CONSOLIDATED ANNUAL REPORT

2020

AS MERKO EHITUS

GROUP

CONSOLIDATED ANNUAL REPORT

01.01.2020 – 31.12.2020

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

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MAIN FACTS

The largest listed construction company in the Baltics

AS MERKO EHITUS CONSISTS OF:

- AS Merko Ehitus Eesti in Estonia
- SIA Merks in Latvia
- UAB Merko Statyba in Lithuania
- Peritus Entreprenør AS in Norway

The group focuses on complete construction and retail real estate development solutions. Long-term experience, a wide scope of construction services, flexibility, meeting deadlines, and above all, quality and reliability have made Merko the brand of the leading construction company and apartment developer in the Baltics. In 30 years, we have built more than 8,500 high-quality homes in Estonia, Latvia and Lithuania.

2020 new contracts signed
EUR 277 mln

2020 revenue
EUR 316 mln

COMPETITIVE ADVANTAGES:

- Broad range of construction services and products, comprehensive solutions offered to clients
- Strong quality management system
- Experienced project managers and engineers
- Longstanding experience on the subcontractors' and suppliers' market
- Innovative technological approaches and construction solutions
- Strong financial capability
- Inventory of residential development projects and a strong brand

2020 EBITDA
EUR 28.2 mln

2020 net profit
EUR 23.0 mln

31 December 2020
666 employees

VALUE OFFERING

As a general contractor, we oversee the entire construction process and are responsible for the completion of the construction project as a whole

- We offer consulting and a complete solution according to the client's needs: preparation, design, construction, furnishing and warranty service. For best results, we combine the experience and resources of subcontractors and our skilled workers (concrete work, road construction, electrical constructions both indoor and outdoor).
- We offer a full service of real estate development from the acquisition of the property and the procedure of detailed planning to the preparation of construction and the execution of construction works. We provide complete solutions designed to meet client's needs, both in private cooperation as well as in public-private partnership.
- The quality management, environmental management and occupational health and safety management of the group companies are certified according to ISO 9001, ISO 14001 and ISO 45001 standards.

As an apartment developer, we manage the entire process from development to warranty service

- We focus on creating large and modern living environments.
- To ensure the best quality, we manage the entire development process, from the acquisition of the property, preparation of a detailed plan and organization of an architectural competition to design, construction, sale of apartments and commercial premises, and after-sales service.

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

ANDRES TRINK
AS MERKO EHITUS
CHAIRMAN OF THE
MANAGEMENT BOARD

Dear shareholders,

2020 was a successful year for Merko – we managed to reach our financial goals and finished the financial year with the best result we have seen in recent years, despite COVID-19 restrictions. Our earlier strategic decision to focus more on apartment development has borne fruit – we sold a total of 900 new homes in the three Baltic states combined. This is more than ever and it is the result of our team's efforts over several years as well as our customers' continued trust in Merko. Our goal is to keep this trust going forward as we continue to invest in creating new homes and a better living environment.

Although many new investments in the construction market were put on hold due to the pandemic, the group's new construction contracts' volume grew higher in 2020. A strong contract portfolio ensures us steady business volumes in a persistently difficult economic environment. However, risks in construction have increased further: the pandemic has increased uncertainty as to economic development, possible disruptions in supply chains, unexpected price changes and availability of manpower. In such circumstances we aim to keep the company's financial status strong and be prepared to make quick decisions.

The COVID-19 crisis brought into spotlight the need to maintain the health of one's employees and business partners as well as to ensure a safe working environment, but also a safe apartment purchase process. In the early weeks of the pandemic we quickly developed a corona prevention action plan that was implemented in our group companies and we are proud to state that other construction companies also followed suit.

In 2020 Merko celebrated 30 years in the business. Today, we are an international company that does half of its business outside Estonia. Over decades we have built a multitude of modern and lasting buildings as well as life quality improving civil engineering objects in Estonia, Latvia and Lithuania, and for the past five years also in Norway. We focus on a long-term outlook, lasting solutions, and quality. We uphold the same values when contributing to society. We are a supporter of Estonian art, we collaborate with universities, and through developing the health trails network we help to acknowledge the importance of regular exercise. The world is changing rapidly and so we build with the future in mind. Digital solutions, changing consumer behaviour, increasingly more environmental-friendly way of thinking and a new professional generation will help us succeed also in the decades to come.

I would like to thank all of Merko's employees and business partners for a productive year as well as our clients and home buyers who have put their faith in Merko. I would also like to extend my gratitude to all the shareholders who believe in Merko's future.

Best regards,

Andres Trink

MERKO GROUP

Purpose

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

Business

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

Principles

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

Values

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

STRATEGY

AS Merko Ehitus subsidiaries provide construction services in the field of building and infrastructure construction and develop residential real estate in their main 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.

FINANCIAL OBJECTIVES

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

average return on equity at least
10%

dividend rate
50-70%
of annual profit

equity ratio at least
40%

Considering the competitive situation of the Baltic construction and real estate market and the overall low interest rate environment, as well as the group's high equity base, the strategy and financial objectives are focused towards improving the return on invested capital.

In 2020, the group fulfilled the financial objectives set for both return on equity and equity ratio as a proportion of assets.

return on equity
16.2%

equity ratio
60%

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

FULFILLMENT OF LONG-TERM FINANCIAL OBJECTIVES 2016-2020

	2020	2019	2018	2017	2016	AVERAGE
Return on equity, ROE (on yearly basis)	16.2%	12.9%	15.3%	11.9%	5.0%	12.3%
Dividend rate	*	-	92%	120%	119%	83%
Equity ratio 31.12.	59.6%	46.2%	48.9%	47.0%	51.6%	50.7%

**The dividend rate for 2020 depends on the decision of the general meeting of shareholders to pay dividends.*

BUSINESS MODEL: CONSTRUCTION SERVICES TO CUSTOMERS

In the framework of general contracting of construction, Merko offers strategic advisory services and high-quality full-scale solutions throughout the whole process pursuant to the customer's needs: preparation, design, construction, fittings and warranty-period service. If the customer so chooses, we also offer commercial real estate development service, covering preparation for construction along with performance of the construction works. For the best outcome, Merko should be engaged already at the outset of the construction project planning period, and cooperation should take place in the framework of the design and construction agreement.

SUITABLE PLOT AND DETAIL PLAN

- detailed plan for the customer's property
- industrial, business and residential properties in the portfolio
- property search / acquisition

CONCEPT

- mapping customer needs
- advisory services / development
- readiness to take part in PPP projects

OFFER AND PRICE ESTIMATE

- the relevant department at Merko is responsible for well-thought-out and realistic offers and estimates
- the necessary departments are involved, e.g. design and construction, concrete and electricity department, road work company

ENGINEERING AND DESIGN

- BIM (Building Information Modeling) general contracting
- in-house design department
- necessary specialists are involved (electricity, heating, ventilation, water and sewerage)

GENERAL CONTRACTING OF CONSTRUCTION

- site office and team based physically on the site every day, team includes at least project manager, site manager and engineer
- back-office support (occupational safety, quality oversight, budgeting staff, designers, financial experts, lawyers, etc.)
- in-house specialists: electricity, heating, ventilation, water and sewerage fields
- own workers (concrete, electricity, external networks department)
- use of BIM system
- long-term, reliable partners and suppliers

FITTINGS

- interior designs and fittings/furnishings pursuant to customer's needs and standards

WARRANTY-PERIOD SERVICE

- the construction-period site team is responsible for warranty problems and ensures continuity and quality

BUSINESS MODEL: PROPERTY DEVELOPMENTS

Merko has become the leading residential development company in the Baltics – we have developed and built more than 8,500 apartments in Estonia, Latvia and Lithuania, there are currently more than 900 apartments in construction and thousands of new homes in long-term development. To ensure the best quality, we manage all phases of the development project: planning, design development, construction, sales, and service during the warranty period. As a developer of apartments, Merko focuses on developing an integral residential environment with apartment buildings planned for a specific potential customer target group and suitable for its surroundings, boasting distinguished architecture, functional floor plans, high-quality interior finishing materials and high energy efficiency.

THE OPTIMUM PLOT

- appropriate residential-zoned plots in the portfolio of immovable property
- finding new properties, analysis and acquisition

PLANNING THE AREA

- analysis of the area, including of the nearby urban space
- developing a concept suitable for the location and target group
- terms of reference for the competition
- planning competition, involving experienced planners
- proceedings on the detailed plan
- invitational architecture competition open to prominent architects and architecture practices

CONCEPT OF DEVELOPMENT

- application of Merko's 30 years of experience and customer feedback
- common areas and integral living environment – green space around the building, (interior) courtyard, multifaceted landscaping
- convenient parking solutions
- well-designed apartment floor plans, interior architect on board
- interior finishing packages suitable for the nature of the project, developed in collaboration with interior architect
- storage room for each apartment

ENGINEERING AND DESIGN

- BIM general contracting
- professional reliable partners in the field of design, supported by the group's own design development department
- involvement of necessary specialists (electricity, heating, ventilation, water supply and sewerage)
- use of contemporary solutions (energy efficiency, automation, soundproofing, healthy indoor climate, insolation that meets the standards, passive cooling, etc.)

GENERAL CONTRACTING OF CONSTRUCTION

- site office and team based physically on the site every day, team includes at least project manager, site manager and engineer
- back-office support (occupational safety, quality oversight, budgeting staff, designers, financial experts, lawyers, etc.)
- in-house specialists: electricity, heating, ventilation, water and sewerage fields
- own workers (concrete, electricity, external networks department)
- use of BIM system
- long-term, reliable partners and suppliers

SALES AND MARKETING

- Merko itself organises sales and marketing
- professional sales managers involved throughout the development process who know the product as a whole
- quality, realistic sale and marketing materials

WARRANTY-PERIOD SERVICE

- a warranty specialist is the main contact in all matters related to the warranty
- apartment buyer satisfaction surveys
- analysis of feedback during warranty period and use in planning new development projects

MANAGEMENT REPORT

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		2020	2019	2018
Revenue	million EUR	315.9	326.8	418.0
Gross profit	million EUR	43.7	34.8	33.0
Gross margin	%	13.8	10.7	7.9
Operating profit	million EUR	25.5	19.2	19.9
Operating profit margin	%	8.1	5.9	4.8
Profit before tax	million EUR	24.5	20.3	19.8
EBT margin	%	7.7	6.2	4.7
Net profit	million EUR	22.5	16.5	19.4
attributable to equity holders of the parent	million EUR	23.0	16.3	19.3
attributable to non-controlling interest	million EUR	(0.5)	0.2	0.1
Net margin	%	7.3	5.0	4.6

Other income statement indicators		**2020**	**2019**	**2018**
EBITDA	million EUR	28.2	21.9	21.9
EBITDA margin	%	8.9	6.7	5.2
General expense ratio	%	5.6	5.3	3.7
Labour cost ratio	%	11.5	11.4	8.2
Revenue per employee	thousand EUR	478	461	563

Other significant indicators		**31.12.2020**	**31.12.2019**	**31.12.2018**
Return on equity	%	16.2	12.9	15.3
Return on assets	%	8.4	5.6	6.9
Return on invested capital	%	13.1	11.1	11.5
Assets	million EUR	256.9	281.8	269.7
Equity	million EUR	157.4	134.6	136.3
Equity attributable to equity holders of the parent	million EUR	153.2	130.3	131.8
Equity ratio	%	59.6	46.2	48.9
Debt ratio	%	11.3	22.6	16.4
Current ratio	times	2.7	2.4	2.2
Quick ratio	times	1.0	0.8	1.1
Accounts receivable turnover	days	35	45	40
Accounts payable turnover	days	37	53	41
Average number of employees (total group)	people	661	709	743
Order book	million EUR	225.1	141.4	229.0

Calculation of ratios is provided on page 108 of the report.

ECONOMIC ENVIRONMENT IN 2020

GENERAL ECONOMIC ENVIRONMENT

	2020			2019		
	Estonia	**Latvia**	**Lithuania**	**Estonia**	**Latvia**	**Lithuania**
GDP annual change in current prices	-2.9%	-3.6%	-0.8%	+5.0%	+2.0%	+4.3%
Unemployment rate in 4th quarter	7.4%	7.9%	9.1%	4.2%	5.9%	6.4%
Average monthly wage (gross) change	+2.9%	+6.2%	+10.2%	+7.4%	+7.2%	+8.8%
Construction price index annual change	+0.4%	+1.4%	+1.4%	+1.9%	+4.1%	+4.3%

Source: Local national statistical offices / Eurostat.

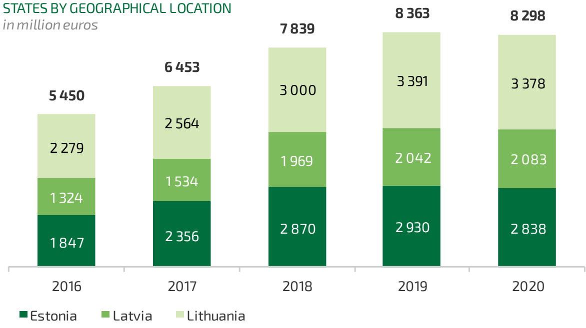
The global key word for 2020 was the pandemic. The COVID-19 disease as well as the measures implemented to limit its spread have affected all countries, all economic sectors and all social activities. So the developments that occurred in the countries' general economic indicators must also be viewed through the prism of the pandemic.

In terms of the functioning of the economy and economic growth, the year was very difficult and uneven. This was the case by country and industry as well as by months and quarters. Over the year as a whole, the European Union's gross domestic product (GDP) fell by -6.2%. (In comparison: In 2009, at the height of the previous financial crisis, the annual recession for the year in the European Union was -4.3%.) The decline was greater in those countries where the virus first appeared and the most extensive devastation was wrought: Spain and Italy, but also France and Portugal. In countries where the virus arrived later – and which had the opportunity to react with national measures to prevent the greatest damage – the economic downturn was more moderate. Estonia, Latvia and Lithuania, as well as Norway, were among those countries in Europe where the decline in GDP was smaller compared to others. Lithuania's GDP development was the second best in the European Union last year – only Ireland ranked ahead of it, being the only EU country able to show economic growth (+3.4%). As a non-EU country, Norway's economic downturn was at the same level as Lithuania's, i.e. -0.8%. In terms of its results, Estonia ranked eighth among the 27 Member States of the EU, and Latvia tenth.

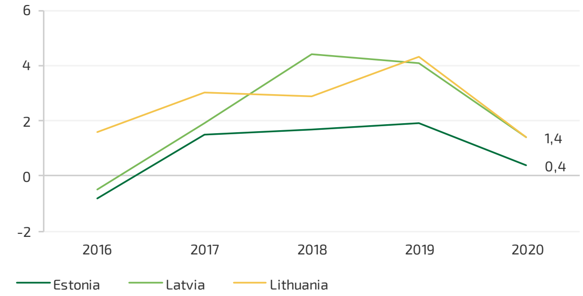
Along with the economic downturn, the unemployment rate rose almost everywhere, reaching 7.3% in the fourth quarter in the European Union as a whole (compared to 6.5% a year earlier). Unemployment also increased significantly in the Baltic states. If at the end of 2019 the unemployment rates in Estonia, Latvia and Lithuania were lower than the EU average, then at the end of 2020 these were higher. Lithuania ranked fourth among EU Member States, while Latvia ranked eighth and Estonia tenth. At the same time, the average wage continued to grow, at a record pace in Lithuania in recent years: +10.2%. In circumstances where both unemployment and average wages have risen at the same time, and knowing that the sectors most affected by the pandemic are those where average wages tend to be lower (accommodation, catering, retail), average wages have risen at least in part due to the structural change in employment. Regardless of this, given the general economic downturn, wage growth in both Lithuania and Latvia has been rapid. In addition to wage growth, domestic consumption has received significant support from national support measures to help those industries and workers who have found themselves in the most difficult situations during the pandemic.

CONSTRUCTION MARKET

CONSTRUCTION MARKET VOLUMES (WITH OWN FORCES) IN THE BALTIC STATES BY GEOGRAPHICAL LOCATION
in million euros



CHANGE IN CONSTRUCTION PRICE INDEX
percentages



Source: Local national statistical offices / Eurostat.

Despite the difficulties caused by the pandemic, construction volumes with own forces in the Baltic States was essentially the same in 2020 as in the previous year: EUR 8.298 billion (decrease -0.8%). Volumes also changed little from country to country: Estonia -3.2%, Latvia +2.0%, Lithuania -0.4%. Due to the length of construction contracts, effects on the economy as a whole usually reach the construction sector after a period of 12-18 months. As large construction projects were not shut down, and existing contracts were not cancelled, construction volumes did not decrease significantly in 2020 either. There were also no significant setbacks in supply and no need to close larger construction sites for longer periods due to the spread of the disease or national restrictions. Rather, the reason for the stagnation was already evident in previous market developments: construction activity has been very high and volumes have reached a level comparable to the peak in 2007. The cooling of the construction market was already evident before the pandemic. Demand from the private sector was in decline, as a large amount of new retail and office space had already been built. Due to the pandemic, it can be expected that the recovery of private sector demand will now take even longer, meaning that public sector demand will be even more important in the market.

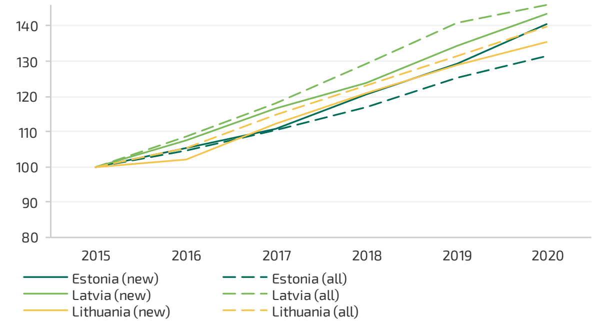
The change in construction prices remained moderate in 2020. In Estonia it decreased to +0.4%, in Latvia and Lithuania to +1.4%. In the spring, when the coronavirus reached the Baltics, the market expected a general fall in prices. It was thought that as demand fell, construction companies would be forced to adjust prices. However, it soon became clear that this was not happening. Construction volumes did not decrease and there was still enough work on the market. On the other hand, the issue of the use of foreign labour arose as national borders tended to close due to state restrictions. However, in some cases the markets have even operated with surprising efficiency, such that there has been no significant shortage of labour, which could have pushed prices up instead.

APARTMENT DEVELOPMENT

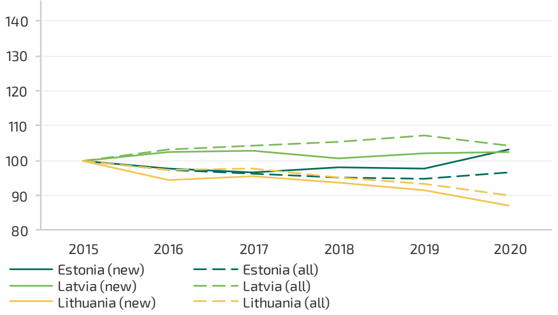
In the spring, during the first wave of the virus, the market was expecting to see a sharp and significant drop in apartment prices. The experience from the late 2000s was relied upon, when a general economic downturn took place, people's purchasing power decreased, banks ceased to be willing to issue home loans, and developers had to put their apartments on forced sale. But nothing like that happened this time. After the first shock, it was clear that developers were on a stronger financial footing than in the previous crisis, banks were operating constructively, support measures were launched by the state, and the economic downturn was shorter and lower than initially feared. Also, no bubble had formed in apartment prices in previous years, from which it would now have been necessary to vent air.

Housing prices have risen at a fairly steady pace in recent years in each of the Baltic states, although this has taken place at the same pace as income growth. Thus, in the last five years, the prices of new apartments in Estonia and Latvia have grown only about 3% faster than the average salary, and in Lithuania the apartments have actually become 13% more affordable compared to the average salary.

NEW AND ALL (dotted line) DWELLINGS HOUSE PRICE INDEX (2015=100)



RATIO OF NEW AND ALL (dotted lines) DWELLINGS HOUSE PRICE INDEX TO AVERAGE MONTHLY GROSS WAGES INDEX (2015 = 100)

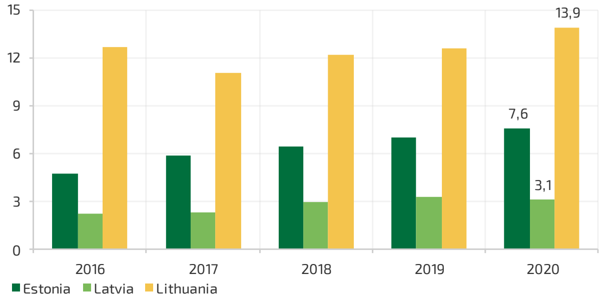


Source: Local national statistical offices / Eurostat.

In terms of the number of use permits, growth that has been going on in Estonia since 2012 continued. In the last three years, the pace has slowed down slightly (annual growth of less than 10%). Last year, slightly more than 7500 dwellings reached the market (more than 7000 in 2019), now also exceeding the peak of the boom period (2007: almost 7100). At the same time, the number of unsold (under development or completed) dwellings in Tallinn has decreased, being estimated to be lower than the annual sales volume. Developers put new projects on hold in the spring until the situation clarified, and as a result, supply is now lower, while demand has remained at times even unexpectedly strong.

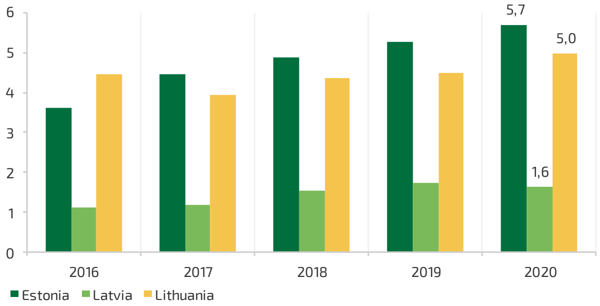
In Lithuania, stronger growth began in 2011 and peaked in 2016, when about 12,700 use permits were issued (at the peak of the boom in 2008: 11,800 permits). While 2019 was still slightly behind that number (12,600 use permits), in 2020 there was an increase of more than 10% to 13,900 permits. The peak of the previous boom had already been exceeded by almost 20%. At the same time, demand in the second half of the year has turned out to be so strong that, similarly to Tallinn, the number of unsold dwellings in Vilnius is estimated to be below the annual sales volume.

Developments in Latvia have been more moderate and uneven for some time. While Estonia and Lithuania both exceed the peaks of the previous boom, the number of use permits issued in Latvia is barely one third that number. In 2018 and 2019, Latvian growth in the number of use permits outpaced both Estonia and Lithuania (incl. +30% in 2018, and +12% in 2019); however, in 2020, the number of use permits decreased by about -6% compared to the year before. However, in terms of the number of use permits, Latvia's is significantly smaller than that of Estonia and Lithuania: in 2020, about 3100 use permits were issued (at the peak of the boom in 2007: 9300 permits). Compared to the size of the population, Estonia continued to issue the most use permits: 5.7 permits per a thousand inhabitants (2019: 5.3). Lithuania 5.0 (2019: 4.5) and in Latvia only 1.6 (2019: 1.7). Demand in Riga is also lower than in Tallinn and Vilnius. It is estimated that there are approximately 2 years' worth of unsold dwellings in Riga.



THE NUMBER OF USE AND OCCUPANCY PERMITS ISSUED FOR NEW RESIDENTIAL PREMISES

thousand pcs



THE NUMBER OF USE AND OCCUPANCY PERMITS ISSUED FOR NEW RESIDENTIAL PREMISES

per thousand residents, pcs

Source: Local national statistical offices.

OUTLOOK FOR 2021

The developments related to the coronavirus will remain the main factor influencing the economic environment in 2021. Predictions of when life could return to resemble the pre-pandemic levels of normalcy are still difficult to make. It largely depends on the development of the virus itself (possible increase in infectiousness, more severe medical consequences) and on the progress made by the medical system and the scientific world in both treating and preventing the disease (vaccination).

Until the return of normalcy, economies, industries and people will continue to face the question of how to cope. The debt burden of governments in order to continue with support measures will increase and the printing of money by central banks will carry on. However, the expansion of the money supply in such a manner increases the risk that inflation will get out of control, so that despite the difficult economic environment, ways to protect oneself from the devaluation of money continue to be sought. It fuels the willingness to invest, but does so in an uneven and distorted way. As the longer-term outlook remains extremely unclear and uncertain, it is unlikely that the desire to place money in investment projects, which are dependent upon the long-term strength of the business environment (such as commercial real estate development), will increase significantly.

However, the question is also what is the so-called normalcy to which we are looking for a way back. At the end of 2019, prior to the start of the pandemic, we were facing declining economic growth throughout the European Union, including in the Baltic states; economic relations between the United States and Europe and China were becoming strained (protectionism, customs restrictions); regionally, the question was what will the consequences of Brexit be and which direction would developments in the banking sector move (increasing regulation, side effects from the fight against money laundering, declining risk appetite of banks). At the local level (in the Baltic states), for years we had been facing the fact that wage growth was clearly exceeding economic growth, which meant that national competitiveness was deteriorating. These are problems that have been temporarily forgotten, but have not disappeared. Rather, they have been exacerbated by the pandemic.

CONSTRUCTION SERVICES

The construction sector is likely to experience a decline in volumes in 2021, as the effects of the pandemic will begin to arrive following a delay. While construction volumes remained largely unchanged in 2020, due to the fact that there was no stoppage of work on objects already underway and, despite the fear of spring, supply chains did not freeze over, then regarding the conclusion of new contracts the private sector had taken a wait-and-see position. Public demand has not been heavily affected by the pandemic; however, the question remains whether and to what extent the public sector will be able to offset the demand that was lost by the private sector. Larger-scale construction projects require thorough preparation before construction can begin. On the other hand, the issuance of building permits continued at a good pace in 2020, differing slightly from country to country, but increasing overall. Although an issued building permit does not mean that it will be put into use, i.e. that construction will start, the overall potential is quite strong in this respect, nevertheless.

The risks are roughly similar to those of last year – possible supply difficulties, due to both factory shutdowns and transport restrictions, and work stoppages on construction sites. Under circumstances such as these, it is important for general contractors to ensure that there is strong capitalization and sufficient liquidity to withstand and survive potentially more difficult periods. They must also be able to act quickly under changing circumstances, such that the provision of high quality construction services can continue even if the work processes cannot function in the normal way.

Considering the strong financial position of Merko Ehitus group, its broad-based ability to provide construction services to both the private and public sectors, and the experience gained over the past year by operating successfully in the new circumstances, all of the prerequisites to successfully navigate 2021 are there. However, this requires continued monitoring and analysis of developments in the economic environment and society at large, being engaged in a constructive dialogue with both clients and subcontractors, and planning one’s activities such that all relevant risk aspects are taken into account.

APARTMENT DEVELOPMENT

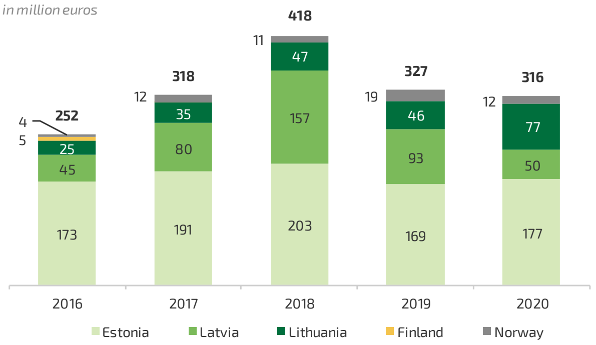
Uncertainty in the apartment market will remain in 2021 as well. On the one hand, the pandemic will continue, which will reduce economic activity, deal a blow to the incomes of a number of people, and have a negative impact on investment readiness. On the other hand, 2020 showed that after the first shock the demand for the purchasing of apartments recovered quickly, at times exceeding the pre-pandemic level. This was partly due to purchasing decisions that had been postponed in the spring, which began to be realised in the second half of the year in a situation where developers had also delayed the launch of new projects, so that supply on the market had decreased. Demand has been held up by both state support measures and the perception of the general risk of inflation stemming from the lax monetary policy of central banks. As a result people are ready to place their savings in a new home or acquire an apartment for investment purposes.

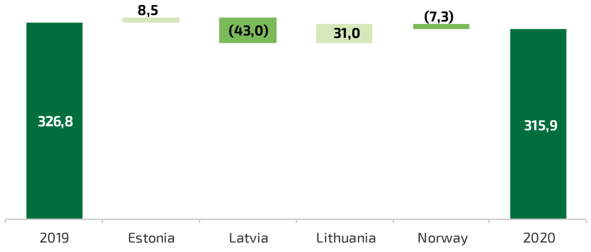
In 2021, developments in the apartment market will depend on the balance achieved between such opposite effects. Looking at the strong demand so far, there is a risk that developers will begin to fill the gap left over from the suspension of developments last spring at an accelerated pace, but will find themselves in a situation where market sentiment has already turned when the development project is completed. It usually takes more than a year to complete development projects, and if 2020 taught us anything, it was that market sentiments could change in a matter of weeks. Therefore, it is important that developers are not overly dependent upon external financing, instead having enough capital to freeze development projects for a while or sell apartments over a longer period of time, if necessary. The key question remains: how will commercial banks behave in terms of financing both individuals and companies, including real estate developers? So far, banks have taken a very constructive position, continuing to issue home loans and provide business financing. In order to prevent a deep downturn in the markets, it is important that the activity of banks remains on track.

The long-term view of Merko Ehitus in the field of apartment development has not changed – the group is developing integrated living environments, both now and in the future, focusing on larger areas, offering reliable quality and professional layouts. In the short term, the group is constantly assessing the rapidly changing environment and making investment decisions according to the evolving situation. Its strong financial position enables Merko Ehitus to extend the implementation periods of developments, if necessary, and also to make investment decisions in more difficult times, which have a long-term positive effect on the group's financial position.

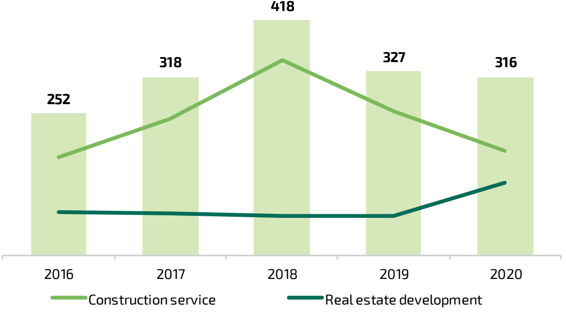
OPERATING RESULT

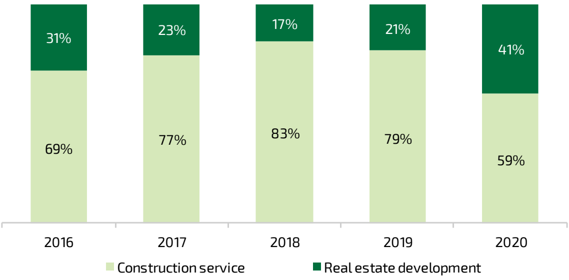
REVENUE AND PROFIT


DISTRIBUTION OF GROUP REVENUE BY GEOGRAPHICAL LOCATION
in million euros


CHANGES IN GROUP REVENUE
in million euros

In 2020, the revenue of Merko Ehitus group was EUR 315.9 million, (2019: EUR 326.8 million). 56.1% of the period's revenue was generated in Estonia, 24.4% in Lithuania, 15.7% in Latvia and 3.7% in Norway (2019: 51.7% in Estonia, 28.4% in Latvia, 14.1% in Lithuania and 5.8% in Norway). Compared to 2019, the group's revenue decreased by EUR 11 million or 3.3%, including a 46.4% decrease in Latvia and 38.5% in Norway, and the revenue increased by 67.0% in Lithuania and 5.0% in Estonia. The group's sales revenue decreased due to lower construction volumes, while the sales revenue of the real estate development business area increased significantly compared to 2019.

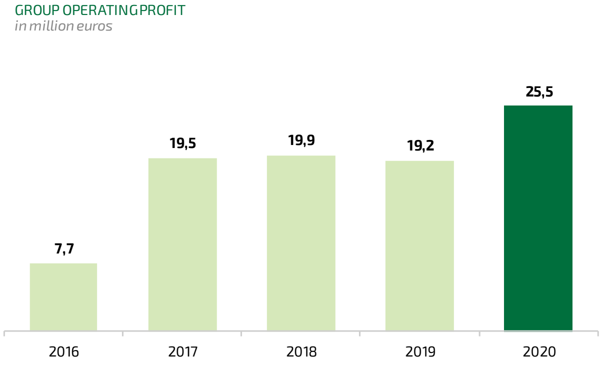

DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
in million euros

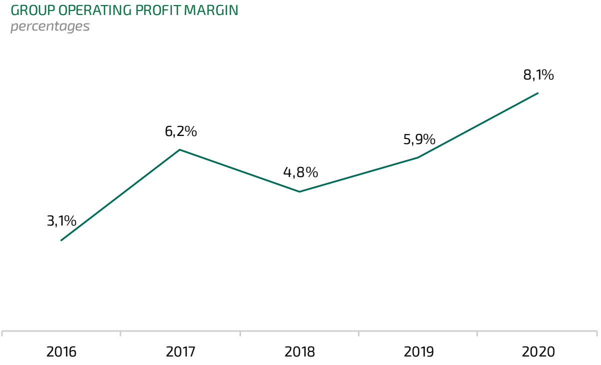

DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
percentages

In the structure of sales revenue, real estate development accounted for a significantly larger share than before, accounting for 41% of the group's total sales revenue (2019: 21%). The sales volume of apartments increased significantly in 2020, while the volumes of construction services decreased. In recent years, the group has increasingly focused on apartment development, which was clearly reflected in the 2020 sales figures. At the same time, the group monitors that a suitable risk-return ratio is ensured when commissioning new construction projects. It has been abandoned to engage in price competition rather than to increase the portfolio of construction contracts at high risk.

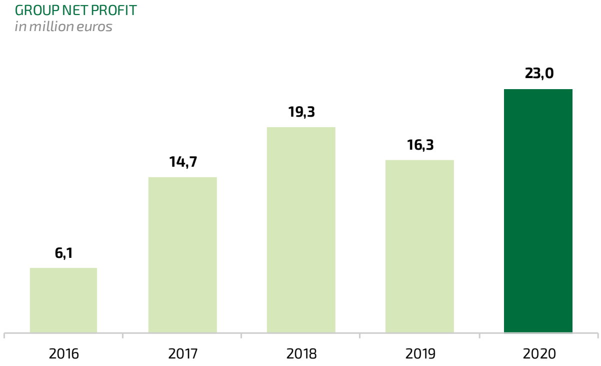
By country, Estonian sales continued to account for the largest share of revenue – 56% (2019: 52%). Estonia's share increased mainly on Latvia's expense, as the revenue share of extraordinarily large construction objects has decreased after 2018. The group finds it strategically important for the business operations to be diversified both geographically and in terms of business segments. Thus, the group continues to strengthen and implement its competitive advantages outside Estonia and is closely monitoring the development and opportunities in both the Baltic states and in Norway, as well as balancing construction activities with real estate development projects.

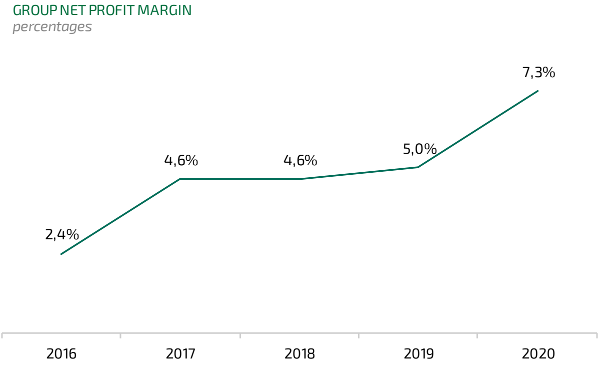
In 2020, the group's operating profit totalled EUR 25.5 million (2019: EUR 19.2 million). The operating profit margin in 2020 (8.1%) increased by 2.2 pp compared to last year (2019: 5.9%). The decision to focus more on real estate development business area, the profitability of which is higher than that of the construction service business area, has borne fruit.





In 2020, the group's pre-tax profit totalled EUR 24.5 million and the net profit attributable to owners of the parent company was EUR 23.0 million, compared to the pre-tax profit of EUR 20.3 million and net profit attributable to owners of the parent company of EUR 16.3 million in 2019. The group's profit before tax margin was 7.7% (2019: 6.2%) and net margin was 7.3% (2019: 5.0%).





In 2020, no dividends were paid to the owners of the parent company. However, in 2020 the group has recognized a deferred income tax expense on the profits of subsidiaries in the amount of EUR 1.4 million, which is payable in the following periods when paying dividends from subsidiaries. In the third quarter of 2019, the group paid EUR 17.7 million in dividends and incurred additional income tax expense in the amount of EUR 2.7 million.

MERKO'S 30TH ANNIVERSARY

In 2020, Merko celebrated its 30th birthday, during which a new website was launched and an anniversary book was published. The book provides an overview of the company's history, nature and the largest and most socially important objects from the past five years.

To celebrate its birthday, an anniversary party was held at the end of summer, and various events took place within the group's companies in November, all of which were organized with a special emphasis on safeguarding health in the year of the corona virus.

BUSINESS ACTIVITIES

The group operates in Estonian, Latvian, Lithuanian and Norwegian market through its subsidiaries.
See additionally the detailed management structure on page 38.

CONSTRUCTION SERVICE

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REAL ESTATE DEVELOPMENT

🇪🇪 🇱🇻 🇱🇹

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

- **GENERAL CONSTRUCTION:** construction of various buildings, including commercial and office buildings, retail and entertainment centres, hotels and spas, as well as public buildings, dwellings and specific industrial buildings. In the context of main contracting, we provide high quality complete solutions to meet the client's needs.
- **CIVIL ENGINEERING:** design and construction of infrastructure facilities. The field includes port, waste handling and road infrastructure (bridges, tunnels, overpasses, roads), various environment protection facilities, drinking water and waste-water treatment facilities, water and sewerage mains built using both open and no-dig methods, and various other engineering and technical sites.
- **ELECTRICAL CONSTRUCTION:** above all, medium and high voltage substation and cable line engineering configuration and construction. Merko has a professional project management team with good cooperation experience with local and international customers.
- **ROAD CONSTRUCTION:** various road maintenance services in Estonia: road construction, maintenance repair of roads, supervision of excavation works and the condition of roads, provision of repair services for machinery.
- **CONCRETE WORKS:** solutions for buildings and infrastructure constructed of prefabricated or concrete panels by group companies and out-of-house customer.
- **REAL ESTATE DEVELOPMENT:** development of apartment projects, long-term real estate investments and real estate projects for business purposes.

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

CIVIL ENGINEERING WORKS OF SOCIAL IMPORTANCE

Civil engineering works designed and built by Merko improve people's quality of life – roads, bridges, tunnels and viaducts make traffic safer and faster, and beautiful city squares complement the public urban space.

In 2020, construction work on the Aaspere-Haljala section of the Tallinn-Narva Highway was completed, with approximately 2.4 million vehicles passing through each year. As a concrete contractor, we contributed to the completion of the Saustinõmme viaduct, Rail Baltica's first civil engineering work in Estonia. Completed in 2020, Kärdla Central Square has become an important point of attraction for the local community, and the reconstruction of the City Centre's streets and Freedom Square continues in Viljandi.

CONSTRUCTION SERVICE

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

million EUR

	2020	2019	CHANGE
Revenue	186.8	256.7	-27.2%
% of total revenue	59.1%	78.6%	
Operating profit	4.6	13.3	-65.6%
Operating profit margin	2.4%	5.2%	

In 2020, the revenue of the construction service segment was EUR 186.8 million (2019: EUR 256.7 million). Compared to the previous year, sales revenue in the business area decreased by 27.2%. The decrease in sales revenue was due to lower levels in the first half of the year, insofar as the group has been selective in concluding new construction contracts for the past few years in order to avoid excessive contractual risks in the construction market, which had reached a high level of activity before the pandemic. Therefore, the secured order book was also at a low point at the beginning of 2020. Towards the end of the year, the group's construction work volumes increased and the secured order book grew. However, the group will continue to remain selective regarding its construction contracts. The construction service segment revenue for 2020 made up 59.1% of the group's total revenue, having decreased by 19.5 pp compared to the year before (2019: 78.6%).

In 2020, the group earned an operating profit of EUR 4.6 million in this segment (2019: EUR 13.3 million). The operating profit margin was 2.4% (2019: 5.2%). Fixed costs had to be covered in the face of lower sales revenue, while the performance of some construction sites turned out to be lower than expected. These are one-off events concerning specific projects, including individual clients with impaired solvency.

The effects of the COVID-19 pandemic on the construction services business remained modest. Work on sites continued at a more or less normal pace, with no significant downtime occurring due to employee health or delays in deliveries. Measures were taken to ensure the health of both Merko's and its subcontractors' employees, both in the office and on construction sites. Outbreaks were prevented. The group will continue to implement measures to prevent the spread of the disease in 2021 and it is ready for possible negative developments, which may be related to the further development of the pandemic and national restrictions imposed to prevent the spread of the virus. The group's companies have mapped the main risks, reviewed the current organization of work and prepared plans to continue to operate with determination even in the face of restrictions. As private sector demand has fallen due to the pandemic, the overall growth of construction volumes on the market is unlikely in the short term. In the field of construction services, the public sector already played an important role before the pandemic and its share may increase even further.

Among the substantial projects in process that started in 2020 and earlier and will continue in 2021 were, in Estonia, the construction works of the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre, Tallinn School of Music and Ballet, data centre in Harju County, Tallinn Arte Gymnasium, construction works of water supply and sewerage piping in Kohila Parish, construction works of the Republic of Estonia's southeast land border as well as the renovation of Nordic Hotel Forum and Tallink City Hotel and also work arising from the road repair and maintenance agreement in Tallinn. In Latvia, larger ongoing projects included the construction works of reconstruction of Riga Technical University Civil Engineering Faculty building as well as the constructions of the Orkla wafer and biscuits production plant and NATO base in Ādaži and kindergarten in Salaspils. In Lithuania, larger projects were construction of wind farm balance of plant in Telšiai district, and, in Kaunas, the district Police headquarters building and NATO barracks. In Norway, mostly smaller scale contracts were in the works.

LARGEST PROJECTS COMPLETED IN 2020

PROJECT NAME		LOCATION	COUNTRY
Väike-Järve commercial building	new	Pärnu mnt 186, Tallinn	Estonia
Türi Basic School building	new	F. J. Wiedemanni 3, Türi	Estonia
Kärdla Central Square	rec	Hiiumaa	Estonia
Submarine Cables of in the Suur Strait and the Väike Strait	new	Läänemaa	Estonia
Hundipea port quays No. 8 and 9 and breakwater	rec	Lume str 9, Tallinn	Estonia
The main road No. 1 (E20; Tallinn-Narva) Aaspere-Haljala section	new	Lääne-Virumaa	Estonia
National road 24116 km 0.82 – 6.09	rec	Viljandi county	Estonia
Lidl logistics centre	new	Dzelzavas 131, Riga	Latvia
Laima chocolate factory	new	Laimas str 6, Adaži	Latvia
College building and a dormitory	new	Jauna str 10, Pinki	Latvia
Ķegums HES-2 substation	rec	Ķeguma prospekt 7/9, Ķegums	Latvia
Neringa hotel building	rec	Gedimino avenue 23, Vilnius	Lithuania
School building in Vilnius	new	Luksines str 29, Vilnius	Lithuania
Office building Haakon VIIs 5	rec	Haakon VIIs 5, Oslo	Norway

COMMUNITY BUILDINGS

Over the years, Merko has built buildings and civil engineering works that are important to society and help improve people's quality of life. The school building and athletic facility at the Türi Basic School, in Estonia, and the school building of International College in Pinki Latvia, were completed in 2020.

Among educational objects, work began in 2020 on the construction of Tallinn Arte Gymnasium, Tallinn School of Music and Ballet, and the kindergarten in Salaspils, with reconstruction continuing on the building of the Riga Technical University Civil Engineering Faculty building. In the field of medicine, the most important object under construction is the Y Block of the North Estonia Medical Centre, i.e. the oncological care centre; and among national defence objects, the construction of the first section of the south-eastern border of the Republic of Estonia.

REAL ESTATE DEVELOPMENT

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

million EUR

	2020	2019	CHANGE
Revenue	129.1	70.1	+84,2%
incl. revenue from sale of apartments	116.6	63.8	
incl. construction service from public-private-partnerships	6.4	0.2	
incl. construction service to joint venture projects	1.6	2.1	
incl. revenue from immovable properties	1.0	0.4	
% of total revenue	40.9%	21.4%	
Operating profit	23.7	8.1	+192,2%
Operating profit margin	18.4%	11.6%	

A total of 895 apartments (incl. 3 apartments in a joint venture) were sold in 2020 at the total value of EUR 116.6 million (excl. VAT), compared to 482 apartments (incl. 47 apartments in a joint venture) and EUR 63.8 million in 2019. In addition, the group sold 9 commercial areas (incl. 2 in a joint venture), in 2019 24 commercial areas (incl. 14 in a joint venture). Of the 895 apartments sold 349 were located in Estonia, 165 in Latvia, 381 in Lithuania. In the revenue and operating profit of the real estate development segment also the sale of commercial premises and parking spaces of the real estate development projects and the result of projects under development of joint ventures are reflected, as well as the result of public-private-partnership contracts, based on which the group companies provide construction service and property management services.

In 2020, the share of revenue from the real estate development segment formed 40.9% of the group's total revenue (2019: 21.4%), having increased over the year by 19.5 pp. Compared to the previous year, the number of own developed apartments handed over to customers was 457 units higher, which resulted in a significant increase in revenue. Such developments were expected – for the past couple of years, the group has increased investments to apartment development. Starting from the end of 2019 these have started to be realised in sales, which are reflected also in revenue and profit figures. The impact of the COVID-19 pandemic on the apartment market as a whole, including the group, remained moderate in 2020. In spring, when the spread of the virus reached the Baltics, it, along with the established restrictions, caused an economic shock to the entire economic environment. Thus, the volumes of sales transactions for apartments also decreased significantly. After a few months, however, demand recovered quickly, such that at the end of the year the interest in apartments and the readiness to enter into contracts at times already exceeded the high levels of 2019.

In 2020, operating profit of the real estate development segment amounted to EUR 23.7 million (2019: EUR 8.1 million) and the operating profit margin was 18.4% (2019: 11.6%), which increased by 6.8 pp compared to the same period previous year. The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, incl. the land acquisition price. Profitability also depends on the distribution of sales revenue in the development business segment between sub-activities (sale of apartments, construction services for joint projects, sale of immovable properties). In case of construction services for joint projects, the profit from construction is recognised in the course of construction and the profit from development is realised at a later stage, upon sale of apartments to the final customer, based on the equity method.

RECOGNISED LIVING ENVIRONMENTS

Over a period of 30 years, Merko has built high-quality homes for nearly 8,500 families in Tallinn, Tartu, Riga and Vilnius. Based on the results of the Kantar Emor survey, Merko has been ranked as the most reputable real estate developer in Estonia for the second consecutive year. The living environments we create contribute to the development of the urban space and stand out in public competitions. In 2020, the courtyard of the Uus-Veerenni residential district, in Tallinn, was recognized for the best landscape architecture solution among courtyards at the Estonian Architecture Awards. Noblessner Home Port, developed in cooperation with the BLRT group, won the award for the best urban space renewal project at the Baltic Real Estate Awards 2020. The apartment buildings of Tartu Tähepargi were recognized with the title of Tartu's Best Building of the Year 2019.

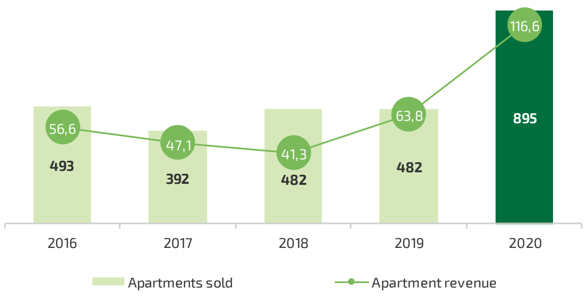
Managing a substantial portfolio of immovables requires careful and detailed planning of the whole process: the development of apartment buildings starts by planning, designing and construction, and ends with the sale of completed production and warranty service. The underlying idea of our development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

Merko manages all development phases of new housing – planning, designing, building and sales. Homes developed and built by Merko are characterised by integrated living environments, energy efficiency, good sound insulation from indoor and outdoor noise as well as healthy interior climate. Effective ventilation in apartments, as well as stairwells, elevators and car parks helps to minimize the risk of airborne diseases.

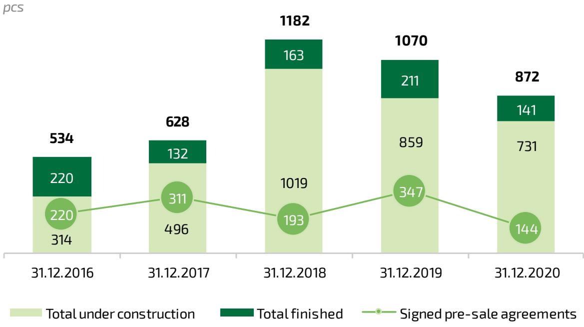
The objective of the group is always to create homes that architecturally fit the specific region, have an attractive living environment, functional design solutions, quality interior design materials, optimal construction cost and energy efficiency. A home that is being offered for customers must be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

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

APARTMENTS SOLD / APARTMENT REVENUE
pcs / in million euros



GROUP APARTMENTS INVENTORY
pcs

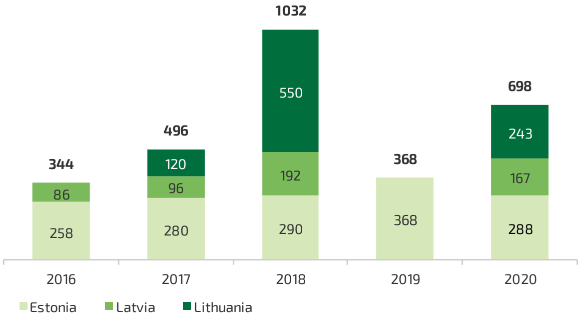


At the end of the period, Merko Ehitus group's inventory of apartments amounted to 872 units, of which 141 were completed and 731 in construction. 144 apartments were covered with preliminary agreements, incl. 36 completed apartments (28 in Estonia, 3 in Latvia and 5 in Lithuania) and 108 apartments under construction (50 in Estonia and 58 in Lithuania). The sale of these apartments had not yet been finalised and the apartments had not been delivered to customers, as the development sites are still under construction or the sites were completed at the end of the reporting period and the sales transactions have not all been finalised yet.

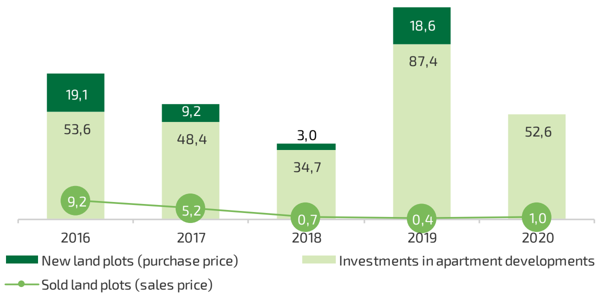
As at 31 December 2020, Merko Ehitus group had a total of 728 apartments for active sale (as at 31 December 2019: 723 apartments), for which there are no pre-sale agreements and of which 105 have been completed (42 in Estonia, 58 in Latvia and 5 in Lithuania) and 623 are under construction (238 in Estonia, 167 in Latvia and 218 in Lithuania). The number of apartments on sale as at 31 December 2020 has remained at the same level as on 31 December 2019, although the construction of 698 new apartments was launched in 2020, compared to the construction of 368 new apartments in 2019.

In 2020, the group invested a total of EUR 52.6 million (2019: EUR 87.4 million) in new development projects launched in 2020 as well as projects already in progress from previous year. Most of the new apartments launched in 2020 went to construction in the fourth quarter, which is why most of the investments will be realised in 2021.

APARTMENTS LAUNCHED BY GEOGRAPHICAL LOCATION
pcs



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



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

One of the group's objectives is to keep the land plot portfolio at a level that ensures stable inventory of property development projects, considering the market conditions. As at 31 December 2020, the group's inventories included land plots with development potential, where the construction works had not started, of EUR 60.7 million (31.12.2019: EUR 70.2 million).

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

million EUR

	31.12.2020	**31.12.2019**
Estonia	24.9	29.3
Latvia	25.4	26.9
Lithuania	10.4	14.0
Total	**60.7**	**70.2**

In 2020, the group did not purchase new land plots for real estate development purposes (in 2019, the group purchased new land plots at an acquisition cost of EUR 5.6 million in Estonia and EUR 13.0 million in Lithuania)

THE SPECIFICATIONS OF PROJECTS COMPLETED IN 2020

PROJECT		**LOCATION**	**SIZE**
Paldiski mnt 21 (Matilda Maja)	new	Tallinn, Estonia	1,753 m^2, 20 apartments
Pikaliiva 22, Kaaruti 8 (Pikaliiva 2nd stage)	new	Tallinn, Estonia	2,926 m^2, 50 apartments
Veerenni 36a, Pille 9 (Veerenni 2nd stage)	new	Tallinn, Estonia	5,956 m^2, 88 apartments
Paekalda 22, 24, 24a (Lahekalda 1st stage)	new	Tallinn, Estonia	8,187 m^2, 144 apartments
Kaaruti 5, 6 (Pikaliiva 3rd stage)	new	Tallinn, Estonia	3,913 m^2, 66 apartments
Strazdelio 5 (Basteja Life)	new	Vilnius, Lithuania	5,014 m^2, 78 apartments
Ceikiniu 9 (Rinktinės Urban 2nd stage)	new	Vilnius, Lithuania	11,159 m^2, 182 apartments
Pakrascio 20 (Vilnelis slenis)	new	Vilnius, Lithuania	13,250 m^2, 219 apartments
Rūpniecības 25 (Merks Viesturdārzs 1st stage)	new	Riga, Latvia	6,584 m^2, 96 apartments

APARTMENT BUYER SATSIFACTION SURVEYS

We organise satisfaction surveys to obtain valuable feedback on how to further improve our products and services. In Estonia, we completed the second and third stage of Pikaliiva, the first stage of Lahekalda and the second stage of Uus-Veerenni, and a satisfaction survey among the buyers of apartments in the buildings at Paldiski mnt 21.

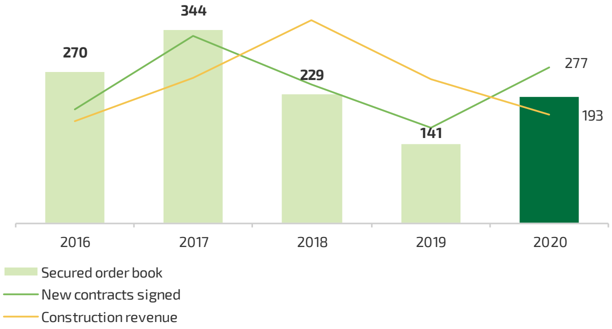
The average recommendation index or customer loyalty index in these projects was +66 on a scale of -100 to +100. In addition, customer satisfaction with the design and construction quality of the apartments, the created living environment, the buying process, and sales and marketing materials were studied. All projects achieved an average score of more than 7.7 on a 10-point scale.

SECURED ORDER BOOK

As at 31 December 2020, the group's secured order book (excluding own property developments) amounted to EUR 225.1 million as compared to EUR 141.4 million as at 31 December 2019. The secured order book excludes the group's proprietary residential development projects and work related to developing real estate investments.

In 2020, new construction contracts worth EUR 277.2 million were signed (excludes property developments), compared to EUR 169.6 million in the prior year.

SECURED ORDER BOOK
in million euros



LARGEST CONSTRUCTION CONTRACTS SIGNED IN 2020

in millions of euros (as announced during 2020 on Nasdaq Baltic stock exchange)

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION DATE	COST
Construction contract for the construction of Tallinn School of Music and Ballet located at Pärnu mnt 59, Tallinn	Estonia	March of 2022	34.7
Construction contract to design and construct the third stage of Mustamäe medical campus	Estonia	July of 2023	33.8
Construction contract to design and construct the infrastructure of the Republic of Estonia's southeast land border	Estonia	April of 2023	14.7
Construction contract to perform construction works of water supply and sewerage piping in Kohila Parish, Rapla County	Estonia	December of 2021	14.3
Construction contract for the construction of first stage of data campus in Saue Parish, Harju County	Estonia	May of 2021	9.0
Construction contract for the renovation of Tallink City Hotel at A. Laikmaa 5 in Tallinn	Estonia	Spring of 2021	8.6
Construction contract for the renovation of Nordic Hotel Forum at Viru väljak 3 in Tallinn	Estonia	Spring of 2021	8.0
Construction contract for the reconstruction of Tallinn Arte Gymnasium located at E. Vilde tee 62, Tallinn	Estonia	May of 2021	7.7
Construction contract for the construction of new Orkla wafer and biscuits production plant in Ādaži, Latvia	Latvia	January of 2022	32.0
Construction contract to design and construction of a building and infrastructure facilities at the NATO base in Ādaži, Latvia	Latvia	June of 2022	6.1
Construction contract for the construction of a kindergarten in Salaspils, Latvia	Latvia	January of 2022	5.8
Construction contract for the construction of wind farm balance of plant in Telšiai in Lithuania	Lithuania	December of 2021	13.0
Construction contract to perform reconstruction works of barracks in Kaunas, Lithuania	Lithuania	August of 2021	6.0
Construction contract for the reconstruction of an office building at Haakon VIIs 5 in Oslo	Norway	October of 2020	4.3

In 2020, the volume of concluded contracts in both the private and public sectors increased significantly, but the latter continues to set the tone. At the end of the year, public sector orders accounted for 66% of the balance of the group's secured order book (31.12.2019: 64%).

IMPROVED ELECTRICITY SUPPLY FOR THE ISLANDS

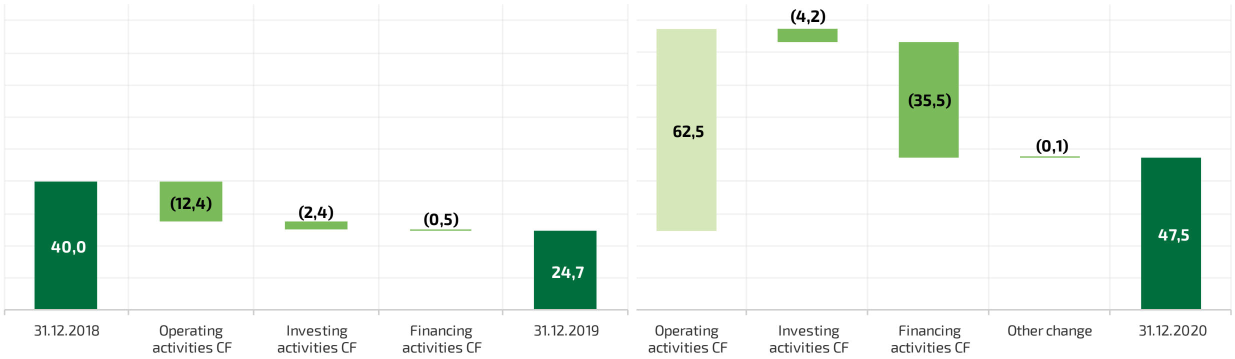
Merko helps ensure the required electricity connection for hundreds of thousands of companies and families.

In 2020, as part of the largest electrical construction project in our history, we installed a new high-voltage submarine cable in the Suur Strait, which has significantly improved the security of electricity supply and energy security of Estonia's large islands. Among the smaller electrical construction works, the construction of the Kiini substation deserves to be highlighted, which was recognized by the contracting entity Elektrilevi as the best regional and distribution substation among objects completed in 2019.

CASH FLOWS

The change in short-term investments and cash equivalents in 2020 of Merko Ehitus group was positive by EUR 22.8 million and as at 31 December 2020 the group had cash and cash equivalents in the amount of EUR 47.5 million (31.12.2019: EUR 24.7 million). The operating cash flows of 2020 were positive by EUR 62.5 million (2019: negative by EUR 12.4 million), cash flow from investing activity was negative by EUR 4.2 million (2019: negative by EUR 2.4 million) and the cash flow from financing activity was negative by EUR 35.5 million (2019: negative by EUR 0.5 million).

CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The cash flow from operating activities had positive effect from EBITDA of EUR 28.2 million (2019: positive effect of EUR 21.9 million), from changes in receivables and liabilities related to construction contracts of EUR 2.8 million (2019: negative effect of EUR 10.7 million), from the changes in trade and other receivables related to operating activities of EUR 7.0 million (2019: positive effect of EUR 26.9 million) and change in inventories of EUR 40.2 million (2019: negative effect of EUR 48.1 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments. While in 2019 the negative cash flow was a result of increase in the volume of inventories due to the construction of apartments, in 2020 the cash flow was positive as the volume of inventories decreased when the apartments were sold. The negative effects to cash flow from operating activities came from the change in the provisions of EUR 1.1 million (2019: positive effect of EUR 0.3 million), from the change in trade and other payables related to operating activities of EUR 11.9 million (2019: positive effect of EUR 1.8 million), which was mainly related to the decrease in advance payments of apartment buyers and the payment of the last instalment of the development area acquired in Lithuania in 2019, and from the interest paid EUR 1.1 million (2019: EUR 1.0 million) and from the corporate income tax of EUR 1.1 million (2019: EUR 3.1 million).

Cash flows from investing activities include negative effect from the acquisition of non-current assets and in the amount of EUR 4.5 million, which is mainly related to the renewal of equipment in the field of road construction, (2019: EUR 2.5 million) and positive effect from the sale of non-current assets in the amount of EUR 0.3 million (2019: EUR 0.5 million).

To support cash flows from operating activities the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (11.3% of total assets as at 31.12.2020; 22.6% as at 31.12.2019).

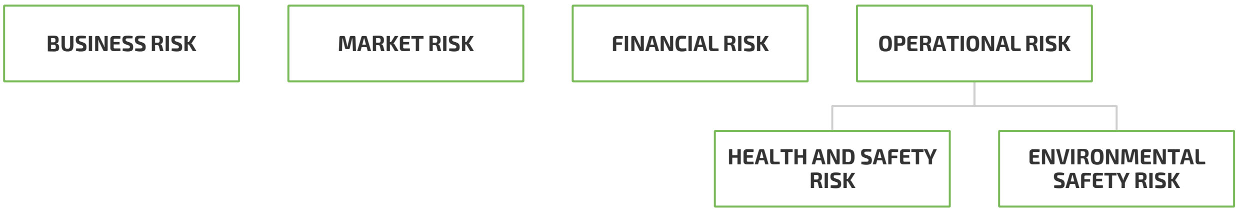
In cash flows from financing, the larger negative factors were the net change in loans received and repaid in connection with development projects in the amount of EUR 28.0 million (2019: net positive cash flow of EUR 25.6 million) which resulted from the repayment of loans taken for residential development projects (the apartments were finished and sold), repayments of lease liabilities in the amount of EUR 0.9 million (2019: net negative cash flow of EUR 1.0 million), as well as from negative change in loans related to construction projects and other activities in the net amount of EUR 7.5 million (2019: net negative cash flow of EUR 6.8 million). Positive cash flow from financing activity was gained from the change in loans related to net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 1.1 million (2019: negative cash flow in the net amount of EUR 0.5 million).

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 larger and significant risks and to optimally manage these risks so that the group achieves its strategic and financial objectives. The group considers it important to assess aggregate group risks, instead of the impact factors of individual risks. Turning constant attention to risk management enables to exclude or minimise a possible financial loss. The following are deemed by the group to be the most significant risks: market risk, operational risk and financial risk, including interest rate risk, foreign currency risk, credit risk, liquidity risk, equity risk and legal risks. Detailed description of financial risks is provided in Note 35 of the financial statements. Because of the group's balance sheet structure and the market position, none of these risks has a significant impact as at the date of this report.

Group risk management is coordinated by the management board. In addition, the management board of each subsidiary develops, implements and maintains processes covering subsidiary's activities for the management of all material risks impacting the activity and results of the group. Each group company and business unit must ensure that risks are managed on an ongoing basis with reference to the objectives it has been assigned. Risk-taking is a normal part of business, but in doing so, one must be convinced that if the risk materialises, purposeful and sustainable activity is maintained with reference to the strategy of the company and business unit. The group assesses ongoing business risks and risks affecting investments in a calculated manner.

Merko Ehitus divides risks into four main categories:



Business risk

The group takes calculated risks for the purpose of increasing revenue. The biggest business risks relate to the entry of Merko Ehitus to new markets and segments, the management of existing inventories and investments and the execution of awarded construction contracts. One of the peculiarities of construction activities is the fact that the execution of the contracts concluded is a long-term process, making the sector inert to changes in the economic environment. Due to this, both positive and negative changes in the economic environment reach the construction industry with a lag of approximately 12-18 months.

Operating in several different markets requires orientation in the environments of various countries. The main areas of attention are the cyclicality attributes of economies and legal, cultural and political differences. The main objective of Merko Ehitus is to expand into new segments in existing markets. When entering new markets, the company thoroughly studies local customs and peculiarities before making final investment decisions and makes sure that the environment is sufficiently stable and a competent team is assembled.

From the investments point of view, the main risks relate to the portfolio of properties and implementation of property development projects. Merko Ehitus carries out real estate development projects as an integrated process, comprising all activities from the acquisition of the property, proceedings related to the detailed plan, handling design and construction and finally sale of finished apartments to the customer and warranty service. The group uses standard policies for implementing real estate development projects in order to ensure the use of best practices that the entire group has accumulated over years. Merko Ehitus continuously analyses its existing inventory of land with development potential to ensure that the portfolio contains a sufficient number of properties to carry out developments suitable to the market. Investments in new properties or projects of up to EUR 3 million are decided on the supervisory board level of subsidiaries, while larger projects are further approved by the supervisory board of the group.

Market risk

A significant market risk is the volatility of input prices in the construction sector that could complicate the budgeting process, completion of projects at planned costs, cause additional risks in carrying out fixed-price construction contracts and weaken projects' profitability. Therefore, the overall economic development is being closely monitored and taking excessive price risks already in the bidding phase is avoided.

The residential development is one of the main sources of market risk arising from the value of real estate for Merko Ehitus group. The real estate market has become more selective and in pre-launch risk assessment, consideration is given to such important aspects as the project's location, development volume, planning solutions and the target group. Taking into account low interest rates on loans, increased income and savings, the demand and transaction activity on the apartment market has grown. Due to the selectiveness of the real estate market, setting the right sale price for new development projects in the given region has become very important. For managing the area's price risk, price statistics collected by the group and available from other public sources is being constantly analysed.

In 2020, the COVID-19 pandemic and the related imposition of national restrictions and changes in societal behaviour were added as a significant market risk. Although it can be said that the effects of the pandemic on the construction and apartment development market remained moderate overall, they must continue to be taken into account, at least for the near future. The primary risk is the illness of both the group's and its subcontractors' employees, which, in addition to severe human consequences, may also have a direct economic impact on the group's business. It is important to reduce the risk of the spread of infection by using both work organization measures and personal protective equipment. The group has developed codes of conduct that are applied depending on the acute level of transmission of the infection in society. The pandemic and the accompanying restrictions may also affect the supply chain security. The supply of construction materials, goods and equipment may be hampered by restrictions, jeopardizing the timely completion of construction sites or making it significantly more expensive. Thus, when concluding contracts, the respective risk must already be recognized and opportunities for its mitigation provided. In addition, the uncertainty caused by the pandemic may affect both the readiness of construction service customers to make significant investments and the readiness of apartment buyers to purchase apartments. The group monitors both local and international developments of the pandemic in order to make timely adjustments to its action plans, if necessary.

Market risk that is partially related to financial risks also includes *currency risk and interest rate risk*. The analysis of these risks is provided in Note 35 of the financial statements.

Financial risk

Financial risks include risks related to adequate capitalisation level and financing, currency, interest rate and credit risk. Financial risks are managed by the accounting and finance rules, as well as audit. The group's finance department is responsible for forecasting the cash flows of Merko Ehitus, continuously monitoring various subsidiaries' cash positions and forecasts. The group has enacted a regular budgeting procedure whereby the group's annual forecasts are updated as a minimum three times per year.

The analysis on ***credit, liquidity and legal risks*** is provided in Note 35 of the financial statements.

Operational risk

Operational risks are risks caused by inadequate or ineffective processes, people, equipment, systems or external events. The main goal of operational risk management is to reduce the effect of unwanted events. In order to meet the objective, the group is developing internal processes and control systems. In order to ensure the group's high level of project management, project teams are continuously trained, business processes are improved and results are monitored.

Considering the group's field of business, it is essential in operational risk management that the improvement and application of safety standards and regulations continues and that supervision of compliance with environmental requirements is increased. One measure for managing operational risks is the implementation of quality and environmental management systems. Risks related to occupational health and safety in construction are assessed and managed in all units and process stages of the group. The largest construction companies of the group, Merko Ehitus Eesti, Merko Infra, Tallinna Teede and Latvian, Lithuanian and Norwegian subsidiaries, have implemented quality management system ISO 9001 and environmental management system ISO 14001 and health and safety management system ISO 45001 (Latvia is in the process of transition from OHSAS 18001, which has taken longer than planned due to the pandemic). All management systems are certified. The group employs 8 (2019: 8) full-time quality specialists who are responsible for developing quality, safety and management systems and ensuring their functioning.

Insurance is used as additional mitigation of operational risks, especially for risks that cannot otherwise be mitigated. The group concludes total risk insurance contracts with insurance companies in order to hedge the risk of unanticipated loss events occurring in the construction process. The general policy is entered into for one year and it compensates the customer, subcontractors and third parties for any losses caused by AS Merko Ehitus group company or its subcontractor. The risks of the projects, which the annual policy does not cover (water construction, railroad construction, bridges, etc.), are additionally mapped out and an insurance contract is concluded separately for each object taking into consideration its specifics. In concluding contracts for services involving design work, an insurance contract for professional liability is required from subcontractors or an insurance contract at own expense is concluded, covering the damage arising from design, erroneous measurement, advice and instructions. The services of insurance brokers are used in mapping out risks, concluding insurance contracts and handling loss events. In 2020, indemnity applications submitted to insurance companies totalled EUR 0.08 million (2019: EUR 0.56 million), and insurance benefits were received in the amount of EUR 0.04 million (2019: EUR 0.21 million).

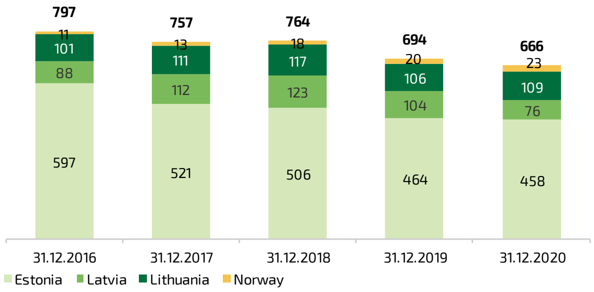
A warranty provision has been provided at the group to cover for the construction errors, which have become evident during the warranty period. In 2020, warranty provisions were set up at the group in the total amount of EUR 1.17 million (2019: EUR 1.36 million) and disbursements amounted to EUR 1.15 million (2019: EUR 1.09 million). As at the year-end, the group's warranty provision amounted to EUR 3.45 million (31.12.2019: EUR 3.50 million). With regard to work performed by subcontractors, the subcontractors are responsible for elimination of defects that became evident during the warranty period. With regard to critically significant contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank guarantees to be paid upon first demand.

EMPLOYEES

Compared to the same period last year, the number of the group's employees decreased by 28 (-4.0%) and as at 31 December 2020, the group had a total of 666 employees (including fixed-term and part-time employees).

90 people joined and 118 people left (2019: 92 people joined and 162 people left) Merko group in the financial year (including both termless and fixed-term contracts).

NO OF EMPLOYEES
people



TOTAL NUMBER OF EMPLOYEES BY EMPLOYMENT CONTRACT

	2020		2019	
Permanent contract	630	95%	642	93%
Temporary contract	36	5%	52	7%
Total	**666**	**100%**	**694**	**100%**

TOTAL NUMBER OF PERMANENT EMPLOYEES BY EMPLOYMENT TYPE

	2020		2019	
Full-time	592	94%	612	95%
Part-time	38	6%	30	5%
Total	**630**	**100%**	**642**	**100%**

TOTAL NUMBER OF EMPLOYEES BY GENDER

	2020		2019	
Male	570	86%	589	85%
Female	96	14%	105	15%
Total	**666**	**100%**	**694**	**100%**

TOTAL NUMBER OF EMPLOYEES BY GEOGRAPHICAL LOCATION

	2020		2019	
Estonia	458	67%	464	67%
Latvia	76	15%	104	15%
Lithuania	109	15%	106	15%
Norway	23	3%	20	3%
Total	**666**	**100%**	**694**	**100%**

TOTAL NUMBER OF EMPLOYEES BY EMPLOYMENT POSITION

	2020		2019	
Management	16	2%	17	2%
Middle management, specialists	421	63%	448	65%
Workers	229	35%	229	33%
Total	**666**	**100%**	**694**	**100%**

THE LARGEST TAXPAYER IN THE FIELD

Merko's key value lies in professionals with long-term and versatile experience in their respective fields, for whom the company wants to be a stable and developing employer, and whose work we reward fairly.

The group's Estonian construction company, AS Merko Ehitus Eesti, employed over 400 people in 2020, and was the largest payer of taxes and labour taxes in the Estonian construction sector for the third year in a row. In 2020, the companies belonging to the AS Merko Ehitus Eesti group paid state taxes of almost EUR 21.6 million and labour taxes of EUR 10.2 million.

PERSONNEL POLICY

The group's personnel policy supports the achievement of Merko's goals by ensuring the continuity of the organization and management, maintaining common values and the presence of competent employees. Merko's success is based on cooperation between professionals with long-term experience in their field and the top young performers of the future. The wisdom and experience passed on from colleague to colleague will ensure that our existing strengths continue, and that new and innovative practices are adopted.

The group develops responsible management based on its business strategy in accordance with management system agreements, ethical beliefs, good corporate governance practices, and legislation. We support the achievement of our people's work goals by helping new employees to settle into the organization, offering mentoring from more experienced colleagues, in-house trainings enabling learning through experience, and the necessary competence and in-service training. We value long-term and permanent employment relationships. We ensure a supportive work environment, a fair and competitive salary commensurate with the employee's contribution, and in the case of an additional motivation package, we focus on highlighting healthy lifestyles and family values.

Merko provides excellent conditions for an employee's professional development and career opportunities, both for vertical movement within their respective field and for choosing a new position between the group's units or areas of activity. We support learning, the exchanging of professional knowledge and experiences, and the improvement of employees' competences and professional skills. In order to assess employee satisfaction and collect feedback, we regularly conduct development interviews and satisfaction surveys.

THE NUMBER OF EMPLOYEES WHO RECEIVED AN ANNUAL PERFORMANCE REVIEW

	2020		2019	
Estonia	150	33%	150	32%
Latvia	15	20%	72	69%
Lithuania	109	100%	99	93%
Norway	-	-	-	-
Total	**274**	**41%**	**321**	**46%**

In 2020, the Latvian company SIA Merks conducted an employee satisfaction survey, in which 50 out of 76 employees participated. The results of the survey confirmed that employees have clear information about their role and the expectations set for them and that they have the prerequisites necessary for achieving their goals. Employees value their managers highly and are satisfied with their performance; however, they would like to receive more and direct feedback on their work and for improving their professionalism.

In 2020, the number of new grievances about labour practices against Merko group amounted to 0 (2019: none), the number of grievances (both from current and previous years) addressed was 0 (2019: none) and the number of grievances (both from current and previous years) resolved was 0 (2019: none).

MERKO'S FUTURE PLAYERS

In 2020, Merko Ehitus had ten young interns in Estonia: six from TalTech, three from Tallinn University of Applied Sciences, and one from Tallinn School of Construction.

For those young apprentices who reached the end of their internship, we organized Movers and Shakers Day, where they were introduced to different objects and the young people were in turn able to introduce what they experienced during the internship to their peers. Merko continues to be a valued employer among students – three fine future talents out of last year's group of trainees remained with us – and in the 2020 Attractive Employers Survey, Merko placed second in terms of technology.

In 2020, there was one student with an internship studying human resource management at the group's Latvian company Merks.

HEALTH AND SAFETY

A safe working environment in the group's companies is a clear priority when it comes to preventing accidents at work and damage to health. In order to ensure the long-term work ability and well-being of personnel, we provide our employees with all of the necessary work and personal protective equipment and organize training and in-service training in occupational health and safety. In order to prevent health problems, plan a safer work environment and implement health rehabilitation measures (e.g. therapeutic massages), we periodically conduct health checks in cooperation with our health care partners, the content and frequency of which are based on the nature of the risk factors of a particular person's work.

In addition, in order to mitigate health risks, we offer employees the opportunity to be vaccinated at the employer's expense and, from 2020, to take COVID-19 tests. The provision of flexible working conditions has become particularly important since 2020, when working part-time or in a home office has proved to be an important measure to counter the spread of the coronavirus. We offer additional winter leave to more senior employees and maintain employees' salaries during national defence training exercises.

Activities prescribed by law in the field of occupational health and safety, which are supplemented by the enforcement provided for in the occupational health and safety management system, are ensured within the group's construction companies. In 2019, the group's Estonian and Lithuanian construction companies were certified according to the new occupational health and safety standard ISO 45001. The Latvian company is transitioning from the OHSAS 18001 standard to the ISO 45001 standard.

The hard work of the construction industry is balanced out by what is done for the personal life and healthy lifestyles of the employees. In order to promote recreational fitness and maintain the ability to work, we are popularising healthy lifestyles, reimbursing the sports and health expenses of employees and participating in sports competitions together. In the year of corona, we encouraged increased movement in the fresh air and the use of health trails that have been supported by Merko for more than 15 years across Estonia.

79% of Merko Ehitus group's employees worked in companies with an international health and safety certificate ISO 45001/OHSAS 18001 in 2020 (2019: 79%).

PRIORITISING OCCUPATIONAL SAFETY

In 2020, an important step was taken to raise awareness regarding the importance of occupational safety issues. Within the Estonian internal communication of Merko Ehitus, employees are informed of all incidents and accidents occurring at Merko's facilities so that it is possible to learn from them in order to prevent future events.

The mapping of near miss events, i.e. the mapping of dangerous situations that could have ended in an accident under certain conditions, was also started. In this way, we hope to change behavioural habits that could potentially result in an accident at work. To reduce health risks in hazardous situations, on construction sites we only use safety helmets equipped with a chin strap attached to a three or four-point connection.

In accordance with the GRI guidelines, the rates of injury, occupational diseases, lost days, and absenteeism presented below are related to the number of employees, not the number of hours worked. The factor 200,000 is derived from 50 working weeks at 40 hours per week, per 100 employees.

TOTAL NUMBER AND RATES OF INJURIES, OCCUPATIONAL ILLNESSES, LOST AND ABSENTEE DAYS AND FATALITIES

	2020	2019	2018
Total number of injuries/accidents excluding minor (first-aid level) injuries/accidents	9	3	7
Total number of occupational illnesses	0	0	0
Total number of lost days due to occupational injuries/accidents or illnesses	368	138	406
Total number of absentee days	5,757	4,451	7,324
Total number of fatalities *	0	0	0
Injury rate (per 100 employees)	1.5	0.5	1.0
Occupational diseases rate (per 100 employees)	0.0	0.0	0.0
Lost days rate (per 100 employees)	61.6	21.6	60.7
Absentee rate per year (%)	3.9	2.8	4.4

Calculation of ratios is provided on page 108 of the report.

** In 2020, there were no work-related accident, which resulted in injury to an employee of a subcontractor to which Merko group companies are liable for the general safety of the working environment (2019: 1; 2018: 3) and were no fatal accidents to such employees (2019: 0; 2018: 0).*

COVID-19 RISK MANAGEMENT

The unexpected pandemic and health crisis required a rapid response. We have established strict rules at all of the company's locations to protect the health of our employees and ensure their ability to continue working. Other construction companies followed the example of Merko's corona prevention action plan, and the group's Latvian, Lithuanian and Norwegian subsidiaries also followed the risk scenario measures developed by Merko Ehitus in Estonia. Decentralization of work, the introduction of a system of parallel teams, the implementation of maximum teleworking and remote communication, careful wearing of masks and disinfection in case of unavoidable contacts as well as additional needs-based testing organised by the employer ensured that work on construction sites was not interrupted and deadlines promised to client for objects did not suffer.

ORGANIZATIONAL AND HUMAN DEVELOPMENT

Merko's greatest value is its people, and one key pillar of the company's success is the professionalism of its employees. The goal of the company's training and development activities is to support the comprehensive development of employees, strengthen teams, and share experiences. Alongside their work, we recognize the acquisition of additional education, competences and professions by employees.

The main keyword for in-house trainings in 2020 was the digital learning environment. We quickly adapted to a situation where the opportunities for physical meetings were limited and took our internal trainings to the MS Teams environment. Training programmes saw a higher level of participation than before due to the fact that people did not have to leave the site for online learning and the trainings could also be viewed later. Nearly 40 people participated in each of the lectures in Merko Ehitus Estonia's trainings.

In 2020, study and development activities were consolidated within the group's Estonian subsidiary under the name Merko Master Class. The aim is to support the achievement of the company's strategic goals, to coordinate the learning and development activities of various target groups and to comprehensively support new employees and young talent.

Merko Ehitus Estonia also holds a series of in-house trainings, which address topics that have arisen at construction sites, where experiences are shared and an overview of the necessary norms and standards in the field is provided. An additional goal of in-house training is to support the social development of employees while enhancing teamwork, with the topics of self-development, the broadening of horizons and mental health also being covered during trainings. The series of in-house trainings has been approved by the Estonian Association of Civil Engineers, which is why completing the trainings also gives refresher training points.

In situations where construction is an area of activity with an above-average risk of accidents at work, the high quality of occupational health and safety knowledge is very important. Those responsible for the field or employees who are more closely involved with this topic through their work (first responders, firefighters, line riggers, etc.) must complete regular occupational health and safety training.

With the goal of contributing to professional young talent in the construction industry, we are supporting academic learning by sharing practical experience and knowledge. We organize excursions and workdays for young people, present lectures in schools, participate in student events, offer practical work experience and award scholarships in our own name.

VALUING EMPLOYEES

Merko's offer as an employer is based on three pillars. We give our people work that they are prepared for and interested in, and that offers them opportunities for development. We provide our employees with fair remuneration, taking into account the contribution they have made to the company achieving its goals. We acknowledge that the agreed upon goals have been achieved and exceeded.

It is customary at Merko to remember important events in the personal lives of employees – birthdays, graduation, marriage, the birth of a child, the first day of school, and so on. As an evaluator of family values, we organise joint events for employees as well as their companions and families. We offer more senior employees extra benefits in the form of additional leave and recognize them with a badge of distinction. We greatly appreciate teamwork and a strong team spirit; each year, the employees select their most outstanding colleagues and the 'Herculean task of the year' for recognition.

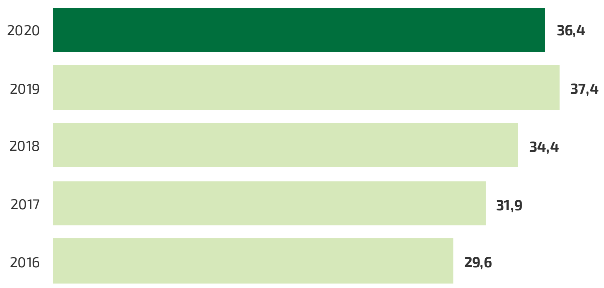
REMUNERATION

The group's objective is to pay its employees a competitive salary. In addition to basic remuneration, performance-based remuneration is paid.

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 2020, the labour cost was EUR 36.4 million (2019: EUR 37.4 million), down 2.6% from the previous year.

Benefits that are standard for full-time employees and not offered to part-time employees are not separately disclosed in Merko group companies, except with regard to part-time employees employed under a contract for a specified term, who are not entitled to all of the benefits offered to group employees.

LABOUR COST
in million euros



ETHICAL BUSINESS PRACTICES

Merko's core values include doing ethical business, as this helps to achieve profitable growth, maintain the trust of stakeholders, and support fair competition and equal treatment. AS Merko Ehitus group does not tolerate corruption in any form. All employees of the group must proceed from ethical principles in everything that they do.

In order to facilitate this, the group has enacted a Code of Business Ethics, which all Merko group employees are obliged to read and adhere to. The topic of business ethics has been thoroughly covered on the group's website https://group.merko.ee/en/corporate-responsibility/.

All employees, partners and customers can report clear or potential unethical conduct via various anonymous channels, of which the website provides an overview: https://group.merko.ee/en/corporate-responsibility/reporting-channels/. The reporting and information analysis system implemented in AS Merko Ehitus ensures security, confidentiality and, if so desired, anonymity at every stage of the process. Each reported misconduct will be investigated by an independent cooperation partner – AS Merko Ehitus's contractual cooperation partner Ernst & Young – and will lead to appropriate action. In 2020, the group did not receive any hints (2019: 1 hint received for which no internal investigation was initiated).

In addition, key persons at Merko Ehitus are obliged to file a declaration of personal interests that covers data on holdings in companies, positions held on management bodies of companies and other legal persons, membership of professional organisations, information on valid registrations of economic activities and other data that might indicate a possible conflict of interest. In 2020, no conflict of interest cases of key persons were identified by the group.

ENVIRONMENT

The Merko group's construction companies shape urban space and landscapes through their activities. The main environmental factor in the construction sector is the construction waste generated on site. Therefore, dealing with environmental aspects is a high priority for us, we take care of the efficiency of waste management and organize the sorting of waste by type on our construction sites. Construction waste from Merko's sites is handed over to a handler with a waste permit, and we keep systematic records on the waste that is generated at our construction sites.

Merko's environmental goals are the sustainable use of resources (materials, fuel, energy, and water), the reduction of waste generation and the recycling of materials. To achieve all of the above, we promote awareness among our employees and cooperation partners regarding the environment as a whole, and are leaders in the construction sector in Estonia when it comes to shaping the principles of the circular economy for construction waste.

ENVIRONMENTAL PROTECTION OBJECTS

We will continue to build objects that improve the quality of life and are environmentally sustainable. In 2020, the public water supply and sewerage works in Vilivere Village and the Metsanurme, Kasemetsa and Üksnurme areas, which ensure clean drinking water and reduce the pollution load of the Keila River, were completed.

In 2021, the construction of a public water supply and sewerage system in the small town of Aespa, and the City of Võru, will keep Estonian rivers, and thus the Baltic Sea, clean. The completion of critical infrastructure projects will ensure that thousands of families across Estonia are given the possibility to use clean drinking water and public sewerage systems.

SOCIAL RESPONSIBILITY

In doing so the group affects the well-being of its employees, customers and partners, as well as local communities, the environment and society. We take responsibility for the impact of our decisions and actions.

In 2020, Merko Ehitus continued long-term cooperation projects in existing areas of support:

- sports and recreational fitness projects that contribute to the promotion of sports and exercise, and to the creation of opportunities for active recreation;
- cooperation in the field of education, primarily with a view to developing professions, in particular in the field of construction, and to raising the next generation of professional young talent;
- preservation and presentation of cultural and artistic heritage, focusing on objects of national and wider attraction.

In the financial year, the group supported sports, education and culture with donations amounting to a total of EUR 0.14 million (2019: EUR 0.15 million).

SPORTS AND RECREATIONAL FITNESS

Merko's largest support project is the Estonian Health Trails Foundation (terviserajad.ee), launched in 2005 in cooperation with Swedbank and Eesti Energia, the aim of which is to provide as many Estonians as possible with the opportunity to move about freely and year-round in the fresh air and nature, and to promote healthy lifestyles. It is the vision of the Estonian Health Trails Foundation to increase the number of healthy years lived by the Estonian people.

A total of 118 health trails have been built in nature all across Estonia, which are visited an estimated six million times each year. In total, there are 1100 kilometres of health trails that are accessible year-round, which are maintained by a team of nearly 200 trail masters, either as a volunteer or in cooperation with the local government. Trail maps and trail markings, stretching walls, weather sensors and motion sensors are installed along the trails to collect visiting statistics. The trails with the largest user base are located in Tallinn and the surrounding vicinity, where the main project in the coming years is to connect the existing health trails via cycle and pedestrian tracks. Upon completion of the project, it will be possible to walk around Tallinn comfortably and safely on the health trails. The Foundation regularly organizes seminars and trainings for trail masters, creates Estonian and Russian language educational and other types of videos encouraging movement, and has built more than 80 indoor health trails in various buildings, where more than 70,000 people move about each day.

With the support of its three founders, Eesti Terviserajad Foundation has invested EUR 5.1 million in the development of health trails over the past 15 years, with the total investment amounting to nearly EUR 50 million, including state and local government investments and grants from the European Union. During the period 2019–2022, the focus will be on increasing the artificial snow production capacity of regional recreational fitness centres, within the framework of which a total of EUR 4.8 million will be invested in 24 trails in cooperation with state and local governments.

15 YEARS OF HEALTH TRAILS

Over a period of 15 years, the Estonian Health Trails Foundation has achieved a significant role in shaping and popularizing people's exercise habits, and the goal is to further increase the number of new health trail users. To this end, continuous trail development and active communication will be continued. Cycling paths and parks, low altitude adventure parks, toboggan runs and Christmas campuses will be created along the trails to encourage children and young people to participate in recreational exercise. It is the vision of Estonian Health Trails to increase the number of healthy years lived by the Estonian people, and to achieve this goal, everyone, regardless of age, should find at least half an hour a day to exercise in the fresh air.

Merko continued to support professional sports in 2020, contributing to adult professional tennis and the organisation of international tournaments as a gold sponsor for the Estonian Tennis Association, and supporting the high-level Merko/Merks Cup tennis tournament held in Tallinn. In Latvia, Merks supported cross-country skier Patrīcija Eiduka, while Merko Lithuania supported the Ice Hockey Federation, Motoclub Vytis and the swift football academy Balsiai Geležinis. In Lithuania, Merko also participated in an initiative by the Lithuanian Real Estate Development Association, in the framework of which the necessary personal protective equipment for the prevention of the COVID-19 virus was acquired for medical personnel.

MERKO/MERKS CUP

In 2020, we delighted tennis fans with a high-level tournament. The Merko/Merks Cup, or Estonian-Latvian tennis competition, which took place on 29 and 30 July, at the Tondi Tennis Centre, in Tallinn, brought the best women's and men's tennis players from two countries to the courts, including four of the world's top 100 players.

In a total of 11 games, Anett Kontaveit, Kaia Kanepi, Jürgen Zopp and Vladimir Ivanov, from Estonia, and Jelena Ostapenko, Anasstasija Sevastova, Ernests Gulbis and Karlis Ozolins, from Latvia, played in front of packed stands. Thanks to a victory in the last game of the tournament, i.e. mixed doubles, the competition ended with Estonia winning the competition between countries.

PATRICIA EIDUKA

In 2020, Merks continued to support Latvian cross-country skier Patrīcija Eiduka, who was the only Latvian skier to participate in the 2018 Winter Olympics, in Pyeongchang, South Korea. She has also successfully competed in the 2016 Winter Youth Olympic Games, the 2017 World Ski Championships and the 2018 Junior World Championships.

In 2020, Patricia made Latvian skiing history, both in the MK stages and in the Tour de Ski competition.

CULTURE AND EDUCATION

In the field of culture, Merko values artistic heritage and supports the creation of opportunities to introduce different cultures and arts. We have been working closely with the Estonian Art Museum since 2005, and in 2020 we launched a new cooperation project in which Merko is participating as both a substantive consultant and supporter. In this way, we are helping to realize the long-term dream of the Estonian Art Museum to install a tower lift in St. Nicholas' Church, which would allow all museum visitors, including people with special mobility needs, to enjoy the beautiful view of the city.

LIGHTING IN TALLINN'S OLD TOWN

Merko designed and built modern facade lighting for the walls and towers of Tallinn's Old Town. In the course of the project, financed by Kapitel, almost 40 objects – including Fat Margaret Tower, Patkuli stairway, Kiek in de Kök, and Tall Hermann – received new lighting, with almost 600 LED lights being installed. The City of Tallinn takes care of the operation of the lighting, the maintenance and repair of equipment and information stands, and the supply of electricity.

All those who are interested are welcome to come and discover the light paths designed from the objects, which everyone can discover at their convenience with the help of a map application and an audio guide. See more – vaatavanalinna.ee.

Merko supports the field of education with the aim of developing professional education and raising young talent by working closely with TalTech and the Estonian Academy of Arts. Since 2007, we have recognized engineering students and young lecturers at TalTech with scholarships to help ensure the future growth of the construction industry and to help instructors provide better construction education to future master builders.

In the TalTech 2020 Development Fund scholarship competition, Merko's young lecturer scholarship was awarded to young researcher Simo Ilomets, whose contribution to the development of modern and innovative building physics is highly valued. Simo brings together the wisdom of the best specialists in Europe, conducts important research, trains Estonian civil engineers, and consults on many different projects. His true calling is to lead the development of the field of construction physics in the teaching and research work of TalTech. Karl Treial, a third-year student of building design and construction management, was awarded the student scholarship. His positive attitude, good communication, quick adaptation and ability to find a solution to every problem is exactly what we value at Merko.

In Latvia, Merks supported the BIM conference and the campaign by the Latvian Building Design and Construction Council to promote construction education, which allows both students at institutions of higher education and secondary schools to meet with construction professionals and get acquainted with their daily work.

RECOGNITIONS 2020

We highlight successful works in order to provide them with increased visibility and together feel pride in the professional achievements of our colleagues. In 2020, the following projects and capable colleagues were entered in the best competitions in the field.

RECOGNITION OF OBJECTS

- The Estonian Cultural Endowment's architectural endowment and the following creative unions, the Estonian Association of Architects, the Estonian Association of Interior Architects and the Estonian Landscape Architects' Union, issued architectural awards. The winner of the annual award in the courtyard category of the Estonian Landscape Architects' Union in 2020 was the courtyard in the residential area of the Merko Uus-Veerenni apartment development project. The Day Park, built next to the apartment buildings of Tähepargi, was nominated for the annual award in the courtyard category of the Estonian Landscape Architects' Union.
- The Kiini 110/20 kV substation was awarded the title of best Elektrilevi construction site in 2019 in the category of regional construction sites and distribution substations.
- Noblessner Home Port, developed in cooperation with the BLRT group, won the award for the best urban space renewal project at the Baltic Real Estate Awards 2020. The apartment buildings in Tartu Tähepargi were recognized with the title of Tartu's Best Building of the Year 2019.
- The concert hall and music school in Ventspils placed first in three important competitions: In the competition 'Latvia's Best Building 2019', organized by the Latvian Builders Association in the category of new public buildings; 'Sustainability in Architecture, Construction and Design 2020' in the category of the most sustainable building; and 'Latvia's most energy efficient building in 2020' in the category of most energy efficient public buildings.
- The multifunctional centre Akropole placed first in the competition 'Best Building of the Year in Latvia 2019' in the BIM project category, and placed third in the category of new public buildings; in addition, the project placed first in the '(Latvian Construction) Annual Awards 2019' in the new public buildings' category.
- Alfa Shopping Centre placed first in the competition 'The Best Building in Latvia 2019' organized by the Latvian Builders Association in the category of reconstruction projects.
- The apartment development project Merks Gaiļezera nami placed third in the category of most energy efficient apartment buildings in 'The Most Energy Efficient Building in Latvia 2020' competition.
- The Merks Viesturdārzs residential project won the Grand Jury Prize in the 'Latvian Architecture Award 2020' competition.

EMPLOYEE RECOGNITIONS

- Alan Väli, model project design manager at AS Merko Ehitus Eesti, took home first place in the Estonian Association of Civil Engineers' competition 'Young Civil Engineer of the Year 2020'. Organised for the first time in 2020, the main goal of the competition is to recognize the work of younger civil engineers and thereby promote the profession of civil engineering. As the model project design manager at Merko, Alan heads a two-member team that contributes to the completion of all of Merko's objects. He also trains his colleagues in the field of model design, speaks at conferences, participates in Merko's progeny projects and has supervised master's theses on model design at TalTech.
- Steve Sulev, Estonian electricity sector project manager at AS Merko Ehitus Eesti, won the competition 'Electrical Power Engineer of the Year 2020' organized by the Estonian Society for Electrical Power Engineering, earning recognition for the successful design and construction management of several important objects.
- SIA Merks project managers Roberts Rēboks and Jānis Zilgme took home the title of project manager of the year in the category of civil engineer and architect of the year in the 'Latvian Construction Industry Grand Prix 2020' competition, organized by the Latvian Association of Civil Engineers.

COMPANY RECOGNITIONS

- In the 'Most Competitive Companies' competition, organized by the Estonian Chamber of Commerce and Industry, AS Merko Ehitus was recognised as the most competitive construction company in Estonia for the fourteenth time.
- In 2020, Kantar Emor's annual survey of real estate brands confirmed that Merko continues to be the most reputable real estate developer in Estonia. According to the same survey, Merko was also the best-known and most reputable real estate developer in 2019.
- The employer branding agency Instar conducted a survey on job expectations and employer reputation. More than 6100 students from institutions of higher education and vocational educational institutions, and people with work experience, assessed the attractiveness of 228 Estonian organizations. Merko ranked 81st in the summary table of Estonia's largest and most important employers and second among engineering students.
- The job portal CVKeskus.ee identified the most desirable employers in Estonia over the last decade. A total of 35 different organizations reached the standings. Merko ranked 28th, being the only employer in the construction and real estate sector to have reached the ranks of the most beloved employers of the past decade.

SHARE AND SHAREHOLDERS

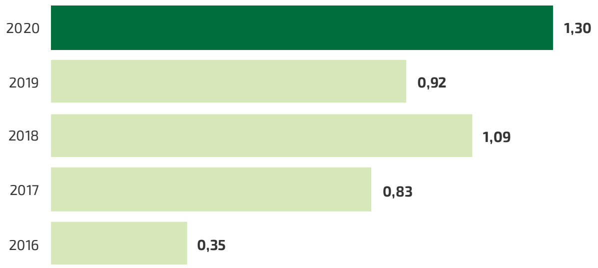
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As at 31 December 2020, the company has 17,700,000 shares. The number of shares did not change during 2020.

In 2020, 22,033 transactions were conducted with the shares of Merko Ehitus in the course of which 1.62 million shares were traded (9.2% of shares outstanding), with the total monetary value of transactions at EUR 14.0 million (comparative data for 2019: 8,558 transactions, in the course of which 2.23 million shares were traded (12.6% of shares outstanding) and the total monetary value of transactions was EUR 21.3 million). The lowest share price was EUR 6.56, and the highest share price was EUR 10.60 (2019: EUR 8.74 and EUR 10.30 respectively). The closing price of the share as at 31 December 2020 was EUR 9.46 (31.12.2019: EUR 9.38). As at 31 December 2020, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 167.4 million, up 0.9% compared to the end of the equivalent period in the prior year (31.12.2019: EUR 166.0 million).

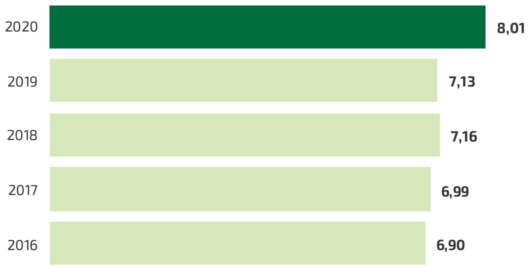
INFORMATION ON SECURITY

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

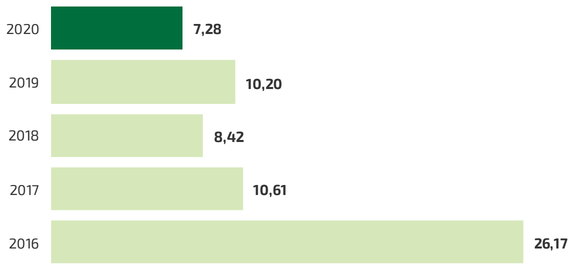
EARNINGS PER SHARE(EPS)
euros



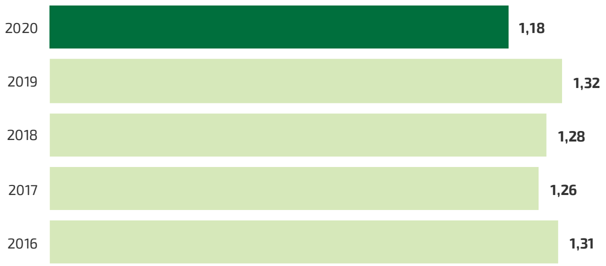
EQUITY PER SHARE
euros



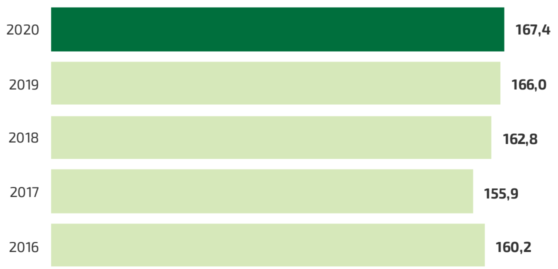
P/E RATIO
times



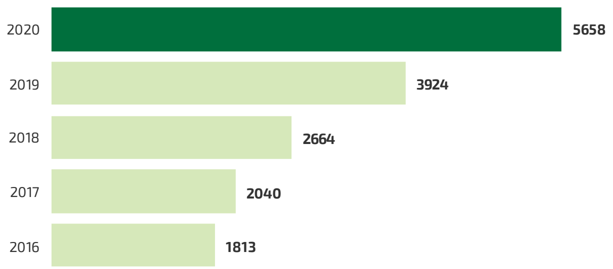
P/B RATIO
times



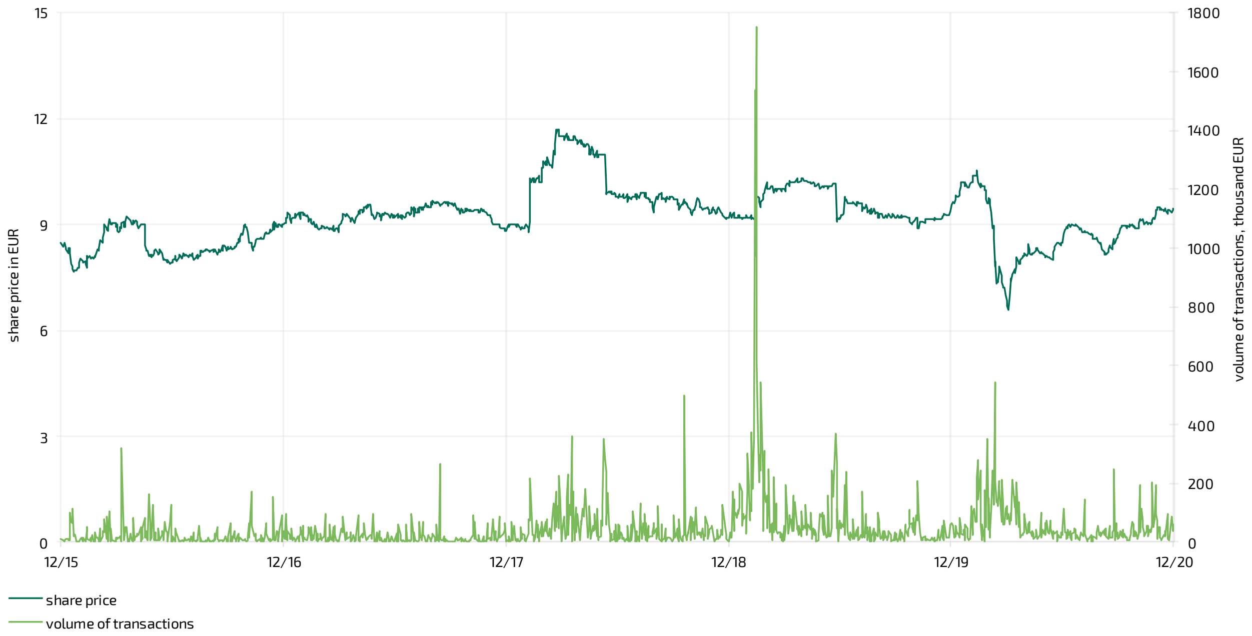
MARKET VALUE
in million euros



NUMBER OF SHAREHOLDERS AT YEAR-END
pcs



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



TRADING HISTORY OF SECURITY, IN EUROS

	2020	2019	2018
Highest	10.60	10.30	11.80
Lowest	6.56	8.74	8.70
Average	8.80	9.55	10.02
Closing as at 31.12	9.46	9.38	9.20
Change as at 31.12, %	+0.85	+2.00	+4.43
Traded shares, pcs	1,623,435	2,231,912	1,178,232
Turnover, million EUR	13.97	21.31	12.16
Market value as at 31.12, million EUR	167.4	166.0	162.8

STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.12.2020

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1 000 001 - …	1	0.02%	12,742,686	71.99%
100 001 – 1 000 000	8	0.14%	1,475,020	8.33%
10 001 – 100 000	47	0.83%	1,113,273	6.29%
1001-10 000	506	8.94%	1,465,675	8.28%
101-1000	2,168	38.32%	795,129	4.49%
1-100	2,928	51.75%	108,217	0.62%
Total	**5,658**	**100%**	**17,700,000**	**100%**

STRUCTURE OF SHAREHOLDERS ACCORDING TO HOLDER CATEGORIES AS AT 31.12.2020

CATEGORY	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
Insurance corporations	1	0.02%	148,787	0.84%
Non-profit institutions serving households	1	0.02%	2,500	0.01%
Pension funds	1	0.02%	16,908	0.10%
Foreign controlled non-financial corporations	2	0.04%	4,498	0.03%
Public non-financial corporations	2	0.04%	5,815	0.03%
Non-MMF investment funds	3	0.05%	605,088	3.42%
Financial auxiliaries	6	0.10%	216,100	1.22%
Deposit-taking corporations except the central bank	20	0.35%	405,821	2.29%
Captive financial institutions and money lenders	23	0.41%	99,233	0.56%
Other financial intermediaries	26	0.46%	594,448	3.36%
National private non-financial corporations	510	9.01%	13,419,316	75.82%
Households	5,063	89.48%	2,181,486	12.32%
Total	**5,658**	**100%**	**17,700,000**	**100%**

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2020

Index/share	31.12.2019	31.12.2020	+/-%
MRK1T	9,38 EUR	9,46 EUR	↑0,85%
OMX Tallinn	1279,70	1343,72	↑5,00%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.12.2020 AND CHANGE COMPARED TO THE PREVIOUS YEAR

	NUMBER OF SHARES	% OF TOTAL 31.12.2020	% OF TOTAL 31.12.2019	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	330,000	1.87%	1.67%	33,900
Firebird Republics Fund Ltd	323,300	1.83%	1.86%	(6,302)
Firebird Avrora Fund Ltd	178,067	1.01%	1.07%	(10,860)
Skandinaviska Enskilda Banken AB, Swedish customers	153,333	0.87%	0.92%	(8,105)
SEB Life and Pension Baltic SE Estonian Branch	148,787	0.84%	0.84%	-
Siseinfo OÜ	125,871	0.71%	0.65%	10,871
Clearstream Banking AG	111,941	0.63%	0.61%	3,713
Firebird Fund L.P.	103,721	0.58%	0.65%	(10,864)
Seitse Samuraid OÜ	100,000	0.56%	0.53%	5,000
Total largest shareholders	**14,317,706**	**80.89%**	**80.79%**	**17,353**
Total other shareholders	3,382,294	19.11%	19.21%	(17,353)
Total	**17,700,000**	**100%**	**100%**	**-**

DIVIDENDS AND DIVIDEND POLICY

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

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

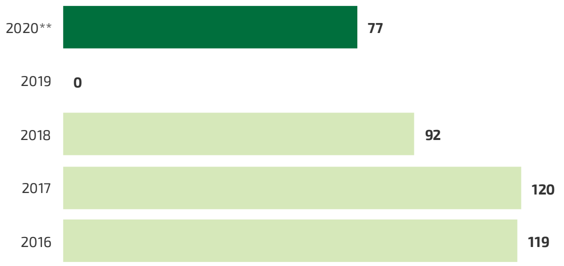
According to the Estonian Income Tax Law subsection 50 (11), AS Merko Ehitus can pay dividends, without any additional income tax expense and liabilities occurring, up to the amount it has received dividends from subsidiaries, which are resident companies of a Contracting State of the European Economic Area (EEA) Agreement subject to that state's income tax legislation. The annual general meeting of shareholders of AS Merko Ehitus held at 6 May 2020 approved the Supervisory Board's proposal not to pay dividends from net profit brought forward to shareholders. In 2019 the total amount of dividend paid was EUR 17.7 million (EUR 1.00 per share), which is equivalent to a 92% dividend rate and a 10.9% dividend yield for the year 2018 (using the share price as at 31 December 2018).

While the group did not incur income tax expenses arising in connection with disbursement of dividends in Estonia in 2018 and 2020, it did incur these in 2019 in the case of EUR 10.3 million of paid dividends. Due to that, in 2021, the group will apply the 14/86 income tax rate on regularly payable dividends on one third of the EUR 10.3 million, i.e. EUR 3.4 million of the possible (net) dividends paid. The group will withhold additional 7% income tax from dividends paid to shareholders that are natural persons and on which the 14/86 income tax rate has been applied.

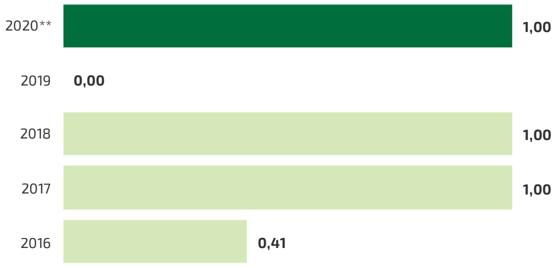
The Management Board proposes to pay the shareholders EUR 17.7 million as dividends from net profits brought forward (EUR 1.00 per share) in 2021, which is equivalent to a 77% dividend rate and a 10.6% dividend yield for the year 2020 (using the share price as at 31 December 2020). The decision to pay dividends shall be taken by the general meeting of shareholders.

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

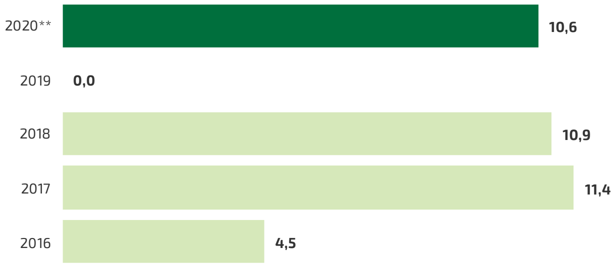
DIVIDEND RATE
percentages



DIVIDEND PER SHARE
euro



DIVIDEND YIELD *
percentages



** Using share price as at 31.12.*
*** 2020 figures based on Management Board proposal regarding dividend payment.*

Dividend payments are carried out in the next fiscal year in accordance with the decisions of the general meeting of the shareholders, regarding the previous fiscal year.

CORPORATE GOVERNANCE RECOMMENDATIONS REPORT

CORPORATE GOVERNANCE AND STRUCTURE

Adherence to the principles of Corporate Governance Recommendations is part of the management of AS Merko Ehitus. Generally, this system is regulated by relevant legislation, the company's articles of association and the company's internal policies. Starting from 1 January 2006, issuers of shares listed on the Nasdaq Tallinn Stock Exchange are recommended to adhere to the principles of Corporate Governance Recommendations approved by the Financial Supervisory Authority that covers good practices of enterprise management and treatment of shareholders. AS Merko Ehitus has followed these principles throughout 2020.

AS Merko Ehitus is dedicated to following high standards of corporate governance, for the implementation of which the Management Board and the Supervisory Board are responsible to shareholders. Our objective is to be transparent in our economic activity, in disclosing information and in relations with shareholders.

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

The main activity of the holding company is development and implementation of the strategies of Merko Ehitus group's separate business areas primarily through long-term planning of resources. The holding company AS Merko Ehitus has a two-member Management Board: Andres Trink and Tõnu Toomik.

It is important to maintain a simple organisational structure in the group, and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum efficiency in group management, we in some cases differentiate the management structure and legal structure. The group's management is carried out on a country basis. The group's country and business area detailed management structure as at 31 December 2020 is the following:

As at 31 December 2020, the group comprises of 31 companies (31.12.2019: 33). The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 19 and 20 of the financial statements.

GENERAL MEETING OF SHAREHOLDERS

The Company's highest governing body is the General Meeting of Shareholders, the authorities of which are regulated by legislation and the articles of association of the Company. The general meeting of shareholders decides, among others, amendments to the articles of association, the appointment and recall of members of the Supervisory Board, appointment of the auditor, approval of the results of the financial year and the payment of dividends. In amending the articles of association, the general meeting of shareholders follows the regulation as per the Estonian Commercial Code. A resolution on amendment of the articles of association shall be adopted if at least two-thirds of the votes represented at a general meeting are in favour. The annual general meeting of shareholders is held at least once a year and shall approve the annual report within six months of the end of the financial year.

The annual general meeting of shareholders was held on 6 May 2020. In order to minimize the number of participants in the physical meeting during the novel coronavirus caused COVID-19 pandemic situation, the management board enabled shareholders to vote on the draft resolutions prepared in respect to the items on the agenda of the general meeting using electronic means prior to the general meeting. The general meeting resolved to approve the annual report and the profit allocation proposal for 2019. It was decided not to pay dividends to shareholders for 2019.

In addition it was decided that the Supervisory Board will have three members who will be elected for the term of next three years, and the terms of office of current members of the Supervisory Board, Toomas Annus, Teet Roopalu and Indrek Neivelt, were extended until 6 May 2023, i.e. for a period of three years from the moment of deciding the extension. There were no changes in remuneration of members of the Supervisory Board and it was decided that the remuneration will continue based on terms and conditions approved at a special general meeting of shareholders, held on 31 October 2008.

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

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

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

Annual and extraordinary general meeting of shareholders shall be chaired by an independent person. In 2020, 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 group's activities.

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

The annual general meeting of shareholders of AS Merko Ehitus held in 2020 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board) and Priit Roosimägi (Head of Group Finance Unit).

The group is not aware of any agreements between its shareholders on the coordination of exercising the shareholders' rights.

SUPERVISORY BOARD

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

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

As at 31 December 2020, the Supervisory Board of AS Merko Ehitus had three members. At the annual general meeting of shareholders held at 6 May 2020 the Supervisory Board members' terms of office were approved until 6 May 2023.

Toomas Annus
Chairman of the Supervisory Board

Positions held:

2011-…	AS Merko Ehitus, Chairman of the Supervisory Board
2014-…	AS Kapitel (AS E.L.L. Kinnisvara until 2017), Chairman of the Supervisory Board
2009-2014	AS E.L.L. Kinnisvara, Member of the Management Board
2008-…	Järvevana OÜ, Member of the Management Board
1999-2009	AS E.L.L. Kinnisvara, Chairman of the Supervisory Board
1997-2008	AS Merko Ehitus, Chairman of the Supervisory Board
1996-…	AS Riverito, Chairman of the Management Board
1991-1996	AS EKE Merko, Chairman of the Management Board
1989-1991	EKE MRK, director of the company

Education:

Tallinn University of Technology, industrial and civil engineering
Tallinn Technical School of Building and Mechanics, industrial and civil engineering

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

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

Teet Roopalu

Member of the Supervisory Board

Positions held:

2004-… AS Merko Ehitus, Member of the Supervisory Board
2010-… AS Riverito, Member of the Management Board
2003-… AS Kapitel (AS E.L.L. Kinnisvara until 2017), Member of the Supervisory Board
2015-… Järvevana OÜ, Member of the Management Board
2002-2004 AS Merko Ehitus, Adviser to the Management Board

Has worked for different construction companies, including as a director of finance. Has been in charge of economic activities in the EKE system as a chief economist; worked as a bank director; and has also worked in building design.

Member of Supervisory Boards of group subsidiaries.

Education:

Tallinn University of Technology, construction economics and organisation

Number of shares: -

Indrek Neivelt

Member of the Supervisory Board

Positions held:

2008-… AS Merko Ehitus, Member of the Supervisory Board
2020-… OÜ Respiray, Chairman of the Management Board
2018-… AS Pocopay, Member of the Supervisory Board
2015-2018 AS Pocopay, Member of the Management Board
2016-… OÜ Poco Holding, Member of the Management Board

Has held various executive positions in Hansapank (now Swedbank), incl. Director General of the Group, Chairman of the Management Board and also in Bank Saint Petersburg as the Chairman of the Supervisory Board.

Belongs to Supervisory Boards of various companies**.**

Education:

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

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

According to the requirements of the Corporate Governance Recommendations Indrek Neivelt was an independent member of the Supervisory board.

The meetings of the Supervisory Board generally take place once a month, except in summer months. In 2020, the Supervisory Board held 13 regular meetings. No extraordinary Supervisory Board meetings were held. Participation of members of the Supervisory Board at meetings:

NAME	PARTICIPATION IN MEETINGS	PARTICIPATION %
Toomas Annus	13	100%
Teet Roopalu	13	100%
Indrek Neivelt	13	100%

The Supervisory Board fulfilled all its obligations laid down in legal acts.

The Supervisory Board has set up an audit committee as its work body. The Supervisory Board has not considered it necessary to set up a remuneration committee or appointment committee. Remuneration of the members of the Supervisory Board is approved by the general meeting of shareholders. The valid procedure for remuneration of Supervisory Board members was approved by the general meeting of shareholders held at 31 October 2008.

No termination benefits are paid to the members of the Supervisory Board upon the termination or non-extension of the contract. In the 2020 and 2019 financial years, the members of the Supervisory Board were remunerated as follows (in euros):

NAME	2020	2019
Teet Roopalu	38,347	38,347
Indrek Neivelt	38,347	38,347
TOTAL	**76,694**	**76,694**

Remuneration, less the statutory taxes, to the members of the Supervisory Board is paid on a monthly basis.
As from 1 November 2018, the Chairman of the Supervisory Board has forgone the member's fee at his own request.

MANAGEMENT BOARD

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

Pursuant to the Articles of Association approved at the general meeting of shareholders in 2012, the Management Board may have up to three members. The Supervisory Board of AS Merko Ehitus decided to extend the powers of the Chairman of the Management Board of the company, Mr. Andres Trink, starting from 1 January 2021 for the next three years. AS Merko Ehitus has a two-member Management Board: Andres Trink (Chairman of the Management Board) and Tõnu Toomik (Member of the Management Board).

Andres Trink

Chairman of the Management Board

Appointed: 1 January 2012
Term ends: 31 December 2023

Positions held:

2012-…	AS Merko Ehitus, Chairman of the Management Board; Chairman of the Supervisory Board of Merko Ehitus Eesti AS, SIA Merks UAB Merko Statyba and UAB Merko Bustas
2016-…	Swedbank Investeerimisfondid AS, Member of the Supervisory Board

Has held various executive positions in the private and public sector. Before being hired at Merko Ehitus, worked for 15 years in the financial sector, including as a Member of the Management Board of Baltic banking at Hansapank (now Swedbank).

Education:

Tallinn University of Technology, automated management systems specialty (summa cum laude)

Estonian Business School, international business administration (unfinished)

Graduate of the INSEAD University (France), executive management programme

Number of shares: 1,100

Tõnu Toomik

Member of the Management Board

Appointed: 6 June 2013
Term ends: 5 June 2022

Positions held:

2013-…	AS Merko Ehitus, Member of the Management Board
2014-…	AS Kapitel (AS E.L.L. Kinnisvara until 2017), Member of the Supervisory Board
2011-2013	AS Merko Ehitus, Member of the Supervisory Board
2009-2014	AS E.L.L. Kinnisvara, Chairman of the Supervisory Board
2008-2011	AS Merko Ehitus, Chairman of the Supervisory Board
1999-2009	AS E.L.L. Kinnisvara, Member of the Supervisory Board
1997-1999	AS E.L.L. Kinnisvara, Chairman of the Supervisory Board
1997-2008	AS Merko Ehitus, Chairman of the Management Board
1996-…	AS Riverito, Member of the Management Board
1993-1996	AS EKE Merko, Estonian Regional Director
1993-1993	AS EKE Merko, Project Manager

Member of the Supervisory Board of Merko Ehitus Eesti AS, SIA Merks, UAB Merko Statyba and UAB Merko Bustas, Chairman of the Supervisory Board of Tallinna Teede AS

Education:

Tallinn University of Technology, industrial and civil engineering

Number of shares controlled: -

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 strategic 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.

Members of the Management Board have entered into three-year contracts of service with the company. The procedure and principles of remuneration of Management Board members are approved by the Supervisory Board. The members of the Management Board are paid a fee for fulfilling their official duties. Bonuses payable to the Management Board members depend on the financial state of the group and the fulfilment of strategic goals by the board member during the given financial year. The Supervisory Board takes into account the general economic environment as well as the present state and developments of the construction and real estate development markets when assessing the group's financial state. Bonuses are paid to the Management Board members once a year.

In the 2020 and 2019 financial years, the Management Board members' gross remuneration incl. service fees and bonuses, accrued for the reporting year were as follows (in euros):

NAME	2020	2019
Andres Trink	341,389	329,702
Tõnu Toomik	298,322	276,568
TOTAL	**639,711**	**606,270**

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 most significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 31 December 2020:

COMPANY *	**SUPERVISORY BOARD**	**MANAGEMENT BOARD**
AS Merko Ehitus Eesti *(74,830,624 euros)*	Andres Trink (Chairman), Tõnu Toomik, Martin Rebane	Ivo Volkov (Chairman), Jaan Mäe, Alar Lagus, Veljo Viitmann
OÜ Merko Investments *(21,580,471 euros)*	-	Andres Trink, Priit Roosimägi
SIA Merks *(25,213,438 euros)*	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Andris Bišmeistars (Chairman)
UAB Merko Statyba *(9,078,612 euros)*	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Saulius Putrimas (Chairman), Jaanus Rästas
UAB Merko Bustas *(12,529,901 euros)*	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Saulius Putrimas (Chairman)

** The figures in brackets indicate the amount of equity held by the parent company's owners in significant subsidiaries as at 31 December 2020.*

Changes in the management of group subsidiaries

There was a change in the Management Board of SIA Merks – part of AS Merko Ehitus group – as of 1 April 2020. Mr. Oskars Ozoliņš, who had held the position of the Chairman of the Management Board since 2012, left the company and then Member of the Management Board and Construction Director Mr. Andris Bišmeistars started as the new Chairman of the Management Board. The Management Board of SIA Merks continues with one member. In addition, according to the decision of the general meeting of shareholders from 11 February 2020, the powers of the Member of the Supervisory Board, Mr. Janis Šperbergs ended as of 1 April 2020. The Supervisory Board of SIA Merks continues with three members: Mr. Andres Trink (Chairman), Mr. Tõnu Toomik, and Mr. Priit Roosimägi.

On 10 July 2020, the Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Member of the Management Board, Mr. Alar Lagus, until 31 December 2020. The Management Board of AS Merko Ehitus Eesti continued with four members: Mr. Ivo Volkov (The Chairman), Mr. Jaan Mäe, Mr. Alar Lagus and Mr. Veljo Viitmann.

On 12 November 2020, the Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Members of the Management Board, Mr. Jaan Mäe and Mr. Veljo Viitmann from 1 January 2021 for three years. The contract of the current Member of the Management Board of the company, Mr. Alar Lagus ended on 31 December 2020. The Management Board of AS Merko Ehitus Eesti continues with three members: Mr. Ivo Volkov (The Chairman), Mr. Jaan Mäe and Mr. Veljo Viitmann.

On 21 December 2020, the Management Board of AS Merko Ehitus decided to extend the powers of the Members of the Supervisory Board of AS Merko Ehitus Eesti, Mr. Andres Trink and Mr. Tõnu Toomik, from 1 January 2021 until 31 December 2023. The Supervisory Board of AS Merko Ehitus Eesti continues with three members: Mr. Andres Trink (The Chairman), Mr. Tõnu Toomik and Mr. Martin Rebane.

The fees to the members of the management board of the major subsidiaries is provided in Note 33 of the financial statements.

AUDIT COMMITTEE

The Supervisory Board of AS Merko Ehitus has formed an audit committee as its work body. The responsibility of the audit committee is advising the Supervisory Board in supervision related issues. The Committee executes supervision over the whole group (incl. subsidiaries): a) arrangement of accounting, b) preparation and approval of the financial budget and reports, c) management of financial risks, d) performance of external audit, e) functioning of an internal control system and f) legality of the activities. Subsidiaries have not formed audit committees.

As at 10 January 2011, the company's Supervisory Board set up a 3-member audit committee. From November 1, 2017, the members of the audit committee of AS Merko Ehitus are: Mr. Teet Roopalu (the Chairman), Mr. Indrek Neivelt and Mr. Viktor Mõisja.

A member of the committee is elected for a term of indefinite period, but at the decision of the Supervisory Board, a member of the committee may be recalled at any given time.

Members of the audit committee are not separately remunerated.

REPORTING AND FINANCIAL AUDIT

Availability of adequate and timely information is the basis for obtaining quality management decisions. It is important to ensure that reporting is factual, but also forward-looking. This will enable to manage, to the best of one's knowledge, risks and, in competition with other market operators, turn them into opportunities. The group's reporting can be roughly divided into a) financial reporting and b) management reporting.

Financial reporting consists of interim reports of consolidated economic indicators and annual reports of companies that belong to the AS Merko Ehitus group, that are made public through the stock exchange system of Nasdaq Baltic and that are available to all shareholders, potential investors and analysts covering the company.

On the other hand, management reporting is meant for the group's internal use. It is appropriate to separate reporting on various operating indicators that focuses on the performance of business segments and different group companies as well as return on equity. The refinement of reporting is a continuous process during which indicators affecting the achievement of agreed objectives are reviewed. Management reporting includes budgets and forecasts that AS Merko Ehitus does not disclose.

Financial audits are conducted on the basis of International Standards on Auditing. The auditor of AS Merko Ehitus is approved by the general meeting of shareholders. The selection process is managed by the Supervisory Board and its findings are presented to the general meeting for approval. As a result of the tender and with the resolution made by the general meeting in 2018, the financial auditor for annual reports of 2018-2020 is AS PricewaterhouseCoopers (PwC). Auditors authorised to sign the report differ, depending on the country of residence of the group company. Chartered auditor Tiit Raimla is responsible for the consolidated audit report.

AS Merko Ehitus considers it important to ensure independence of the financial auditor and to avoid conflicts of interest. In 2020, PwC provided to AS Merko Ehitus advisory services permitted under Estonian Audit Act. We find that the financial audit conducted in 2020 was in compliance with regulative acts, international standards and expectations. PwC presented the results in two stages: a) as part of an interim audit and b) with regard to the final audit before the independent auditor's report was issued. The auditor's independent report is presented on pages 96-102.

CONFLICT OF INTEREST AND HANDLING OF INSIDER INFORMATION

It is important to appropriately handle insider information in order to protect shareholders' interests and ensure honest and fair trading of shares. Significant information about AS Merko Ehitus and its subsidiaries must be available in a timely, consistent and equal manner for all shareholders and potential new shareholders. It is inevitable that persons related to AS Merko Ehitus and its subsidiaries have, because of their job, at certain times and in certain cases more information about the group than investors and the public. To prevent the misuse of such information, we have adopted internal rules in the group's companies on maintaining and publication of insider information and on making transactions on the basis of insider information (hereinafter: insider information rules). Insider information rules include a reporting system under which employees who may develop a conflict of interest when fulfilling their job duties are required to disclose their economic interests and confirm their independence by self-assessment.

The members of the Management and Supervisory Board of AS Merko Ehitus are users of insider information (so-called insiders). They have signed a relevant statement, are aware of insider information rules of AS Merko Ehitus and together with people connected with them are registered in the list of the group's insiders. Moreover, the list of insiders includes the financial employees of the parent company who have access to the group's consolidated operating results as well as members of the Management and Supervisory Boards of the more important subsidiaries together with the employees who are responsible for preparing and presenting accounting information.

As at 31 December 2020, the group's insider register lists 84 persons with permanent access (31.12.2019: 77 persons). The group keeps records on insiders in accordance with requirements set forth in the Securities Market Act, the Regulation (EU) No 596/2014 of the European Parliament and of the Council (market abuse regulation) and Nasdaq Tallinn rules and regulations.

To the best of our knowledge, in the financial year 2020 there were no cases of any misuse of insider information or conflicts of interest. No transactions with related parties were made at other than market terms. No transactions between the company and its member of the board, a person close to or connected to the member of the board were carried out in the financial year of 2020, which would be regarded as significant for the company.

No members of the company's supervisory or management board hold shares in an entity that operates in the core business area of AS Merko Ehitus – construction sector.

An overview of transactions with related parties in 2020 is provided in Note 33 of the financial statements.

DISCLOSURE OF INFORMATION

In disclosing information, AS Merko Ehitus shall follow Estonian law, the rules and regulations of Nasdaq Tallinn Stock Exchange and guidelines of the Financial Supervision Authority of Estonia and immediately disclose important information regarding the group's activities to the shareholders after obtaining reasonable assurance as to its correctness and that the disclosure of such information shall not harm the interests of the group and its business partners.

The main principles of communication with investors and the general public are stated in the group's disclosure policy, which is available on the website: https://group.merko.ee/en/communication-with-the-public/

The group discloses information about its financial condition and strategy in its financial statements, annual report and interim reports pursuant to the schedule that has been set. The disclosure dates of each next financial year will be announced before the end of the previous financial year.

Merko immediately discloses all decisions, issues and events that in the group's view may significantly change the price of the securities issued by the company and that are to be disclosed pursuant to laws and regulations. Stock exchange releases are published in Estonian and English.

Stock exchange releases are always published regarding the following subjects:

- financial statements, interim reports;
- amendments to previously published strategies and financial objectives;
- profit warnings;
- major projects and construction contracts;
- major investments and financial arrangements;
- significant corporate reorganisations and partnership agreements;
- significant reorganisation, streamlining or discontinuation of functions or operations;
- management board's proposals to the annual general meeting and resolutions adopted in the annual meeting;
- significant legal actions, legal proceedings or actions of the authorities.

Important information shall be disclosed through the stock exchange system and on the group's website. In 2020, AS Merko Ehitus published 50 stock exchange releases through the stock exchange system.

NUMBER OF RELEASES	CONTENT OF RELEASE
22	New construction contracts
8	New development projects
7	Changes in structure and management
5	Operating results
2	General meeting
6	Other releases

We will publish 2021 consolidated interim reports as follows:

DATE	EVENT
06.05.2021	2021 3 months unaudited interim report
05.08.2021	2021 6 months and II quarter unaudited interim report
04.11.2021	2021 9 months and III quarter unaudited interim report

Our objective is to support fair pricing of Merko shares through constant and continued distribution of information to all market operators. Moreover, our objective is to maintain the loyalty of existing shareholders towards the company and to create interest in new shareholders and analysts.

It is our responsibility to prepare quarterly and annual reports, stock exchange releases and presentations and to plan and organise investor meetings with shareholders and analysts. We also collect and analyse feedback from investors and analysts in order to increase the value of information to be disclosed.

The company shall not hold meetings with analysts or presentations for investors immediately before the dates of disclosure of financial reporting (interim reports, annual report). AS Merko Ehitus communicates regularly with its larger shareholders and potential investors and, if requested, holds meetings. The information presented in these meetings is public, i.e. available from the company's reports, website or other public sources. We carefully monitor insider information rules during these meetings.

The investor calendar published on the AS Merko Ehitus website https://group.merko.ee/en/investors/reports-and-investor-calendar/ provides an overview of investor meetings both past and upcoming. Current shareholders can request their participation in planned meetings shown on the investor calendar. Requests should be made in a timely fashion. In addition to the investor meeting date, time and names of participants, Merko's website has a section with the presentations used at the meetings. In 2020, AS Merko Ehitus organised 5 investor meetings (2019: 9).

For informing the company's shareholders, an annual general meeting of shareholders is called at least once a year where all shareholders can ask questions from members of the company's Management Board and Supervisory Board.

The main analysts who cover AS Merko Ehitus are:

SWEDBANK AS	**AS LHV PANK**
Liivalaia 8, 15040 Tallinn, Estonia	Tartu mnt 2, 10145 Tallinn, Estonia
phone +372 631 0310	phone +372 680 0457
e-mail info@swedbank.ee	e-mail research@lhv.ee
www.swedbank.ee	www.lhv.ee

Information on investor relations of AS Merko Ehitus is available from:

ANDRES TRINK	**PRIIT ROOSIMÄGI**	**AS MERKO EHITUS**
Chairman of the Management Board	Head of Group Finance Unit / Contact Person for Investor Relations	Delta Plaza, 7th Floor
phone +372 650 1250	phone +372 650 1250	Pärnu mnt 141, 11314 Tallinn, Estonia
fax +372 650 1251	fax +372 650 1251	phone +372 650 1250
e-mail andres.trink@merko.ee	e-mail priit.roosimagi@merko.ee	group.merko.ee

DECLARATION OF CONFORMITY TO CORPORATE GOVERNANCE RECOMMENDATIONS

The Corporate Governance Recommendations (CGR) are based on the principle of comply or explain, according to which a publicly traded company shall explain its standpoints and activities with regard to those CGR provisions, which it does not comply with.

We have assessed the structure and functions of the management of AS Merko Ehitus on the basis of CGR. Above we have described significant components of corporate governance. Having assessed the compliance of the structure and functioning of the company's management system, we find that our organisation and activities are in significant part in compliance with CGR. Also, our activities comply with the Estonian legislation that regulates several principles provided in the recommendations in more detail. We hereby declare that AS Merko Ehitus has followed all corporate governance recommendations, with the following exceptions:

CORPORATE GOVERNANCE RECOMMENDATIONS[1]	**EXPLANATIONS BY MANAGEMENT AND SUPERVISORY BOARDS**
1.3.2 Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.	The Chairman of the Supervisory Board did not attend the annual general meeting held in 2020 in order to keep the number of persons participating in the general meeting organized in the circumstances of the COVID-19 pandemic to a minimum.
1.3.3 Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.	AS Merko Ehitus did not provide the possibility to observe and attend the regular general meeting in 2020 through means of communication as such need has not been identified so far.
2.2.7 Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.	AS Merko Ehitus publishes in its annual report the total amount of remuneration and bonuses paid to member of the Management Board, as it believes that public disclosure of individual income items does not create value added for shareholders, but does violate the privacy of members of the Management Board.

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[1] Corporate Governance Recommendations, Finantsinspektsioon (FSA in Estonia), https://www.fi.ee/failid/HYT_eng.pdf

CORPORATE GOVERNANCE RECOMMENDATIONS[1]	EXPLANATIONS BY MANAGEMENT AND SUPERVISORY BOARDS
3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number dependent members. An independent member is a person, who has no such business, family or other ties with the Issuer, a company controlled by the Issuer, a controlling shareholder of the Issuer, a company belonging to the Issuer's group or a member of a directing body of these companies, that can affect their decisions by the existence of conflict of interests. The independence requirements are presented in the annex of the Corporate Governance Recommendations. ANNEX. Requirements of independence Independent is the member of the Supervisory Board, who: (h) has not been an independent member of the Supervisory Board for more than ten (10) years;	The supervisory board of AS Merko Ehitus consists of three members, of which Indrek Neivelt is an independent member. Indrek Neivelt has been a member of the supervisory board since 6 November 2008, i.e. for more than ten years. Still, the management and supervisory boards are convinced that Indrek Neivelt remains independent from the Issuer, any company controlled by the Issuer, the controlling shareholder of the Issuer, any company belonging to the Issuer's group or any member of a directing body of these companies, when making decisions as the member of the supervisory board. Indrek Neivelt continues to comply with all other requirements of independence and as a member of the supervisory board acts in the best interests of all the shareholders.
5.2 The Issuer shall publish the disclosure dates of information subject to disclosure throughout a year (including the annual report, interim reports and notice calling a general meeting) at the beginning of the fiscal year in a separate notice, called financial calendar.	AS Merko Ehitus disclosed the financial calendar for 2021 on 14 December 2020. It did not include the date on which the notice calling general meeting is going to be disclosed, as this will become known as the result of decisions by the Management Board and the Supervisory Board later during the year.
6.1.1 On meeting of the Supervisory board, where the annual account shall be reviewed the auditor of the Issuer shall participate upon invitation of the Supervisory Board.	The auditor does not usually attend the AS Merko Ehitus Supervisory Board meeting. Auditor presents an overview about the results of the carried out audit as a written report to the audit committee, which has been formed by the Supervisory Board as its work body. In case the members of the audit committee find it necessary to receive additional explanations, they may turn to the auditor using means of communication or invite the auditor to the audit committee meeting to provide explanations.

According to subsection 24^2 (4) of the Accounting Act, a large undertaking whose securities granting voting rights have been admitted for trading on a regulated securities market of Estonia or another Contracting State shall describe in the corporate governance report the diversity policies carried out in the company's management board and senior management and the results of the implementation thereof during the accounting year. If no diversity policies have been implemented during the accounting year, the reasons for this should be explained in the corporate governance report.

Merko Ehitus has not deemed it necessary to implement diversity policies as it bases its decisions on onboarding, work assessments and remuneration of its managers and employees on the group's best interests as well as the education, competencies and work results of the managers and employees, and not on their sex and gender, age, ethnicity or other such characteristics. The group has enacted a code of business ethics, which also includes the principle of equal treatment of employees. In 2020, no such violations were identified in the group, which would have suggested discrimination of employees or violations of human rights. Also, no work related complaints were submitted to labour dispute committees against the group in 2020.

MANAGEMENT DECLARATION

The Management Board declares and confirms that according to their best knowledge, the year 2020 annual accounts, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, present a correct and fair view of the assets, liabilities, financial position and profit or loss of AS Merko Ehitus and the undertakings involved in the consolidation as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial status of AS Merko Ehitus and the undertakings involved in the consolidation as a whole and contains a description of the main risks and doubts.

Andres Trink	Chairman of the Management Board	/ digitally signed /	31.03.2021
Tõnu Toomik	Member of the Management Board	/ digitally signed /	31.03.2021

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of euros

	Note	2020	2019
Revenue	4	315,918	326,779
Cost of goods sold	5	(272,169)	(291,958)
Gross profit		**43,749**	**34,821**
Marketing expenses	6	(4,212)	(4,260)
General and administrative expenses	7	(13,412)	(12,988)
Other operating income	8	2,320	2,983
Other operating expenses	9	(2,979)	(1,318)
Operating profit		**25,466**	**19,238**
Finance income	10	1	3
Finance costs	11	(866)	(684)
Profit (loss) from joint ventures	20	(144)	1,766
Profit before tax		**24,457**	**20,323**
Corporate income tax expense	12	(1,954)	(3,833)
Net profit for financial year		**22,503**	**16,490**
incl. net profit attributable to equity holders of the parent		22,994	16,270
net profit attributable to non-controlling interest		(491)	220
Other comprehensive income (loss), which can subsequently be classified in the income statement			
Currency translation differences of foreign entities		(115)	13
Comprehensive income for the period		**22,388**	**16,503**
incl. attributable to equity holders of the parent		22,890	16,281
attributable to non-controlling interest		(502)	222
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	13	1.30	0.92

The notes set out on pages 53-95 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	**31.12.2020**	**31.12.2019**
ASSETS			
Current assets			
Cash and cash equivalents	15	47,480	24,749
Trade and other receivables	16	32,657	50,413
Prepaid corporate income tax		306	104
Inventories	18	126,332	166,226
		206,775	**241,492**
Non-current assets			
Investments in joint ventures	20	2,354	2,498
Other long-term loans and receivables	21	17,979	11,094
Deferred income tax assets	22	653	-
Investment property	23	13,922	14,047
Property, plant and equipment	24	14,521	11,919
Intangible assets	25	711	777
		50,140	**40,335**
TOTAL ASSETS		**256,915**	**281,827**
LIABILITIES			
Current liabilities			
Borrowings	27	13,649	20,725
Payables and prepayments	28	55,846	69,585
Income tax liability		1,202	812
Short-term provisions	29	6,347	7,976
		77,044	**99,098**
Non-current liabilities			
Long-term borrowings	27	15,409	43,001
Deferred income tax liability	22	3,001	1,682
Other long-term payables	30	4,026	3,491
		22,436	**48,174**
TOTAL LIABILITIES		**99,480**	**147,272**
EQUITY			
Non-controlling interests	19	4,207	4,217
Equity attributable to equity holders of the parent			
Share capital	32	7,929	7,929
Statutory reserve capital		793	793
Currency translation differences		(814)	(710)
Retained earnings		145,320	122,326
		153,228	**130,338**
TOTAL EQUITY		**157,435**	**134,555**
TOTAL LIABILITIES AND EQUITY		**256,915**	**281,827**

The notes set out on pages 53-95 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings	Total		
Balance as at 31.12.2018	**7,929**	**793**	**(721)**	**123,756**	**131,757**	**4,577**	**136,334**
Balance as at 01.01.2019	**7,929**	**793**	**(721)**	**123,756**	**131,757**	**4,577**	**136,334**
Adjustment on the adoption of IFRS 16	-	-	-	-	-	-	-
Balance as at 01.01.2019 restated	**7,929**	**793**	**(721)**	**123,756**	**131,757**	**4,577**	**136,334**
Profit (loss) for the financial year	-	-	-	16,270	16,270	220	16,490
Other comprehensive income (loss)	-	-	11	-	11	2	13
Total comprehensive income (loss) for the financial year	-	-	**11**	**16,270**	**16,281**	**222**	**16,503**
Transactions with owners							
Option over shares relating to non-controlling interests	-	-	-	-	-	(510)	(510)
Dividends (Note 14)	-	-	-	(17,700)	(17,700)	(72)	(17,772)
Total transactions with owners	**-**	**-**	**-**	**(17,700)**	**(17,700)**	**(582)**	**(18,282)**
Balance as at 31.12.2019	**7,929**	**793**	**(710)**	**122,326**	**130,338**	**4,217**	**134,555**
Profit (loss) for the financial year	-	-	-	22,994	22,994	(491)	22,503
Other comprehensive income (loss)	-	-	(104)	-	(104)	(11)	(115)
Total comprehensive income (loss) for the financial year	-	-	**(104)**	**22,994**	**22,890**	**(502)**	**22,388**
Transactions with owners							
Option over shares relating to non-controlling interests	-	-	-	-	-	625	625
Dividends (Note 14)	-	-	-	-	-	(133)	(133)
Total transactions with owners	**-**	**-**	**-**	-	-	**492**	**492**
Balance as at 31.12.2020	**7,929**	**793**	**(814)**	**145,320**	**153,228**	**4,207**	**157,435**

For share capital see also Note 32.

The notes set out on pages 53-95 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2020	2019
Cash flows from (used in) operating activities			
Operating profit		25,466	19,238
Adjustments:			
Depreciation and impairment	23-25	2,751	2,707
(Profit)/loss from sale of non-current assets	8	(250)	(309)
Change in receivables and liabilities related to construction contracts	4	2,794	(10,697)
Interest income from operating activities	8	(1,499)	(2,190)
Change in provisions	29	(1,072)	282
Change in trade and other receivables related to operating activities		7,017	26,854
Change in inventories	18	40,231	(48,118)
Change in trade and other payables related to operating activities		(11,937)	1,811
Interest received	8, 10, 16, 21	1 349	2,265
Interest paid	11, 28	(1,068)	(1,039)
Other finance income (costs)	11	(139)	(129)
Corporate income tax paid		(1,132)	(3,093)
Total cash flows from (used in) operating activities		**62,511**	**(12,418)**
Cash flows from investing activities			
Purchase of investment properties	23	(7)	(410)
Purchase of property, plant and equipment (excl. leased assets)	24, 27	(4,321)	(2,199)
Proceeds from sale of property, plant and equipment	8, 24	289	508
Purchase of intangible assets	25	(143)	(273)
Interest received	10, 16	1	2
Total cash flows from investing activities		**(4,181)**	**(2,372)**
Cash flows from (used in) financing activities			
Proceeds from borrowings	27	20,433	46,527
Repayments of borrowings	27	(54,911)	(28,211)
Repayments of lease liabilities	27	(922)	(1,006)
Dividends paid	14	(133)	(17,772)
Total cash flows from (used in) financing activities		**(35,533)**	**(462)**
Net increase/decrease in cash and cash equivalents		**22,797**	**(15,252)**
Cash and cash equivalents at the beginning of the period	15	**24,749**	**39,978**
Effect of exchange rate changes		**(66)**	**23**
Cash and cash equivalents at the end of the period	15	**47,480**	**24,749**

The notes set out on pages 53-95 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1. GENERAL INFORMATION

The consolidated financial statements of AS Merko Ehitus (hereinafter the parent) and its subsidiaries (hereinafter collectively the group) for the financial year ended 31 December 2020 were signed by the Management Board on 31 March 2021.

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

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

From 22 July 1997, the shares of AS Merko Ehitus are listed on Nasdaq Tallinn Stock Exchange, while the shares listed as of the reporting date have been listed since 11 August 2008 – AS Järvevana (business register code 10068022, previously named AS Merko Ehitus, currently named OÜ Järvevana), the shares of which were listed, was divided on 1 August 2008, during which AS Merko Ehitus (business register code 11520257) was established and the assets and the enterprise of AS Järvevana, with certain exceptions, were transferred to the established company. As at 31 December 2020, the majority shareholder AS Riverito owned 71.99% of the Company's shares through which the ultimate controlling person is Toomas Annus.

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

1.2. BASES FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Assets and liabilities are classified as current and non-current in the statement of financial position. Current assets include assets that are expected to be realized in the course of group's ordinary operating cycle. Current liabilities include liabilities the due date of which is within 12 months after the balance sheet date. The remaining assets and liabilities are classified as non-current.

Expenses are classified according to their function in the income statement.

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

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

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new or revised standards or interpretations became effective for the group from 1 January 2020:

Amendments to the Conceptual Framework of Financial Reporting (effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The group assesses that there is no material impact of application of the amendments to its financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020)**.** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The group assesses that there is no material impact of application of the amendments to its financial statements.

Definition of a business – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The group assesses that there is no material impact of application of the amendments to its financial statements.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2020 that would be expected to have a material impact to the group.

NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND CHANGES

Certain new or revised standards and interpretations have been issued that are mandatory for the group's annual periods beginning on or after 1 January 2021, and which the group has not early adopted:

Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The group assesses that there is no material impact of application of the amendments to its financial statements.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The group assesses that there is no material impact of application of the amendments to its financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU)

- The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.
- The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework.

- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The group assesses that there is no material impact of application of the amendments to its financial statements.
There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the group.

1.4. CONSOLIDATION

Subsidiaries include all entities under the control of the group. The group controls the entity, if it receives or is entitled to variable profits arising from its role in the entity and the group can influence the amount of profit by exerting influence over the entity.

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

Group entities use uniform accounting policies.

Investments are recognised in the parent company's unconsolidated financial statements at acquisition cost, less any accumulated impairment losses.

1.5. BUSINESS COMBINATIONS

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group makes an election whether to recognise any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. From the date of acquisition, the revenue and expenses of the acquired entity are reported in the income statement of the group and goodwill is reported in the statement of financial position of the group.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Goodwill is subsequently measured at its cost less any impairment losses. Goodwill arising in a business combination is not amortised. Instead, an impairment test is carried out once a year. Goodwill is written down to its recoverable amount if the carrying amount is not recoverable (Note 1.10).

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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

1.6. JOINT VENTURES

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to common control. Joint ventures are accounted for under the equity method. A holding in a jointly controlled entity is initially recognised at cost and subsequently adjusted for the post-acquisition changes that have occurred in the group's share of the net assets under common control. The income statement of the group includes the group's share in the profits or losses of the entity under common control. Unrealised gains and losses from transactions between the group and its joint ventures are eliminated.

1.7. JOINTLY CONTROLLED OPERATIONS

Under IFRS 11 Joint Arrangements, jointly controlled operations are joint operations with third parties, whereby the assets and other resources of venturers are used without the establishment of a new entity or another unit or creation of a separate financial structure. Each venturer uses its own property, plant and equipment and carries its own inventories in the statement of financial position. The venturer also incurs its own expenses and liabilities and raises its own funds which represent its own obligations. In respect of its interest in jointly controlled operations, a venturer recognises in its financial statements:

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

1.8. FOREIGN CURRENCY

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

The functional currency of subsidiaries located abroad is the currency of their business environment; therefore the financial statements of such subsidiaries are translated into euros for consolidation purposes; the asset and liability items are translated using the foreign exchange rates of the European Central Bank prevailing at the balance sheet date, income and expenses using the weighted average foreign exchange rates for the year and other changes in equity using the foreign exchange rates at the date at which they arose. Exchange rate differences arising from translation are reported in the equity item Currency translation differences and in the consolidated comprehensive income item Currency translation differences of foreign entities.

1.9. FINANCIAL ASSETS

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

Purchases and sales of financial assets conducted in normal market conditions are recognised on trade-date – the date on which the group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the group measures the financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset.

All group's debt instruments are classified in amortised cost measurement category.

Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on the unpaid principal are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/expenses. Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss.

As at 31 December 2019 and 31 December 2020, all the group's financial assets (trade receivables, contractual assets, loans granted, bank deposits, cash and cash equivalents, and other financial assets) were classified in this category.

The group has no investments in equity instruments.

1.10. IMPAIRMENT OF ASSETS

FINANCIAL ASSETS AT AMORTISED COST

The group assesses at each balance sheet date whether there is any indication that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (loss events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of financial assets is impaired includes observable data that is available to the group regarding the following events:

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

If there is objective evidence that an impairment loss has incurred for loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have already been recognised), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can objectively be related to an event occurring after impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

NON-FINANCIAL ASSETS

Signs, which could give evidence to decrease in the value of assets are assessed critically on each reporting date. If such signs are identified, a recoverable value test is carried out for these assets. Losses deriving from the decrease in the value of assets is recognised, if the book value of the asset or the cash generating unit of such asset is above the recoverable value. Losses deriving from the decrease of value of assets is recognised in the expenses of that reporting period.

The recoverable value of group's non-current assets is the higher of the following two figures: the fair value (minus sales costs) of the asset or its value in use. In assessing the value in use of the asset the assumed future cash flows are discounted to their current value, using a discount rate, which reflects both the current market assessment of the change in the time value of money, as well as the specific risks associated with the asset. In case of an asset, which does not generate independent cash flows, the recoverable value is determined for the cash generating unit to which the asset belongs.

In case of non-current assets, prior write-downs are cancelled, if there are indicators, according to which the decrease in the value of the asset has ceased to exist and there have been changes in the assessments, which were the basis for the determination of the recoverable value of the asset. Prior write-down is cancelled only in such amount, which does not increase the post-cancellation value of the asset above the residual value, which would have been reached, taking into account normal depreciation, if the write-down had not been made.

1.11. INVENTORIES

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

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

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

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

A completed real estate property is sold either in units (by houses, apartments, office spaces, etc.) or as a whole. Revenue is recognised as income from the sale of goods (Note 1.20). Upon the sale of real estate properties, the group and the acquirer enter into a notarised agreement for transferring the property, and a respective entry is made in the land register.

1.12. INVESTMENT PROPERTY

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

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

1.13. PROPERTY, PLANT AND EQUIPMENT

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

An item of property, plant and equipment is carried in the statement of financial position at its cost less any accumulated depreciation. The cost consists of the purchase price and other costs directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Subsequent expenditure incurred for items of property, plant and equipment is recognised as non-current assets when it is probable that future economic benefits associated with the asset will flow to the group and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses at the time they are incurred. For right-of-use assets refer to note 1.15. Items of property, plant and equipment leased under the lease terms are accounted for similarly to purchased property, plant and equipment.

Depreciation is calculated on a straight-line basis over the following useful lives:

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

Land is not depreciated.

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

If an item of property, plant and equipment consists of separately identifiable components with different useful lives, these components are accounted for as separate assets and accordingly, separate depreciation rates are set for them depending on their useful lives.

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition of items of property, plant and equipment are included either within other operating income or other operating expenses in the income statement.

Non-current assets are written down to their recoverable amount if the latter is lower than their carrying amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

1.14. INTANGIBLE ASSETS

Intangible assets are recognised in the statement of financial position when the asset can be controlled by the group, the expected future benefits attributable to the asset will flow to the group and the cost of the asset can be measured reliably. The cost of an intangible asset consists of its purchase price and other expenditure directly related to the purchase. Intangible assets are carried in the statement of financial position at cost less any accumulated amortisation and any accumulated impairment losses. Goodwill is not amortised.

SOFTWARE AND INFORMATION SYSTEMS

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

1.15. LEASED ASSETS

THE GROUP AS A LESSEE

Leases are classified in accordance with IFRS 16, effective 1 January 2019, in accordance with paragraph of this Note.

Lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to use an asset exists if the lessor is unable to substitute an asset, the lessee has the ability to determine how to use the underlying asset and the lessee is entitled to the majority of future economic benefits generated from that right of use. If the lessee has the right to use a part of an asset the contract is considered a lease if the part of an asset is physically identifiable (e.g. lease of one floor in a building). There are several conditions to consider when evaluating a lease term. Only the assets that have a lease term shorter than 12 months can be excluded from the balance sheet and recognised as an operating lease so far. Such payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

According to IFRS 16 lease term is:

- non-cancellable period of a lease – a period during which the lessee has no option to terminate the lease;
- periods covered by an option to terminate the lease – if the lessee is reasonably certain not to exercise that option;

- periods covered by an option to extend the lease - if the lessee is reasonably certain to exercise that option and has an option to extend the lease during one more time period. The same applies to termination options: if the lessee is certain not to use the termination option, the option should not be used to reduce the lease term.

In assessing the lease term, all relevant facts and circumstances shall be considered that create an incentive for the lessee to use that option. Lease term starts from the moment when the lessee is able to use the asset. Likelihood to use the options is considered at the commencement date. The likelihood to use the options in considered from the perspective of the lessee and it is affected by:

- contractual terms and conditions for the optional periods compared with market rates
- costs relating to the penalties of using/not using the options as well as other similar costs such as negotiation costs, relocation costs etc. If such costs (including penalties) are significant it is unlikely that the lessee will exercise the option to terminate and it is likely, that the lessee will exercise the option to extend;
- significant leasehold improvements undertaken over the term of the contract are expected to increase the likelihood to extend (and not to terminate) the lease;
- Very short-term non-cancellable period indicates that the lessee intends to extend the lease term (to avoid costs related to obtaining a new lease);
- the importance of that underlying asset to the lessee's operations and business plan - if the underlying asset is a specialised asset or suitable alternatives are not available the lessee is more likely to exercise the option to extend.

In addition, lessee's earlier operating activities shall be considered to determine the likelihood to exercise options to extend or terminate.

Lease term does not include periods when both parties have an option to terminate the lease. The lessee might intend to use the option to extend the lease period, however, that option does not depend solely on the intention of the lessee.

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

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

THE GROUP AS THE LESSOR

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

1.16. FINANCIAL LIABILITIES

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

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

Financial liabilities are classified as current when they are due to be settled within twelve months after the balance sheet date; or the group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowings that are due within 12 months after the balance sheet date, but which are refinanced after the balance sheet date as non-current, are recognised as current ones. Also, borrowings are classified as current if the lender had a contractual right at the balance sheet date to demand immediate repayment of the borrowing due to the breach of conditions set forth in the agreement.

Borrowing costs directly related to the construction of a real estate property until the property is ready for use or sale, are capitalised. In other cases, borrowing costs are recognised as an expense in the period in which they are incurred.

1.17. INCOME TAX AND DEFERRED INCOME TAX

According to the Income Tax Act of the Republic of Estonia, legal entities are not subject to income tax on profits earned. Corporate income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and payments not related to business operations. From 1 January 2015, the tax rate on dividends payable is 20/80 of the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

Corporate income tax paid on dividends is recognized in the statement of comprehensive income as an income tax expense and in the statement of financial position as a deferred income tax liability to the extent of the planned dividend payment. An income tax liability is due on the 10th day of the month following the payment of dividends. Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future. The group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future. The maximum income tax liability which would accompany the distribution of Company's retained earnings is disclosed in Note 12 to the consolidated financial statements.

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

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

Legal entities in Latvia, Lithuania, Norway and Finland that are part of the group calculate taxable income and corporate income tax in accordance with the legislation of the Republic of Latvia, the Republic of Lithuania, the Kingdom of Norway and the Republic of Finland. The profits in the Republic of Latvia are taxed upon their distribution with a rate of 20/80 (2018: the profits are taxed upon their distribution with a rate of 20/80). The profits of entities located in the Republic of Lithuania are taxed at the rate of 15% (2019: 15%), in the Kingdom of Norway at the rate of 22% (2019: 22%) and in the Republic of Finland at the rate of 20% (2019: 20%).

1.18. EMPLOYEE BENEFITS

TERMINATION BENEFITS

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without a possibility of withdrawal; or providing termination benefits as a result of another offer made to encourage voluntary redundancy. Termination benefits are discounted to their present value.

PROFIT-SHARING AND BONUS PLANS

The group recognises a liability and an expense for bonuses and profit-sharing plans, based on a formula that takes into consideration the profit attributable to the parent's owners after certain adjustments. The group recognises a provision where contractually obliged or when there is past practice that has created a constructive obligation.

1.19. PROVISIONS

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

Provisions are recognised in the statement of financial position based on the best estimate of the management board at the present value of the expenditure expected to be sufficient to settle the obligation. A pre-tax rate of discount is used, which reflects current market valuations of the time value of money and the risks associated with liabilities that are not already included in the best estimate of the related expenses.

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

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

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

1.20. REVENUE

REVENUE FROM CONTRACTS WITH CUSTOMERS

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

REVENUE FROM CONTRACTS WITH CUSTOMERS – CONSTRUCTION SERVICES

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

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

Estimates of revenue, costs or extent of progress toward completion of the contract are revised, if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the statement of profit or loss in that period in which the circumstances that gave rise to the revision became known to the management.

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

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

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

CONSTRUCTION OF RESIDENTIAL PROPERTIES

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

FINANCING COMPONENT

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

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

1.21. CASH AND CASH EQUIVALENTS

In the statement of financial position and the cash flow statement, cash and cash equivalents comprise highly liquid funds with low variation in value, such as cash on hand, cash in bank accounts and term deposits with maturities of three months or less. Management regards deposits with maturities greater than 3 months as investments and hence does not include them in cash and cash equivalents.

The indirect method has been used for the preparation of the cash flow statement.

1.22. LOANS GRANTED

Loans granted are recognised in the group based on business principles and the loans are issued to companies with whom contracts are in place for the purpose of co-financing development projects. Real estate developers are granted loans on condition that the group receives an opportunity to provide construction service in the developments being financed. Due to the direct link between the loans and the group's business activity, the said loans and the related interests received are recognised in the cash flow statement under cash flows from operating activities (Note 17).

1.23. CONTINGENT LIABILITIES

Contingent liabilities are those liabilities the realisation of which is less probable than non-realisation or the amount of which cannot be determined reliably. Contingent liabilities are not recognised in the statement of financial position, but they are disclosed in the notes to the financial statements (Note 34).

1.24. STATUTORY RESERVE CAPITAL

Reserve capital is formed to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

1.25. EVENTS AFTER THE BALANCE SHEET DATE

The financial statements of the reporting period include material circumstances affecting the assessment of assets and liabilities that became evident between the balance sheet date and the date of preparing the financial statements but that are related to transactions in the reporting period or previous periods. Material events after the balance sheet date not related to transactions in the reporting period or previous periods are not reported in the statement of financial position but they are disclosed in the notes to the financial statements.

1.26. DIVIDENDS

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

1.27. SEGMENT REPORTING

According to IFRS 8 Operating Segments, segment reporting is applicable to operating segments whose results are regularly reviewed by the group's chief operating decision maker to make business-related decisions. Operating segments are components of the entity for which it is possible to obtain discrete financial information to make decisions about resources to be allocated to the segment and assess its performance.

NOTE 2 CHANGES IN ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the group's consolidated financial statements as at and for the year ended 31 December 2019.

INCOME TAX AND DEFFERED INCOME TAX

IFRS Interpretation Committee (IFRIC) agenda decision regarding deferred tax related to investments in subsidiaries

Both Estonia and Latvia have replaced the traditional profit-based tax regimes with distribution-based tax regimes where corporate income tax is not payable on profit but rather on distribution of dividends. In accordance with IAS 12.52A and 57A, in distribution-based tax regimes no current or deferred tax liability is recognised in respect of undistributed profits until a liability to pay dividends is recognised. As a market practice in Estonia, this accounting policy has been applied consistently to all undistributed profits in the group, regardless of whether those profits accumulated in the parent or in the subsidiaries.

In June 2020, IFRS Interpretation Committee (IFRIC) made an agenda decision where it concluded that the principle set out in IAS 12.52A and 57A only applies to undistributed profits accumulated in the parent company and does not apply to undistributed profits accumulated in the subsidiaries. Instead, the principles described in IAS 12.39-40 should be followed in respect of undistributed profits in subsidiaries, stipulating that a deferred tax shall be recognized in respect of such accumulated profits, unless it is probable that they will not be distributed to the parent in the foreseeable future.

Deferred income tax is recognised in case of temporary differences between the group's carrying amounts of assets and liabilities and their tax bases (the tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes). Pursuant to the laws of the Republic of Estonia, an enterprise's profit of the accounting year is not taxable in Estonia. The obligation to pay company income tax arises upon distribution of profit and it is recognised as an expense (in the profit or loss for the period) when dividends are declared. Due to the nature of the taxation system, no deferred income tax assets or liabilities arise in enterprises registered in Estonia, except for possible deferred income tax liabilities related to an enterprise's investments in subsidiaries, associate and joint undertaking, and branches.

Deferred income tax liability arises for the group in countries where the enterprise's reporting year profit is taxable. For the group, deferred income tax liability also arises in respect to investments in an Estonian and Latvian subsidiary and associate undertaking, except for if the group is able to control the timing of the reversal of the taxable temporary differences and it is probable that the reversal will not occur in the foreseeable future. Examples of taxable temporary reversal are the payment of dividends, the sale or liquidation of an investment, and other transactions.

The group has control over the dividend policy of subsidiaries and is able to control the timing of the reversal of the temporary differences in respect to the relevant investment. If the parent company has decided not to distribute the subsidiary's profit in the foreseeable future, it does not recognise the deferred income tax liability. If the parent company assesses that the dividend will be paid in the foreseeable future, the deferred income tax liability is measured to the extent of the planned dividend payment provided that as at the reporting date, there are sufficient funds to pay the dividend and owner's equity on account of which to distribute profit in foreseeable future. The group measures deferred income tax liability using the tax rates valid on the reporting date that are expected to apply to the taxable temporary differences of the period in which the temporary differences are expected to reverse. In Estonia, the valid company income tax rate is 20 per cent (the payable tax amount is 20/80 of the net payment). From 2019, a lower tax rate is applied to regularly payable dividends – 14% (14/86 of the net payment). The lower tax rate can be applied every calendar year on dividend payments and other profit distributions to the extent that does not exceed the average amount of taxable paid dividends and other profit distributions of the previous three calendar years and taxable payments from the owner's equity. The group has recognised the change in the accounting policy retrospectively.

AS Merko Ehitus group has assessed the impact of the IFRS Interpretation Committee agenda decision and has reached a conclusion of the amount not being material, therefore no correction into previous reporting periods is made and the total impact of deferred tax amount is recognized in financial statements for the year 2020 (Note 12).

POTENTIAL IMPACT OF THE IAS 12 RECOGNITION ON THE FINANCIAL STATEMENTS

in thousand euros

	31.12.2020	**31.12.2019**	**31.12.2018**
Effect of deferred tax adjustment on retained earnings	(1,368)	2,500	(2,500)
Effect of deferred tax adjustment on liabilities in the balance sheet	1,368	-	2,500
Total impact on retained earnings as at 31.12.2020	**(1,368)**	-	-

NOTE 3 MANAGEMENT ESTIMATES

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

REVENUE FROM CONSTRUCTION SERVICES

Revenue from contracts with customers related to providing construction services is recognised based on the ratio of contract's actual incurred costs and the contract's estimated costs, which also assumes that the stage of completion of the construction contracts can be reliable assessed as of the reporting period. A precise, systematic calculation and estimation of costs, forecasting and reporting of income and expenses has been introduced for determining the stage of completion. The estimated final result to be derived from each construction project is being constantly monitored, deviations from the budget are analysed and if necessary, the profit estimate is adjusted. As at 31 December 2020, the amount of the provision for onerous contracts was EUR 312 thousand (2019: EUR 1,295 thousand), which was determined after the evaluation of the stage of completion of construction contracts. The risk analysis showed that a change in the estimated costs of construction projects in the range of +/-5% would result in a change in the net profit between EUR -8,350/+2,976 thousand (2019: EUR -7,351/+7,604 thousand).

INVENTORY WRITE-DOWN

Inventories are valued separately by individual properties (registered immovable or building). A business plan is prepared for each property based on its nature (intended use and building rights currently effective or being effected) and the project's costs are compared with expected income. If the property's costs exceed the expected revenue to be generated from the realisation of the project (net realisable value), the group shall write down assets in the amount by which the costs exceed income. Due to the volatility of the construction market and low liquidity of the real estate market, determination of the net realisable value of the assets depends largely on management estimates. The sensitivity analysis of inventories showed that had the net realisable value been overestimated by 10% (i.e. income would be 10% lower upon the disposal of assets), the group's write-down of inventories (work-in-progress, finished goods, acquisition of real estate properties for sale/development) would have been EUR 741 thousand higher in 2020 (2019: EUR 2,351 thousand higher), incl. real estate properties for sale/development in the amount of EUR 741 thousand (2019: EUR 2,285 thousand) and finished goods in the amount of EUR 0 thousand (2019: EUR 66 thousand). In 2020, if the value had been underestimated by 10% (income would be 10% higher upon the disposal of assets), the write-down of inventories would have been EUR 222 thousand lower, incl. finished goods in the amount of EUR 222 thousand. No impairment losses were recognized for inventories of work-in-progress, finished goods and acquisition of real estate properties for sale/development in 2019, therefore no impairment test has been performed.

VALUATION OF RECEIVABLES

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

PROVISION FOR WARRANTY OBLIGATIONS

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

VALUATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

An impairment test is carried out for property, plant and equipment and intangible assets when an event or change in circumstances indicates that impairment may have occurred. Based on management estimates, as at 31 December 2020 and 2019, no impairment tests were performed, as there were no indications of impairment of assets. As at 31 December 2020, the carrying amount of property, plant and equipment was EUR 14,521 thousand (31.12.2019: EUR 11,919 thousand) and the carrying amount of intangible assets was EUR 711 thousand (31.12.2019: EUR 777 thousand) (Notes 24, 25).

VALUATION OF INVESTMENT PROPERTY

Investment properties are recognised at cost, less any accumulated depreciation and any impairment losses. Management estimates that the carrying amount of investment properties as at 31 December 2020 does not significantly differ from their fair value, with the exception of book value of land in the amount of EUR 12,356 thousand, the fair value of which by expert opinion was EUR 27,970 thousand (31 December 2019: the carrying amount of investment properties did not significantly differ from their fair value, with the exception of book value of land in the amount of EUR 11,940 thousand, the fair value of which by expert opinion was EUR 27,410 thousand). Management's estimate regarding the fair value of investment properties is based on the existing market value of the assets. The estimated amount for which the asset can be exchanged in a transaction between independent parties at the date of estimation is considered its market value. External experts were not involved in the estimation of the fair value of investment properties, with the exception of land reclassified from inventories. Market value estimates are mostly based on market transactions, with the exception of real estate that is estimated using discounted cash flow method. As at 31 December 2020, the carrying amount of investment property was EUR 13,922 thousand (31.12.2019: EUR 14,047 thousand) (Note 23).

NOTE 4 OPERATING SEGMENTS

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

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

- construction service,
- real estate development.

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

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

AS Merko Ehitus management board monitors the revenue and the operating profit (loss) as the main financial indicators in the segment reporting. In addition to the cost item of the segment, undistributed marketing and general expenses, other operating income and expenses and financial income and costs have also been assigned to the segment's operating profit in proportion to the segment's revenue.

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

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

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

in thousands of euros

2020	**Construction service**	**Real estate development**	**Total segments**
Revenue	188,735	147,891	336,626
Inter-segment revenue	(1,888)	(18,820)	(20,708)
Revenue from clients	**186,847**	**129,071**	**315,918**
incl. clients whose revenue is at least 10% of the group's consolidated revenue:			
client A (Estonian state)	95,359	-	95,359
Timing of revenue recognition at a point in time	1,381	119,915	121,296
Timing of revenue recognition over time	185,466	9,156	194,622
Operating profit (-loss)	**4,561**	**23,710**	**28,271**
Segment pre-tax profit (loss)	**4,385**	**23,122**	**27,507**
incl. interest income from operating activities (Note 8)	23	1,476	1,499
depreciation (Notes 5, 6, 7)	(2,245)	(506)	(2,751)
impairment of inventories (Notes 5, 18)	(382)	(222)	(604)
recognition of provisions (Notes 5, 7, 29)	(1,806)	(1,430)	(3,236)
reversal of provisions (Note 5, 7, 29)	79	-	79
profit (loss) from joint ventures (Note 20)	-	(144)	(144)
other finance income (costs) (Notes 10, 11)	(27)	(353)	(380)
incl. interest expenses	(29)	(288)	(317)
Segment assets 31.12.2020	**52,239**	**163,083**	**215,322**
incl. joint ventures (Note 20)	-	2,354	2,354

2019	**Construction service**	**Real estate development**	**Total segments**
Revenue	256,749	99,863	356,612
Inter-segment revenue	(47)	(29,786)	(29,833)
Revenue from clients	**256,702**	**70,077**	**326,779**
incl. clients whose revenue is at least 10% of the group's consolidated revenue:			
client A (Estonian state)	57,687	-	57,687
client B	37,179	-	37,179
Timing of revenue recognition at a point in time	2,155	66,384	68,539
Timing of revenue recognition over time	254,547	3,693	258,240
Operating profit (-loss)	**13,276**	**8,115**	**21,391**
Segment pre-tax profit (loss)	**13,053**	**9,607**	**22,660**
incl. interest income from operating activities (Note 8)	47	2,143	2,190
depreciation (Notes 5, 6, 7)	(2,264)	(443)	(2,707)
impairment of inventories (Notes 5, 18)	(175)	-	(175)
recognition of provisions (Notes 5, 7, 29)	(3,934)	(1,533)	(5,467)
reversal of provisions (Note 5, 7, 29)	257	-	257
profit (loss) from joint ventures (Note 20)	-	1,766	1,766
other finance income (costs) (Notes 10, 11)	(13)	(256)	(269)
incl. interest expenses	(17)	(239)	(256)
Segment assets 31.12.2019	**54,944**	**195,073**	**250,017**
incl. joint ventures (Note 20)	-	2,498	2,498

In addition to the segment assets, as at 31 December 2020 the group holds assets in the amount of EUR 41,593 thousand (31 December 2019: EUR 31,810 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousands of euros

	2020	2019
Pre-tax profit from reporting segments	**27,507**	**22,660**
Other operating profit (loss)	(2,805)	(2,153)
incl. recognition of provisions (Notes 7, 29)	(9)	(9)
finance income (costs)	(245)	(184)
incl. interest expenses	(176)	(178)
Total profit before tax	**24,457**	**20,323**

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

As the basis for the figure, that is allocated to segments based on revenue proportion, is the sum of group's unallocated costs, the interest income (expenses) in the sum of EUR -225 thousand (31 December 2019: EUR -220 thousand) has not been presented separately in the respective cost item.

REVENUE BY CLIENT LOCATION

in thousands of euros and percentage

	2020		2019	
Estonia	177,344	56%	168,825	52%
Latvia	49,735	16%	92,772	28%
Lithuania	77,173	24%	46,202	14%
Norway	11,666	4%	18,980	6%
Total	**315,918**	**100%**	**326,779**	**100%**

CONTRACT ASSETS AND LIABILITIES

in thousands of euros

	31.12.2020	31.12.2019
Accrued income from construction services (Note 16)	7,741	11,689
Prepayments for construction services (Note 28)	(6,926)	(8,058)
Advance payments received for construction contract works (Note 28,30)	(8,576)	(5,637)
Recognised provision for onerous construction contracts (Note 29)	(312)	(1,295)

During the accounting year advance payments received prior for construction contract works in a sum of EUR 5,637 thousand (2019: EUR 3,363 thousand) were recognised as revenue. As of 31 December 2020, the group's secured order book stood at EUR 225,114 thousand (2019: EUR 141,434 thousand), for which the revenue is recognised in future periods. According to management estimation, 79% of revenue is going to be recognised in 2021 and 21% in 2022.

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

in thousands of euros

	31.12.2020	31.12.2019
Estonia	17,896	15,289
Latvia	13,096	13,333
Lithuania	383	476
Norway	133	143
Total	**31,508**	**29,241**

NOTE 5 COST OF GOODS SOLD

in thousands of euros

	2020	2019
Construction services and properties purchased for resale	174,208	185,121
Materials	42,526	49,121
Staff costs	24,509	26,323
Construction mechanisms and transport	11,687	8,911
Design	5,103	4,394
Real estate management costs	323	401
Depreciation (Note 4)	1,815	1,835
Impairment of inventories (Notes 4, 18)	604	175
Provisions (Notes 4, 29)	3,100	4,939
Other expenses	8,294	10,738
Total cost of goods sold	**272,169**	**291,958**

NOTE 6 MARKETING EXPENSES

in thousands of euros

	2020	2019
Staff costs	2,380	2,560
Advertising, sponsorship	1,350	1,166
Transport	143	187
Depreciation	117	105
Other expenses	222	242
Total marketing expenses	**4,212**	**4,260**

NOTE 7 GENERAL AND ADMINISTRATIVE EXPENSES

in thousands of euros

	2020	2019
Staff costs	9,546	8,506
Office expenses, communication services	469	462
Consulting, legal, auditing *	433	497
Transport	348	415
Computer equipment and software	631	570
Depreciation	819	767
Provisions (Notes 4, 29)	66	280
Other expenses	1,100	1,491
Total general and administrative expenses	**13,412**	**12,988**

* Customer contract fees of the audit firms accounted for during the accounting year were EUR 137 thousand for audit fees (2019: EUR 140 thousand) and EUR 15 thousand for other business activities (2019: EUR 26 thousand).

NOTE 8 OTHER OPERATING INCOME

in thousands of euros

	2020	2019
Interest income from operating activities	1,499	2,190
Foreign exchange gains	-	2
Profit from sale of non-current assets	250	309
Fines and penalties for delay received	409	114
Collection of doubtful receivables (Notes 16, 35)	5	1
Other income	157	367
Total other operating income	**2,320**	**2,983**

NOTE 9 OTHER OPERATING EXPENSES

in thousands of euros

	2020	2019
Fines, penalties	48	211
Gifts, donations	218	181
Doubtful receivables expense (Notes 16, 35)	2,683	795
Other expenses	30	131
Total other operating expenses	**2,979**	**1,318**

NOTE 10 FINANCE INCOME

in thousands of euros

	2020	2019
Interest income (Note 4)	1	2
Other finance income	-	1
Total finance income	**1**	**3**

NOTE 11 FINANCE COSTS

in thousands of euros

	2020	2019
Interest expense (Notes 4, 27)	719	656
Foreign exchange losses	7	-
Other finance costs	140	28
Total finance costs	**866**	**684**

NOTE 12 CORPORATE INCOME TAX

in thousands of euros

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

2020	Latvia	Lithuania	Norway	Estonia	Total
Profit (loss) before tax	1,897	11,276	(1,405)	12,689	24,457
Tax rate applicable to profits	0%	15%	22%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	(1)	(1,691)	309	-	(1,383)
Tax calculated on expenses not deductible for tax purposes	-	642	(12)	-	630
Tax effect of income not subject to tax	-	88	-	-	88
Tax losses of previous periods recognised in the reporting period	-	69	10	-	79
Deferred income tax on dividends	-	-	-	(1,368)	(1,368)
Total income tax expense	**(1)**	**(892)**	**307**	**(1,368)**	**(1,954)**
incl. income tax expense	(1)	(1,574)	296	-	(1,279)
deferred income tax expense (Note 22)	-	682	11	(1,368)	(675)

2019	**Latvia**	**Lithuania**	**Norway**	**Estonia**	**Total**
Profit (loss) before tax	319	4,806	1,684	13,514	20,323
Tax rate applicable to profits	0%	15%	22%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	(1)	(721)	(371)	-	(1,093)
Tax calculated on expenses not deductible for tax purposes	-	48	-	-	48
Tax effect of income not subject to tax	-	(235)	-	-	(235)
Tax losses of previous periods recognised in the reporting period	-	214	(2)	-	212
Tax losses not recognised in the reporting period	-	(16)	-	-	(16)
Income tax withheld on dividends	(161)	-	-	(2,588)	(2,749)
Total income tax expense	**(162)**	**(710)**	**(373)**	**(2,588)**	**(3,833)**
incl. income tax expense	(162)	(573)	(309)	(2,588)	(3,632)
deferred income tax expense (Note 22)	-	(137)	(64)	-	(201)

Pursuant to IAS 12, the deferred income tax expense and liability will be recognized in AS Merko Ehitus group consolidated financial statements based on the share of net profit in the year ended that is planned to be paid out as dividends in the foreseeable future (Note 1.7,2).

As at 31.12.2020 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 1,368 thousand euros (31.12.2019: 0 thousand euros).

As at 31 December 2020, the parent company AS Merko Ehitus has EUR 3,507 thousand (31.12.2019: EUR 1 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 31 December 2020, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 116,547 thousand (31.12.2019: EUR 97,533 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 877 thousand (31.12.2019: EUR 0 thousand), the corresponding income tax on dividends would amount to EUR 27,959 thousand (31.12.2019: EUR 24,083 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 sum, 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 13 EARNINGS PER SHARE

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

	2020	**2019**
Net profit attributable to shareholders *(in thousand EUR)*	22,994	16,270
Weighted average number of ordinary shares *(thousand pcs)*	17,700	17,700
Basic earnings per share *(in euros)*	**1.30**	**0.92**

In 2020 and 2019, the group did not have any potential ordinary shares to be issued; therefore, the diluted earnings per share equal the basic earnings per share.

NOTE 14 DIVIDENDS PER SHARE

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. While in 2018 and 2020, no income tax cost for the group arose in Estonia in connection with the payment of dividends, in 2019 it did arise in connection with EUR 10.3 million worth of paid dividends. Pursuant to that, in 2021, the group shall recognise income tax cost on possible payable dividends using the tax rate for regularly payable (net) dividends of 14/86 on a sum of EUR 3.4 million. As per the Estonian Income Tax Act, the group shall withhold an additional 7% income tax from the dividends taxed with the 14/86 rate that are paid to shareholders who are natural persons.

The annual general meeting of shareholders of AS Merko Ehitus held at 6 May 2020 approved the Supervisory Board's proposal not to pay dividends from net profit brought forward to shareholders. In accordance with the profit allocation decision, dividends were paid by parent company AS Merko Ehitus in 2019 in the amount of EUR 17,700 thousand, i.e. EUR 1.00 per share. The group incurred income tax expenses in 2019 in connection with dividend payments in an amount of 2,749 thousand euros (Note 12).

NOTE 15 CASH AND CASH EQUIVALENTS

in thousands of euros

	31.12.2020	31.12.2019
Cash on hand	-	6
Bank accounts	47,480	24,743
Total cash and cash equivalents (Note 35)	**47,480**	**24,749**

NOTE 16 TRADE AND OTHER RECEIVABLES

in thousands of euros

	31.12.2020	31.12.2019
Trade receivables (Note 35)		
Accounts receivable	25,391	34,148
Allowance for doubtful receivables	(3,525)	(856)
	21,866	**33,292**
Tax prepayments excluding corporate income tax		
Value added tax	585	695
Other taxes	35	3
	620	**698**
Accrued income form construction services (Notes 4, 35)	**7,741**	**11,689**
Other short-term receivables		
Short-term loans (Notes 17, 35)	371	1,700
Interest receivables (Note 35)	1	3
Other short-term receivables (Note 35)	118	172
	490	**1,875**
Prepayments for services		
Prepayments for construction services	1,570	2,441
Prepaid insurance	137	117
Other prepaid expenses	233	301
	1,940	**2,859**
Total trade and other receivables	**32,657**	**50,413**
incl. short-term loan receivables from related parties (Note 17)	-	1,650
other short-term receivables and prepayments to related parties (Note 33)	369	89

In 2020, the share of overdue receivables decreased from 15.8% to 8.6% of total receivables, and as at the reporting date (31.12.2020), the amount of overdue receivables was EUR 1,855 thousand (31 December 2019: 5,257 thousand). By 11 March 2021, EUR 878 thousand or 46.6% of overdue invoices had been received as of the reporting date. In 2020, the share of receivables overdue for more than 180 days increased, but overall the share of receivables overdue decreased, as a result of which the average collection period of trade receivables decreased to the 35 days (2019: 45 days).

	2020	2019
Doubtful receivables at the beginning of the period	(856)	(81)
Reporting period doubtful receivables expenses (Note 9)	(2,683)	(794)
Receivables written off during the year as uncollectible	9	18
Received doubtful receivables (Note 8)	5	1
Doubtful receivables at the end of the period	**(3,525)**	**(856)**

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

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

NOTE 17 LOANS GRANTED

in thousands of euros

	Joint ventures (Note 33)	**Unrelated legal entities**	**Unrelated individuals**	**Total**
2020				
Loan balance at beginning of the year	1,650	50	-	1,700
Granted	1,210	339	6	1,555
Received	(1,745)	(21)	(3)	(1,769)
Loan balance at end of the year	**1,115**	**368**	**3**	**1,486**
incl. current portion (Notes 16, 35)	-	368	3	371
non-current portion 2…5 years	1,115	-	-	1,115
Interest rate	6.0%	7-15%	5%	
2019				
Loan balance at beginning of the year	9,000	5,590	-	14,590
Received	(7,350)	(5,540)	-	(12,890)
Loan balance at end of the year	**1,650**	**50**	-	**1,700**
incl. current portion (Notes 16, 35)	1,650	50	-	1,700
Average effective interest rate	6.0%	10%		

All issued loans reported as at the balance sheet date had not yet fallen due.

As at 31 December 2020 the loans granted to unrelated legal entities in the amount of EUR 339 thousand are secured by mortgage on a registered immovable property in the amount of EUR 5,460 thousand.

NOTE 18 INVENTORIES

in thousands of euros

	31.12.2020	**31.12.2019**
Materials	351	236
Work-in-progress	38,626	65,550
Finished goods	25,210	28,252
Goods for resale		
Registered immovables purchased for resale/development	60,667	70,193
Other goods purchased for resale	87	133
	60,754	**70,326**
Prepayments for inventories		
Prepayments for other inventories	1,391	1,862
	1,391	**1,862**
Total inventories	**126,332**	**166,226**

The inventories pledged as collateral as at 31 December 2020 for loans total EUR 57,706 thousand (2019: EUR 95,719 thousand) (Note 31).

In 2019, inventories have been written down to their net realisable value by EUR 604 thousand (2019: EUR 175 thousand) and previously made write-downs have not been reversed (2019: EUR 0 thousand).

	Carrying amount before write-down	**Write-down**	**Carrying amount after write-down**
31.12.2020			
Finished goods	25,432	(222)	25 210
Other goods purchased for resale	133	(46)	87
Prepayments for other inventories	1,727	(336)	1,391
Total	**27,292**	**(604)**	**26,688**
31.12.2019			
Other goods purchased for resale	308	(175)	133
Total	**308**	**(175)**	**133**

NOTE 19 SHARES IN SUBSIDIARIES

	Ownership and voting rights %		Location	Area of operation
	31.12.2020	**31.12.2019**		
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	Estonia, Tallinn	Road construction
AS Merko Infra	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	Estonia, Tallinn	Mining
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
UAB Statinių Priežiūra ir Administravimas	-	100	Lithuania, Vilnius	Real estate
UAB Timana	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektai	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	Estonia, Tallinn	Real estate
UAB Balsiu Mokyklos SPV	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku Aikštele	-	100	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	-	Lithuania, Vilnius	Real estate
OÜ Kiviaia Kinnisvara	-	100	Estonia, Tallinn	Real estate
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	Latvia, Riga	Real estate
PS Merks-Ostas Celtnieks	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	Finland, Helsinki	Construction
Merko Investments AS	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	Norway, Sofiemyr	Construction

On 5 April 2019, AS Merko Ehitus management board decided to start liquidation procedures of a fully owned subsidiary OÜ Kiviaia Kinnisvara. The liquidation of the company was completed and the company deleted from the Commercial Register on 4 March 2020.

On 6 November 2020, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas. Under the restructuring plan, UAB Merko Bustas's 100% owned subsidiary UAB Jurininku Aikštele was merged into its parent. As a result of the merger, the company acquired (UAB Jurininku Aikštele) will wind up without liquidation proceedings and UAB Merko Bustas becomes the legal successor of the company acquired. The merger date is 31 December 2020, after which all transactions of the acquired company will be deemed to be made on the account of the acquiring company. The restructuring is intended to be finished and the final entry will be made in the Commercial Register during 2021.

In connection with the change in the structure of the AS Merko Ehitus group, a contract for the sale of shares of Tallinna Teede AS was concluded on 15 December 2020 between AS Merko Ehitus and AS Merko Ehitus Eesti, where under the latter transferred its 100% stock holding to AS Merko Ehitus on 1 January 2021.

As an intra-group transaction in Lithuania, on 31 December 2020, UAB Merko Bustas, a 100% subsidiary of AS Merko Ehitus, acquired from a sister company UAB Merko Statyba a 100% holding in the real estate development subsidiary UAB Statinių Priežiūra ir Administravimas.

FINANCIAL INFORMATION REGARDING SIGNIFICANT SUBSIDIARY WITH A NON-CONROLLING INTEREST

in thousands of euros

	SIA Zakusala Estates	
Statement of financial position	**31.12.2020**	**31.12.2019**
Cash	89	122
Trade and other receivables	4	30
Inventories	18,064	18,001
Total short-term assets	18,157	18,153
Short-term liabilities	156	348
Long-term liabilities	226	-
Total liabilities	382	348
Equity	17,775	17,805
Non-controlling interest %	25%	25%
Non-controlling interest	4,444	4,451
Statement of comprehensive income	**01.01-31.12.2020**	**01.01-31.12.2019**
Other expenses	(2)	(3)
Land tax	(29)	(29)
Net profit (loss) for the period	(31)	(32)
Comprehensive profit (loss) for the period	(31)	(32)
incl. attributable to equity holders of the parent	(23)	(24)
attributable to non-controlling interest	(8)	(8)
Cash flow statement	**01.01-31.12.2020**	**01.01-31.12.2019**
Operating profit	(30)	(32)
Change in receivables related to operating activities	26	(18)
Change in inventories	(63)	(242)
Change in payables related to operating activities	(191)	278
Total cash flow from operating activities	(258)	(14)
Proceeds from borrowings	225	-
Total cash flows from financing activities	225	-
Change in cash and cash equivalents	(33)	(14)
Cash and cash equivalents in the beginning of the period	122	136
Cash and cash equivalents at the end of the period	89	122

As at 31 December 2020, the group's non-controlling interest in equity is EUR 4,207 thousand (31.12.2019: EUR 4,217 thousand), including SIA Zakusala Estates non-controlling interest in the amount of EUR 4,444 thousand (31.12.2019: EUR 4,451 thousand). The other companies with a non-controlling interest – totalling at EUR -237 thousand (31.12.2019: EUR -234 thousand) – do not separately constitute a significant item for the group.

NOTE 20 INVESTMENTS IN JOINT VENTURES

	Ownership and voting rights %		Location	Area of operation
	31.12.2020	**31.12.2019**		
Joint ventures				
Kodusadam OÜ	50	50	Estonia, Tallinn	Real estate

in thousands of euros	Investment at 31.12.2019	Changes in 2020	Investment at 31.12.2020
		profit (loss) on entities	
Joint ventures			
Kodusadam OÜ	2,498	(144)	2,354
Total joint ventures	**2,498**	**(144)**	**2,354**

in thousands of euros	Investment at 31.12.2018	Changes in 2019 profit (loss) on entities	Investment at 31.12.2019
Joint ventures			
Kodusadam OÜ	732	1,766	2,498
Total joint ventures	**732**	**1,766**	**2,498**

JOINT VENTURES

in thousands of euros

	Assets 31.12.			Liabilities 31.12						
	Cash	Other current assets	Non-current assets	Short-term borrowings	Other current liabilities	Long-term loans	Equity 31.12.	Income	Expenses	Net profit (loss)
2020										
Kodusadam OÜ	712	7,253	-	-	1,028	2,230	4,707	2,112	(2,401)	(289)
Total	**712**	**7,253**	**-**	**-**	**1,028**	**2,230**	**4,707**	**2,112**	**(2,401)**	**(289)**
2019										
Kodusadam OÜ	1,718	7,060	262	3,300	744	-	4,996	19,961	(16,429)	3,532
Total	**1,718**	**7,060**	**262**	**3,300**	**744**	**-**	**4,996**	**19,961**	**(16,429)**	**3,532**

In 2020, interest expenses have not been recognised in the expenses of joint ventures (2019: 0 thousand) as the loan usage costs are capitalized during construction period.

In connection with the joint venture, the group has contractual obligations to finance, as needed, the joint ventures' activities with loans totalling EUR 3,250 thousand (31.12.2019: EUR 9,000 thousand), of which the group has paid EUR 1,115 thousand in total (31.12.2019: EUR 1,650 thousand). In addition, the group has an obligation to provide construction services in future periods in amount of EUR 233 thousand (31.12.2019: EUR 264 thousand).

NOTE 21 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousands of euros

	31.12.2020	31.12.2019
Long-term loans (Note 35)	1,115	-
Long-term bank deposit (Note 35)	2	2
Long-term trade receivables (Note 35) *	16,862	11,092
Total other long-term loans and receivables	**17,979**	**11,094**
incl. long-term loan receivables from related parties (Note 17)	1,115	-

* incl. long-term receivables from a buyer of Balsiu School in amount of EUR 10,009 thousand (31.12.2019: EUR 10,293 thousand) and receivables from the work-in-progress of a concession contract in the amount of EUR 6,822 thousand (31.12.2019: EUR 234 thousand) (Note 1.20).

NOTE 22 DEFERRED INCOME TAX ASSETS AND LIABILITIES

in thousands of euros

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

31.12.2020	**Lithuania**	**Norway**	**Estonia**	**Total**
Deferred income tax assets				
effect of construction contract works	256	-	-	256
effect of recognition of provisions	395	-	-	395
other effects	2	-	-	2
Total deferred income tax assets	**653**	-	-	**653**
Deferred income tax liability				
effect of other payables	(1,514)	(127)	-	(1,641)
effect of exchange rates	-	8	-	8
deferred income tax on dividends	-	-	(1,368)	(1,368)
Total deferred income tax liability	**(1,514)**	**(119)**	**(1,368)**	**(3,001)**
Deferred income tax expense of the financial year (Note 12)	682	11	(1,368)	(675)

31.12.2019	**Lithuania**	**Norway**	**Total**
Deferred income tax liability			
effect of other payables	(1,544)	(138)	(1,682)
Deferred income tax expense of the financial year (Note 12)	(137)	(64)	(201)

NOTE 23 INVESTMENT PROPERTIES

in thousands of euros

	Land	**Right of superficies**	**Buildings**	**Total**
Cost at 31.12.2018	11,991	29	2,631	14,651
Accumulated depreciation 31.12.2018	-	(12)	(868)	(880)
Carrying amount at 31.12.2018	**11,991**	**17**	**1,763**	**13,771**
Acquisition and improvements	409	-	-	409
Depreciation	-	(1)	(132)	(133)
Carrying amount at 31.12.2019	**12,400**	**16**	**1,631**	**14,047**
Cost at 31.12.2019	12,400	29	2,631	15,060
Accumulated depreciation 31.12.2019	-	(13)	(1,000)	(1,013)
Carrying amount at 31.12.2019	**12,400**	**16**	**1,631**	**14,047**
Acquisition and improvements	7	-	-	7
Depreciation	-	-	(132)	(132)
Carrying amount at 31.12.2020	**12,407**	**16**	**1,499**	**13,922**
Cost at 31.12.2020	12,407	29	2,631	15,067
Accumulated depreciation 31.12.2020	-	(13)	(1,132)	(1,145)
Carrying amount at 31.12.2020	**12,407**	**16**	**1,499**	**13,922**

As at 31 December 2020, the carrying amounts of investment properties do not significantly differ from their fair values, with the exception of land, the fair value of which has been estimated by valuation expert at EUR 27,970 thousand (31.12.2019: the carrying amounts of investment properties did not significantly differ from their fair values, with the exception of land, the fair value of which had been estimated by valuation expert at EUR 27,410 thousand). Fair values have mainly been estimated based on comparable transactions (Level 2). Fair value measurement was carried out using Level 3 inputs of the fair value hierarchy.

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

As at 31 December 2020, investment properties pledged as collateral for loans total EUR 13,692 thousand (31.12.2019: EUR 13,816 thousand) (Note 31).

NOTE 24 PROPERTY, PLANT AND EQUIPMENT

in thousands of euros

	Land	Buildings	Machinery and equipment	Other fixtures	Construction in progress and prepayments	Total
Cost at 31.12.2018	743	5,765	14,473	5,474	110	26,565
Accumulated depreciation at 31.12.2018	-	(2,180)	(9,764)	(4,906)	-	(16,850)
Carrying amount at 31.12.2018	**743**	**3,585**	**4,709**	**568**	**110**	**9,715**
IFRS 16 initial application (Note 2)	-	770	239	-	-	1,009
Adjusted carrying value as at 01.01.2019	**743**	**4,355**	**4,948**	**568**	**110**	**10,724**
Acquisition and improvements	-	23	2,599	394	591	3,607
incl. leased assets	-	23	1,384	-	-	1,407
Disposals	-	-	(348)	(17)	-	(365)
Reclassification	(31)	-	189	401	(199)	360
Write-offs	-	-	(21)	(2)	-	(23)
Depreciation	-	(449)	(1,667)	(268)	-	(2,384)
Carrying amount at 31.12.2019	**712**	**3,929**	**5,700**	**1,076**	**502**	**11,919**
Cost at 31.12.2019	712	6,558	14,371	4,018	502	26,161
Accumulated depreciation at 31.12.2019	-	(2,629)	(8,671)	(2,942)	-	(14,242)
Carrying amount at 31.12.2019	**712**	**3,929**	**5,700**	**1,076**	**502**	**11,919**
incl. leased assets (Note 26)		526	2,456	-	-	2,982
Currency translation differences	-	-	(1)	(4)	-	(5)
Acquisition and improvements	-	8	1,387	190	3,739	5,324
incl. leased assets	-	8	995	-	-	1,003
Disposals	-	(91)	(211)	(2)	-	(304)
Reclassification	-	-	282	-	(282)	-
Write-offs	-	(65)	-	(9)	-	(74)
Depreciation	-	(430)	(1,540)	(369)	-	(2,339)
Carrying amount at 31.12.2020	**712**	**3,351**	**5,617**	**882**	**3,959**	**14,521**
Cost at 31.12.2020	712	6,040	14,377	4,027	3,959	29,115
Accumulated depreciation at 31.12.2020	-	(2,689)	(8,760)	(3,145)	-	(14,594)
Carrying amount at 31.12.2020	**712**	**3,351**	**5,617**	**882**	**3,959**	**14,521**
incl. leased assets (Note 26)		186	2,487	-	-	2,673

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

As at 31 December 2020, property, plant and equipment pledged as collateral for loans total EUR 2,892 thousand (31.12.2019: EUR 3,021 thousand) (Note 31).

NOTE 25 INTANGIBLE ASSETS

in thousands of euros

	Goodwill	Software	Prepayments	Total
Cost at 31.12.2018	73	1,716	39	1,828
Accumulated amortisation and impairment at 31.12.2018	-	(1,157)	-	(1,157)
Carrying amount at 31.12.2018	**73**	**559**	**39**	**671**
Acquisitions	-	112	161	273
Reclassification	-	200	(200)	-
Write-offs	-	(2)	-	(2)
Amortisation and impairment	-	(165)	-	(165)
Carrying amount at 31.12.2019	**73**	**704**	-	**777**
Cost at 31.12.2019	73	2,024	-	2,097
Accumulated amortisation and impairment at 31.12.2019	-	(1,320)	-	(1,320)
Carrying amount at 31.12.2019	**73**	**704**	-	**777**
Currency translation differences	(4)	1	-	(3)
Acquisitions	-	25	118	143
Reclassification	-	103	(103)	-
Write-offs	-	(1)	-	(1)
Amortisation and impairment	-	(205)	-	(205)
Carrying amount at 31.12.2020	**69**	**627**	**15**	**711**
Cost at 31.12.2020	69	2,122	15	2,206
Accumulated amortisation and impairment at 31.12.2020	-	(1,495)	-	(1,495)
Carrying amount at 31.12.2020	**69**	**627**	**15**	**711**

NOTE 26 LEASED ASSETS

in thousands of euros

	Office space and warehouses	Vehicles and equipment	Total
31.12.2018			
Cost	-	3,476	3,476
Accumulated depreciation	-	(1,747)	(1,747)
Carrying amount	-	**1,729**	**1,729**
01.01.2019			
Initial recognition on IFRS 16 adoption	770	239	1,009
2019			
Additions	23	1,384	1,407
Termination of lease contracts	-	(246)	(246)
Depreciation	(267)	(650)	(917)
31.12.2019			
Cost	793	3,665	4,458
Accumulated depreciation	(267)	(1,209)	(1,476)
Carrying amount (Note 24)	**526**	**2,456**	**2,982**
Additions	8	995	1,003
Termination of lease contracts	(90)	(172)	(262)
Depreciation	(258)	(792)	(1,050)
31.12.2020			
Cost	495	3,684	4,179
Accumulated depreciation	(309)	(1,197)	(1,506)
Carrying amount (Note 24)	**186**	**2,487**	**2,673**

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

in thousands of euros

	2020	2019	Note
Interest expense	41	33	11
Expense relating to short-term leases	187	357	5, 6, 7
Expense relating to leases of low-value assets	105	112	5, 6, 7

Consideration paid for leases recognised as fixed assets (including the leases that ended during the period) amounted to EUR 1,144 thousand in 2020 (2019: EUR 1,208 thousand).

Consideration paid for short-term cancellable leases for vehicles as right-of-use assets amounted to EUR 148 thousand in 2020 (2019: EUR 308 thousand). Rented assets have not been subleased.

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

	31.12.2020	31.12.2019
Cost	2,682	2,682
Accumulated depreciation	(1,132)	(1,000)
Carrying amount	**1,550**	**1,682**

	2020	2019
Operating lease income received for investment properties (Note 23)	243	303
Future operating lease income:	**697**	**914**
Next year	234	246
In 2…5 years	456	660
Later than 5 years	7	7
Direct administrative expenses of investment properties (Note 23)	(192)	(153)

NOTE 27 BORROWINGS

in thousands of euros

		Loans from				
	Lease liabilities	**banks**	**entities under common control** (Note 33)	**other entities** (Note 33)	**total**	**Total borrowings** (Note 35)
2020						
Balance at beginning of the year	2,891	54,835	6,000	-	60,835	63,726
Received	1,003	20,377	-	56	20,433	21,436
Repaid	(922)	(54,911)	-	-	(54,911)	(55,833)
Sale/return to lessor	(269)	-	-	-	-	(269)
Exchange rate	-	(2)	-	-	(2)	(2)
Loan balance as at end of the year	**2,703**	**20,299**	**6,000**	**56**	**26,355**	**29,058**
incl. current portion	790	6,859	6,000	-	12,859	13,649
non-current portion 2…5 years	1,913	13,440	-	56	13,496	15,409
Accrued interest of reporting period	41	856	142	0	998	1,039
incl. capitalised interest cost	-	320	-	-	320	320
Interest rate range	1.0%-2.49% +3-6 month Euribor	1.05%-2.78% +3-12 month Euribor; 1.69%+Eonia 6.46%-7.26%	2.65%+6 month Euribor	4%+12 month Euribor		
Base currencies	EUR	EUR, NOK	EUR	EUR		

		Loans from				
	Lease liabilities	**banks**	**entities under common control** (Note 33)	**other entities**	**total**	**Total borrowings** (Note 35)
Loan balance as at 31.12.2018	**1,647**	**30,694**	**6,000**	**5,825**	**42,519**	**44,166**
IFRS 16 initial application	1,009	-	-	-	-	1,009
Adjusted carrying value as at 01.01.2019	**2,656**	**30,694**	**6,000**	**5,825**	**42,519**	**45,175**
2019						
Received	1,406	45,827	-	700	46,527	47,933
Repaid	(1,006)	(21,686)	-	(6,525)	(28,211)	(29,217)
Sale to lessor	(165)	-	-	-	-	(165)
Loan balance as at 31.12.2019	**2,891**	**54,835**	**6,000**	**-**	**60,835**	**63,726**
incl. current portion	806	18,919	1,000	-	19,919	20,725
non-current portion 2…5 years	2,085	35,916	5,000	-	40,916	43,001
Accrued interest of reporting period	33	829	145	-	974	1,007
incl. capitalised interest cost	-	351	-	-	351	351
Interest rate range	1.0%-3.55% +3-6 month Euribor	0.65%-2.3% +1-6 month Euribor; 1.69%+Eonia 6.46%-7.26%	2.65%+6 month Euribor	0%		
Base currencies	EUR	EUR, NOK	EUR	EUR		

	2020	**2019**
Minimum future payments under lease liabilities	2,788	2,974
incl. current portion	826	839
non-current portion with the term of 2…5 years	1,962	2,135

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

	2020	**2019**
Lease liabilities		
1-5 months	435	522
6-12 months	2,082	1,840
Bank loans		
1-5 months	11,381	26,864
6-12 months	8,918	27,945
Loans from entities under common control		
6-12 months	6,000	6,000
Loans from other entities		
6-12 months	56	-
Total	**28,872**	**63,171**

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

	2020	**2019**
Lease liabilities	186	529
Loans from bank	-	26
Total	**186**	**555**

Loan collaterals and pledged assets are presented in Note 31.

NOTE 28 PAYABLES AND PREPAYMENTS

in thousands of euros

	31.12.2020	31.12.2019
Trade payables (Note 35)	**20,948**	**30,681**
Payables to employees	**11,788**	**10,647**
Tax liabilities, except for corporate income tax		
value added tax	3,199	4,270
personal income tax	470	485
social security tax	1,180	1,146
unemployment insurance tax	50	48
contributions to mandatory funded pension	36	33
other taxes	98	205
	5,033	**6,187**
Prepayments for construction services (Notes 4, 35)	**6,926**	**8,058**
Other liabilities (Note 35)		
interest liabilities	1	5
other liabilities	592	218
	593	**223**
Prepayments received *	**10,558**	**13,789**
Total payables and prepayments	**55,846**	**69,585**
incl. payables to related parties (Note 33)	3	12

* As of 31 December 2020 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 6,997 thousand (31.12.2019: EUR 5,637 thousand) and of prepayments received connection with residential properties (apartment buyers) in a sum of EUR 3,561 thousand (31.12.2019: EUR 8,152 thousand) (Note 4).

NOTE 29 PROVISIONS

in thousands of euros

	Provision for warranty obligation for construction	**Provision for onerous construction contracts**	**Provision for legal costs and claims filed** (Note 35) *	**Provision for costs of projects sold and work-in-progress of projects**	**Other provisions**	**Total**
2020						
Balance at beginning of the year	3,507	1,295	202	2,894	78	7,976
Recognised (Notes 4, 5, 7)	1,170	285	-	1,724	66	3,245
Used during the year	(1,150)	(1,268)	-	(2,299)	(78)	(4,795)
Reversed (Notes 4, 7)	(79)	-	-	-	-	(79)
Balance at end of the year	**3,448**	**312**	**202**	**2,319**	**66**	**6,347**
incl. current portion	3,448	312	202	2,319	66	6,347
2019						
Balance at beginning of the year	3,373	248	120	4,330	29	8,100
Recognised (Notes 4, 5, 7)	1,361	1,381	202	2,454	78	5,476
Used during the year	(1,090)	(334)	-	(3,890)	(29)	(5,343)
Reversed (Notes 4, 7)	(137)	-	(120)	-	-	(257)
Balance at end of the year	**3,507**	**1,295**	**202**	**2,894**	**78**	**7,976**
incl. current portion	3,507	1,295	202	2,894	78	7,976

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

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

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

NOTE 30 OTHER LONG-TERM PAYABLES

in thousands of euros

	31.12.2020	31.12.2019
Trade payables (Note 35)	2,120	2,476
Prepayments received *	1,579	-
Other long-term payables (Note 35)	327	1,015
Total other long-term payables	**4,026**	**3,491**
incl. other long-term payables to related parties (Notes 33)	327	1,015

* As of 31 December 2020 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 1,579 thousand (31.12.2019: EUR 0 thousand) (Note 4).

NOTE 31 LOAN COLLATERALS AND PLEDGED ASSETS

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

in thousands of euros

Commercial pledges	31.12.2020	31.12.2019
Movable property	42,941	49,413
Financial assets *	18,778	12,356
Total	**61,719**	**61,769**

* The financial assets of UAB Balsiu Mokyklos SPV, which OÜ Merko Property has pledged to secure the investment loan in the amount of EUR 6,607 thousand for the benefit of OP Corporate Bank plc Lithuanian branch (31.12.2019: EUR 7,132 thousand for the benefit of OP Corporate Bank plc Lithuanian branch) and the financial assets of UAB VPSP2, which UAB Merko Statyba has pledged to secure the investment loan in the amount of EUR 1,576 thousand for the benefit of AB SEB bankas.

Mortgages	31.12.2020	31.12.2019
Inventories (Note 18)	57,706	95,719
Land and buildings (Note 24)	2,892	3,021
Investment properties (Note 23)	13,692	13,816
Total	**74,290**	**112,556**

Pledges of shares

In addition to the commercial pledge on financial assets, OÜ Merko Property has pledged the shares of its wholly-owned subsidiary UAB Balsiu Mokyklos SPV for the benefit of OP Corporate Bank plc Lithuanian branch. An investment loan in the amount of EUR 6,607 thousand (31.12.2019: EUR 7,132 thousand for the benefit of OP Corporate Bank plc Lithuanian branch) is secured by the pledge. UAB Merko Statyba has pledged the shares of its wholly-owned (100%) subsidiary UAB VPSP2 for the benefit of AB SEB bankas. An investment loan in the amount of EUR 1,576 thousand is secured by the pledge.

NOTE 32 SHARE CAPITAL

There were no changes in share capital during 2020 and 2019.

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

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

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

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

As at 31.12.2020 and 31.12.2019, the share of capital of AS Merko Ehitus was EUR 7,929 thousand and the consolidated net assets of AS Merko Ehitus were EUR 153,228 thousand (31.12.2019: EUR 130,338 thousand), therefore the Company's equity and share capital were in compliance on both balance sheet date with the requirements established in the Republic of Estonia. The calculated value of the share was 0.447966 euros.

NOTE 33 RELATED PARTY TRANSACTIONS

In compiling the Annual Report, the following entities have been considered as related parties:

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.12.2020 and 31.12.2019, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

GOODS AND SERVICES

in thousands of euros

	2020	2019
Provided services and goods sold		
Parent company	13	15
Joint ventures *	1,494	2,770
Entities under common control	844	847
Members of the management **	838	2,441
Total services provided and goods sold	**3,189**	**6,073**
Interest income		
Joint ventures	74	377
Purchased services and goods		
Parent company	90	90
Entities under common control	68	137
Members of the management	3	-
Total purchased services and goods	**161**	**227**
Interest expense		
Entities under common control	142	145
Total interest expense	**142**	**145**

BALANCES WITH RELATED PARTIES

in thousands of euros

	31.12.2020	31.12.2019
Receivables from related parties		
Loans granted (Note 16, 17, 21)		
Joint ventures	1,115	1,650
Receivables and prepayments (Note 16)		
Parent company	4	4
Joint ventures	25	64
Entities under common control	340	9
Members of the management	-	12
Total receivables and prepayments	**369**	**89**
Total receivables from related parties	**1,484**	**1,739**
Payables to related parties		
Lease liabilities (Note 27)		
Entities under common control	82	124
Short-term loans received (Note 27)		
Entities under common control	6,000	1,000
Payables and prepayments (Note 28)		
Parent company	-	9
Entities under common control	3	3
Total payables and prepayments	**3**	**12**
Long-term loans received (Note 27)		
Entities under common control	-	5,000
Other related parties	56	-
Other long-term payables (Note 30)		
Other related parties	327	1,015
Total payables to related parties	**6,468**	**7,151**

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

** In 2020, construction and design services were provided to management members. In 2019, apartments were sold and handed over. These were not significant transactions for the group.

With regard to receivables from related parties, no impairments were performed in either 2020 or 2019.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

In 2020, the members of the Supervisory and Management Boards of AS Merko Ehitus and Management Boards of its significant subsidiaries were paid gross fees totalling EUR 3,857 thousand (2019: EUR 3,212 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorisation agreements have been entered into with the members of the Supervisory Board according to which no termination benefits are paid to them upon the termination of the contract. Upon premature removal or termination of authority of the members of the Supervisory and Management Boards, the group has the obligation to pay compensation totalling EUR 974 thousand (2019: EUR 1,084 thousand). In the 12 months of 2020, the Management Board members of major subsidiaries received EUR 157 thousand in compensation (2019: EUR 0 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31 December 2020

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

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

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31 December 2020

		NO. OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	1,100	0.01%
Tõnu Toomik	Member of the Management Board	-	-
		1,100	**0.01%**

NOTE 34 CONTINGENT LIABILITIES

in thousands of euros

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

	31.12.2020	31.12.2019
Performance period's warranty to the customer	24,901	24,896
Tender warranty	669	916
Guarantee warranty period	22,253	19,964
Prepayment guarantee	11,589	6,835
Payment guarantee	516	-
Contracts of surety	1,834	7,783
Total contingent liabilities	**61,762**	**60,394**

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 completed.
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 – warranty provider guarantees to the customer that the construction defects discovered during the warranty period will be eliminated.
Prepayment guarantee – warranty provider guarantees to the customer that advances will be reimbursed, if contractor fails to deliver goods or services agreed.
Payment guarantee – guarantor guarantees repayments of the customer's/developer's loan.
Contracts of surety – the group guarantees the timely fulfilment of group member's liabilities towards a third party (e.g. providing services by a certain date in the agreed amount).

As at 31 December 2020 the group has recognised a provision (Note 29) with regards to the guarantee for warranty period which is based upon historical experience and contractual volumes.

Tax authorities have the right to review the group's tax records within 5 years after submitting the tax declaration and upon detecting errors, impose additional taxes, interest and fines. The group's management estimates that there are no circumstances which might lead the tax authorities to impose additional significant taxes on the group.

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

NOTE 35 RISK MANAGEMENT

FINANCIAL RISKS MANAGEMENT

In its daily activities, the group needs to consider various financial risks. The key risks include market risk (incl. interest rate risk and foreign currency risk), credit risk, liquidity risk and equity risk. Based on the group's balance sheet structure and position in the market, none of these risks have a significant impact as at the date of preparation of the financial statements. The group's risk management is based on laws, regulations, requirements and regulations arising from International Financial Reporting Standards, as well as the group's internal regulations and good business practices. The group's finance department is responsible for management of financial risks.

1. CREDIT RISK

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

Free cash is mostly held in bank account or term deposits at banks, which are part of Swedbank, SEB, Luminor and OP Corporate Bank groups. Baltic banks, which are part of Swedbank and SEB group do not have separate ratings by Moody's. The parent company of Swedbank group, Swedbank AB, has a Moody's long-term credit rating Aa3 (2019: Aa2) and the parent company of SEB group, Skandinaviska Enskilda Banken AB, has a Moody's long-term credit rating Aa2 (2019: Aa2). OP Corporate Bank PLC has a Moody's long-term credit rating Aa3 (2019: Aa3). Luminor Bank has a Moody's long-term credit rating Baa1 (2019: Baa1).

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 31 December 2020. The management estimates that the group cash and cash equivalents are not exposed to significant credit risk.

FINANCIAL ASSETS EXPOSED TO CREDIT RISK
in thousands of euros

	Allocation by due dates		Carrying amount	Collateral
	1-12 months	2-5 years		
31.12.2020				
Cash and cash equivalents (Note 15, 21)	47,480	2	47,482	-
Trade receivables (Notes 16, 21)	21,866	16,862	38,728	-
Accrued income from construction service (Notes 4, 16)	7,741	-	7,741	-
Loans granted (Notes 16, 17, 21)	371	1,115	1,486	367
Interest receivables (Notes 16, 21)	1	-	1	-
Other short-term receivables (Note 16)	118	-	118	-
Total	**77,577**	**17,979**	**95,556**	**-**
31.12.2019				
Cash and cash equivalents (Note 15, 21)	24,749	2	24,751	-
Trade receivables (Notes 16, 21)	33,292	11,092	44,384	-
Accrued income from construction service (Notes 4, 16)	11,689	-	11,689	-
Loans granted (Notes 16, 17, 21)	1,700	-	1,700	50
Interest receivables (Notes 16, 21)	3	-	3	-
Other short-term receivables (Note 16)	172	-	172	-
Total	**71,605**	**11,094**	**82,699**	**50**

The group's customers are primarily large local entities or public sector entities (as at 31 December 2020, the public sector proportion in accounts receivable amounted to 16.3% (31.12.2019: 13.3%) with well-known and sufficient creditworthiness.

TRADE RECEIVABLES BY DUE DATE

in thousands of euros

	31.12.2020		31.12.2019	
Not overdue	36,843	95.1%	39,126	88.2%
1-30 days overdue	946	2.5%	2,376	5.3%
31-60 days overdue	87	0.2%	2,419	5.4%
61-90 days overdue	107	0.3%	86	0.2%
91-120 days overdue	45	0.1%	58	0.1%
121-180 days overdue	7	0.0%	30	0.1%
More than 180 days overdue	693	1.8%	289	0.7%
Total trade receivables (Notes 16, 21)	**38,728**	**100%**	**44,384**	**100%**

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

As at the balance sheet date, the amount of overdue receivables was EUR 1,885 thousand (31.12.2019: EUR 5,257 thousand), of which EUR 878 thousand has been collected by 11 March 2021. In a year, the share of overdue short-term receivables in total receivables decreased from 11.8% to 4.9%. The group keeps running track of payment history for all customers separately for each receivable. Customers who have exceeded the payment deadline are handled personally in order to find solutions that ensure the best possible protection of the group's interests. According to management estimates, which are based on customers' historical payment behaviour, background assessment on the payment behaviour and business perspectives of new clients, the management estimates that there are sufficient reasons to conclude that the receivables reported in the financial statements will be paid off by the buyers. The receivables, which were not overdue at the balance sheet date, will be paid by due date. As well as invoiced trade receivables, management estimates the credit risk of accrued income from construction service to be low. The management bases its assessment on the regular monitoring of the financial position and payment behaviour of the contractual partner and the outlook of the contractor's economic sector and general economic developments. Trade receivables and receivables from customers of construction works under the stage of completion method have not been guaranteed with additional collateral as is customary in the industry.

As at balance sheet date, the loans granted to joint ventures, the economic activities of which the group has a good overview of, totalled EUR 1,115 thousand (31.12.2019: 1,650 thousand) and therefore, no additional collateral is required. As at 31 December 2020, loans granted to unrelated parties amounted to EUR 371 thousand (31.12.2019: 50 thousand), which in management's opinion is not exposed to material credit risk.

2. MARKET RISK

INTEREST RISK

Interest risk arises from interest rate changes in the financial markets as a result of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor or the interbank rates of the countries of incorporation of the entities. In 2020, the share of interest-bearing liabilities in the group's capital structure decreased significantly and management considers this share to be moderate (as at 31 December 2020, 11.3% and as at 31 December 2019, 22.6% of the balance sheet total) and effect of changes in the interest rate environment to be insignificant for the group's results over the next 12 months.

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

As at 31 December 2020, the group's interest-bearing liabilities totalled EUR 29,058 thousand (31.12.2019: EUR 63,726 thousand), of which short-term loans and repayments of long-term liabilities in 2021 totalled EUR 13,648 thousand (31.12.2019: EUR 20,725 thousand) and long-term loans and finance lease liabilities totalled EUR 15,410 thousand (31.12.2019: EUR 43,001 thousand). As at 31 December 2020, the group's loans granted totalled EUR 1,486 thousand (31.12.2019: EUR 1,700 thousand), of which EUR 371 thousand were classified as short-term loans with repayments in 2021 and EUR 1,115 thousand as long-term loans (31.12.2019: EUR 1,700 thousand short-term loan). Loan interest depended on interbank 1-12 month loan base interest in the entity's domicile and Euribor. As at 31 December 2020, the break-down of interest-bearing borrowings and loans granted was as follows:

	31.12.2020	31.12.2019
Fixed rate liabilities	186	555
Liabilities with floating rate interests 1-5 months	11,815	27,668
Liabilities with floating rate interests 6-12 months	17,057	35,503
Total interest-bearing borrowings (Note 27)	**29,058**	**63,726**
Fixed rate receivables	1,486	1,700

The management estimates that there will be no changes in the base interest rates, which could have a significant impact on the financial position of the group: the market continues to have low (including negative) base interest rates. Assuming that average

Euribor would rise 10 basis points above the zero level over the next 12 months as compared to the beginning of the year and there is no change in the position of liabilities, interest expenses would increase by EUR 29 thousand (31.12.2019: EUR 63 thousand). All the loans granted have fixed interest rate and therefore a change in the reference rates would have no impact on the interest income.

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

FOREIGN EXCHANGE RISK

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

	In EUR	**In NOK**
31.12.2020		
Assets	96.7%	3.3%
Liabilities	95.3%	4.7%
31.12.2019		
Assets	94.5%	5.5%
Liabilities	97.9%	2.1%

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

3. LIQUIDITY RISK

The group's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31 December 2020, the group´s current ratio was 2.7 (31.12.2019: 2.4) and the quick ratio 1.0 (31.12.2019: 0.8). In addition to available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at end of the year, the group entities had concluded overdraft contracts with banks and other unrelated third parties in the total amount of EUR 44,103 thousand, of which EUR 44,085 thousand was unused (31.12.2019: EUR 37,603 thousand, of which EUR 30,040 thousand was unused). In 2021, the contracts in a total amount of EUR 33,603 thousand will expire, which renewal will be considered. In addition to the overdraft facility, the group has a current loan facility with the limit of EUR 3,500 thousand (31.12.2019: EUR 3,500 thousand) from AS Riverito, which was fully unused as at the end of current and previous financial years.

The management estimates that the group's capital structure – equity ratio of 59.6% (31.12.2019: 46.2%) and a moderate proportion of interest bearing liabilities at 11.3% (31.12.2019: 22.6%) of the balance sheet total – ensures the group's trustworthiness for creditors. It also enables to prolong existing financial liabilities and raise additional working capital funds, if needed.

FINANCIAL ASSETS/LIABILITIES
in thousands of euros

	Allocation by due date			Total	Carrying amount
	1-3 months	4-12 months	2-5 years		
31.12.2020					
Assets					
Cash and overnight deposits (Note 15, 21)	47,480	-	2	47,482	47,482
Trade receivables (Notes 16, 21)	18,893	2,973	16,862	38,728	38,728
Accrued income from construction services (Notes 4, 16)	7,741	-	-	7,741	7,741
Loans and interest (Notes 16, 17, 21)	31	341	1,115	1,487	1,487
Other short-term receivables (Note 16)	58	60	-	118	118
Total	**74,203**	**3,374**	**17,979**	**95,556**	**95,556**
Liabilities					
Trade payables (Notes 28, 30)	16,278	4,670	2,120	23,068	23,068
Prepayments for construction services (Notes 4, 28)	6,926	-	-	6,926	6,926
Loan and finance lease liabilities (Note 27) *	3,827	9,822	15,409	29,058	29,058
Other liabilities (Note 28, 30)	233	360	327	920	920
Total	**27,264**	**14,852**	**17,856**	**59,972**	**59,972**
Net assets / liabilities	**46,939**	**(11,478)**	**123**	**35,584**	**35,584**

	Allocation by due date			Total	Carrying amount
	1-3 months	4-12 months	2-5 years		
31.12.2019					
Assets					
Cash and overnight deposits (Note 15, 21)	24,749	-	2	24,751	24,751
Trade receivables (Notes 16, 21)	25,758	7,534	11,092	44,384	44,384
Accrued income from construction services (Notes 4, 16)	11,689	-	-	11,689	11,689
Loans and interest (Notes 16, 17, 21)	53	1,650	-	1,703	1,703
Other short-term receivables (Note 16)	172	-	-	172	172
Total	**62,421**	**9,184**	**11,094**	**82,699**	**82,699**
Liabilities					
Trade payables (Notes 28, 30)	14,739	15,942	2,476	33,157	33,157
Prepayments for construction services (Notes 4, 28)	8,058	-	-	8,058	8,058
Loan and finance lease liabilities (Note 27) *	4,380	16,345	43,001	63,726	63,726
Other liabilities (Note 28, 30)	79	144	1,015	1,238	1,238
Total	**27,256**	**32,431**	**46,492**	**106,179**	**106,179**
Net assets / liabilities	**35,165**	**(23,247)**	**(35,398)**	**(23,480)**	**(23,480)**

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

4. FAIR VALUE ESTIMATION

According to the estimation of the group, the carrying values of financial assets at amortised cost (Notes 15, 16, 17, 21) and financial liabilities at amortised cost (Notes 27, 28, 30) in the consolidated balance sheet as at 31 December 2020 and 31 December 2019 do not vary significantly from their fair value.

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

The fair value of trade receivables (31.12.2020: EUR 10,009 thousand; 31.12.2019: EUR 10,293 thousand) related to Balsiu– equals their carrying amount, as the impact of discounting is not significant. The carrying amount of future receivables related to Balsiu School is EUR 21,079 thousand (31.12.2019: EUR 22,532 thousand) and the fair value of the mentioned receivables is equal to EUR 20,819 thousand using the effective interest rate of 0.16% (31 December 2019: EUR 21,966 thousand using the effective interest rate of 0.31%). As the amount receivable is due from the state institution, the interest rate used for the fair value calculation is a long-term borrowing rate at the end of the period applicable to the Republic of Lithuania (www.ecb.europa.eu/stats/financial_markets_and_interest_rates/long_term_interest_rates).

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

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

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

Level 1: Financial instruments valued at unadjusted prices on the stock market or other active regulated market. As at 31 December 2020 and 2019, the group did not have any Level 1 financial instruments.

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

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

CAPITAL MANAGEMENT

The group considers borrowings and total equity as capital. As at 31 December 2020, the total equity attributable to equity owners of the parent was EUR 153,228 thousand (31.12.2019: EUR 130,338 thousand). The group's principle is to maintain a strong equity base for the purpose of retaining its trustworthiness among its shareholders, creditors and the market, and to ensure the group's sustainable development. Over the long term, the group's goal is to increase income for its shareholders and ensure its ability to pay dividends.

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

The group considers it important to ensure an optimal capital structure. Therefore, it monitors that the group's equity to assets ratio is at least 40% (31.12.2020: 59,6%, 31.12.2019: 46.2%).

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

	31.12.2020	**31.12.2019**
Borrowings	29,058	63,726
Less: cash and cash equivalents and short-term deposits	(47,480)	(24,749)
Net debt	(18,422)	38,977
Total equity attributable to owners of the parent	153,228	130,338
Total net debt and equity attributable to equity owners of the parent	134,806	169,315
Share of net borrowings	(13.7%)	23.0%

The group's net debt at 31 December 2020 was negative EUR -18.4 million (31.12.2019: EUR 39.0 million).

MANAGEMENT OF OTHER RISKS

LEGAL RISK

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

As at 31 December 2020, a provision has been set up at the group in the amount of EUR 202 thousand for covering potential claims and legal costs (31.12.2019: EUR 202 thousand) (Note 29).

An overview of the key legal disputes of group entities ended during 2020 and ongoing as of 31 December 2020 is presented below.

ESTONIA

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

The court cases in connection with Minister of the Environment regulation No 22 of 27 March 2015, which redrew the boundaries of species protection sites to exclude properties on Paekalda street owned by AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ (now merged with AS Merko Ehitus Eesti, part of AS Merko Ehitus group). On 2 February 2016, AS Merko Ehitus group companies, Suur-Paekalda OÜ and Väike-Paekalda OÜ, filed a complaint in Tallinn Administrative Court for compensation of damage. The plaintiffs are seeking a ruling ordering that the state pay damages of approximately EUR 3.2 million to Suur-Paekalda OÜ (exact amount to be determined) and approximately EUR 1.6 million to Väike-Paekalda (exact amount to be determined) as well as late interest at the rate specified in subsection 113 (1) of the Law of Obligations Act starting from 2 February 2016 until due compliance with the demand for compensation. The claims consist of direct patrimonial damage (reduction in the value of immovable property and expenditures made on development activity) and claims for revenue foregone (failed development activity in 2005-2007). 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 impact of this claim has not been taken into account in the group's reporting.

LATVIA

Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The court hearing, which was scheduled for 3 December 2020, was cancelled due to the COVID-19 pandemic and a new hearing date has not yet been set. The possible effect of the potential positive outcome of this claim has not been taken into account in the group's financial reporting.

Starptautiskā lidosta "Rīga"

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

On 5 March 2018, SIA Merks prepared an additional claim to the court to confirm that the works are fully and properly performed and should be duly accepted by Riga International Airport and, releasing the retention money for the warranty period guarantee in the amount of EUR 920 thousand.

On 8 June 2018, Riga International Airport paid partly the claim submitted on September 21, 2017, therefore SIA Merks reduced the claim to EUR 248 thousand (EUR 76 thousand being the principal claim and EUR 172 thousand late interest). The parties reached a settlement, which provided that SIA Merks would deliver negotiated works to Riga International Airport by 31 March 2020, after which Riga International Airport would sign the final acceptance act. Due to the restrictions related to the COVID-19 pandemic, the work processes was extended, but by the end of 2020, SIA Merks had performed the agreed works and the parties submitted a new settlement to the court, which was approved by the court on 8 March 2021. According to the settlement, the claims of SIA Merks will be satisfied and Riga International Airport will pay SIA Merks the amount withheld so far as a guarantee during the warranty period. No additional provisions are recognised in relation to the potential outcome of this claim.

Latvian Competition Council administrative proceeding

In August, 2019, the Latvian Competition Council (*Konkurences padome*) instituted administrative proceeding, the purpose of which, to the group's knowledge, is to ascertain whether there have been infringements of competition law in Latvia by construction companies. SIA Merks is also among the construction companies involved in the proceeding. As of this report, the management has no information about the future of the proceeding. To the knowledge of the group's Management Board, the Competition Council has extended the deadline for the proceeding until 1 August 2021. No provisions are recognised in relation to the effect of this proceeding.

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 contract. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. The court took the evidence of both parties to the proceedings. The bailiff has started recovery operations. The next meeting will take place on 13 April 2021. The impact of this claim has not been taken into account in the group's reporting.

LITHUANIA

UAB Axis

On 3 September 2018, UAB Axis Power (sub-contractor) filed an action against UAB Merko Statyba (main contractor), part of AS Merko Ehitus group, in a total amount of EUR 846 thousand as compensation for carrying out concrete works, which were more complicated than foreseen at the signing of the contract. By the decision of 18 August 2019 the court appointed court expertise, the expected term of which was up to 6 months. The expertise ordered by UAB Merko Statyba has been submitted to the court, the expertise of the other party was submitted to the court on 15 October 2020. Following the hearing on 15 February 2021, the parties have entered into an agreement which has been submitted to the court for approval. Under the agreement, the group will not need additional provisions for this action.

VALUE OF ASSETS

In 2020, the group recognised EUR 3,287 thousand (2019: EUR 970 thousand) in impairment losses on assets and inventories, incl. impairment loss of EUR 222 thousand (2019: EUR 0 thousand) on finished goods and EUR 46 thousand (2019: EUR 175 thousand) on other goods purchased for resale, EUR 2,683 thousand (2019: EUR 794 thousand) on the write-off of doubtful and irrecoverable receivables and EUR 336 thousand loss from write-off of prepayments to suppliers (2019: EUR 1 thousand). The receivables expensed in prior periods in the amount of EUR 5 thousand were collected (2019: EUR 1 thousand). See also Notes 16 and 18 for further details.

EFFECT OF THE CORONAVIRUS

In 2020, the global spread of the COVID-19 coronavirus (SARS-CoV-2) had a negative impact on the economy and society as a whole, causing uncertainty for individuals and businesses. The health crisis required companies to react quickly in order to protect their employees and company and to ensure the timely completion of objects for customers under the conditions of restrictions. The group has established strict rules at all of the company's sites in order to protect the health of its employees and ensure their ability to continue working. Decentralization of work, a system of parallel teams, and teleworking and remote communication have been organised. Although today we can state that the impact of the pandemic on the group's business operations and financial results remained moderate in 2020, the health crisis and the associated uncertainties are continuing. The group will continue to carry out construction work both in construction for customers and its own real estate developments, observing the restrictions that have been established to prevent the spread of the virus, ensuring the protection of the health of both its employees and third parties by taking precautionary measures. The preparation of this annual report has taken into account the possible impact of the coronavirus on the result of the financial year having ended, according to management's best estimate today, as well as on cash flows and financial positions for subsequent financial years.

NOTE 36 SUPPLEMENTARY DISCLOSURES ON THE PARENT COMPANY

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

INCOME STATEMENT

in thousands of euros

	2020	**2019**
Revenue	284	336
Cost of goods sold	(45)	(234)
Gross profit	**239**	**102**
Marketing expenses	(569)	(32)
General and administrative expenses	(2,160)	(2,022)
Other operating income	1,908	2,059
Other operating expenses	(148)	(129)
Operating profit (loss)	**(730)**	**(22)**
Finance costs	(245)	(183)
Finance income from investments in subsidiaries	3,512	14,477
Profit before tax	**2,537**	**14,272**
Deferred income tax expense	-	(87)
Net profit for the year	**2,537**	**14,185**

STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2020	31.12.2019
ASSETS		
Current assets		
Cash and cash equivalents	4,220	103
Receivables and prepayments	11,331	3,441
Inventories	561	560
	16,112	**4,104**
Non-current assets		
Investments in subsidiaries	123,887	123,120
Other long-term financial assets	36,881	48,776
Property, plant and equipment	210	246
Intangible assets	69	96
	161,047	**172,238**
TOTAL ASSETS	**177,159**	**176,342**
LIABILITIES		
Current liabilities		
Borrowings	6,075	3,058
Trade and other payables	1,374	1,068
Short-term provisions	8	9
	7,457	**4,135**
Non-current liabilities		
Long-term borrowings	127	5,169
	127	**5,169**
TOTAL LIABILITIES	**7,584**	**9,304**
EQUITY		
Share capital	7,929	7,929
Statutory reserve capital	793	793
Retained earnings	160,853	158,316
TOTAL EQUITY	**169,575**	**167,038**
TOTAL LIABILITIES AND EQUITY	**177,159**	**176,342**

STATEMENT OF CHANGES IN EQUITY

in thousands of euros

Parent	**Share capital**	**Statutory reserve capital**	**Retained earnings**	**Total**
Balance as at 31.12.2018	**7,929**	**793**	**161,831**	**170,553**
Net profit for financial year	-	-	14,185	14,185
Dividends	-	-	(17,700)	(17,700)
Balance as at 31.12.2019	**7,929**	**793**	**158,316**	**167,038**
Carrying amount of holdings under control or significant influence				(123,120)
Value of holdings under control or significant influence under the equity method				86,420
Adjusted unconsolidated equity as at 31.12.2019				**130,338**
Net profit for financial year	-	-	2,537	2,537
Balance as at 31.12.2020	**7,929**	**793**	**160,853**	**169,575**
Carrying amount of holdings under control or significant influence				(123,887)
Value of holdings under control or significant influence under the equity method				107,540
Adjusted unconsolidated equity as at 31.12.2020				**153,228**

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

CASH FLOW STATEMENT

in thousands of euros

	2020	2019
Cash flows from operating activities		
Operating profit (loss)	(730)	(22)
Adjustments:		
Depreciation and impairment	106	108
Interest income from business activities	(1,899)	(2,058)
Change in provisions	324	160
Change in trade and other receivables related to operating activities	2,840	(6,969)
Change in inventories	(1)	186
Change in trade and other payables related to operating activities	(18)	(613)
Interest received	2,066	2,722
Interest paid	(176)	(178)
Other finance income and costs	(2)	(2)
Corporate income tax paid	(61)	(86)
Total cash flows from operating activities	**2,449**	**(6,752)**
Cash flows from investing activities		
Investments in subsidiaries	(3)	(204)
Liquidation of subsidiary	-	365
Reduction of equity in subsidiary	235	60
Purchase of property, plant and equipment (excl. leased assets)	(5)	-
Proceeds from sale of property, plant and equipment	2	-
Purchase of intangible assets	(5)	(19)
Dividends received	3,506	14,467
Total cash flows from investing activities	**3,730**	**14,669**
Cash flows from financing activities		
Proceeds from borrowings	1	1,988
Loan repayments received	(1,986)	-
Repayments of lease liabilities	(75)	(79)
Dividends paid	-	(17,700)
Total cash flows from financing activities	**(2,060)**	**(15,791)**
Net increase/decrease in cash and cash equivalents	**4,119**	**(7,874)**
Cash and cash equivalents in the beginning of period	**103**	**7,979**
Effect of exchange rate changes	**(2)**	**(2)**
Cash and cash equivalents at end of the period	**4,220**	**103**

Independent auditor's report

To the Shareholders of AS Merko Ehitus

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Merko Ehitus ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2020, and the Group´s consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 31 March 2021.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2020;
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company and of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its parent and subsidiaries are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^1 of the Auditors Activities Act of the Republic of Estonia.

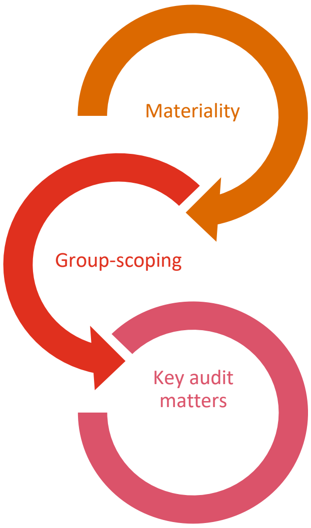
Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

The non-audit services that we have provided to the Company and its parent and subsidiaries in the period from 1 January 2020 to 31 December 2020 are disclosed in the management report and note 7 to the consolidated financial statements.

Our audit approach

Overview



- Overall group audit materiality is EUR 3.15 million, which represents approximately 1% of consolidated total revenue.

- A full scope audit was performed by us or, under our instructions, by PwC network firms and firms outside PwC network for Group entities covering 92% of the Group’s revenues and 96% of the Group’s assets. Selected audit procedures were performed on remaining balances to ensure we obtained sufficient appropriate audit evidence to express an opinion on the Group’s financial statements as a whole.

- Revenue recognition on construction contracts
- Valuation of inventory relating to property developments

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Overall Group audit materiality	EUR 3.15 million
How we determined it	Approximately 1% of consolidated total revenues
Rationale for the materiality benchmark applied	We have applied this benchmark, as revenue is one of the key metrics used both internally by management as well as, we believe, externally by investors and lenders, in evaluating the performance of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Revenue recognition on construction contracts (refer to Note 1 'Summary of significant accounting policies – subsection 1.20 'Revenue' and Note 4 'Operating Segments' for further details). In 2020 the Group has recognised revenue of EUR 316 million, EUR 187 million of which is related to construction services. The Group's revenues from construction services are generated from a large portfolio of contracts with different terms regarding service fee, use of subcontractors or partners and profit sharing. Revenue from construction contracts is recorded by reference to the progress towards satisfaction of performance obligations (stage of completion). Determining the stage of completion requires the management to estimate the cost to complete the contract, as well as any possible adjustments to the contractual fee, at each measurement date. Accounting estimates have subjective nature and rely on many sources of information, both within the Group and external, about the expected outcome of a contract. The complexity resulting from both the large number of varying contractual terms and estimation uncertainties regarding the	We audited revenue recognition on construction contracts through a combination of controls testing and substantive testing. We assessed if Group had appropriately applied the guidance in the revenue standard, IFRS 15 regarding accounting for revenue, including for revenue recognised over time. We performed testing of the design, implementation and operating effectiveness of controls supporting identification of contractual terms, selection of suitable accounting policies and assessment of the stage of completion. The controls testing was supported by substantive audit procedures. We selected a sample of contracts and performed substantive procedures that included, but were not limited to: • reconciling the contract fee used in calculating the revenue based on the stage of completion to the contract; • reconciling incurred contract costs included in revenue calculation to accounting records and testing the proper allocation of costs to individual contracts; • testing correct periodisation of contract costs; • checking the formula used for calculation of

expected outcome of construction contracts could lead to errors that may become material, when aggregated. As such, revenue recognition on construction contracts requires significant time and resource to audit due to both its magnitude and complexity, and is therefore considered to be a key audit matter.	revenue based on stage of completion; • investigating the estimates of margins during current and comparative periods applied for revenue calculation of the same contracts to identify potential management bias. We also evaluated the correctness of disclosures in relation to the construction contracts.
Valuation of inventory relating to property developments (refer to Note 1 ‘Summary of significant accounting policies – subsection 1.11 ‘Inventories’, Note 18 ‘Inventories’ and Note 35 ‘Risk management’ subsection ‘value of assets’ for further details). As at 31 December 2020 the Group’s statement of financial position sheet includes inventory in the amount of EUR 125 million, of which EUR 25 million were finished apartments, EUR 39 million unfinished apartments and EUR 61 million land purchased for development and resale (mostly with the aim of being developed as residential property). Inventories are carried at the lower of cost and net realisable value. With property prices, especially those of residential property, following the economic cycle and exhibiting substantial fluctuation over time, net realisable value of the inventory of finished and unfinished apartments and property for resale needs to be carefully monitored against the carrying amount. Should the net realisable value of a property fall below its carrying amount, a write-down to net realisable value is necessary. Determining the net realisable value of property requires estimates of the expected selling price and may require estimates of the cost to complete the development of the property. Due to the magnitude and related estimation uncertainty, valuation of inventory of finished and unfinished apartments and land to be developed for sale is considered a key audit matter.	We assessed the management’s expertise to perform valuation of property. The management is experienced in property valuation and the outcomes of completed development projects have usually met the profitability estimates. We evaluated the model prepared by the management for determining the net realisable value and identifying any necessary write-down. We performed testing of the inputs used in the valuation model. Our work targeted individual properties on our assessment of the risk, based on the location, carrying amount and any specific conditions related to a property. For inputs based on estimates, which include unit costs applicable for completing the construction and sales price, we assessed the reasonableness of the inputs by comparing them with historical data from completed projects and available market information such as construction price indexes. Where available, we compared the estimated sales prices with comparable market transactions. It was evident from our work that sufficient attention had been paid to each property’s individual characteristics including their construction quality, geographic location and relevant legal or contractual obligations. We also assessed the appropriateness of disclosures provided in respect of net realisable value of inventory, including sensitivity analysis.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises a number of subsidiaries that are further disclosed in Note 19. A full scope audit was performed by PwC Estonia or, under our instructions, by other PwC network firms and firms outside PwC network for entities covering 92% of the Group's revenues and 96% of assets. The remaining entities of the Group were immaterial, therefore we only performed selected audit procedures on these components relating to specified account balances or disclosures.

Where work was performed by component auditors from another PwC network firm or firms outside PwC network, we determined the level of involvement we needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. The nature, timing and extent of the work impacting the Group audit opinion is set and monitored in Estonia, with input from the teams outside Estonia at the risk assessment stage.

At the Group level we also audited the consolidation process. We also evaluated whether significant risk of material misstatement existed, using analytical procedures in relation to the aggregated financial information of the remaining entities not subject to audit or audit of specified account balances, including comparing their account balances to those present at the time of deciding the audit scope.

Other information

The Management Board is responsible for the other information. The other information comprises of Main facts, Statement of the chairman of the management board, Merko Group, Management report, Management declaration, Profit allocation proposal, Other notes to the annual report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The European Single Electronic Format (ESEF) reporting requirements pursuant to Commission Delegated Regulation (EU) 2018/815

The annual consolidated financial statements of the Company and the Group for the year ended 31 December 2020 has not been prepared in accordance with ESEF reporting requirements.

Appointment and period of our audit engagement

We were first appointed as auditors of AS Merko Ehitus, as a public interest entity, for the financial year ended 31 December 2008. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for AS Merko Ehitus, as a public interest entity, of 13 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of AS Merko Ehitus can be extended for up to the financial year ending 31 December 2027.

AS PricewaterhouseCoopers

/ digitally signed /	/ digitally signed /
Tiit Raimla Certified auditor in charge, auditor's certificate no.287	Janno Hermanson Auditor's certificate no.570

31 March 2021
Tallinn, Estonia

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

PROFIT ALLOCATION PROPOSAL

in euros

Total retained earnings as at 31.12.2020	**145,319,809**
incl. net profit for 2020	22,993,990

The Management Board proposes profit allocation as follows:

Dividends (EUR 1.00 per share)	17,700,000
Retained earnings after profit allocation	**127,619,809**

Andres Trink	Chairman of the Management Board	/ digitally signed /	31.03.2021
Tõnu Toomik	Member of the Management Board	/ digitally signed /	31.03.2021

OTHER NOTES TO THE ANNUAL REPORT

KEY FINANCIAL INDICATORS IN 2016-2020

CONSOLIDATED INCOME STATEMENT

in thousands of euros

	2020	2019	2018	2017	2016
Revenue	315,918	326,779	418,011	317,598	251,970
Cost of goods sold	(272,169)	(291,958)	(384,962)	(286,747)	(232,961)
Gross profit (loss)	**43,749**	**34,821**	**33,049**	**30,851**	**19,009**
% of revenue	*13.8%*	*10.7%*	*7.9%*	*9.7%*	*7.5%*
Marketing expenses	(4,212)	(4,260)	(3,285)	(3,215)	(3,281)
General and administrative expenses	(13,412)	(12,988)	(12,304)	(11,289)	(10,076)
Other operating income	2,320	2,983	3,527	3,793	2,466
Other operating expenses	(2,979)	(1,318)	(1,115)	(601)	(399)
Operating profit (loss)	**25,466**	**19,238**	**19,872**	**19,539**	**7,719**
% of revenue	*8.1%*	*5.9%*	*4.8%*	*6.2%*	*3.1%*
Finance income	1	3	8	4	46
Finance costs	(866)	(684)	(696)	(849)	(649)
Profit (loss) from joint ventures	(144)	1,766	591	78	163
Profit (loss) before tax	**24,457**	**20,323**	**19,775**	**18,772**	**7,279**
% of revenue	*7.7%*	*6.2%*	*4.7%*	*5.9%*	*2.9%*
Corporate income tax expense	(1,954)	(3,833)	(375)	(3,020)	(1,275)
Net profit (loss) for the financial year	**22,503**	**16,490**	**19,400**	**15,752**	**6,004**
incl. attributable to equity holders of the parent	22,994	16,270	19,343	14,694	6,122
% of revenue	*7.3%*	*5.0%*	*4.6%*	*4.6%*	*2.4%*
Attributable to non-controlling interests	(491)	220	57	1,058	(118)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
ASSETS					
Current assets					
Cash and cash equivalents	47,480	24,749	39,978	39,210	33,544
Trade and other receivable	32,657	50,413	76,183	75,844	45,566
Prepaid corporate income tax	306	104	224	492	617
Inventories	126,332	166,226	117,992	118,421	123,364
	206,775	**241,492**	**234,377**	**233,967**	**203,091**
Non-current assets					
Investments in joint ventures	2,354	2,498	732	79	434
Other long-term loans and receivables	17,979	11,094	10,391	17,163	15,371
Deferred income tax assets	653	-	-	5	1,325
Investment properties	13,922	14,047	13,771	15,719	4,108
Property, plant and equipment	14,521	11,919	9,715	9,665	12,838
Intangible assets	711	777	671	497	673
	50,140	**40,335**	**35,280**	**43,128**	**34,749**
TOTAL ASSETS	**256,915**	**281,827**	**269,657**	**277,095**	**237,840**
LIABILITIES					
Current liabilities					
Borrowings	13,649	20,725	19,900	24,218	21,485
Payables and prepayments	55,846	69,585	77,016	74,972	56,259
Corporate income tax liability	1,202	812	381	413	278
Short-term provisions	6,347	7,976	8,100	4,569	5,637
	77,044	**99,098**	**105,397**	**104,172**	**83,659**
Non-current liabilities					
Long-term borrowings	15,409	43,001	24,266	35,138	24,516
Deferred income tax liability	3,001	1,682	1,481	1,259	1,122
Other long-term payables	4,026	3,491	2,179	1,789	2,061
	22,436	**48,174**	**27,926**	**38,186**	**27,699**
TOTAL LIABILITIES	**99,480**	**147,272**	**133,323**	**142,358**	**111,358**
EQUITY					
Non-controlling interests	4,207	4,217	4,577	4,567	3,692
Equity attributable to equity holders of the parent					
Share capital	7,929	7,929	7,929	7,929	7,929
Statutory reserve capital	793	793	793	793	793
Currency translation differences	(814)	(710)	(721)	(702)	(645)
Retained earnings	145,320	122,326	123,756	122,150	114,713
	153,228	**130,338**	**131,757**	**130,170**	**122,790**
TOTAL EQUITY	**157,435**	**134,555**	**136,334**	**134,737**	**126,482**
TOTAL LIABILITIES AND EQUITY	**256,915**	**281,827**	**269,657**	**277,095**	**237,840**

OTHER KEY FIGURES

attributable to equity holders of the parent

		2020	2019	2018	2017	2016
EBITDA	million EUR	28.2	21.9	21.9	22.2	11.2
EBITDA margin	%	8.9	6.7	5.2	7.0	4.4
General expense ratio	%	5.6	5.3	3.7	4.6	5.3
Staff costs ratio	%	11.5	11.4	8.2	10.1	11.7
Revenue per employee	thousand EUR	478	461	563	434	325
ROE	%	16.2	12.9	15.3	11.9	5.0
ROA	%	8.4	5.6	6.9	5.8	2.8
ROIC	%	13.1	11.1	11.5	11.4	5.1
Equity ratio	%	59.6	46.2	48.9	47.0	51.6
Debt ratio	%	11.3	22.6	16.4	21.4	19.3
Current ratio	times	2.7	2.4	2.2	2.2	2.9*
Quick ratio	times	1.0	0.8	1.1	1.1	1.1*
Accounts receivable turnover	days	35	45	40	40	37
Accounts payable turnover	days	37	53	41	40	38
Number of employees as at 31.12	people	666	694	764	757	797
Average number of employees	people	661	709	743	732	776
Secured order book as at 31.12	million EUR	225	141	229	344	270
New contracts signed	million EUR	277	170	246	335	202

** As at 31 December 2016, in the formula for calculating the current ratio and the quick ratio, the amount of current liabilities has been reduced by EUR 12.5 million as a result of refinancing of the short-term loan received from the parent company AS Riverito at the end of 2016 with long-term bank loans at the beginning of 2017.*

SHARE-RELATED KEY FIGURES

attributable to equity holders of the parent

		2020	2019	2018	2017	2016
Earnings per share (EPS)	EUR	1.30	0.92	1.09	0.83	0.35
Equity per share	EUR	8.01	7.13	7.16	6.99	6.90
Dividend per share	EUR	*	-	1.00	1.00	0.41
Dividend rate	%	*	-	92	120	119
Dividend yield	%	*	-	10.9	11.4	4.5
P/B ratio	times	1.18	1.32	1.28	1.26	1.31
P/E ratio	times	7.28	10.20	8.42	10.61	26.17
Share price trend						
Average	EUR	8.80	9.55	10.02	9.27	8.44
Highest	EUR	10.60	10.30	11.80	9.69	9.22
Lowest	EUR	6.56	8.74	8.70	8.75	7.60
Share price as at 31.12	EUR	9.46	9.38	9.20	8.81	9.05
Market value as at 31.12	million EUR	167.4	166.0	162.8	155.9	160.2
Share turnover trend						
Share turnover	million EUR	13.97	21.31	12.16	4.69	5.35
Transactions	pcs	22,033	8,558	4,299	2,203	2,312
Shares traded	million pcs	1.62	2.23	1.18	0.51	0.63
Ratio of shares traded	%	9.2	12.6	6.7	2.9	3.6
Number of shares	million pcs	17.70	17.70	17.70	17.70	17.70
Number of shareholders as at 31.12	pcs	5,658	3,924	2,664	2,040	1,813

** Ratios related to dividends for 2020 will depend on the decision of the general meeting of shareholders to pay dividends.*

DEFINITIONS OF RATIOS

Gross profit margin (%) = $\frac{\text{Gross profit}}{\text{Revenue}}$

Operating profit margin (%) = $\frac{\text{Operating profit}}{\text{Revenue}}$

EBT margin (%) = $\frac{\text{Earnings before tax}}{\text{Revenue}}$

Net profit margin (%) = $\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$

Return on equity, ROE (%) = $\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Shareholders' equity (average of the current 4 quarters)}}$

Return on assets, ROA (%) = $\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Total assets (average of the current 4 quarters)}}$

Return on invested capital, ROIC (%) = $\frac{\text{(Profit before tax + interest expense - foreign exchange gain (loss) + other financial income) of the current 4 quarters}}{\text{(Shareholders' equity (average) + interest-bearing liabilities (average)) of the current 4 quarters}}$

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 = $\frac{\text{Current assets - inventories}}{\text{Current liabilities}}$

Accounts receivable turnover (days) = $\frac{\text{Trade receivables of the current 4 quarters (average) x 365}}{\text{Revenue of the current 4 quarters}}$

Accounts payable turnover (days) = $\frac{\text{Payables to suppliers of the current 4 quarters (average) x 365}}{\text{Cost of goods sold of the current 4 quarters}}$

EBITDA (million EUR) = Operating profit + depreciation

EBITDA margin (%) = $\frac{\text{Operating profit + depreciation}}{\text{Revenue}}$

General expense ratio (%) = $\frac{\text{Marketing expenses + General and administrative expenses}}{\text{Revenue}}$

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 (%) = $\frac{\text{Payable dividends x 100}}{\text{Net profit (attributable to equity holders of the parent)}}$

Dividend yield (%) = $\frac{\text{Dividends payable per share}}{\text{Share price 31.12}}$

P/E = $\frac{\text{Share price 31.12}}{\text{Earnings per share of the current 4 quarters}}$

P/B = $\frac{\text{Share price 31.12}}{\text{Equity per share (average of the current 4 quarters)}}$

Market capitalisation = Share price 31.12 x Number of shares

Ratio of shares traded = $\frac{\text{Number of shares traded during the year}}{\text{Number of shares in total}}$

Injury rate (per 100 employees) = $\frac{\text{Total number of injuries/accidents excluding minor (first-aid level) injuries/accidents x 200 000}}{\text{Total number of working hours per year}}$

Occupational diseases rate(per 100 employees) = $\frac{\text{Total number of occupational illnesses x 200 000}}{\text{Total number of working hours per year}}$

Lost days rate (per 100 employees) = $\frac{\text{Total number of lost days due to occupational illnesses/injuries/accidents x 200 000}}{\text{Total number of working hours per year}}$

Absentee rate per year = $\frac{\text{Total number of absentee days}}{\text{Calculated number of total working days per year}}$

REVENUE BREAK-DOWN OF THE PARENT PRESENTED ACCORDING TO THE ESTONIAN CLASSIFICATION OF ECONOMIC ACTIVITIES

Revenue break-down of the parent of AS Merko Ehitus for the year 2020 is presented according to Estonian Classification of Economic Activities EMTAK, as required under the Commercial Code § 4 p.6:

in thousands of euros

EMTAK code		**2020**	**2019**
	Real estate activities		
6420	activities of holding companies	249	-
6810	sales of own real estate	23	282
6820	renting and operating of own or leased real estate	12	54
	Total revenue	**284**	**336**

SUSTAINABLE DEVELOPMENT REPORT

SUSTAINABILITY REPORTING PRINCIPLES

The Annual Report of Merko Ehitus group is prepared based on the international integrated reporting framework and the Global Reporting Initiative (GRI) Standards. The purpose of the Annual Report is to provide a clear overview and description of how Merko Ehitus creates additional value to its customers, shareholders and other stakeholders, while highlighting the key factors of the value chain process. The Annual Report does not focus only on past events, but is more focused, through integrated reporting, on the horizon ahead. We aim to give the reader a better overview of the strategy, long-term objectives and sustainability of AS Merko Ehitus group as a whole.

Key economic, social responsibility and environmental aspects have been presented by using the integrated reporting principle, in the different sections and notes to the annual report.

In preparing the report, Merko Ehitus has focused on the key subjects of the group companies, depending on the specifics of their business, which are:

- Economic Performance;
- Market Presence;
- Indirect Economic Impacts;
- Procurement Practices;
- Anti-corruption;
- Materials;
- Energy;
- Waste;
- Environmental Compliance;
- Employment;
- Occupational Health and Safety;
- Training and Education;
- Local Communities;
- Political Contributions.

Further information on the internationally integrated reporting framework and GRI Standards can be acquired on websites integratedreporting.org and www.globalreporting.org.

STAKEHOLDERS

Merko Ehitus group has mapped its primary stakeholder groups: Merko group employees, shareholders and investors, customers for construction service and apartment buyers, local government units and public organisations, cooperation partners, subcontractors and suppliers and the public. Stakeholders are mapped and selected based on the standpoint of both the company and the stakeholder, taking into account cooperation between the parties and the impact of the company on the stakeholder.

The primary principles for disclosure of information at Merko are continuity, neutrality, transparency, integrity and fairness and preventive approach. Various channels have taken shape for communicating with different stakeholders:

Employees	Everyday cooperation and communication with the company's colleagues and managers at various levels, annual performance reviews, company's website, Intranet and newsletter, company information days and other events, in-house trainings and social media.
Shareholders, investors, banks	Stock market system and press releases, website section aimed at investors, investor meetings, materials and events.
Customers and apartment buyers	Everyday cooperation and communication in the course of the construction process, feedback from customers and satisfaction surveys, company's website, public communication. Additional communication channels for apartment buyers: apartment development project website and sales materials, sales director and, in the case of some projects, sales office, customer days, model apartment, social media, satisfaction surveys.
Partners in cooperation, subcontractors and suppliers	Everyday cooperation and communication in the course of the construction process, meetings and events, public communication.
Local governments and public organisations	Meetings, public communication.
Broader public	Social responsibility and support and cooperation projects, cooperation with different organisations, public communication, social media.

GRI CONTENT INDEX

Standard	Disclosure	Page	Information
GRI 102: General Disclosures			
ORGANISATIONAL PROFILE			
102-1	Name of the organisation	p. 2	
102-2	Products, services and trademarks	p. 4, 7-8, 17, note 4	
102-3	Location of headquarters	p. 2	
102-4	Location of operations	p. 4, 17, note 19	
102-5	Ownership and legal form	p. 4, 34-36, 38-42	
102-6	Markets served	p. 4, 17, 38, note 4	
102-7	Scale of the organisation	p. 4, 10, 26	
102-8	Basic information on employees	p. 26	
102-9	Supply chain		Merko Ehitus group companies use suppliers and subcontractors extensively in all operating countries. The materials used in construction come from an extensive network of suppliers located mainly in Europe and in the operating countries of the group companies. Merko Ehitus group companies mainly act as general contractors, as a result of which the large extent of the workforce used in construction, (except for project management and work segments performed by their own employees) are subcontractors in the country where the construction site is located.
102-10	Significant changes during the reporting period		-
102-11	Precautionary Principle or approach	p. 23-25, 27-28	
102-12	External initiatives		No significant commitments to voluntary charters and other initiatives.
102-13	Memberships in associations		Merko Ehitus group companies are members in the following associations and organisations: Estonian Chamber of Commerce and Industry Estonian Association of Construction Entrepreneurs Estonian Waterworks Association Estonia Concrete Association Estonian Association of Electrical Enterprises Estonian Society for Electrical Power Engineering Estonian Asphalt Pavement Association Estonian Digital Construction Cluster Estonian Utilities Association Latvian Chamber of Commerce and Industry Latvian Partnership of Building Contractors Latvian National Real Estate Developers Alliance Latvian Construction Industry Digitalization Association Latvian Association of Civil Engineers Skanste Development Agency Latvian Builders Association Lithuanian Builders Association Lithuanian Real Estate Developers Association
STRATEGY			
102-14	CEO's statement	p. 5	-
ETHICS AND INTEGRITY			
102-16	Organisation's values, principles, standards, norms of behaviour and codes of ethics	p. 6, 30	In its operations, the group is guided by the strategy and values of Merko Ehitus and responsible management system and business principles, including code of business ethics. These are included in the orientation of new personnel and also highlighted in various events and materials for personnel.
GOVERNANCE			
102-18	Governance structure	p. 38-42	

<table>
<tr><td colspan="4">STAKEHOLDER ENGAGEMENT</td></tr>
<tr><td>102-40</td><td>List of stakeholders</td><td>p. 110</td><td></td></tr>
<tr><td>102-41</td><td>Collective bargaining agreements</td><td></td><td>Merko Ehitus group does not have general collective bargaining agreements, it complies with company-specific agreements in line with local legislation.</td></tr>
<tr><td>102-42</td><td>Identification and selection of stakeholders</td><td>p. 110</td><td></td></tr>
<tr><td>102-43</td><td>Approach to stakeholder engagement</td><td>p. 110</td><td></td></tr>
<tr><td>102-44</td><td>Key topics and concerns raised</td><td>p. 21, 27</td><td>Customers and employee satisfaction surveys, grievances about labour practices.</td></tr>
<tr><td colspan="4">REPORTING PRACTICE</td></tr>
<tr><td>102-45</td><td>Entities included in the consolidated financial statements</td><td></td><td>The report covers all of Merko Ehitus group's functions, unless otherwise mentioned.</td></tr>
<tr><td>102-46</td><td>Defining report content and topic Boundaries</td><td>p. 110</td><td></td></tr>
<tr><td>102-47</td><td>List of material topics</td><td>p. 110</td><td></td></tr>
<tr><td>102-48</td><td>Restatements of information</td><td></td><td>-</td></tr>
<tr><td>102-49</td><td>Changes in reporting</td><td></td><td>-</td></tr>
<tr><td>102-50</td><td>Reporting period</td><td></td><td>The reporting period is the calendar year, January 1, 2020 – December 31, 2020</td></tr>
<tr><td>102-51</td><td>Date of most recent previous report</td><td></td><td>The most recent previous integrated annual report was published on April 8, 2020.</td></tr>
<tr><td>102-52</td><td>Reporting cycle</td><td></td><td>The report is published annually.</td></tr>
<tr><td>102-53</td><td>Contact point</td><td></td><td>Priit Roosimägi, AS Merko Ehitus Head of Group Finance Unit</td></tr>
<tr><td>102-54</td><td>Claims of reporting in accordance with the GRI Standards</td><td></td><td>This report has been prepared in accordance with the GRI Standards (<i>Global Reporting Initiative)</i> Core option.</td></tr>
<tr><td>102-55</td><td>GRI Content Index</td><td>p. 111-116</td><td></td></tr>
<tr><td>102-56</td><td>External assurance</td><td></td><td>The GRI report has not been assured by a third party.</td></tr>
<tr><td colspan="4">MATERIAL TOPICS</td></tr>
<tr><td colspan="4">GRI 201: Economic Performance 2016</td></tr>
<tr><td>GRI 103-1 to GRI 103-3</td><td>Management approach 2016</td><td>p. 26</td><td>The activities of Merko Ehitus group have a significant economic impact on society and the company's main stakeholders. The group companies are important employers and taxpayers, and the company creates business opportunities for suppliers and subcontractors by its activities. The business activities of Merko Ehitus are long-term and future-oriented in nature. Group has made considerable investments into assets, the realisation horizon of which we measure in years. Cooperation with stakeholders is important for the group in order to ensure the sustainability of business activities.</td></tr>
<tr><td>201-1</td><td>Direct economic value generated and distributed</td><td></td><td>Direct economic value generated and distributed for stakeholders 2020 (2019)
<table>
<tr><td rowspan="2">Customers
Revenue EUR 315.9 million (326.8)</td><td>Suppliers
Materials and goods, EUR 54.2 million (58.0)
External services EUR 174.2 million (185.1)</td><td>Employees
666 employees (694)
Labour costs EUR 36.4 million (37.4)</td></tr>
<tr><td>Investors
Dividends EUR 0.0 million (17.7)</td><td>Public sector
Corporate income tax expense EUR 2.0 million (3.8)</td></tr>
</table>
Merko Ehitus group approach to taxes
Group is committed to being a responsible taxpayer in all operating countries. It complies with local and international tax regulations, practices and interpretations, as well as requirements concerning tax returns and other documentation. Merko Ehitus group applies the market price principle pursuant to the OECD Transfer Pricing Guidelines and local transfer pricing regulations in the group's internal business transactions.</td></tr>
</table>

PAID* TAXES BY COUNTRIES

in thousands of euros

	2020	2019
Estonia	23,463	22,100
Latvia	5,553	2,123
Lithuania	13,682	(226)
Norway	1,165	1,434
Total	**43,863**	**25,431**

* *Actually paid and not calculated tax amounts.*

PAID* TAXES BY TAX TYPES

in thousands of euros

	2020	2019
Value added tax	26,612	5,297
Taxes on employee wages and fringe benefits	14,804	15,395
Other taxes	1,417	1,287
Corporate income tax	1,030	3,452
Total	**43,863**	**25,431**

* *Actually paid and not calculated tax amounts.*

GRI 202: Market Presence 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		The success of group's business operations in each operating country (Estonia, Latvia, Lithuania, Norway) depends on the local people who are familiar with the business environment and cultures of each country. Although the group's structure is international, in each country we operate as local companies.
202-2	Proportion of management hired from the local community at significant locations of operation	p 38-42	The group is managed on the basis of countries in which it is active and the local leaders of companies are generally nationals of those countries.
GRI 203: Indirect Economic Impacts 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		As the leading construction company in the Baltic region, the group's economic activities have a significant impact on the local economic environment. The group's companies build buildings and facilities and develop real estate, creating a better living environment. The group designs and builds new buildings: homes for thousands of families as well as large public buildings, including educational institutions, national defence facilities, office buildings and shopping malls. The roads, bridges, tunnels and viaducts Merko has built make traffic safer and faster; while water treatment plants and public water and sewerage pipelines improve the quality of life and provide quality drinking water to hundreds of thousands of people. In addition, we help provide the necessary electrical connection for life to hundreds of thousands of companies and families and build and maintain public roads. In addition to the living environments developed and built by us, Merko develops public space in cooperation with local governments. All of this serves to renew and improve the general environment, where, among other things, economic relations can develop more efficiently and more closely than before, thereby creating value for other market participants.
203-1	Infrastructure investments and services	p. 17, 19, 22, 30	
203-2	Significant indirect economic impacts	p. 17-20, 30-32	
GRI 204: Procurement Practices 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		The group's business is based on fair and transparent business ethics.

204-1	Proportion of spending on local suppliers at significant locations of operation	p. 67	The materials and services used in construction are generally from the local market or supplied from within the EU. Detailed data is not reported at group level.
GRI 205: Anti-corruption 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		Merko's core values include ethical business activities, and any forms of corruption are unacceptable for the group. All employees of the group have to comply with ethical principles and observe the code of business ethics established in the group. We also expect our customers and partners to follow ethical business practices in their daily work.
205-2	Communication and training on anti-corruption policies and procedures	p. 30	Merko continuously provides training and orientation to its personnel on the prevention of corruption and other illegal operating practices. The content and scope of the training depends partly on the role of the persons concerned.
205-3	Confirmed incidents of corruption and actions taken		There were no confirmed incidents of corruption in 2020. In addition to the prevention of corruption, Merko Ehitus group has a principle of investigating all suspected cases of misconduct and deciding on further action based on the results of the investigation.
GRI 301: Materials 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		Due to the fact that construction activities involve the use of many different building materials and products, the efficiency of such use is a significant cost-related area that is constantly in focus. Each construction project is unique; therefore, it is difficult to develop a uniform material efficiency indicator that would accurately reflect the actual level of efficiency. Thus, material efficiency is monitored and managed on an individual project basis. Besides project-bases analysis, Merko Ehitus is also engaged in the broader development of design organisation and technical calculation preparation practices from the viewpoint of material efficiency, focusing on the optimisation of building structures and the choice of materials. In choosing building materials and products, the construction companies in Merko group follow the principles of ensuring the requirements of European Parliament and of the Council regulation No 305/2011 and the national legal acts.
GRI 302 Energy 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		The group's main activity is construction management, which is not particularly energy-intensive compared to production activities. The group's business activities include many projects of different types and volume, and energy consumption can therefore vary considerably across periods. In conducting its activities, the company primarily focuses on energy efficiency on a project and unit level, developing various energy-efficient work methods and replacing its vehicles and tools as energy efficiency improves.
301-1	Energy consumption within the organisation		The group's construction companies comply with the principles of environmental management system standard ISO 14001 and hold the respective certificate. The European Union Member States are obliged to comply with the Energy Efficiency Directive (2012/27/EU) and the local legislation that requires Merko to comply with its large company energy audit obligation. The regular energy audits of Merko group companies have been regularly submitted and declared to be in conformity.
301-2	Energy consumption outside of the organisation		The group's energy consumption outside of the organisation is mainly of a local nature and is based on the principles of construction management – sites with larger numbers of workers are mainly located near capitals, i.e. close to where the workers live, while the project management of smaller projects that are located farther away from the headquarters is often concentrated. Such projects are managed from the headquarters, which reduces energy consumption, fuel consumption and CO_2 emissions. Merko group companies follow energy-efficient construction solutions in the design of buildings that meet the national requirements of the group's construction companies.
GRI 306: Waste 2016			
GRI 103-1 to	Management approach 2016		Construction activities, particularly at sites that involve demolitions works, generate large quantities of waste.

GRI 103-3			Similarly to the question of materials and energy, the issue of re-using waste, reducing the volumes of waste and recycling waste is an issue of cost-efficiency for the group, which is managed on a project and unit basis. The waste generated at construction sites is sorted and delivered to a waste handler who holds a waste permit. If possible, waste is re-used depending on local recycling methods and the principles of legislation.
GRI 307: Environmental Compliance 2016			
GRI 103-1 to GRI 103-3	Management approach 2016	p. 30	
307-1	Non-compliance with environmental laws and regulations		No significant fines and sanctions for non-compliance with environmental regulations during the period.
GRI 401: Employment 2016			
GRI 103-1 to GRI 103-3	Management approach 2016	p.26-29	
401-1	New employee hires and employee turnover	p. 26	The age groups are not gathered at group level.
401-2	Benefits provided to full time employees	p. 29	
GRI 403: Occupational Health and Safety 2016			
GRI 103-1 to GRI 103-3	Management approach 2016	p. 27-28	
403-2	Rates of injury, fatalities and absenteeism	p. 28	
GRI 404: Training and Education 2016			
GRI 103-1 to GRI 103-3	Management approach 2016	p. 26-29	
404-2	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	p. 29	
404-3	Employees receiving regular performance and career development reviews	p. 27	
GRI 413: Local Communities 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		Operating in the construction and real estate development sector requires good relations with local communities on whom the company's business activities have an effect. Works at construction sites are organised so as to keep the disturbance of the surrounding residents, businesses and passers-by to a minimum, and those directly affected by construction works are given prior notice of plans to carry out construction works. Upon preparing new real estate developments, consideration is given to the practices of the former users of the development area, and the constructed buildings are surrounded with integral environments that correspond to the expectations of the local communities and suit the overall urban environment.
413-1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	p. 7-8, 30-32, 110	
413-2	Operations with significant actual and potential negative impacts on local communities		-

GRI 415: Political Contributions 2016		
GRI 103-1 to GRI 103-3	Management approach 2016	The group's principle is not to make political donations.
415-1	Contributions to political parties and related institutions	Merko Ehitus group does not support any politicians, political parties or other political institutions.