based on salary, fringe benefits and taxes on fringe benefits. In 3 months 2023, the labour cost was EUR 11.3 million (3 months 2022: EUR 10.7 million), which increased by 5.4% compared to the same period previous year. The labour cost ratio decreased by 0.7 pp from 15.6% to 14.9% in comparable periods.

During 3 months of 2023, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 2.5 million in labour taxes in Estonia, being one of the largest labour tax payer in the construction sector (3 months 2022: EUR 2.0 million).

## ETHICAL BUSINESS PRACTICES

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

We conduct business honestly, follow ethical principles in our activities and make sure our employees know and follow business ethics standards in their everyday work. To embed the principles the Group has established a Code of Business Ethics.

The topic of business ethics has been thoroughly covered on the group's website: [group.merko.ee/en/corporate-responsibility/](https://group.merko.ee/en/corporate-responsibility/).

## SHARE AND SHAREHOLDERS

### INFORMATION ON SECURITY

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

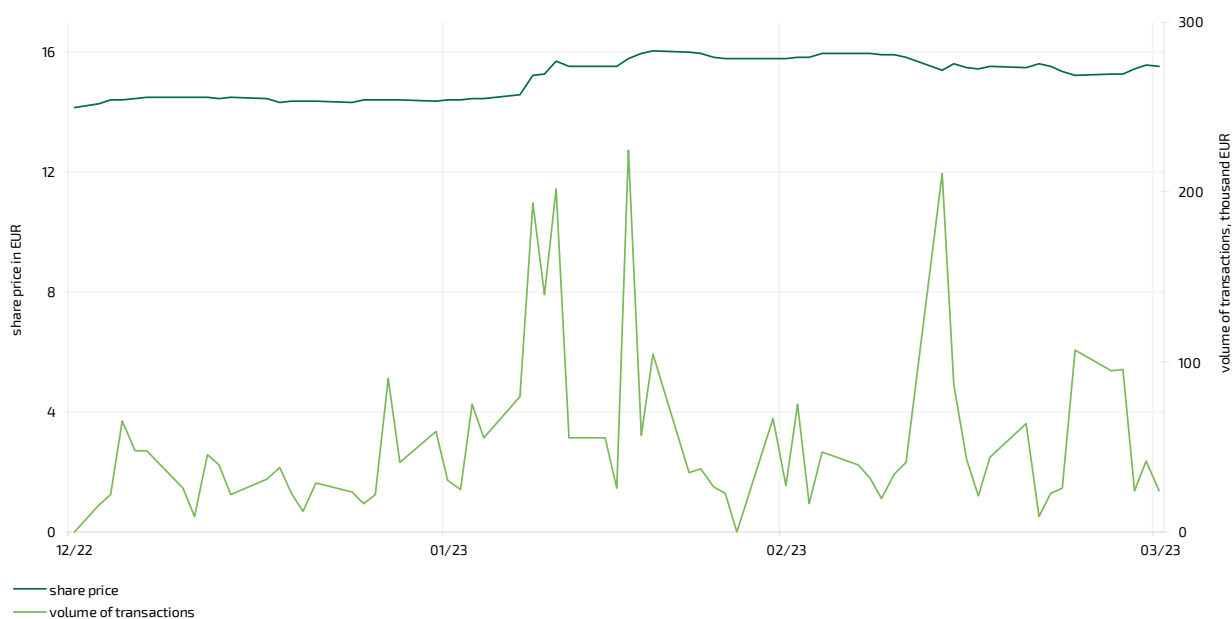
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As of 31 March 2023, the company has 17,700,000 shares. The number of shares has not changed during 2023.

A total of 7,017 transactions were conducted with the shares of Merko Ehitus in 3 months of 2023, with 0.23 million shares (1.3% of total shares) traded, generating a turnover of EUR 3.5 million (comparable figures in 3 months 2022 were accordingly: 13,507 transactions with 0.46 million shares traded (2.6% of total shares), generating a turnover of EUR 7.2 million). The lowest value-per-share transaction was recorded at the price of EUR 14.14 and the highest at EUR 16.02 per share (3 months of 2022: EUR 13.78 and EUR 16.80, accordingly). On 31 March 2023, the closing price of the share was EUR 15.54 (31.03.2022: EUR 15.72). As of 31 March 2023, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 275.1 million, which has decreased by 1.1% compared to the end of the equivalent period of the prior year (31.03.2022: EUR 278.2 million).

	31.03.2023	31.03.2022	31.03.2021	31.12.2022
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.33	0.17	0.19	1.96
Equity per share, euros	9.85	8.95	8.35	9.57
P/B ratio	1.58	1.76	1.62	1.48
P/E ratio	7.33	9.67	9.85	7.24
Market value, million EUR	275.1	278.2	239.8	250.6

Ratio definitions are provided on page 36 of the report.

### CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2023



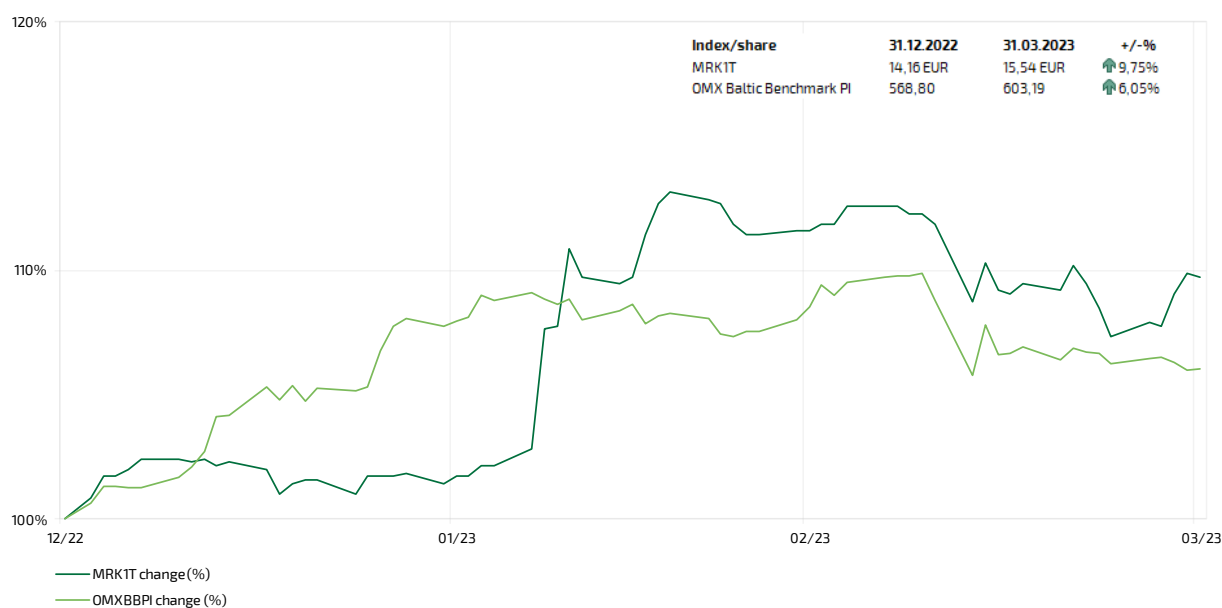
## STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS OF 31.03.2023

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%	1,287,486	7.27%
10,001 – 100,000	49	0.41%	1,005,519	5.68%
1,001-10,000	533	4.45%	1,479,519	8.36%
101-1,000	2,837	23.68%	946,335	5.35%
1-100	8,555	71.40%	238,455	1.35%
<b>Total</b>	<b>11,981</b>	<b>100%</b>	<b>17,700,000</b>	<b>100%</b>

## SHAREHOLDERS OF AS MERKO EHITUS AS OF 31.03.2023 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.03.2023	% OF TOTAL 31.12.2022	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	416,250	2.35%	2.33%	4,500
Firebird Republics Fund Ltd	319,586	1.80%	1.80%	-
Firebird Aurora Fund Ltd	186,361	1.05%	0.96%	17,100
SEB Life and Pension Baltic SE Estonian Branch	148,787	0.84%	0.84%	-
Clearstream Banking AG	112,781	0.64%	0.64%	(270)
Firebird Fund L.P.	103,721	0.59%	0.59%	-
Siseinfo OÜ	100,000	0.56%	0.56%	-
Hans Palla	54,000	0.31%	0.31%	-
Alforme OÜ	50,000	0.28%	0.28%	-
<b>Total largest shareholders</b>	<b>14,234,172</b>	<b>80.41%</b>	<b>80.30%</b>	<b>21,330</b>
Total other shareholders	3,465,828	19.59%	19.70%	(21,330)
<b>Total</b>	<b>17,700,000</b>	<b>100%</b>	<b>100%</b>	<b>-</b>

## PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX BALTIC BENCHMARK PRICE INDEX IN 2023



## DIVIDENDS AND DIVIDEND POLICY

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

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

On 4 May 2023, the shareholders of AS Merko Ehitus approved the Supervisory Board's proposal to the shareholders to pay out the total amount of EUR 17.7 million (EUR 1.00 per share) as dividends from net profit brought forward, which is equivalent to a 51% dividend rate and a 7.1% dividend yield for the year 2022 (using the share price as of 31 December 2022). Comparable figures in 2022 were accordingly: EUR 17.7 million (EUR 1.00 per share) as dividends, which is equivalent to a 61% dividend rate and a 6.6% dividend yield for the year 2021 (using the share price as at 31 December 2021).

## CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE AND STRUCTURE

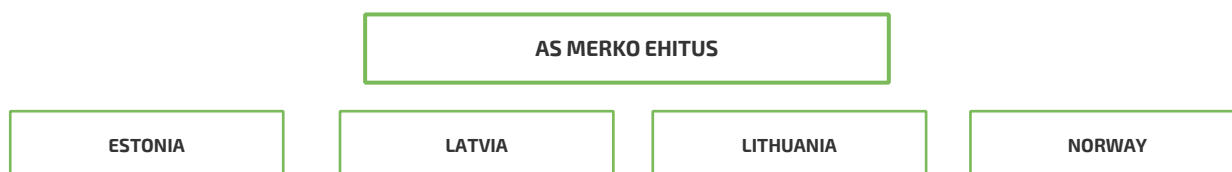
AS Merko Ehitus operates as a holding company for group of companies in Estonia, Latvia, Lithuania and Norway that offer complete solutions in the field of construction and real estate development. The group's largest companies are AS Merko Ehitus Eesti (100%), Tallinna Teede AS (100%), SIA Merks (100%),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

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

The overview of the Management Board and Supervisory Board have been presented on pages 17-18 and in Note 16 of the interim financial statements, and published, together with the track record and photographs, on the company's website at [group.merko.ee/en/corporate-governance-2/](http://group.merko.ee/en/corporate-governance-2/).

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

As of 31 March 2023, the management structure is as follows:



*\*In Estonia, the sister companies Merko Ehitus Eesti AS 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

The group's legal structure is predominantly based on economic and legal rationality and does not in all cases conform one-to-one to the group's management structure. The detailed list of group companies is provided in Note 16 of the interim financial statements.

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

On 22 December 2022, AS Merko Ehitus management board decided to start liquidation procedures of 100% owned subsidiaries OY Merko Finland (Finland, construction and development) and PS "Merko Merks" (Latvia, joint offers for construction), due to the lack of activity in those companies. PS "Merko Merks" was liquidated on 10 March 2023 in Latvian Business Register. The liquidation of Merko Finland is scheduled to be completed within 2023.

At the same time, it was decided to establish construction company Merko Būve in Latvia, a subsidiary owned 100% by the group, in order to strengthen specialisation and brand unification.

On 13 January 2023, SIA Merko Būve was registered in Latvian Business Register.

After the balance sheet date, on 26 April 2023, UAB Merko Bustas, fully owned subsidiary of AS Merko Ehitus in Lithuania, established a 100% subsidiary UAB MB 4 Projektas.

On 28 April 2023, UAB MN Projektas, fully owned subsidiary of AS Merko Ehitus in Lithuania, established a 100% subsidiary UAB MN 2 Projektas.



## GENERAL MEETING OF SHAREHOLDERS

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

The annual general meeting of shareholders was held on 4 May 2023. The general meeting resolved to approve the annual report and the profit allocation proposal for 2022. The dividends in the sum of EUR 17.7 million (EUR 1 per share) will be paid out to the shareholders on 16 June 2023.

The general meeting confirmed three-member Supervisory Board until 06.05.2025 and elected Toomas Annus ja Indrek Neivelt as the members of the Supervisory Board, for a term of office from 5 May 2023 to 6 May 2026 (inclusive), i.e. for three years. In addition, the shareholders decided to appoint the audit firm AS PricewaterhouseCoopers as the auditor of AS Merko Ehitus for the financial years for 2023 to 2025 and to pay to the audit firm for auditing as per contract to be entered into with AS PricewaterhouseCoopers.

The Management Board made a presentation on the company's financial results and future prospects.

In accordance with the Commercial Code, its Articles of Association and Good Governance Code, AS Merko Ehitus calls the annual and extraordinary general meeting of shareholders by notifying the shareholders through the Tallinn Stock Exchange and by publishing a meeting call in one national daily newspaper at least 3 weeks in advance. The general meeting shall be held at the place shown in the notice, on a working day and between 9 a.m. and 6 p.m., enabling most of the shareholders to participate in the General Meeting of Shareholders.

Before their publication, agendas of annual and extraordinary general meetings of the company's shareholders are approved by the Supervisory Board that shall also present to the general meeting subjects for discussion and voting. Agenda items of the general meeting, recommendations of the Supervisory Board with relevant explanations, procedural guidance for participation in the general meeting and how and when new agenda items can be proposed are published together with the notice on calling the general meeting.

General meetings can be attended by any shareholder or their authorised representative. AS Merko Ehitus does not allow participation in general meetings by electronic means of communication equipment, since the deployment of reliable solutions for the identification of shareholders, some of whom live abroad, while ensuring the privacy of participating shareholders, would be too complicated and costly. No picture taking or filming is allowed at the general meeting, because it may disturb the privacy of shareholders.

Annual and extraordinary general meeting of shareholders shall be chaired by an independent person. In 2023, the general meeting was chaired by attorney-at-law Vesse Võhma who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board and Supervisory Board about the company's activities.

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

The annual general meeting of shareholders of AS Merko Ehitus held in 2023 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Urmas Somelar (Head of Group Finance) and Kristiina Veermäe (Auditor).

## SUPERVISORY BOARD

The Supervisory Board plans the activities of the company, organises the management of the company and supervises the activities of the Management Board. The Supervisory Board notifies the general meeting of shareholders of the results of a review. The Chairman of the Supervisory Board organises the work of the Supervisory Board. The main duties of the Supervisory Board are to approve the group's material strategic and tactical decisions and to supervise the activities of the group's Management Board. The Supervisory Board's actions are guided by the company's articles of association, guidelines of the general meeting, and law.

According to the Articles of Association of AS Merko Ehitus, the Supervisory Board has 3 to 5 members who shall be elected for the term of three years.

By the resolution of the general meeting of 04.05.2023, Toomas Annus and Indrek Neivelt were elected the members of the Supervisory Board with a term of office of up to 6 May 2026 (inclusive). According to the same resolution, the Supervisory Board AS Merko Ehitus has three-member at least until 06.05.2025. The Supervisory Board of AS Merko Ehitus will continue with three members: Toomas Annus (The Chairman), Indrek Neivelt and Kristina Siimar.

As of 31 March 2023, the Supervisory Board of AS Merko Ehitus had four members, of whom, in accordance with the requirements of the Corporate Governance Recommendations, Kristina Siimar and Indrek Neivelt were independent members.

## MANAGEMENT BOARD

The Management Board is a governing body, which represents and manages AS Merko Ehitus in its daily activities in accordance with the law and the Articles of Association. The Management Board has to act in the most economically purposeful manner, taking into consideration the best interests of the company and all shareholders, while ensuring the company's sustainable development

in accordance with set objectives and strategy. To ensure that the company's interests are met in the best way possible, the Management and Supervisory Boards shall extensively collaborate. At least once a quarter, a joint meeting of the Supervisory and Management Boards shall take place, in which the Management Board shall inform the Supervisory Board of significant issues regarding the company's business operations, the fulfilment of the company's short and long-term goals and the risks possibly influencing it. For every meeting of the Supervisory Board, the Management Board shall prepare a management report and submit it well in advance of the meeting so that the Supervisory Board can study it. The Management Board prepares reports for the Supervisory Board also in between the meetings, if it is considered necessary by the Supervisory Board or its Chairperson.

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

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

## SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as of 31 March 2023:

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

## MANAGEMENT BOARD'S DECLARATION

Members of the Management Board of AS Merko Ehitus declare and confirm that the consolidated unaudited interim report for the 3 months of 2023, which consists of the management report and the interim financial statements, prepared according to the current International Financial Reporting Standards as adopted by the European Union, provides, to the best of their knowledge, a true and fair view of the development of business operations, assets, liabilities, financial position, results of the operations, cash flows, and profit or loss of AS Merko Ehitus and the consolidated undertakings as a whole, includes a description of the principal risks and uncertainties, and reflects transactions with related parties. The parent company and the companies, which are part of the consolidation group, are going concerns.

Andres Trink	Chairman of the Management Board	05.05.2023
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Tõnu Toomik	Member of the Management Board	05.05.2023
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# INTERIM FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2023 3 months	2022 3 months	2022 12 months
Revenue	2	75,751	68,426	409,633
Cost of goods sold	3	(65,776)	(60,554)	(355,975)
<b>Gross profit</b>		<b>9,975</b>	<b>7,872</b>	<b>53,658</b>
Marketing expenses		(1,077)	(1,115)	(4,077)
General and administrative expenses		(3,965)	(3,723)	(15,860)
Other operating income		817	686	3,144
Other operating expenses		(62)	(61)	(1,834)
<b>Operating profit</b>		<b>5,688</b>	<b>3,659</b>	<b>35,031</b>
Finance income/costs		391	(160)	2,067
incl. finance income/costs from joint ventures		1,280	(2)	3,516
interest expense		(655)	(162)	(1,180)
foreign exchange gain (loss)		(210)	52	(138)
other financial income (expenses)		(24)	(48)	(131)
<b>Profit before tax</b>		<b>6,079</b>	<b>3,499</b>	<b>37,098</b>
Corporate income tax expense		(292)	(421)	(2,995)
<b>Net profit for financial year</b>		<b>5,787</b>	<b>3,078</b>	<b>34,103</b>
incl. net profit attributable to equity holders of the parent		5,880	3,006	34,640
net profit attributable to non-controlling interest		(93)	72	(537)
<b>Other comprehensive income, which can subsequently be classified in the income statement</b>				
Currency translation differences of foreign entities		53	16	30
<b>Comprehensive income for the period</b>		<b>5,840</b>	<b>3,094</b>	<b>34,133</b>
incl. net profit attributable to equity holders of the parent		5,910	3,020	34,648
net profit attributable to non-controlling interest		(70)	74	(515)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.33	0.17	1.96

The notes set out on pages 24-35 are an integral part of these interim financial statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.03.2023	31.03.2022	31.12.2022
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	5	14,295	29,881	17,665
Trade and other receivables	6	54,206	57,331	77,959
Prepaid corporate income tax		89	53	38
Inventories	7	244,549	187,848	225,661
		<b>313,139</b>	<b>275,113</b>	<b>321,323</b>
<b>Non-current assets</b>				
Investments in joint ventures		14,175	9,377	12,895
Other long-term loans and receivables	8	22,685	23,878	22,982
Deferred income tax assets		873	793	693
Investment property	9	11,460	13,803	11,485
Property, plant and equipment	10	17,287	16,966	17,452
Intangible assets	11	564	653	582
		<b>67,044</b>	<b>65,470</b>	<b>66,089</b>
<b>TOTAL ASSETS</b>		<b>380,183</b>	<b>340,583</b>	<b>387,412</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Borrowings	12	59,753	11,554	49,687
Payables and prepayments	13	88,907	103,801	96,248
Income tax liability		1,290	956	1,241
Short-term provisions	14	8,973	6,825	9,820
		<b>158,923</b>	<b>123,136</b>	<b>156,996</b>
<b>Non-current liabilities</b>				
Long-term borrowings	12	27,347	41,938	42,236
Deferred income tax liability		2,327	3,159	2,355
Other long-term payables	15	2,054	2,244	2,133
		<b>31,728</b>	<b>47,341</b>	<b>46,724</b>
<b>TOTAL LIABILITIES</b>		<b>190,651</b>	<b>170,477</b>	<b>203,720</b>
<b>EQUITY</b>				
Non-controlling interests		(565)	(153)	(495)
<b>Equity attributable to equity holders of the parent</b>				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	793	793
Currency translation differences		(753)	(777)	(783)
Retained earnings		182,128	162,314	176,248
		<b>190,097</b>	<b>170,259</b>	<b>184,187</b>
<b>TOTAL EQUITY</b>		<b>189,532</b>	<b>170,106</b>	<b>183,692</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>380,183</b>	<b>340,583</b>	<b>387,412</b>

The notes set out on pages 24-35 are an integral part of these interim financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
<b>Balance as at 31.12.2021</b>	<b>7,929</b>	<b>793</b>	<b>(791)</b>	<b>159,308</b>	<b>167,239</b>	<b>(227)</b>	<b>167,012</b>
Profit (loss) for the reporting period	-	-	-	3,006	3,006	72	3,078
Other comprehensive income	-	-	14	-	14	2	16
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>14</b>	<b>3,006</b>	<b>3,020</b>	<b>74</b>	<b>3,094</b>
<b>Balance as of 31.03.2022</b>	<b>7,929</b>	<b>793</b>	<b>(777)</b>	<b>162,314</b>	<b>170,259</b>	<b>(153)</b>	<b>170,106</b>
<b>Balance as at 31.12.2022</b>	<b>7,929</b>	<b>793</b>	<b>(783)</b>	<b>176,248</b>	<b>184,187</b>	<b>(495)</b>	<b>183,692</b>
Profit (loss) for the reporting period	-	-	-	5,880	5,880	(93)	5,787
Other comprehensive income	-	-	30	-	30	23	53
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>30</b>	<b>5,880</b>	<b>5,910</b>	<b>(70)</b>	<b>5,840</b>
<b>Balance as at 31.03.2023</b>	<b>7,929</b>	<b>793</b>	<b>(753)</b>	<b>182,128</b>	<b>190,097</b>	<b>(565)</b>	<b>189,532</b>

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

*The notes set out on pages 24-35 are an integral part of these interim financial statements.*

## CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2023 3 months	2022 3 months	2022 12 months
<b>Cash flows from operating activities</b>				
Operating profit		5,688	3,659	35,031
Adjustments:				
Depreciation and impairment		728	692	2,880
(Profit)/loss from sale of non-current assets		(169)	(128)	(313)
Change in receivables and liabilities related to construction contracts		3,238	(6,101)	(1,066)
Interest income from operating activities		(571)	(541)	(2,260)
Change in provisions		(2,907)	(2,325)	1,540
Change in trade and other receivables related to operating activities		23,310	3,002	(22,024)
Change in inventories		(18,876)	(27,107)	(62,360)
Change in trade and other payables related to operating activities		(7,730)	18,258	8,911
Interest received		496	446	2,188
Interest paid		(833)	(263)	(1,652)
Other finance income (costs)		(24)	(48)	(133)
Corporate income tax paid		(506)	(212)	(2,529)
<b>Total cash flows from operating activities</b>		<b>1,844</b>	<b>(10,668)</b>	<b>(41,787)</b>
<b>Cash flows from investing activities</b>				
Acquisition of subsidiaries		-	(695)	(695)
Acquisition of joint venture		-	(2,236)	(2,236)
Purchase of property, plant and equipment (excl. leased assets)		(415)	(191)	(1,117)
Proceeds from sale of property, plant and equipment		164	118	343
Purchase of intangible assets		(41)	(39)	(141)
Interest received		-	-	1
Dividends received		-	-	560
<b>Total cash flows from investing activities</b>		<b>(292)</b>	<b>(3,043)</b>	<b>(3,285)</b>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings		33,870	14,950	147,990
Repayments of borrowings		(38,453)	(14,187)	(109,484)
Repayments of lease liabilities		(302)	(236)	(1,108)
Buyout of non-controlling interest		-	(1,886)	(1,886)
Dividends paid		-	-	(17,661)
<b>Total cash flows from financing activities</b>		<b>(4,885)</b>	<b>(1,359)</b>	<b>17,851</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>(3,333)</b>	<b>(15,070)</b>	<b>(27,221)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	5	<b>17,665</b>	<b>44,930</b>	<b>44,930</b>
<b>Effect of exchange rate changes</b>		<b>(37)</b>	<b>21</b>	<b>(44)</b>
<b>Cash and cash equivalents at the end of the period</b>	5	<b>14,295</b>	<b>29,881</b>	<b>17,665</b>

The notes set out on pages 24-35 are an integral part of these interim financial statements.

# NOTES

## NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 3 months 2023 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2022 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2022 audited annual report and 2022 3 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 3 months 2023 presents a true and fair view of the group's economic results based on the principle of going concern. The influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

## NOTE 2 OPERATING SEGMENTS

in thousand euros

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

Reporting of the group's operations are segmented as:

- construction service,
- real estate development.

Construction service segment includes in Baltic states the services in the fields of general construction, civil engineering and electrical construction, additionally in Estonia road construction and concrete works services and in Norway general construction. Other operating areas (managerial services, supervision service, etc.) are insignificant to the group and they are reported within the construction service segment. The real estate development segment primarily consists of the group's own real estate development – construction and sale; to a lesser degree, it also includes real estate maintenance and leasing.

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

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

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

2023 3 months	Construction service	Real estate development	Total segments
Revenue	49,487	38,947	88,434
Inter-segment revenue	(216)	(12,467)	(12,683)
<b>Revenue from clients</b>	<b>49,271</b>	<b>26,480</b>	<b>75,751</b>
incl. timing of revenue recognition at a point in time	207	19,727	19,934
timing of revenue recognition over time	49,064	6,753	55,817
<b>Operating profit (loss)</b>	<b>549</b>	<b>5,683</b>	<b>6,232</b>
<b>Profit (loss) before tax</b>	<b>784</b>	<b>6,023</b>	<b>6,807</b>
incl. interest income from operating activities	-	571	571
depreciation	(582)	(146)	(728)
recognition of provisions	(1,012)	(64)	(1,076)
profit from joint ventures	366	914	1,280
other finance income (costs)	(70)	(552)	(622)
incl. interest expenses	(20)	(382)	(402)
<b>Assets 31.03.2023</b>	<b>69,408</b>	<b>284,062</b>	<b>353,470</b>
incl. joint ventures	10,033	4,142	14,175



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

<b>2022 12 months</b>	<b>Construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	248,052	221,537	469,589
Inter-segment revenue	(1,112)	(58,844)	(59,956)
<b>Revenue from clients</b>	<b>246,940</b>	<b>162,693</b>	<b>409,633</b>
incl. timing of revenue recognition at a point in time	1,118	129,022	130,140
timing of revenue recognition over time	245,822	33,671	279,493
<b>Operating profit (loss)</b>	<b>8,496</b>	<b>30,338</b>	<b>38,834</b>
<b>Profit (loss) before tax</b>	<b>10,904</b>	<b>30,386</b>	<b>41,290</b>
incl. interest income from operating activities	21	2,239	2,260
depreciation	(2,229)	(651)	(2,880)
impairment of inventories	(8)	(3,400)	(3,408)
recognition of provisions	(6,616)	(4,833)	(11,449)
reversal of provisions	26	56	82
profit from joint ventures	2,614	902	3,516
other finance income (costs)	(89)	(787)	(876)
incl. interest expenses	(51)	(607)	(658)
<b>Assets 31.12.2022</b>	<b>73,579</b>	<b>283,687</b>	<b>357,266</b>
incl. joint ventures	9,667	3,228	12,895

In addition to the segment assets, as at 31.03.2023 the group holds assets in the amount of EUR 26,713 thousand (31.03.2022: EUR 44,630 thousand; 31.12.2022: EUR 30,146 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	<b>2023</b>	<b>2022</b>	<b>2022</b>
	<b>3 months</b>	<b>3 months</b>	<b>12 months</b>
<b>Pre-tax profit from reporting segments</b>	<b>6,807</b>	<b>4,031</b>	<b>41,290</b>
Other operating profit (loss)	(544)	(478)	(3,801)
incl. recognition of provisions	-	-	(925)
finance income (costs)	(184)	(54)	(391)
incl. interest expenses	(175)	(35)	(341)
<b>Total profit before tax</b>	<b>6,079</b>	<b>3,499</b>	<b>37,098</b>

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

#### REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	<b>2023 3 months</b>		<b>2022 3 months</b>		<b>2022 12 months</b>	
Estonia	40,358	53%	29,944	44%	204,480	50%
Latvia	22,480	30%	17,207	25%	113,163	27%
Lithuania	11,878	16%	17,426	25%	84,564	21%
Norway	1,035	1%	3,849	6%	7,426	2%
<b>Total</b>	<b>75,751</b>	<b>100%</b>	<b>68,426</b>	<b>100%</b>	<b>409,633</b>	<b>100%</b>

#### CONTRACT ASSETS AND LIABILITIES

in thousand euros

	<b>31.03.2023</b>	<b>31.03.2022</b>	<b>31.12.2022</b>
Accrued income from construction services (Note 6)	14,571	19,004	15,378
Prepayments for construction services (Note 13)	(8,743)	(4,829)	(6,298)
Advance payments received for construction contract works (Notes 13, 15)	(6,373)	(11,043)	(5,184)
Recognised provision for onerous construction contracts (Note 14)	(8)	(538)	(8)

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

in thousand euros

	<b>31.03.2023</b>	<b>31.03.2022</b>	<b>31.12.2022</b>
Estonia	31,458	26,366	30,314
Latvia	10,730	13,160	10,786
Lithuania	1,187	1,142	1,199
Norway	111	131	115
<b>Total</b>	<b>43,486</b>	<b>40,799</b>	<b>42,414</b>

## NOTE 3 COST OF GOODS SOLD

in thousand euros

	2023 3 months	2022 3 months	2022 12 months
Construction services and properties purchased for resale	38,764	32,273	215,323
Materials	10,323	12,306	63,665
Labour costs	7,705	7,208	28,652
Construction mechanisms and transport	1,846	1,687	9,199
Design	1,806	1,891	8,561
Real estate management costs	283	184	827
Depreciation	510	470	1,973
Impairment of inventories	-	-	3,408
Provisions	1,076	1,725	11,291
Other expenses	3,463	2,810	13,076
<b>Total cost of goods sold</b>	<b>65,776</b>	<b>60,554</b>	<b>355,975</b>

## NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2023 3 months	2022 3 months	2022 12 months
Net profit (loss) attributable to shareholders (in thousand EUR)	5,880	3,006	34,640
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700
<b>Earnings (loss) per share (in euros)</b>	<b>0.33</b>	<b>0.17</b>	<b>1.96</b>

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

Dividends payable are recognised after the approval of profit allocation by the shareholders. In accordance with the profit allocation decision, in 2023 the parent company AS Merko Ehitus will pay dividends of EUR 17,700 thousand, i.e. EUR 1.00 per share (in 2022 were paid EUR 17,700 thousand). The income tax expense of EUR 742 thousand related to the payment of dividends is due in 2023, of which EUR 742 thousand was recognised as deferred tax expense in the group in 2022.

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

As at 31.03.2023 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 761 thousand euros (31.03.2022: EUR 1,540 thousand euros; 31.12.2022: EUR 742 thousand euros).

As of 31.03.2023, the parent company AS Merko Ehitus has EUR 1,660 thousand (31.03.2022: EUR 0; 31.12.2022: EUR 1660 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 31.03.2023, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 145,776 thousand (31.03.2022: EUR 129,640; 31.12.2022: EUR 140,704 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 415 thousand (31.03.2022: EUR 0; 31.12.2022: EUR 415 thousand), the corresponding income tax on dividends would amount to EUR 35,599 thousand (31.03.2022: EUR 31,897 thousand; 31.12.2022: EUR 34,761 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration. Above that amount, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out as net dividends). The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

## NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.03.2023	31.03.2022	31.12.2022
Bank accounts	9,931	29,881	17,665
Overnight deposits	4,364	-	-
<b>Total cash and cash equivalents</b>	<b>14,295</b>	<b>29,881</b>	<b>17,665</b>

## NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.03.2023	31.03.2022	31.12.2022
Trade receivables			
Accounts receivable	30,644	25,142	52,746
Allowance for doubtful receivables	(3,276)	(274)	(3,285)
	<b>27,368</b>	<b>24,868</b>	<b>49,461</b>
Tax prepayments excluding corporate income tax			
Value added tax	900	3,480	795
Other taxes	42	6	3
	<b>942</b>	<b>3,486</b>	<b>798</b>
Accrued income from construction services	14,571	19,004	15,378
Other short-term receivables			
Short-term loans	5,000	1,115	5,000
Interest receivables	75	17	-
Dividends receivables	-	560	-
Other short-term receivables	1,188	393	124
	<b>6,263</b>	<b>2,085</b>	<b>5,124</b>
Prepayments for services			
Prepayments for construction services	3,977	7,494	6,386
Prepaid insurance	936	160	642
Other prepaid expenses	149	234	170
	<b>5,062</b>	<b>7,888</b>	<b>7,198</b>
<b>Total trade and other receivables</b>	<b>54,206</b>	<b>57,331</b>	<b>77,959</b>
incl. short-term loan receivables from related parties (Note 16)	5,000	1,115	5,000
other short-term receivables and prepayments to related parties (Note 16)	7,131	2,710	8,049

## NOTE 7 INVENTORIES

in thousand euros

	31.03.2023	31.03.2022	31.12.2022
Materials	744	1,034	503
Work-in-progress	91,596	98,738	92,049
Finished goods	58,226	6,400	43,414
Goods for resale			
Registered immovables purchased for resale/development	89,409	80,755	84,133
Other goods purchased for resale	3,730	149	4,249
	<b>93,139</b>	<b>80,904</b>	<b>88,382</b>
Prepayments for inventories			
Prepayments for real estate properties	-	-	517
Prepayments for other inventories	844	772	796
<b>Total inventories</b>	<b>244,549</b>	<b>187,848</b>	<b>225,661</b>

## NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	31.03.2023	31.03.2022	31.12.2022
Long-term bank deposit	-	5	-
Long-term receivables from customers of construction services	22,685	23,873	22,982
<b>Total other long-term loans and receivables</b>	<b>22,685</b>	<b>23,878</b>	<b>22,982</b>

## NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.03.2023	31.03.2022	31.12.2022
Land	10,172	12,414	10,172
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(15)	(14)	(15)
	<b>14</b>	<b>15</b>	<b>14</b>
Buildings at carrying amount			
Cost	2,455	2,631	2,455
Accumulated depreciation	(1,181)	(1,257)	(1,156)
	<b>1,274</b>	<b>1,374</b>	<b>1,299</b>
<b>Total investment property</b>	<b>11,460</b>	<b>13,803</b>	<b>11,485</b>

## NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.03.2023	31.03.2022	31.12.2022
Land	1,266	1,407	1,266
Buildings at carrying amount*			
Cost	8,251	8,184	8,251
Accumulated depreciation	(3,304)	(3,145)	(3,211)
	<b>4,947</b>	<b>5,039</b>	<b>5,040</b>
Machinery and equipment at carrying amount*			
Cost	18,995	18,138	19,177
Accumulated depreciation	(10,472)	(9,651)	(10,521)
	<b>8,523</b>	<b>8,487</b>	<b>8,656</b>
Other fixtures at carrying amount			
Cost	4,810	4,564	4,814
Accumulated depreciation	(3,266)	(3,108)	(3,230)
	<b>1,544</b>	<b>1,456</b>	<b>1,584</b>
Prepayments for property, plant and equipment	1,007	577	906
<b>Total property, plant and equipment</b>	<b>17,287</b>	<b>16,966</b>	<b>17,452</b>

\* As of 31 March 2023, the balance of buildings at carrying amount includes leased assets in a sum of EUR 621 thousand (31.03.2022: 500 thousand; 31.12.2022: EUR 662 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 3,280 thousand (31.03.2022: EUR 3,020 thousand; 31.12.2022: EUR 3,459 thousand).

## NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.03.2023	31.03.2022	31.12.2022
<b>Goodwill</b>			
Cost	64	75	69
	<b>64</b>	<b>75</b>	<b>69</b>
<b>Software at carrying amount</b>			
Cost	1,356	1,403	1,500
Accumulated depreciation	(1,003)	(936)	(1,099)
	<b>353</b>	<b>467</b>	<b>401</b>
Prepayments for intangible assets	147	111	112
<b>Total intangible assets</b>	<b>564</b>	<b>653</b>	<b>582</b>

## NOTE 12 BORROWINGS

in thousand euros

	31.03.2023	31.03.2022	31.12.2022
<b>Lease liabilities*</b>			
Lease liabilities balance	<b>4,067</b>	<b>3,611</b>	<b>4,302</b>
incl. current portion	1,121	929	1,198
non-current portion 2...5 years	2,946	2,682	3,104
<b>Bank loans</b>			
Loan balance	<b>76,977</b>	<b>43,881</b>	<b>73,560</b>
incl. current portion	58,576	10,625	40,428
non-current portion 2...5 years	18,401	33,256	33,132
<b>Loan from parent company</b>			
Loan balance	-	-	<b>8,000</b>
incl. current portion (Note 16)	-	-	8,000
<b>Loans from entities under common control</b>			
Loan balance	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>
incl. non-current portion 2...5 years (Note 16)	6,000	6,000	6,000
<b>Loans from other related parties</b>			
Loan balance	<b>56</b>	-	<b>61</b>
incl. current portion	56	-	61
<b>Total loans</b>			
Loans balance	<b>83,033</b>	<b>49,881</b>	<b>87,621</b>
incl. current portion	58,632	10,625	48,489
non-current portion 2...5 years	24,401	39,256	39,132
<b>Total borrowings</b>	<b>87,100</b>	<b>53,492</b>	<b>91,923</b>
incl. current portion	59,753	11,554	49,687
non-current portion 2...5 years	27,347	41,938	42,236

\* As of 31 March 2023, the lease liabilities include a balance of EUR 240 thousand to related parties (31.03.2022: EUR 69 thousand; 31.12.2022: EUR 254 thousand) (Note 16).

## NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.03.2023	31.03.2022	31.12.2022
Trade payables	43,439	48,065	46,020
Payables to employees	10,214	11,053	11,638
Tax liabilities, except for corporate income tax			
Value added tax	911	81	6,587
Personal income tax	763	770	615
Social security tax	1,981	1,851	1,680
Unemployment insurance tax	76	77	65
Contributions to mandatory funded pension	50	60	33
Other taxes	114	147	143
	<b>3,895</b>	<b>2,986</b>	<b>9,123</b>
Prepayments for construction services	8,743	4,829	6,298
Other liabilities			
Interest liabilities	93	17	113
Other liabilities	480	390	961
	<b>573</b>	<b>407</b>	<b>1,074</b>
Prepayments received *	22,043	36,461	22,095
<b>Total payables and prepayments</b>	<b>88,907</b>	<b>103,801</b>	<b>96,248</b>
incl. payables to related parties (Note 16)	2,532	2,535	2,519

\* As of 31 March 2023, 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 6,373 thousand (31.03.2022: EUR 10,779 thousand; 31.12.2022: EUR 5,184 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 15,670 thousand (31.03.2022: EUR 25,682 thousand; 31.12.2022: EUR 16,911 thousand) (Note 2).

## NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.03.2023	31.03.2022	31.12.2022
Provision for warranty obligation for construction	4,362	3,711	4,425
Provision for costs of projects sold and work-in-progress projects	3,384	2,536	4,086
Provision for onerous construction contracts	8	538	8
Provision for legal costs and claims filed	1,200	-	1,200
Other provisions	19	40	101
<b>Total short-term provisions</b>	<b>8,973</b>	<b>6,825</b>	<b>9,820</b>

## NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.03.2023	31.03.2022	31.12.2022
Trade payables	2,054	1,710	2,133
Prepayments received *	-	264	-
Other long-term liabilities	-	270	-
<b>Other long-term payables total</b>	<b>2,054</b>	<b>2,244</b>	<b>2,133</b>
incl. other long-term payables to related parties (Note 16)	-	270	-

\* As of 31 March 2023, 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 0 (31.03.2022: EUR 264 thousand; 31.12.2022: EUR 0) (Note 2).

## NOTE 16 RELATED PARTY TRANSACTIONS

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.03.2023, 31.03.2022 and 31.12.2022, AS Riverito owned 71.99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr. Toomas Annus.

### AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	31.03.2023	31.03.2022	31.12.2022		
<b>Subsidiaries</b>					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	100	Estonia, Tallinn	Mining
OÜ Metsara-Metspere Kinnisvara	100	100	100	Estonia, Tallinn	Mining
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektai	100	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu Mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	100	100	100	Latvia, Riga	Real estate
SIA Merks Mājas	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
SIA Zakusala Estates	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	-	100	100	Latvia, Riga	Construction
PS Merks-Ostas Celtnieks	65	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	100	Latvia, Riga	Construction
SIA Merko Būve	100	-	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	100	Finland, Helsinki	Construction ( <i>in liquidation</i> )
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding
Merko Bygg AS (ex-Peritus Entreprenør AS)	56	56	56	Norway, Sofiemyr	Construction
Løkenskogen Bolig AS	62	62	62	Norway, Sofiemyr	Real estate
<b>Joint ventures</b>					
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate
AS Connecto Eesti	50	50	50	Estonia, Tallinn	Construction

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



## GOODS AND SERVICES

in thousand euros

	2023 3 months	2022 3 months	2022 12 months
<b>Provided services and goods sold</b>			
Parent company	4	4	15
Joint ventures	7,285	3,989	30,116
Entities under common control	20,920	3,195	44,941
Members of the management	-	-	186
<b>Total services provided and goods sold</b>	<b>28,209</b>	<b>7,188</b>	<b>75,258</b>
<b>Interest income</b>			
Joint ventures	75	17	196
<b>Purchased services and goods</b>			
Parent company	30	23	104
Joint ventures	23	38	203
Entities under common control	19	18	73
Members of the management	-	1	-
<b>Total purchased services and goods</b>	<b>72</b>	<b>80</b>	<b>380</b>
<b>Interest expense</b>			
Parent company	30	5	73
Entities under common control	80	32	153
Other related parties	1	-	1
<b>Total interest expense</b>	<b>111</b>	<b>37</b>	<b>227</b>

## BALANCES WITH RELATED PARTIES

in thousand euros

	31.03.2023	31.03.2022	31.12.2022
<b>Receivables from related parties</b>			
Loans granted (Notes 6,8)			
Joint venture	5,000	1,115	5,000
Receivables and prepayments (Note 6)			
Parent company	5	4	5
Joint ventures	2,235	1,884	3,239
Entities under common control	4,891	822	4,805
Members of the management	-	-	-
Total receivables and prepayments	<b>7,131</b>	<b>2,710</b>	<b>8,049</b>
<b>Total receivables from related parties</b>	<b>12,131</b>	<b>3,825</b>	<b>13,049</b>
<b>Payables to related parties</b>			
Lease liabilities (Note 12)			
Entities under common control	240	18	254
Short-term loans received (Note 12)			
Parent company	-	-	8,000
Other related parties	56	-	61
Total Short-term loans received	<b>56</b>	<b>-</b>	<b>8,061</b>
Payables and prepayments (Note 13)			
Parent company	12	9	-
Joint ventures	9	7	35
Entities under common control	2,471	2,456	2,444
Members of the management	40	63	40
Total payables and prepayments	<b>2,532</b>	<b>2,535</b>	<b>2,519</b>

	31.03.2023	31.03.2022	31.12.2022
Long-term loans received (Note 12)			
Entities under common control	6,000	6,000	6,000
Other long-term payables (Note 15)			
Other related parties	-	270	-
<b>Total payables to related parties</b>	<b>8,828</b>	<b>8,823</b>	<b>16,834</b>

#### 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 3 months of 2023 were EUR 216 thousand (3 months of 2022: EUR 206; 12 months of 2022: EUR 1,363 thousand).

#### TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been concluded with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 3 months of 2023, the Management Board members of AS Merko Ehitus did not receive benefits (3 months of 2022: EUR 0; 12 months of 2022: EUR 0).

#### MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

Track record and photographs of the members of the Supervisory Board can be found on AS Merko Ehitus website at [group.merko.ee/en/management-and-supervisory-board/](http://group.merko.ee/en/management-and-supervisory-board/).

Shares held by members of the Supervisory Board of AS Merko Ehitus as of 31.03.2023:

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

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

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

Shares held by members of the Management Board of AS Merko Ehitus as of 31.03.2023:

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

## NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	31.03.2023	31.03.2022	31.12.2022
Performance period's warranty to the customer	26,314	29,194	28,235
Tender warranty	10	234	10
Guarantee for warranty period	22,810	21,454	22,796
Prepayment guarantee	540	11,080	4,504
Payment guarantee	51	-	-
Letter of credit	1,071	-	-
Contracts of surety	500	1,466	500
<b>Total contingent liabilities</b>	<b>51,296</b>	<b>63,428</b>	<b>56,045</b>

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

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

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

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

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

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

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

## DEFINITION OF RATIOS

Gross profit margin (%)	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
Operating profit margin (%)	=	$\frac{\text{Operating profit}}{\text{Revenue}}$
EBT margin (%)	=	$\frac{\text{Pre-tax profit}}{\text{Revenue}}$
Net profit margin (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$
Return on equity, ROE (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Shareholders equity (average of the current 4 quarters)}}$
Return on assets, ROA (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Total assets (average of the current 4 quarters)}}$
Return on invested capital, ROIC (%)	=	$\frac{(\text{Profit before tax} + \text{interest expense} - \text{foreign exchange gain (loss)} + \text{other financial income}) \text{ of the current 4 quarters}}{(\text{Shareholders equity (average)} + \text{interest-bearing liabilities (average)}) \text{ of the current 4 quarters}}$
Equity ratio (%)	=	$\frac{\text{Shareholders' equity}}{\text{Total assets}}$
Debt ratio (%)	=	$\frac{\text{Interest-bearing liabilities}}{\text{Total assets}}$
Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	=	$\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$
Accounts receivable turnover(days)	=	$\frac{\text{Trade receivables of the current 4 quarters (average)} \times 365}{\text{Revenue of the current 4 quarters}}$
Accounts payable turnover (days)	=	$\frac{\text{Payables to suppliers of the current 4 quarters (average)} \times 365}{\text{Cost of goods sold of the current 4 quarters}}$
EBITDA (million EUR)	=	Operating profit + depreciation
EBITDA margin (%)	=	$\frac{\text{Operating profit} + \text{depreciation}}{\text{Revenue}}$
General expense ratio (%)	=	$\frac{\text{Marketing expenses} + \text{General and administrative expenses}}{\text{Revenue}}$
Labour cost ratio (%)	=	$\frac{\text{Labour costs}}{\text{Revenue}}$
Revenue per employee (EUR)	=	$\frac{\text{Revenue}}{\text{Number of employees (average)}}$
Earnings per share, EPS (EUR)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$
Equity/share (EUR)	=	$\frac{\text{Shareholders equity (average of the current 4 quarters)}}{\text{Number of shares}}$
Dividend per share (EUR)	=	$\frac{\text{Payable dividends}}{\text{Number of shares}}$
Dividend rate (%)	=	$\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$
Dividend yield (%)	=	$\frac{\text{Dividends payable per share}}{\text{Share price 31.12}}$
P/E	=	$\frac{\text{Share price 31.03}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 31.03}}{\text{Equity per share (average of the current 4 quarters)}}$
Market value	=	Share price 31.03 x Number of shares