



AS MERKO EHITUS

GROUP

2021 6 months and II quarter consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
Commercial Register No.:	11520257
Address:	Järvevana tee 9G, 11314 Tallinn
Postal address:	Pärnu mnt 141, 11314 Tallinn
Phone:	+372 650 1250
Fax:	+372 650 1251
E-mail:	group@merko.ee
Web site:	group.merko.ee
Financial year:	01.01.2021 – 31.12.2021
Reporting period:	01.01.2021 – 30.06.2021
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

TABLE OF CONTENTS

BRIEF OVERVIEW OF THE GROUP.....	3
MANAGEMENT REPORT	5
MANAGEMENT BOARD'S DECLARATION	20
INTERIM FINANCIAL STATEMENTS	21
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	21
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	22
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	23
CONSOLIDATED CASH FLOW STATEMENT	24
NOTES	25
NOTE 1 ACCOUNTING POLICIES USED.....	25
NOTE 2 OPERATING SEGMENTS	25
NOTE 3 COST OF GOODS SOLD	29
NOTE 4 EARNINGS AND DIVIDENDS PER SHARE	29
NOTE 5 CASH AND CASH EQUIVALENTS.....	30
NOTE 6 TRADE AND OTHER RECEIVABLES	30
NOTE 7 INVENTORIES	31
NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES.....	31
NOTE 9 INVESTMENT PROPERTY	31
NOTE 10 PROPERTY, PLANT AND EQUIPMENT	32
NOTE 11 INTANGIBLE ASSETS	32
NOTE 12 BORROWINGS	33
NOTE 13 PAYABLES AND PREPAYMENTS	34
NOTE 14 SHORT-TERM PROVISIONS	34
NOTE 15 OTHER LONG-TERM PAYABLES	34
NOTE 16 RELATED PARTY TRANSACTIONS	35
NOTE 17 CONTINGENT LIABILITIES.....	38
DEFINITION OF RATIOS.....	39

BRIEF OVERVIEW OF THE GROUP

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



BUSINESS SEGMENTS

ESTONIA

General construction
Civil engineering
Electrical construction
Road construction
Residential real estate development and investments

LATVIA

General construction
Civil engineering
Residential real estate development and investments

LITHUANIA

General construction
Residential real estate development and investments

NORWAY

General construction

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

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

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

SHARES

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

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

2020 KEY FIGURES

Revenue **315.9 million** euros

Net profit **23.0 million** euros

666 employees





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.



MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

Second-quarter revenue for Merko Ehitus was EUR 86 million and net profit was EUR 6.4 million. The revenue for first half increased by 12% to EUR 146 million and net profit by 19% to EUR 9.8 million. This year, Merko has sold nearly 150 apartments this year and launched the construction of more than 800 apartments.

According to the management of Merko Ehitus, the construction sector is more and more influenced by the rapid price rise of materials and problems related to supply, as a result of which the risks related to on-time completion of construction objects and staying within budget have soared. Considering the current market situation, the management is satisfied with the results of the first half of the year. The group's revenue and net profit grew in both Q2 and in the first half of the year. The number of new construction contracts signed this year decreased somewhat, while the launch of new apartment development projects continued, which are not reflected in the portfolio of contracts.

The share of the apartment development sector segment in the group's revenue decreased in the first half-year due to the time timing of completion of the development projects. In the first half of the year, almost 150 apartments have been handed over to buyers and launched the construction of more than 800 new apartments, of which the majority will be completed in 2022. The number of apartments under construction is up significantly and apartment sales are going according to plan – most of the finished apartments have been sold and a large part of the apartments under construction are reserved under preliminary contracts of sale. As a whole, the apartment market in the Baltics has been active this year. Merko's largest apartment development projects were Noblessner, Uus-Veerenni, Odra, Metsatuka and Lahekald, in Tallinn; Erminurme, in Tartu; Viesturdārzs and Mežpilsēta, in Riga; and Vilneles Skverai, in Vilnius.

2021 6M
REVENUE
146 MILLION EUROS

PROFIT
BEFORE TAX
10.5 MILLION EUROS

In Q2, AS Merko Ehitus Eesti entered into a contract for acquiring a 35% holding in the network construction and maintenance company Connecto Eesti AS, under which Merko Ehitus Eesti's electrical engineering unit will merge with Connecto Eesti AS. The management of Merko Ehitus considers that that investments into energy and communication infrastructure are continuing and Connecto has good prospects to be a part of these developments.

In Q2 of 2021, Merko entered into new contracts worth EUR 38 million of which the largest were a contract for the design and construction of the infrastructure of the Republic of Estonia's southeast land border sections 4–6 and a contract for the construction of St John's School in Tallinn. The Merko group's secured order book balance grew to EUR 250 million as of the end of the second quarter.

In the second quarter, the largest objects in Estonia were the third development phase of the Mustamäe medical campus of the North-Estonia Medical Centre, the Tallinn School of Music and Ballet, zero cycle construction works of Liivalaia business and residential complex and the construction of infrastructure segments of the Republic of Estonia's southeast land border. In Latvia, the works in progress were the Orkla wafer and biscuit production plant and NATO facilities in Ādaži, and the Kauguri city park and youth house. In Lithuania, infrastructure for a number of wind farms and the Kaunas district police headquarters building, NATO barracks and a production building for Continental Automotive.

OVERVIEW OF THE II QUARTER AND 6 MONTHS RESULTS

PROFITABILITY

2021 6 months' pre-tax profit was EUR 10.5 million and Q2 2021 was EUR 6.7 million (6M 2020: EUR 8.8 million and Q2 2020 was EUR 6.7 million), which brought the pre-tax profit margin to 7.2% (6M 2020: 6.8%).

Net profit attributable to shareholders for 6 months 2021 was EUR 9.8 million (6M 2020: EUR 8.2 million) and for Q2 2021 net profit attributable to shareholders was EUR 6.4 million (Q2 2020: EUR 6.2 million). 6 months net profit margin was 6.7% (6M 2020: 6.3%).

REVENUE

Q2 2021 revenue was EUR 85.8 million (Q2 2020: EUR 73.9 million) and 6 months' revenue was EUR 145.9 million (6M 2020: EUR 129.7 million). 6 months' revenue increased by 12.4% compared to same period last year. The share of revenue earned outside Estonia in 6 months 2021 was 38.0% (6M 2020: 50.3%).

SECURED ORDER BOOK

As of 30 June 2021, the group's secured order book was EUR 249.8 million (30 June 2020: EUR 236.7 million). In 6 months 2021, group companies signed new contracts in the amount of EUR 135.1 million (6M 2020: EUR 175.1 million). In Q2 2021, new contracts were signed in the amount of EUR 37.8 million (Q2 2020: EUR 87.8 million).

REAL ESTATE DEVELOPMENT

In 6 months 2021, the group sold a total of 145 apartments; in 6 months 2020, the group sold 369 apartments. The group earned a revenue of EUR 25.8 million from sale of own developed apartments in 6 months 2021 and EUR 46.0 million in 6 months 2020. In Q2 of 2021 a total of 55 apartments were sold, compared to 236 apartments in Q2 2020, and earned a revenue of EUR 11.0 million from sale of own developed apartments (Q2 2020: EUR 27.4 million).

CASH POSITION

At the end of the reporting period, the group had EUR 21.7 million in cash and cash equivalents, and equity of EUR 145.3 million (52.5% of total assets). Comparable figures as of 30 June 2020 were EUR 23.7 million and EUR 138.4 million (50.3% of total assets), respectively. As of 30 June 2021, the group's net debt was EUR 16.1 million (30 June 2020: EUR 34.2 million).

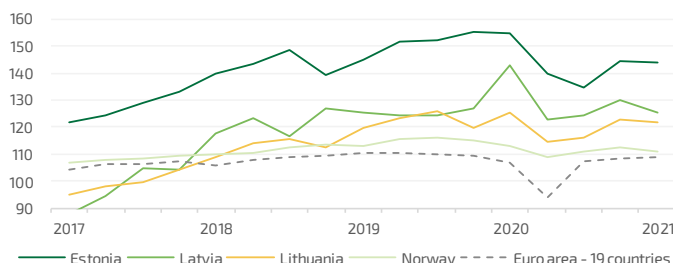
OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

CONSTRUCTION SERVICES

Construction volumes in the Baltic states have been rising from the end of 2016 to Q1 of 2020. The pandemic and related restrictions had a clear impact on the first three quarters of 2020 but from Q4 of 2020 on, construction volumes began making up the lost ground. It would be difficult and unrewarding to try to forecast what the second half of 2021 will be like as long as information on potential restrictions is lacking or remains purely speculative.

The dramatic growth in the prices of construction services that emerged in Q2 of 2021 and the still unclear reliability of materials supply chain will surely have an impact, leading customers to postpone planned investments and to take another look at their profitability calculations. On the other hand, there has been a massive increase of money supply worldwide, which is guiding market participants to make capital investments and has led to a broad-based inflation expectation, perhaps created the fear that in a few years from now, construction will cost even more. Thus, it continues to be hard to say which factor will outweigh the other at the given point in time. Uncertainty and volatility on the markets is bound to continue for some time before new stability-instilling experiences make it possible to find a new equilibrium. In this environment, demand from the public sector will remain important for the construction sector, offering relative stability.

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

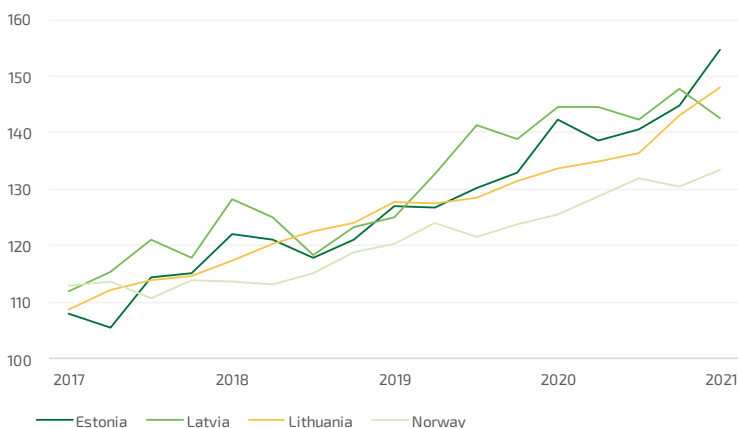


The stability seen in construction cost from 2018 to 2020 came to a clear end in Q2 of 2021. Although the actual numbers from June are not yet reflected in the official statistics on all Merko Group's home markets, based on the data for May we can see 5.5 to 6.5 percentage point quarterly cost growth. All of the major components in the price index (materials, labour, machinery) have increased, with materials making the biggest leap. At the same time, the deadlines for delivery of materials and intermediate products have become longer due to commodities shortages, leading to continuing cost pressure for construction contractors trying to stay on schedule. In this situation, it is impossible to say whether and when increased reliability of supply chain might reduce the upward pressure on prices of materials.

DEVELOPMENT OF APARTMENTS

In H1, high level of activity on the new apartments market continued across the Baltics. Only in June could signs of easing be seen, but it is unknown whether this was because of the unusually nice summer weather or if the demand accumulated during the lockdown had been satisfied by then. Apartments in new projects launched since H2 of 2020 will be reflected in official statistics on deeds of sale only in 2022, so we can expect statistics show increasing sales volumes and prices of new developments to continue for some time. Unfortunately, it is not known for how long the heightened demand will last and whether potential restrictions in the view of next waves of the pandemic will push people to continue improving their living conditions to make new lockdowns more tolerable.

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



Prices of apartments in 2018-2020 generally continued on the same growth trajectory, with fluctuations within the brackets of statistical error. The sudden rise in cost of construction in Q2 of 2021 will undoubtedly lead to a rise in prices of yet unsold apartments in new developments, although the price elasticity of demand is unknown – the adaptation of housing loan providers to new price levels. The question for all market participants is whether and to what extent the current rise in construction cost stemming from materials will push sales prices of newly developed properties upwards ahead of the curve and whether the new price levels will be sustainable even in case the inflationary pressure from materials, energy sources and labour slackens off.

BUSINESS ACTIVITIES

The group business reporting is divided into two business segments:

- construction service;
- real estate development.

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 and provision of civil engineering services; and in Lithuania and Norway general construction works.

million EUR

	6M 2021	6M 2020	VARIANCE	Q2 2021	Q2 2020	VARIANCE	12M 2020
Revenue	105.5	77.7	+35.7%	66.5	42.8	+55.4%	186.8
% of total revenue	72.3%	59.9%		77.5%	57.9%		59.1%
Operating profit	2.8	1.0	+179.9%	2.8	1.3	+104.5%	4.6
Operating profit margin	2.6%	1.3%		4.1%	3.1%		2.4%

In the 6 months of 2021, the revenue of the construction service segment was EUR 105.5 million (6M 2020: EUR 77.7 million). The sales revenue of construction service has increased by 35.7% compared to the same period last year. The construction service segment revenue for 6 months 2021 made up 72.3% of the group's total revenue (6M 2020: 59.9%). In this segment, the group earned an operating profit of EUR 2.8 million for 6 months (6M 2020: EUR 1.0 million). The operating profit margin was 2.6% (6M 2020: 1.3%).

The COVID-19 pandemic has not had a significant direct impact on the group's construction volumes. The functionality of supply chains has been a key factor, as alongside deadlines it has also started affecting prices of materials. After restrictions were lifted, demand for commodities and intermediate products has risen rapidly, part of which should be considered temporary, as many producers are trying to make up for sales forgone during the restrictions and/or replenish their warehouse stocks. This has resulted in rising prices of construction materials and, at times, worsening of availability, which certainly has an impact on the profitability of construction activity, but only to an insignificant degree on volumes.

Larger projects in progress in the second quarter in construction service segment in Estonia included the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre, Tallinn School of Music and Ballet, zero cycle construction works of Liivalaia business and residential complex, 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. In Latvia, larger ongoing projects in the second quarter 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 plants in Telšiai and Anykščiai districts, and, in Kaunas, the district Police headquarters building, NATO barracks and Continental Automotive production building were underway. In Norway, the group worked on the reconstruction of smaller scale contracts.

REAL ESTATE DEVELOPMENT

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

million EUR

	6M 2021	6M 2020	VARIANCE	Q2 2021	Q2 2020	VARIANCE	12M 2020
Revenue	40.4	52.0	-22.4%	19.3	31.1	-38.0%	129.1
incl. revenue from sale of apartments	25.8	46.0		11.0	27.4		116.6
incl. construction service from public-private-partnerships	6.5	2.5		3.9	2.4		6.4
incl. construction service to joint venture projects	1.4	0.6		1.2	0.3		1.6
incl. revenue from immovable properties	4.2	0.7		1.6	0.3		1.0
% of total revenue	27.7%	40.1%		22.5%	42.1%		40.9%
Operating profit	9.1	8.9	+2.8%	4.8	6.0	-20.1%	23.7
Operating profit margin	22.6%	17.1%		24.9%	19.3%		18.4%

In 6 months 2021, the group sold a total of 145 apartments and 6 commercial premises; in 6 months 2020, 369 apartments and 4 commercial premises. The group earned a revenue of EUR 25.8 million (VAT not included) from sale of developed apartments in 6 months 2021 and EUR 46.0 million (VAT not included) in 6 months 2020. In the revenue and operating profit of the real estate development segment also are reflected the sales of commercial premises and parking spaces of the real estate development projects and the result of public-private-partnership contracts, based on which the group companies provide construction service and property management services.

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

In 6 months of 2021, real estate development segment revenues decreased by 22.4% compared to the same period last year and formed 27.7% of the group's total revenue (6 months of 2020: 40.1%).

The segment's operating profit for the 6 months of 2021 amounted to EUR 9.1 million (6 months of 2020: EUR 8.9 million) and the operating profit margin was 22.6% (6 months of 2020: 17.1%). The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, including the land acquisition price.

In 6 months of 2021, the group launched the construction of a total of 813 new apartments in the Baltic states (6 months of 2020: the group did not launch apartment construction). In the 6 months, the group invested a total of EUR 27.0 million (6 months of 2020: EUR 32.8 million) in the ongoing development projects.

After the reporting date, the group has started the construction of 60 apartments in the third phase of the Erminurme residential development project in Tartu.

In the first half of the year, there was a growth in pre-sale contracts of apartments, but this is not fully reflected in revenue, which is based on final deeds of sale. Revenue from apartment sales proved lower year-on-year mainly because last year during the same period, the group had more apartments ready to be sold by deed of sale. The market has recovered quickly from the pandemic, demand is high, and apartments are reaching readiness for final sales according to construction schedule.

One of the group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As of 30 June 2021, the group's inventories included land plots with development potential, where the construction works have not started, in the amount of EUR 63.4 million (30.06.2020: EUR 69.4 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	30.06.2021	30.06.2020	31.12.2020
Estonia	21.6	28.6	24.9
Latvia	25.0	26.9	25.4
Lithuania	15.2	13.9	10.4
Norway	1.6	-	-
Total	63.4	69.4	60.7

In the 6 months of 2021, the group purchased new land plots at the acquisition cost of EUR 7.7 million (6 months of 2020: the group did not purchase new land plots for real estate development purposes).

SECURED ORDER BOOK

As of 30 June 2021, the group's secured order book amounted to EUR 249.8 million, compared to EUR 236.7 million as of 30 June 2020, having increased by 5.5% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 6 months of 2021, EUR 135.1 million worth of new contracts were signed, which is decreased by 22.8% compared to the same period of the previous year (6 months of 2020: EUR 175.1 million). The value of new contracts signed in the second quarter of 2021 amounted to EUR 37.8 million; in the second quarter of 2020 the value of new contracts signed amounted to EUR 87.8 million.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE SECOND QUARTER OF 2021

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Construction contract to design and construct the infrastructure of the Republic of Estonia's southeast land border sections 4–6	Estonia	April of 2025	15.8
Construction contract for the construction of St John's School in Tallinn	Estonia	Summer of 2022	5.6

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

- On 2 July 2021 UAB Merko Statyba, part of AS Merko Ehitus group, and Nordex Lithuania GmbH, part of the Nordex Group, entered into a contract to perform wind farm foundation construction works in Mažeikiai district in Lithuania. The contract value is more than EUR 7 million and project is scheduled to be completed in the first quarter of 2022.
- On 13 July 2021 UAB Merko Statyba, part of AS Merko Ehitus group, and UAB Šilalės vėjas, part of Eesti Energia group, entered into a contract to perform the wind farm balance of plant construction works in Šilalė district in Lithuania. The contract value is more than EUR 15 million and the project is scheduled to be completed in the first quarter of 2023.
- On 3 August 2021, SIA Merks, part of AS Merko Ehitus group, has entered into a contract with SIA Gustava parks projekti, part of UAB GALIO Group, for the construction of GUSTAVS business center in Riga. The value of the contract is approximately EUR 22 million and works are scheduled to be completed in December 2022.
- On 3 August 2021 UAB Merko Statyba, part of AS Merko Ehitus group, and UAB Potentia industriae entered into a contract to perform the construction of wind farm foundations in Jonava district in Lithuania. The contract value is more than EUR 4 million and the project is scheduled to be completed in December 2021.

As of 30 June 2021, the public sector orders accounted for approximately 54% of the total balance in the group's secured order book (30.06.2020: approximately 59%). The change does not provide any reason to see broad growth in private sector demand or to forecast a shift in public sector position as a contracting counterparty for construction in the coming periods. Both the public and private sectors are re-evaluating the justification and profitability of investments in an environment of rapidly changing input prices. In such circumstances, the group continues to be selective in signing new contracts in order to ensure a proper risk and reward ratio.

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

CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 21.7 million (30.06.2020: EUR 23.7 million). As the group's cash position continues to be strong, the group has not utilised its credit lines of existing overdrafts and loan agreements within reporting period. As of the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 44.1 million, which was almost entirely unused at the end of current period (30.06.2020: EUR 37.6 million of which EUR 29.2 was unused).

The 6-month cash flow from operating activity was negative at EUR 15.5 million (6 months of 2020: positive EUR 7.2 million), cash flow from investing activity was negative at EUR 0.8 million (6 months of 2020: negative EUR 1.7 million) and the cash flow from financing activity was negative at EUR 9.4 million (6 months of 2020: negative EUR 6.4 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 12.2 million (6 months of 2020: positive effect of EUR 10.5 million) and change in trade and other payables related to operating activities of EUR 24.3 million (6 months of 2020: negative effect of EUR 6.8 million). The negative effects to cash flow from operating activities came from the changes in receivables and liabilities related to construction contracts of EUR 10.7 million (6 months 2020: positive effect of EUR 6.8 million), from the changes in trade and other receivables related to operating activities of EUR 24.4 million (6 months of 2020: negative effect of EUR 1.7 million), from change in the provisions of EUR 3.1 million (6 months of 2020: negative effect of EUR 5.1 million) and from the change in inventories of EUR 10.3 million (6 months of 2020: positive effect of EUR 5.0 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments, while the negative cash flow is due to the increase in the volume of inventories related to the construction of apartments, then the positive cash flow is due to the decrease in inventories in the sale of the apartments. Interest was paid EUR 0.3 million (6 months of 2020: EUR 0.6 million) and corporate income tax was paid at EUR 2.8 million (6 months of 2020: EUR 0.6 million).

To support cash flows from operating activities, including increased volumes in apartment development, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (13.6% as of 30.06.2021; 21.1% as of 30.06.2020; 11.3% as of 31.12.2020).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 0.9 million, which is mainly related to the renewal of equipment in the field of road construction, (6 months of 2020 EUR 1.8 million) and positive effect from the sale of non-current assets in the amount of EUR 0.1 million (6 months of 2020: EUR 0.1 million).

In cash flows from financing, the larger negative factors were dividend payment of EUR 17.7 million (6 months of 2020: EUR 0.1 million), repayments of lease liabilities in the amount of EUR 0.4 million (6 months of 2020: net negative cash flow of EUR 0.5 million) and the net change in loans received and repaid in connection with development projects in the amount of EUR 0.5 million (6 months of 2020: net negative cash flow of EUR 6.4 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 9.2 million (6 months of 2020: negative cash flow in the net amount of EUR 0.3 million).

The Q2 2021 cash flow from operating activity was negative at EUR 20.0 million (Q2 2020: negative EUR 2.5 million), cash flow from investing activity was negative at EUR 0.4 million (Q2 2020: negative EUR 1.6 million) and the cash flow from financing activity was negative at EUR 12.6 million (Q2 2020: positive EUR 9.3 million).

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		6M 2021	6M 2020	6M 2019	Q2 2021	Q2 2020	Q2 2019	12M 2020
Revenue	million EUR	145.9	129.7	154.2	85.8	73.9	77.4	315.9
Gross profit	million EUR	17.2	16.5	14.7	10.3	11.0	8.5	43.7
Gross profit margin	%	11.8	12.7	9.5	12.0	14.9	10.9	13.8
Operating profit	million EUR	10.9	9.1	7.6	7.0	6.9	4.7	25.5
Operating profit margin	%	7.5	7.0	4.9	8.2	9.4	6.1	8.1
Pre-tax profit	million EUR	10.5	8.8	7.5	6.7	6.7	4.5	24.5
Pre-tax profit margin	%	7.2	6.8	4.9	7.9	9.1	5.9	7.7
Net profit	million EUR	9.6	8.0	4.6	6.3	6.1	1.7	22.5
attributable to equity holders of the parent	million EUR	9.8	8.2	4.5	6.4	6.2	1.7	23.0
attributable to non-controlling interest	million EUR	(0.1)	(0.2)	0.2	(0.1)	(0.1)	0.0	(0.5)
Net profit margin	%	6.7	6.3	2.9	7.5	8.3	2.2	7.3
Other income statement indicators		6M 2021	6M 2020	6M 2019	Q2 2021	Q2 2020	Q2 2019	12M 2020
EBITDA	million EUR	12.2	10.5	8.8	7.6	7.7	5.3	28.2
EBITDA margin	%	8.4	8.1	5.7	8.9	10.4	6.9	8.9
General expense ratio	%	5.2	5.6	5.2	4.5	4.8	5.2	5.6
Labour cost ratio	%	12.1	12.0	12.0	10.6	10.3	12.4	11.5
Revenue per employee	thousand EUR	219	195	213	129	111	107	478

OTHER SIGNIFICANT INDICATORS		30.06.2021	30.06.2020	30.06.2019	31.12.2020
Return on equity	%	16.4	15.3	13.4	16.2
Return on assets	%	9.2	6.9	6.1	8.4
Return on invested capital	%	14.5	11.3	11.7	13.1
Assets	million EUR	276.7	274.9	287.9	256.9
Equity	million EUR	149.4	142.4	123.3	157.4
Equity attributable to equity holders of the parent	million EUR	145.3	138.4	118.5	153.2
Equity ratio	%	52.5	50.3	41.2	59.6
Debt ratio	%	13.6	21.1	21.8	11.3
Current ratio	times	2.4	2.3	1.9	2.7
Quick ratio	times	0.9	0.7	0.7	1.0
Accounts receivable turnover	days	29	43	42	35
Accounts payable turnover	days	34	47	47	37
Average number of employees	people	667	667	724	661
Secured order book	million EUR	249.8	236.7	172.1	225.1

Ratio definitions are provided on page 39 of the report.

RISK MANAGEMENT

Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine significant risks and to optimally manage risks so that the company achieves its strategic and financial objectives.

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

Legal risk

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

As of 30 June 2021, no provision has been formed (30.06.2020: EUR 0.2 million) for covering potential claims and legal costs.

Below an overview of the key legal disputes and proceedings, which have taken place or ended during 2021 or are ongoing as of 30 June 2021 and which concern group entities is presented:

Estonia

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

The court cases in connection with Minister of the Environment regulation No 22 of 27 March 2015, which redrew the boundaries of species protection sites to exclude properties on Paekalda street owned by AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ (now merged with AS Merko Ehitus Eesti, part of AS Merko Ehitus group). On 2 February 2016, AS Merko Ehitus group companies, 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, a new hearing will take place on 25 August 2021. The possible effect of the potential positive outcome of this claim has not been taken into account in the group's financial reporting.

Latvian Competition Council administrative proceeding

In August, 2019, the Latvian Competition Council (*Konkurences padome*) initiated 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 among the construction companies involved in 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. At the time of publication of this report, the result of the proceeding has not been announced.

SIA Ostas Celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas Celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas Celtnieks" according to its share in the consortium. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. The court took the evidence from both parties to the proceedings and advised the parties to enter into a suitable arrangement for both parties. No agreement was reached, SIA "Ostas Celtnieks" filed a counterclaim against SIA Merks for lost profits, which prolongs the process. The next hearing will take place on 7 September 2021. The impact of this claim has not been taken into account in the group's reporting.

EMPLOYEES AND LABOUR COSTS

As of 30 June 2021, Merko Ehitus group employed 718 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees increased by 45 (+6.7%). The number of employees increased in all countries where the group operates.

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

The group defines labour cost as salary (incl. fixed salary, additional pay, holiday pay, and performance pay), taxes based on salary, fringe benefits and taxes on fringe benefits. In 6 months 2021, the labour cost was EUR 17.7 million (6 months 2020: EUR 15.5 million), which increased by 13.8% compared to the same period previous year. The labour cost ratio increased by 0.1 pp from 12.0% to 12.1% in comparable periods.

During 6 months of 2021, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 4.0 million in labour taxes in Estonia, being one of the largest labour tax payer in the construction sector (6 months 2020: EUR 4.3 million).

ETHICAL BUSINESS PRACTICES

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

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

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

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

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

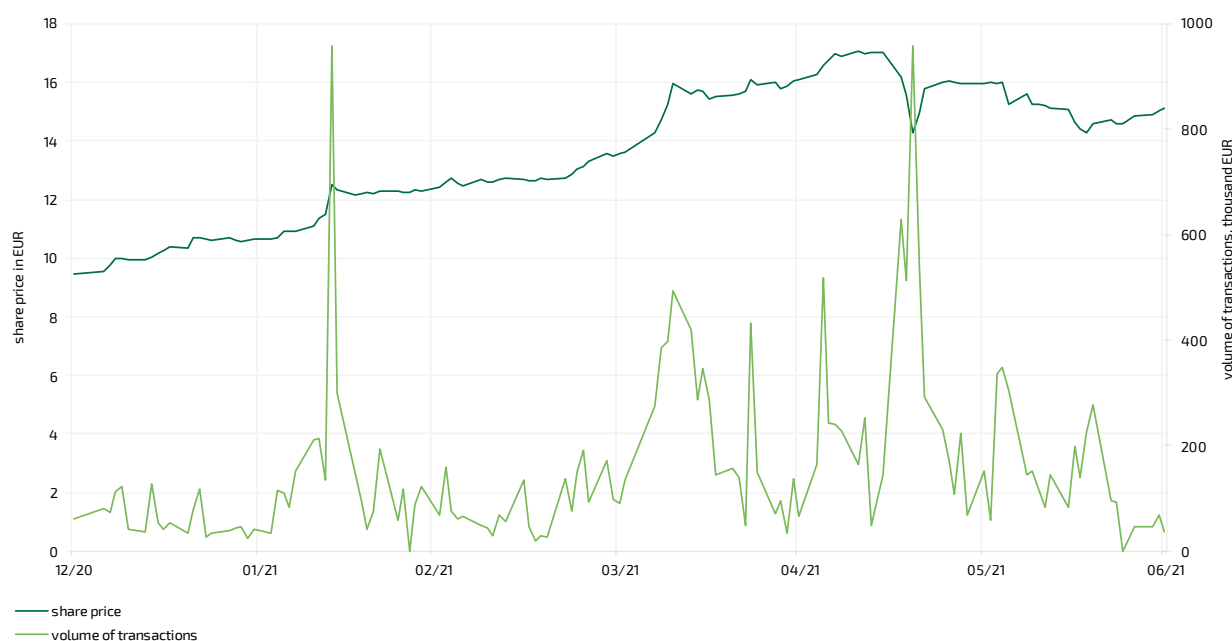
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As of 30 June 2021, the company has 17,700,000 shares. The number of shares has not changed during 2021.

A total of 26,825 transactions were conducted with the shares of Merko Ehitus in 6 months of 2021, with 1.41 million shares (8.0% of total shares) traded, generating a turnover of EUR 19.8 million (comparable figures in 6 months 2020 were accordingly: 13,115 transactions with 1.09 million shares traded (6.1% of total shares), generating a turnover of EUR 9.2 million). The lowest value-per-share transaction was recorded at the price of EUR 9.48 and the highest at EUR 17.14 per share (6 months of 2020: EUR 6.56 and EUR 10.60, accordingly). On 30 June 2021, the closing price of the share was EUR 15.10 (30.06.2020: EUR 8.48). As of 30 June 2021, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 267.3 million, up 78.1% compared to the end of the equivalent period of the prior year (30.06.2020: EUR 150.1 million).

	30.06.2021	30.06.2020	30.06.2019	31.12.2020
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.55	0.46	0.25	1.30
Equity per share, euros	8.45	7.37	7.20	8.01
P/B ratio	1.79	1.15	1.27	1.18
P/E ratio	10.87	7.51	9.47	7.28
Market value, million EUR	267.3	150.1	162.1	167.4

Ratio definitions are provided on page 39 of the report.

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2021



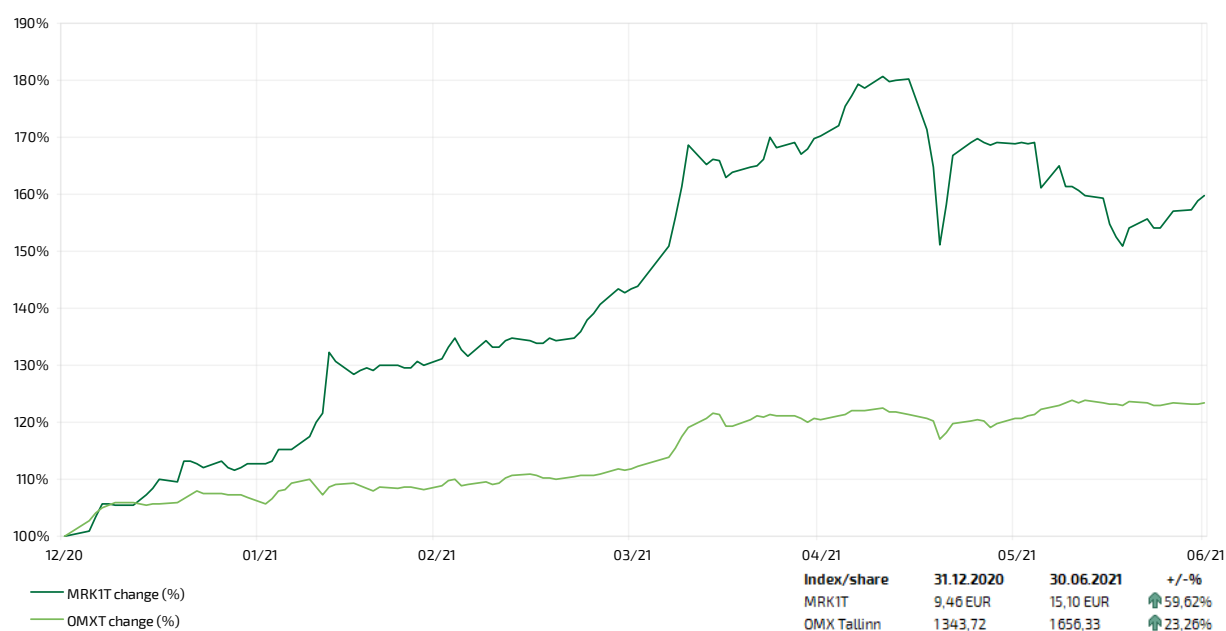
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS OF 30.06.2021

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.01%	12,742,686	71.99%
100,001 – 1,000,000	7	0.09%	1,357,605	7.67%
10,001 – 100,000	49	0.63%	1,096,725	6.20%
1,001-10,000	532	6.79%	1,509,721	8.53%
101-1,000	2,334	29.80%	840,240	4.75%
1-100	4,909	62.68%	153,023	0.86%
Total	7,832	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS OF 30.06.2021 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 30.06.2021	% OF TOTAL 31.03.2021	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	366,000	2.07%	1.99%	14,500
Firebird Republics Fund Ltd	317,000	1.79%	1.83%	(6,300)
Firebird Avrora Fund Ltd	178,067	1.01%	1.01%	-
SEB Life and Pension Baltic SE Estonian Branch	148,787	0.84%	0.84%	-
Siseinfo OÜ	130,000	0.73%	0.73%	-
Clearstream Banking AG	114,030	0.64%	0.63%	1,800
Firebird Fund L.P.	103,721	0.59%	0.59%	-
Seitse Samuraid OÜ	100,000	0.56%	0.56%	-
Sven Einar Stefan Andersson	80,000	0.45%	0.54%	(16,410)
Total largest shareholders	14,280,291	80.67%	80.71%	(6,410)
Total other shareholders	3,419,709	19.33%	19.29%	6,410
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2021



DIVIDENDS AND DIVIDEND POLICY

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

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

On 5 May 2021, the shareholders of AS Merko Ehitus approved the Supervisory Board's proposal to the shareholders to pay out the total amount of EUR 17.7 million (EUR 1.00 per share) as dividends from net profit brought forward, which is equivalent to a 77% dividend rate and a 10.6% dividend yield for the year 2020 (using the share price as of 31 December 2020). No comparable data for 2020 were available since the general meeting of shareholders held on 6 May 2020 confirmed the Supervisory Board's proposal not to pay dividends from net profit brought forward to shareholders.

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 (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.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

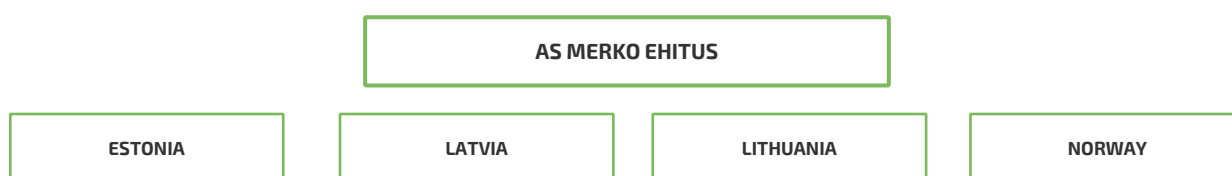
AS Merko Ehitus operates as a holding company to a group, the companies of which in Estonia, Latvia, Lithuania and Norway offer complete solutions in the field of construction and real estate development. The group's largest companies are AS Merko Ehitus Eesti (100%), Tallinna Teede AS (100%), SIA Merks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

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

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

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

As of 30 June 2021, the management structure is as follows:



GROUP'S LEGAL STRUCTURE

As of 30 June 2021, in addition to AS Merko Ehitus, the group comprises 32 companies (30.06.2020: 31). The group's legal structure is predominantly based on economic and legal rationality and does not in all cases conform one-to-one to the group's management structure. The detailed list of group companies is provided in Note 16 of the interim financial statements.

Changes in the legal structure of the group

On 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. It is planned to complete the restructuring and make the respective entry into the Commercial Register during the 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.

On 18 February 2021, Merko Investments AS, a fully owned subsidiary of AS Merko Ehitus, acquired a 56% holding in a Norwegian company Løkensbogen Bolig AS with a share capital of NOK 30 thousand (EUR 2,884) at the purchase price of EUR 2 thousand for the purpose of real estate development.

On 2 June 2021, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus group, signed a contract with Aardekapp OÜ to acquire a 35% holding (192,500 shares) in Connecto Eesti AS, which designs, builds and maintains electrical, gas and telecommunications networks. After acquisition of the shares, the electrical construction business line of AS Merko Infra, 100% daughter company of AS Merko Ehitus Eesti, will merge with Connecto Eesti AS. In the future the services will be provided under Connecto brand. Estonian Competition Authority granted the needed approval on 25 June 2021. The transfer of shares and completion of the transactions took place in July 2021.

GENERAL MEETING OF SHAREHOLDERS

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

In order to avoid physical gatherings during the COVID-19 corona pandemic, shareholders' decisions were adopted on 5 May 2021 without convening a general meeting. The annual report for 2020 and the profit allocation proposal were confirmed by vote. The dividends in the amount of EUR 17.7 million (EUR 1 per share) paid out to the shareholders on 18 June 2021.

In addition, the shareholders decided to appoint the audit firm AS PricewaterhouseCoopers as the auditor of AS Merko Ehitus for the financial years of 2021 and 2022 and to pay to the audit firm for auditing as per contract to be entered into with AS PricewaterhouseCoopers.

SUPERVISORY BOARD

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

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

As of 30 June 2021, the Supervisory Board of AS Merko Ehitus had three members, of whom, in accordance with the requirements of the Corporate Governance Recommendations, Indrek Neivelt was an independent member.

MANAGEMENT BOARD

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

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

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

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. The Management Board of AS Merko Ehitus will continue with two members: Mr. Andres Trink (Chairman) and Mr. Tõnu Toomik.

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

Authorisation and responsibility of supervisory boards of subsidiaries of AS Merko Ehitus are based on their Articles of Association and intergroup rules. Generally, Supervisory Boards of subsidiaries consist of members of the Management Board and Supervisory Board of the company that is the main shareholder of the specific subsidiary. Supervisory Board meetings of the most significant subsidiaries are held usually once a month, otherwise according to the group's needs, Articles of Association of subsidiaries and legal provisions. Generally, no separate fee is paid to members of the Supervisory Board of subsidiaries. Members of the

Supervisory Board will also receive no termination benefit in case their contract of service is terminated before due date or not extended. The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board.

Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as of 30 June 2021:

COMPANY	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti	Andres Trink (Chairman), Tõnu Toomik, Martin Rebane	Ivo Volkov (Chairman), Jaan Mäe, Veljo Viitmann
Tallinna Teede AS	Tõnu Toomik (Chairman), Ivo Volkov, Andres Trink	Jüri Läll (Chairman), Marek Rand
OÜ Merko Investments	-	Andres Trink, Priit Roosimägi
SIA Merks	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Andris Bišmeistars (Manager)
UAB Merko Statyba	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Saulius Putrimas (Chairman) Jaanus Rästas
UAB Merko Bustas	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Saulius Putrimas (Manager)

Changes in the management of group subsidiaries

The powers of the management board member of Tallinna Teede AS, a subsidiary of AS Merko Ehitus, Mr. Jüri Helila expired on 30 January 2021. On 19 January 2021, the supervisory board of Tallinna Teede AS decided to appoint Mr. Marek Rand as management board member starting from 1 February 2021 until 31 January 2024. The management board of Tallinna Teede AS continues with two members: Mr. Jüri Läll (the Chairman) and Mr. Marek Rand.

As per the decision of AS Merko Ehitus Management Board on 9 July 2021, starting from 16 July 2021, Mr. Urmas Somelar will be a Member of the Supervisory Boards of group companies UAB Merko Statyba, UAB Merko Būstas and SIA Merks, and a Member of the Management Board of group company OÜ Merko Investments, replacing the current member, Mr. Priit Roosimägi.

MANAGEMENT BOARD'S DECLARATION

Members of the Management Board of AS Merko Ehitus declare and confirm that the consolidated unaudited interim report for the 6 months of 2021, which consists of the management report and the interim financial statements, prepared according to the current International Financial Reporting Standards as adopted by the European Union, provides, to the best of their knowledge, a true and fair view of the development of business operations, assets, liabilities, financial position, results of the operations, cash flows, and profit or loss of AS Merko Ehitus and the consolidated undertakings as a whole, includes a description of the principal risks and uncertainties, and reflects transactions with related parties. The parent company and the companies, which are part of the consolidation group, are going concerns.

Andres Trink	Chairman of the Management Board	05.08.2021
--------------	----------------------------------	------------

Tõnu Toomik	Member of the Management Board	05.08.2021
-------------	--------------------------------	------------

INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2021 6 months	2020 6 months	2021 II quarter	2020 II quarter	2020 12 months
Revenue	2	145,860	129,733	85,753	73,861	315,918
Cost of goods sold	3	(128,622)	(113,250)	(75 489)	(62,852)	(272,169)
Gross profit		17,238	16,483	10 264	11,009	43,749
Marketing expenses		(1,830)	(1,873)	(883)	(925)	(4,212)
General and administrative expenses		(5,706)	(5,393)	(2,991)	(2,588)	(13,412)
Other operating income		1,314	1,122	639	614	2,320
Other operating expenses		(93)	(1,252)	(39)	(1,189)	(2,979)
Operating profit		10,923	9,087	6,990	6,921	25,466
Finance income/costs		(441)	(310)	(257)	(211)	(1,009)
incl. finance income/costs from joint venture		3	92	(4)	2	(144)
interest expense		(316)	(330)	(170)	(158)	(719)
foreign exchange gain (loss)		(39)	(4)	(39)	(4)	(7)
other financial income (expenses)		(89)	(68)	(44)	(51)	(139)
Profit before tax		10,482	8,777	6,733	6,710	24,457
Corporate income tax expense		(856)	(786)	(427)	(648)	(1,954)
Net profit for financial year		9,626	7,991	6,306	6,062	22,503
incl. net profit attributable to equity holders of the parent		9,763	8,175	6,395	6,156	22,994
net profit attributable to non-controlling interest		(137)	(184)	(89)	(94)	(491)
Other comprehensive income, which can subsequently be classified in the income statement						
Currency translation differences of foreign entities		16	(128)	(7)	60	(115)
Comprehensive income for the period		9,642	7,863	6,299	6,122	22,388
incl. net profit attributable to equity holders of the parent		9,779	8,044	6,387	6,221	22,890
net profit attributable to non-controlling interest		(137)	(181)	(88)	(99)	(502)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.55	0.46	0.36	0.35	1.30

The notes set out on pages 25-38 are an integral part of these interim financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	30.06.2021	30.06.2020	31.12.2020
ASSETS				
Current assets				
Cash and cash equivalents	5	21,713	23,728	47,480
Trade and other receivables	6	62,902	44,790	32,657
Prepaid corporate income tax		315	91	306
Inventories	7	136,605	161,534	126,332
		221,535	230,143	206,775
Non-current assets				
Investments in joint venture		2,357	2,590	2,354
Other long-term loans and receivables	8	22,797	14,504	17,979
Deferred income tax assets		842	-	653
Investment property	9	13,872	13,988	13,922
Property, plant and equipment	10	14,611	12,996	14,521
Intangible assets	11	733	686	711
		55,212	44,764	50,140
TOTAL ASSETS		276,747	274,907	256,915
LIABILITIES				
Current liabilities				
Borrowings	12	9,279	28,011	13,649
Payables and prepayments	13	77,814	63,243	55,846
Income tax liability		731	912	1,202
Short-term provisions	14	5,720	5,915	6,347
		93,544	98,081	77,044
Non-current liabilities				
Long-term borrowings	12	28,493	29,900	15,409
Deferred income tax liability		1,739	1,650	3,001
Other long-term payables	15	3,586	2,858	4,026
		33,818	34,408	22,436
TOTAL LIABILITIES		127,362	132,489	99,480
EQUITY				
Non-controlling interests		4,078	4,036	4,207
Equity attributable to equity holders of the parent				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	793	793
Currency translation differences		(798)	(841)	(814)
Retained earnings		137,383	130,501	145,320
		145,307	138,382	153,228
TOTAL EQUITY		149,385	142,418	157,435
TOTAL LIABILITIES AND EQUITY		276,747	274,907	256,915

The notes set out on pages 25-38 are an integral part of these interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings	Total		
Balance as of 31.12.2019	7,929	793	(710)	122,326	130,338	4,217	134,555
Profit (loss) for the reporting period	-	-	-	8,175	8,175	(184)	7,991
Other comprehensive income	-	-	(131)	-	(131)	3	(128)
Total comprehensive income (loss) for the reporting period	-	-	(131)	8,175	8,044	(181)	7,863
Transactions with owners							
Option over shares relating to non-controlling interests	-	-	-	-	-	66	66
Dividends (Note 4)	-	-	-	-	-	(66)	(66)
Total transactions with owners	-	-	-	-	-	-	-
Balance as of 30.06.2020	7,929	793	(841)	130,501	138,382	4,036	142,418
Balance as of 31.12.2020	7,929	793	(814)	145,320	153,228	4,207	157,435
Profit (loss) for the reporting period	-	-	-	9,763	9,763	(137)	9,626
Other comprehensive income	-	-	16	-	16	0	16
Total comprehensive income (loss) for the reporting period	-	-	16	9,763	9,779	(137)	9,642
Transactions with owners							
Non-controlling interests of purchased subsidiary	-	-	-	-	-	1	1
Contribution to subsidiary's share capital	-	-	-	-	-	7	7
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	-	-	-	(17,700)	(17,700)	8	(17,700)
Balance as of 30.06.2021	7,929	793	(798)	137,383	145 307	4,078	149,385

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

The notes set out on pages 25-38 are an integral part of these interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2021 6 months	2020 6 months	2020 12 months
Cash flows from operating activities				
Operating profit		10,923	9,087	25,466
Adjustments:				
Depreciation and impairment		1,262	1,413	2,751
(Profit)/loss from sale of non-current assets		(60)	(113)	(250)
Change in receivables and liabilities related to construction contracts		(10,672)	6,835	2,794
Interest income from operating activities		(1,004)	(709)	(1,499)
Change in provisions		(3,055)	(5,130)	(1,072)
Change in trade and other receivables related to operating activities		(24,405)	(1,686)	7,017
Change in inventories		(10,250)	4,976	40,231
Change in trade and other payables related to operating activities		24,275	(6,814)	(11,937)
Interest received		660	666	1 349
Interest paid		(327)	(603)	(1,068)
Other finance income (costs)		(106)	(69)	(139)
Corporate income tax paid		(2,782)	(648)	(1,132)
Total cash flows from operating activities		(15 541)	7,205	62,511
Cash flows from investing activities				
Acquisition of subsidiaries		(1)	-	-
Purchase of investment property		(1)	(7)	(7)
Purchase of property, plant and equipment (excl. leased assets)		(755)	(1,802)	(4,321)
Proceeds from sale of property, plant and equipment		65	147	289
Purchase of intangible assets		(125)	(20)	(143)
Interest received		10	-	1
Total cash flows from investing activities		(807)	(1,682)	(4,181)
Cash flows from financing activities				
Proceeds from borrowings		10,501	27,465	20,433
Repayments of borrowings		(1,809)	(33,345)	(54,911)
Repayments of lease liabilities		(426)	(486)	(922)
Contributions to the subsidiary's share capital from non-controlling shareholder		9	-	-
Dividends paid		(17,686)	(66)	(133)
Total cash flows from financing activities		(9,411)	(6,432)	(35,533)
Net increase/decrease in cash and cash equivalents		(25,759)	(909)	22,797
Cash and cash equivalents at the beginning of the period	5	47,480	24,749	24,749
Effect of exchange rate changes		(8)	(112)	(66)
Cash and cash equivalents at the end of the period	5	21,713	23,728	47,480

The notes set out on pages 25-38 are an integral part of these interim financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 6 months 2021 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2020 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2020 audited annual report and 2020 6 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 6 months 2021 presents a true and fair view of the group's economic results based on the principle of going concern. The influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 2 OPERATING SEGMENTS

in thousand euros

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

Reporting of the group's operations are segmented as:

- construction service,
- real estate development.

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

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

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

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

2021 6 months	Construction service	Real estate development	Total segments
Revenue	107,156	60,283	167,439
Inter-segment revenue	(1,686)	(19,893)	(21,579)
Revenue from clients	105,470	40,390	145,860
incl. timing of revenue recognition at a point in time	919	32,044	32,963
timing of revenue recognition over time	104,551	8,346	112,897
Operating profit (loss)	2,778	9,141	11,919
Profit (loss) before tax	2,710	8,879	11,589
incl. interest income from operating activities	53	952	1,005
depreciation	(1,046)	(216)	(1,262)
recognition of provisions	(1,771)	(8)	(1,779)
reversal of provisions	101	101	202
profit (loss) from joint venture	-	3	3
other finance income (costs)	(15)	(237)	(252)
incl. interest expenses	(9)	(151)	(160)
Assets 30.06.2021	69,389	178,011	247,400
incl. joint venture	-	2,357	2,357

2020 6 months	Construction service	Real estate development	Total segments
Revenue	77,713	68,013	140,726
Inter-segment revenue	(11)	(10,982)	(10,993)
Revenue from clients	77,702	52,031	129,733
incl. timing of revenue recognition at a point in time	666	48,268	48,934
timing of revenue recognition over time	77,036	3,763	80,799
Operating profit (loss)	993	8,889	9,882
Profit (loss) before tax	862	8,830	9,692
incl. interest income from operating activities	13	696	709
depreciation	(1,164)	(249)	(1,413)
recognition of provisions	(608)	(271)	(879)
reversal of provisions	3	-	3
profit from joint venture	-	92	92
other finance income (costs)	(10)	(106)	(116)
incl. interest expenses	(10)	(89)	(99)
Assets 30.06.2020	58,869	193,445	252,314
incl. joint venture	-	2,590	2,590

2021 II quarter	Construction service	Real estate development	Total segments
Revenue	67,912	36,493	104,405
Inter-segment revenue	(1,415)	(17,237)	(18,652)
Revenue from clients	66,497	19,256	85,753
incl. timing of revenue recognition at a point in time	657	13,894	14,551
timing of revenue recognition over time	65,840	5,362	71,202
Operating profit (loss)	2,750	4,797	7,547
Profit (loss) before tax	2,718	4,633	7,351
incl. interest income from operating activities	38	494	532
depreciation	(545)	(98)	(643)
recognition of provisions	(1,317)	(5)	(1,322)
reversal of provisions	101	101	202
profit from joint venture	-	(4)	(4)
other finance income (costs)	(9)	(146)	(155)
incl. interest expenses	(3)	(86)	(89)
Assets' change in II quarter	15,836	10,867	26,703
incl. joint venture	-	(4)	(4)

2020 II quarter	Construction service	Real estate development	Total segments
Revenue	42,801	35,283	78,084
Inter-segment revenue	(6)	(4,217)	(4,223)
Revenue from clients	42,795	31,066	73,861
incl. timing of revenue recognition at a point in time	230	28,093	28,323
timing of revenue recognition over time	42,565	2,973	45,538
Operating profit (loss)	1,346	6,007	7,353
Profit (loss) before tax	1,283	5,935	7,218
incl. interest income from operating activities	6	333	339
depreciation	(617)	(124)	(741)
recognition of provisions	366	(109)	257
reversal of provisions	3	-	3
profit from joint venture	-	2	2
other finance income (costs)	(4)	(53)	(57)
incl. interest expenses	(4)	(44)	(48)
Assets' change in II quarter	5,829	(5,030)	799
incl. joint venture	-	2	2

2020 12 months	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. 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
Profit (loss) before tax	4,385	23,122	27,507
incl. interest income from operating activities	23	1,476	1,499
depreciation	(2,245)	(506)	(2,751)
impairment of inventories	(382)	(222)	(604)
recognition of provisions	(1,806)	(1,430)	(3,236)
reversal of provisions	79	-	79
profit (loss) from joint venture	-	(144)	(144)
other finance income (costs)	(27)	(353)	(380)
incl. interest expenses	(29)	(288)	(317)
Assets 31.12.2020	52,239	163,083	215,322
incl. joint venture	-	2,354	2,354

In addition to the segment assets, as of 30.06.2021 the group holds assets in the amount of EUR 29,347 thousand (30.06.2020: EUR 22,593 thousand; 31.12.2020: EUR 41,593 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	2021 6 months	2020 6 months	2021 II quarter	2020 II quarter	2020 12 months
Pre-tax profit from reporting segments	11,589	9,692	7,351	7,218	27,507
Other operating profit (loss)	(996)	(794)	(558)	(431)	(2,805)
incl. recognition of provisions	-	-	-	-	(9)
finance income (costs)	(111)	(121)	(60)	(77)	(245)
incl. interest expenses	(65)	(91)	(33)	(47)	(176)
Total profit before tax	10,482	8,777	6,733	6,710	24,457

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

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2021 6 months		2020 6 months		2020 II quarter		2020 II quarter		2020 12 months	
Estonia	90,503	62%	64,430	50%	52,563	61%	38,433	52%	177,344	56%
Latvia	22,087	15%	25,248	19%	13,447	16%	8,451	11%	49,735	16%
Lithuania	28,772	20%	35,407	27%	17,934	21%	24,107	33%	77,173	24%
Norway	4,498	3%	4,648	4%	1,809	2%	2,870	4%	11,666	4%
Total	145,860	100%	129,733	100%	85,753	100%	73,861	100%	315,918	100%

CONTRACT ASSETS AND LIABILITIES

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Accrued income from construction services (Note 6)	18,019	8,005	7,741
Prepayments for construction services (Note 13)	(6,502)	(11,265)	(6,926)
Advance payments received for construction contract works (Notes 13, 15)	(9,948)	(3,280)	(8,576)
Recognised provision for onerous construction contracts (Note 14)	(324)	(1,011)	(312)

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

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Estonia	17,866	16,488	17,896
Latvia	13,187	13,177	13,096
Lithuania	383	472	383
Norway	137	123	133
Total	31,573	30,260	31,508

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2021 6 months	2020 6 months	2021 II quarter	2020 II quarter	2020 12 months
Construction services and properties purchased for resale	77,709	69,365	45,756	39,332	174,208
Materials	24,481	19,183	15,007	11,230	42,526
Labour costs	12,341	10,701	6,227	5,243	24,509
Construction mechanisms and transport	4,446	5,217	2,962	3,507	11,687
Design	2,128	2,460	1,244	1,317	5,103
Real estate management costs	168	151	78	66	323
Depreciation	847	945	432	505	1,815
Impairment of inventories	-	-	-	-	604
Provisions	1,779	876	1,323	(260)	3,100
Other expenses	4,723	4,352	2,460	1,912	8,294
Total cost of goods sold	128,622	113,250	75,489	62,852	272,169

NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2021 6 months	2020 6 months	2021 II quarter	2020 II quarter	2020 12 months
Net profit (loss) attributable to shareholders (<i>in thousand EUR</i>)	9,763	8,175	6,395	6,156	22,994
Weighted average number of ordinary shares (<i>thousand pcs</i>)	17,700	17,700	17,700	17,700	17,700
Earnings (loss) per share (<i>in euros</i>)	0.55	0.46	0.36	0.35	1.30

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

Dividends payable are recognised after the approval of profit allocation by the shareholders. In accordance with the profit allocation decision, in 2021 the parent company AS Merko Ehitus paid dividends of EUR 17,700 thousand, i.e. EUR 1.00 per share (no dividends were paid in 2020). The income tax expense related to payment of dividends, 1,334 thousand euros, of which 1,368 thousand euros was recognized as the group's deferred tax expense in 2020, will be paid in third quarter. The group withheld an additional 7% income tax, 14 thousand euros, on the part of the dividends paid to private shareholders taxable at 14/86 income tax rate.

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

As of 30.06.2021 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 79 thousand euros (30.06.2020: EUR 0 euros; 31.12.2020: EUR 1,368 thousand euros).

As of 30.06.2021, the parent company AS Merko Ehitus has no previously taxed dividends and income received from abroad on which income tax has been withheld (30.06.2020: EUR 3,328 thousand; 31.12.2020: EUR 3,507 thousand), on which income tax has been withheld.

As of 30.06.2021, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 109,268 thousand (30.06.2020: EUR 104,634; 31.12.2020: EUR 116,547 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 0 (30.06.2020: EUR 832 thousand; 31.12.2020: EUR 877 thousand), the corresponding income tax on dividends would amount to EUR 27,317 thousand (30.06.2020: EUR 25,026 thousand; 31.12.2020: EUR 27,959 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 5 CASH AND CASH EQUIVALENTS

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Cash on hand	-	1	-
Bank accounts	21,713	23,727	47,480
Total cash and cash equivalents	21,713	23,728	47,480

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Trade receivables			
Accounts receivable	34,111	35,905	25,391
Allowance for doubtful receivables	(3,474)	(1,977)	(3,525)
	30,637	33,928	21,866
Tax prepayments excluding corporate income tax			
Value added tax	1,445	747	585
Other taxes	29	2	35
	1,474	749	620
Accrued income from construction services	18,019	8,005	7,741
Other short-term receivables			
Short-term loans	7,122	50	371
Interest receivables	34	10	1
Other short-term receivables	397	145	118
	7,553	205	490
Prepayments for services			
Prepayments for construction services	4,879	1,512	1,570
Prepaid insurance	142	116	137
Other prepaid expenses	198	275	233
	5,219	1,903	1,940
Total trade and other receivables	62,902	44,790	32,657
incl. other short-term receivables and prepayments to related parties (Note 16)	1,353	551	369

NOTE 7 INVENTORIES

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Materials	373	544	351
Work-in-progress	63,752	70,953	38,626
Finished goods	8,115	17,753	25,210
Goods for resale			
Registered immovables purchased for resale/development	63,423	69,377	60,667
Other goods purchased for resale	164	133	87
	63,587	69,510	60,754
Prepayments for inventories			
Prepayments for other inventories	778	2,774	1,391
Total inventories	136,605	161,534	126,332

NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Long-term loans	1,115	1,115	1,115
Long-term bank deposit	2	2	2
Long-term receivables from customers of construction services	21,680	13,387	16,862
Total other long-term loans and receivables	22,797	14,504	17,979
incl. long-term loan receivables from related parties (Note 16)	1,115	1,115	1,115

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Land	12,408	12,407	12,407
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(14)	(13)	(13)
	15	16	16
Buildings at carrying amount			
Cost	2,631	2,631	2,631
Accumulated depreciation	(1,182)	(1,066)	(1,132)
	1,449	1,565	1,499
Total investment property	13,872	13,988	13,922

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Land	712	712	712
Buildings at carrying amount*			
Cost	7,378	6,386	6,040
Accumulated depreciation	(2,860)	(2,737)	(2,689)
	4,518	3,649	3,351
Machinery and equipment at carrying amount*			
Cost	14,808	14,321	14,377
Accumulated depreciation	(9,316)	(8,394)	(8,760)
	5,492	5,927	5,617
Other fixtures at carrying amount			
Cost	4,351	3,972	4,027
Accumulated depreciation	(3,258)	(3,060)	(3,145)
	1,093	912	882
Prepayments for property, plant and equipment	2,796	1,796	3,959
Total property, plant and equipment	14,611	12,996	14,521

* As of 30 June 2021 the balance of buildings at carrying amount includes leased assets in a sum of EUR 107 thousand (30.06.2020: 398 thousand; 31.12.2020: EUR 186 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 2,624 thousand (30.06.2020: EUR 2,580 thousand; 31.12.2020: EUR 2,487 thousand).

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Goodwill			
Cost	72	66	69
	72	66	69
Software at carrying amount			
Cost	2,104	2,000	2,122
Accumulated depreciation	(1,552)	(1,395)	(1,495)
	552	605	627
Prepayments for intangible assets	109	15	15
Total intangible assets	733	686	711

NOTE 12 BORROWINGS

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Lease liabilities*			
Lease liabilities balance	2,725	2,958	2,703
incl. current portion	789	838	790
non-current portion 2...5 years	1,936	2,120	1,913
Bank loans			
Loan balance	28,942	48,953	20,299
incl. current portion	8,441	21,173	6,859
non-current portion 2...5 years	20,501	27,780	13,440
Loans from entities under common control			
Loan balance (Note 16)	6,000	6,000	6,000
incl. current portion	-	6,000	6,000
non-current portion 2...5 years	6,000	-	-
Loans from other entities			
Loan balance (Note 16)	105	-	56
incl. non-current portion 2...5 years	49	-	-
non-current portion 2...5 years	56	-	56
Total loans			
Loans balance	35,047	54,953	26,355
incl. current portion	8,490	27,173	12,859
non-current portion 2...5 years	26,557	27,780	13,496
Total borrowings			
incl. current portion	9,279	28,011	13,649
non-current portion 2...5 years	28,493	29,900	15,409

* As of 30 June 2021 the lease liabilities include a balance of EUR 56 thousand to related parties (30.06.2020: EUR 106 thousand; 31.12.2020: EUR 82 thousand) (Note 16).

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Trade payables	35,506	29,537	20,948
Payables to employees	9,319	7,610	11,788
Tax liabilities, except for corporate income tax			
Value added tax	1,009	2,244	3,199
Personal income tax	849	397	470
Social security tax	1,177	1,053	1,180
Unemployment insurance tax	45	37	50
Contributions to mandatory funded pension	31	26	36
Other taxes	171	296	98
	3,282	4,053	5,033
Prepayments for construction services	6,502	11,265	6,926
Other liabilities			
Interest liabilities	11	16	1
Dividends payables	-	196	-
Other liabilities	983	316	592
	994	528	593
Prepayments received *	22,211	10,250	10,558
Total payables and prepayments	77,814	63,243	55,846
incl. payables to related parties (Note 16)	79	220	3

* As of 30 June 2021, 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 8,564 thousand (30.06.2020: EUR 3,280 thousand; 31.12.2020: EUR 6,997 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 13,647 thousand (30.06.2020: EUR 6,970 thousand; 31.12.2020: EUR 3,561 thousand) (Note 2).

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Provision for warranty obligation for construction	3,432	3,420	3,448
Provision for costs of projects sold and work-in-progress projects	1,951	1,282	2,319
Provision for onerous construction contracts	324	1,011	312
Provision for legal costs and claims filed	-	202	202
Other provisions	13	-	66
Total short-term provisions	5,720	5,915	6,347

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Trade payables	1,864	2,202	2,120
Prepayments received *	1,384	-	1,579
Interest liabilities	1	-	-
Other long-term liabilities	337	656	327
Other long-term payables total	3,586	2,858	4,026
incl. other long-term payables to related parties (Note 16)	338	656	327

* As of 30 June 2021, 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 1,384 thousand (30.06.2020: EUR 0; 31.12.2020: EUR 1,579 thousand) (Note 2).

NOTE 16 RELATED PARTY TRANSACTIONS

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As of 30.06.2021; 30.06.2020 and 31.12.2020, AS Riverito owned 71.99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr. Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	30.06.2021	30.06.2020	31.12.2020		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	-	100	100	Estonia, Tallinn	Road construction
AS Merko Infra	100	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	100	Estonia, Tallinn	Mining
Tallinna Teede AS	100	-	-	Estonia, Tallinn	Road construction
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Statinių Priežiūra ir Administravimas	-	100	-	Lithuania, Vilnius	Real estate
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektas	100	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu Mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku Aikštele	-	100	-	Lithuania, Vilnius	Real estate (merged with UAB Merko Bustas, in liquidation in the commercial register)
UAB MB Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	-	100	Lithuania, Vilnius	Real estate
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	100	Latvia, Riga	Real estate
SIA Industriālais Parks	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	75	Latvia, Riga	Real estate
PS Merks-Ostas Celtnieks	65	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	100	Finland, Helsinki	Construction
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	56	Norway, Sofiemyr	Construction
Løkenskogen Bolig AS	56	-	-	Norway, Sofiemyr	Real estate
Joint venture					
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate

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

GOODS AND SERVICES

in thousand euros

	2021 6 months	2020 6 months	2020 12 months
Provided services and goods sold			
Parent company	6	7	13
Joint venture	1,009	1,090	1,494
Entities under common control	7,386	280	844
Members of the management	127	179	838
Total services provided and goods sold	8,528	1,556	3,189
Interest income			
Joint venture	34	40	74
Purchased services and goods			
Parent company	45	45	90
Entities under common control	30	29	68
Members of the management	1	1	3
Total purchased services and goods	76	75	161
Interest expense			
Entities under common control	64	71	142
Other related parties	7	-	-
Total interest expense	71	71	142

BALANCES WITH RELATED PARTIES

in thousand euros

	30.06.2021	30.06.2020	31.12.2020
Receivables from related parties			
Loans granted (Notes 6,8)			
Joint ventures	1,115	1,115	1,115
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Joint venture	270	383	25
Entities under common control	1,079	36	340
Members of the management	-	128	-
Total receivables and prepayments	1,353	551	369
Total receivables from related parties	2,468	1,666	1,484
Payables to related parties			
Lease liabilities (Note 12)			
Entities under common control	56	106	82
Short-term loans received (Note 12)			
Entities under common control	-	6,000	6,000
Other related parties	49	-	-
Payables and prepayments (Note 13)			
Parent company	9	9	-
Entities under common control	14	15	3
Members of the management	56	-	-
Other related parties	-	196	-
Total payables and prepayments	79	220	3

	30.06.2021	30.06.2020	31.12.2020
Long-term loans received (Note 12)			
Entities under common control	6,000	-	-
Other related parties	56	-	56
Total long-term loans received	6,056	-	56
Other long-term payables (Note 15)			
Other related parties	338	656	327
Total payables to related parties	6,578	6,982	6,468

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 6 months of 2021 was EUR 972 thousand (6 months of 2020: EUR 922 thousand; 12 months of 2020: EUR 3,857 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 6 months of 2021, the Management Board members of major subsidiaries received EUR 68 thousand in compensation (6 months of 2020: EUR 65 thousand; 12 months of 2020: EUR 157 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as of 30.06.2021:

		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 directly and through holding companies the majority of the votes determined by shares in AS Riverito. 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 of 30.06.2021:

		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 17 CONTINGENT LIABILITIES

in thousand euros

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

	30.06.2021	30.06.2020	31.12.2020
Performance period's warranty to the customer	26,910	30,163	24,901
Tender warranty	640	752	669
Guarantee for warranty period	22,148	21,193	22,253
Prepayment guarantee	13,187	7,332	11,589
Payment guarantee	817	-	516
Contracts of surety	1,689	1,993	1,834
Total contingent liabilities	65,391	61,433	61,762

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

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

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

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

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

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

DEFINITION OF RATIOS

Gross profit margin (%)	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
Operating profit margin (%)	=	$\frac{\text{Operating profit}}{\text{Revenue}}$
EBT margin (%)	=	$\frac{\text{Pre-tax profit}}{\text{Revenue}}$
Net profit margin (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$
Return on equity, ROE (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Shareholders equity (average of the current 4 quarters)}}$
Return on assets, ROA (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Total assets (average of the current 4 quarters)}}$
Return on invested capital, ROIC (%)	=	$\frac{(\text{Profit before tax} + \text{interest expense} - \text{foreign exchange gain (loss)} + \text{other financial income}) \text{ of the current 4 quarters}}{(\text{Shareholders equity (average)} + \text{interest-bearing liabilities (average)}) \text{ of the current 4 quarters}}$
Equity ratio (%)	=	$\frac{\text{Shareholders' equity}}{\text{Total assets}}$
Debt ratio (%)	=	$\frac{\text{Interest-bearing liabilities}}{\text{Total assets}}$
Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	=	$\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$
Accounts receivable turnover(days)	=	$\frac{\text{Trade receivables of the current 4 quarters (average)} \times 365}{\text{Revenue of the current 4 quarters}}$
Accounts payable turnover (days)	=	$\frac{\text{Payables to suppliers of the current 4 quarters (average)} \times 365}{\text{Cost of goods sold of the current 4 quarters}}$
EBITDA (million EUR)	=	Operating profit + depreciation
EBITDA margin (%)	=	$\frac{\text{Operating profit} + \text{depreciation}}{\text{Revenue}}$
General expense ratio (%)	=	$\frac{\text{Marketing expenses} + \text{General and administrative expenses}}{\text{Revenue}}$
Labour cost ratio (%)	=	$\frac{\text{Labour costs}}{\text{Revenue}}$
Revenue per employee (EUR)	=	$\frac{\text{Revenue}}{\text{Number of employees (average)}}$
Earnings per share, EPS (EUR)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$
Equity/share (EUR)	=	$\frac{\text{Shareholders equity (average of the current 4 quarters)}}{\text{Number of shares}}$
Dividend per share (EUR)	=	$\frac{\text{Payable dividends}}{\text{Number of shares}}$
Dividend rate (%)	=	$\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$
Dividend yield (%)	=	$\frac{\text{Dividends payable per share}}{\text{Share price 31.12}}$
P/E	=	$\frac{\text{Share price 30.06}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 30.06}}{\text{Equity per share (average of the current 4 quarters)}}$
Market value	=	Share price 30.06 × Number of shares