merko

CONSOLIDATED ANNUAL REPORT

2021

AS MERKO EHITUS

GROUP

CONSOLIDATED ANNUAL REPORT

01.01.2021 – 31.12.2021

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

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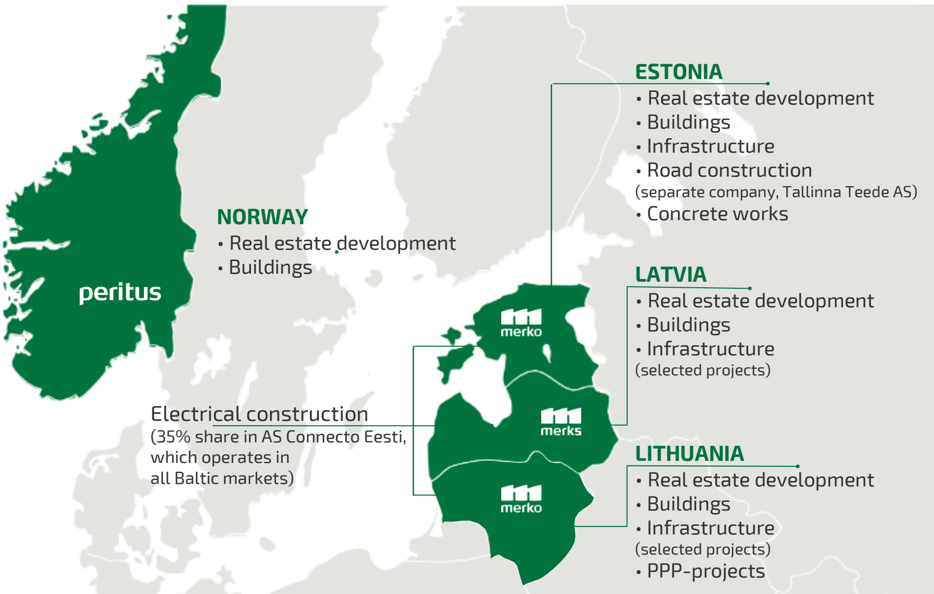
MAIN FACTS

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

We create a better living environment and build the future.

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



NORWAY
- Real estate development
- Buildings

ESTONIA
- Real estate development
- Buildings
- Infrastructure
- Road construction
(separate company, Tallinna Teede AS)
- Concrete works

LATVIA
- Real estate development
- Buildings
- Infrastructure
(selected projects)

LITHUANIA
- Real estate development
- Buildings
- Infrastructure
(selected projects)
- PPP-projects

Electrical construction
(35% share in AS Connecto Eesti, which operates in all Baltic markets)

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

COMPETITIVE ADVANTAGES

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

~9,000 high-quality homes has Merko built while operating in Estonia, Latvia and Lithuania.

2021 new contracts signed	288M
2021 revenue	340M
2021 EBITDA	35M
2021 net profit	29M
Dec 31, 2021 employees	670

VALUE OFFERING

As a general contractor of construction, we manage the entire construction process and are responsible for the completion of the construction work. We also offer design and construction services as a whole.

• Complete solution according to the client's needs: preparation, design, construction, furnishing and warranty service. We combine the experience and resources of sub- contractors and our skilled workers as needed.

• Full service of real estate development from the acquisition of the property and the procedure of detailed planning to the preparation of construction and the execution of construction works. We provide complete solutions designed to meet client's needs, both in private cooperation as well as in public-private partnership.

• The quality management, environmental management and occupational health and safety management of the group companies are certified according to ISO 9001, ISO 14001 and ISO 45001 standards.

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

• We focus on creating large and modern living environments.

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

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD


ANDRES TRINK
AS MERKO EHITUS
CHAIRMAN OF THE
MANAGEMENT BOARD

Dear shareholders,

2021 was a successful year for Merko. We fulfilled the group's financial goals and investment plans and our profit grew 26%. These targets were met despite the continuing pandemic, supply chain problems, rising costs of construction and a spike in energy prices. Our greater strategic focus on residential development, selection of projects with higher potential, efficient implementation of decisions, and organizational ability to adapt – all rewarded us.

The 18.8% return on equity achieved last year is a good result considering the group's high capitalization. Moreover, with the purchasing power of money decreasing, the fact that our return on equity outstripped inflation is to be cheered.

During the last two years, we have learned to operate in the environment of coronavirus restrictions, unexpected supply chain disruptions and volatile prices. Just as we thought the pandemic might be ending and we would return to the usual stability, another black swan entered the picture. The Ukraine war and the global economic conflict that started concurrently will not leave us or the construction and real estate sector unscathed. We do not yet know how the further developments will impact us. But we do have the knowledge that Merko is a strong company with a well-functioning team and that we will get by.

I would like to thank the employees and partners of the Merko group for their joint efforts and positive results. I gratefully acknowledge the buyers of the homes we have built and construction service customers for your trust in us. And I thank all of our shareholders who have decided to make the journey with us in the current unstable world.

Andres Trink

MERKO GROUP

Purpose

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

Business

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

Principles

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

Values

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

STRATEGY

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

FINANCIAL OBJECTIVES

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

Average return on equity at least
10%

Dividend rate
50-70%
of annual profit

Equity ratio at least
40%

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

In 2021, the group fulfilled the financial objectives set for both return on equity and equity ratio as a proportion of assets:

Return on equity
18.8%

Equity ratio
52%

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

FULFILMENT OF LONG-TERM FINANCIAL OBJECTIVES 2017-2021

	2021	2020	2019	2018	2017	AVERAGE
Return on equity, ROE (on yearly basis)	18.8%	16.2%	12.9%	15.3%	11.9%	15.0%
Dividend rate	*	77%	-	92%	120%	72%
Equity ratio 31.12.	51.6%	59.6%	46.2%	48.9%	47.0%	50.7%

**The dividend rate for 2021 depends on the decision of the general meeting of shareholders to pay dividends.*

SIGNIFICANT PROJECTS COMPLETED IN 2021

EDUCATION

Over the years, Merko has built dozens of buildings in the education sector and we have many education institutions under construction currently. In 2021, Tallinn Arte Gymnasium was completed along with a wide variety of sports facilities, while 2022 will see the completion of the Tallinn School of Music and Ballet with places for about 700 students and, in Nõmme, the St. John's School with places for 350 pupils along with a church and vestry. In Latvia, Salaspils Kindergarten is under way, where Merks is building a new, fully furnished building along with the necessary infrastructure. The nursery school, with 288 student places, relies on modern, environmentally friendly cross-laminated timber (CLT), which has a lower CO_2 footprint and makes use of natural renewable wood resources.

PUBLIC PARKS

Our activities help shape the urban space and urban landscapes. Our portfolio includes parks and town squares. In 2021, the group's subsidiary Tallinna Teede AS completed Tondiraba Park in the Lasnamäe district of Tallinn. The 29-hectare area features a 5.7-hectare complex of sport fields and playground, 10 km of jogging trails and forest paths and other pedestrian routes, 2.5 km of bicycle-only paths, dog parks, barbecue areas, a bike service point and hammocks. In the municipality of Tartu, we are building Erminurme homes, and near them we built and gave over to Tartu municipality an illuminated park area of more than 7,000 m^2 with attractions for children of different ages and a recreation area for adults.

WIND ENERGY INFRASTRUCTURE

Merko has built several energy facilities that are important for local energy production and improve security of supply in Estonia, Latvia and Lithuania. In Lithuania, the focus in recent years has increasingly been on renewable energy and Merko has become a well-regarded wind farm developer there. In 2021, nine new-generation wind turbines were completed in the Anykščiai region of Lithuania, and 13 in the Telšiai region. The foundations for a new-generation wind farm were laid in Jonava region. In 2021, wind farm infrastructure was under construction in Mažeikiai, Šilalė and Akmenė regions, and the second stage of the Jonava region site was also underway.

LARGER RESIDENTIAL ENVIRONMENTS BUILT BY MERKO

NOBLESSNER

The residential development at Noblessner, acclaimed as the best new urban space in the Baltics, is a joint venture between Merko and BLRT Grupp. The port and marina complex by the sea in Tallinn next to the Seaplane Harbour features historical industrial buildings with grand architecture, a promenade, marina and new homes and storefronts. The apartments completed on Staapli tänav in 2019 are a modern home for 200 households and the services provided by the commercial tenants have become a favourite for customers. In 2021, five buildings were under construction on Vesilennuki tänav and one building was nearing completion on Allveelaeva tänav, with a total of 300 new apartments and 25 shops and services.

LAHEKALDA

Located on a naturally scenic rise of land in Maarjamäe between Tallinn's Kadriorg and Pirita districts, Lahekalda will become home for more than 1,000 households in the next ten years. By the end of 2021, five buildings with 240 apartments had been finished and three buildings with 146 apartments were under construction. The interior courtyards have play and leisure areas and a preschool and local supermarket are planned here.

UUS-VEERENNI

Uus-Veerenni right in the city centre of Tallinn will be home to 1,400 households once the whole development is completed. So far, in the first three stages, we have built 23 buildings with 283 apartments and 12 commercial spaces. In 2021, there were 15 buildings with 221 apartments and eight commercial spaces under construction. There is a landscaped interior courtyard between the buildings, which won the landscape architects' association annual prize in the category of best courtyard area, and features leisure and play areas. Parking spaces are in an underground parking garage.

MERKS VIESTURDĀRZS

The Merks Viesturdārzs development project in the city centre of Riga includes three buildings with 350 apartments. The first building with 96 apartments and three commercial spaces was built in 2020. A second building with 167 apartments and seven commercial units were under construction in 2021. Each apartment in the energy class A buildings comes with a balcony or terrace, storage areas and parking spaces on the underground parking level, along with the option of installing electric car chargers.

VILNELES SKVERAI

Merko's Vilneles Skverai residential development is taking shape near the Old Town in Vilnius that will be home for more than 1000 households. As of 2021, the first two phases of the project were under construction, with 12 buildings and 448 apartments. All of the units in the energy class A+ apartments have a spacious balcony or terrace. Parking and storage areas and electric car charging bays are in an underground parking garage.

OTHER IMPORTANT TOPICS IN 2021

NEW DIRECTION IN ELECTRICAL ENGINEERING

In 2021, AS Merko Ehitus Eesti's electrical engineering business area merged with Connecto Eesti. The electrical engineering team built at Merko over 15 years focused mainly on designing, building and configuring high-voltage substations. Now, together with Connecto, we can also offer telecoms, power grid and gas network design, construction and maintenance services. Working under the Connecto trademark raises readiness to take part in major projects in both Estonia and foreign markets.

FOCUS ON SAFETY

A safe working environment for the group's companies is top priority for avoiding accidents at work and health problems. We provide our employees with the necessary work equipment and personal protective gear and organize occupational health and safety supervision and training, including continuing education.

To build awareness of safety culture in the construction sector, we launched regular safety seminars in 2021 at Merko Ehitus Eesti, aimed at coordinators of on-the-job safety on job sites.

An important part of safety culture is the principle of "see something, say something", which helps to prevent accidents. We monitor for such hazard situations on our construction sites to learn from them at seminars.

MERKS MĀJAS

The Merks mājas brand launched in Latvia in 2021 consolidates information on all of Merks' apartment development projects, which makes it easier for prospective buyers to browse all projects and find a suitable home. This is a development included in the Merks business strategy aimed at reaching out to home buyers in a more personal, friendly and open manner. In the course of developing the brand, we also defined the values of our real estate development business area so that we could develop and build better homes for everyone in Latvia.

REDUCING IMPACT ON THE ENVIRONMENT

From 2021, we will assess the CO_2 footprint of Merko Ehitus Estonia's core business based on the internationally recognised and most widely used Greenhouse Gas Protocol reporting methodology. Calculations based on available data resulted in 4,010 and 7,194 tonnes of CO_2-equivalent greenhouse gas emissions for the company in 2020 and 2021, respectively. To reduce our carbon footprint, we plan to use green electricity in construction processes. In addition, it is important for us to have good order on and around construction sites. At the gate of the large-scale Liivalaia construction site in the center of Tallinn, renamed Arter Quarter, a washer is used to clean the tires of heavy machinery leaving the construction zone before returning to city traffic. In this way, we reduce the negative impacts of construction activities and keep the urban environment clean.

SOCIAL RESPONSIBILITY

ESTONIAN RECREATIONAL TRAILS

In the field of exercise and sports for everyone, Merko is focusing on creating inclusive opportunities for the population to stay fit, and thus do its part to increasing health life expectancy. Merko's largest sponsorship is a project that was launched in 2005 with Swedbank and Eesti Energia, Estonian Health Trails, the aim of which is to ensure as much of the Estonian population as possible with year-round, free of charge possibilities to take exercise in the fresh air and thereby popularize healthful lifestyles.

The network now has 118 recreational trails all over Estonia, and visitor numbers are estimated at 6 million a year. In total there are more than 1,100 kilometres of trails that can be used year-round, maintained by crews of around 200 volunteers or employees of municipalities. Maps and signposts aid in use of the trails and exercise and warm-up equipment, outdoor gyms, bike trails and pump tracks all make the network more user-friendly and add value to it. Weather sensors have been installed along the trails, and motion detectors for gathering visitor statistics. Some of the trails have bike repair locations and drinking water taps.

In the period 2019-2022, Estonian Health Trails is focusing on raising the snow-making capacity of regional sports complexes. A total of 4.8 million euros will be invested in cooperation with state and local government. Artificial snow was produced for 23 tracks in 2021.

Over 15 years, SA Eesti Terviserajad, supported by its three founders, has invested 5.1 million euros into development of recreational trails and the total investment into sports facilities for the people when state and local government and European Union support is included totals close to 50 million euros.

The group's expectations and activities have an impact on employees, clients and partners, communities, the environment and society as a whole. The company takes responsibility for the impact of its decisions and actions and considers it necessary to give back to society. In 2021, Merko Ehitus continued long-term cooperation projects. Group companies and majority shareholders provide close to one million euros a year for sports, culture, education and charity.

CONNECTING TRAILS ALL OVER TALLINN

The recreational trails in Tallinn and its vicinity have the greatest number of users. The long-term goal of Estonian Health Trails is to connect the recreational trails using the bike and pedestrian paths surrounding and passing through Tallinn, which would allow people to travel safely and conveniently on foot and bike from one district to another. In 2021, several key stages were completed – the bike and pedestrian paths along Viljandi maantee were connected to Pärnu maantee and tunnels were built at Liiva railway station and Männiku tee. A new segment of the Tallinn circuit connects the Järvevana tee pedestrian-bike path with the Nõmme-Mustamäe pedestrian and bike paths, from which users can access Õismäe, Stroomi Beach and elsewhere in town. The Sütiste tee trail and the Ehitajate tee and Paldiski maantee tunnels are also in progress as part of the project; they will ensure safe access in the direction of Harku and Õismäe.

SPORT SUPPORT PROJECTS

In Latvia, Merks continued its sponsorship of cross-country skier Patrīcija Eiduka, the only Latvian skier to compete at the Winter Olympics and also enjoyed a successful 2021 season. In addition, Merks supported the javelin club in the small town of Latvia, which used its support to buy uniforms of all team members and organizing a training camp for children. As an event, javelin as a long history in Latvia and Jānis Lūsis, a Latvian, has won three Olympic medals: Lithuanian subsidiary Merko Statyba supported the activity of the Balsiai Geležinis vilkas football school.

CULTURE

In the field of culture, Merko values art heritage, supporting the possibility of introducing different cultures and arts and using art to enhance the urban space. The company also helps those in need through charity projects.

SCULPTURE IN NOBLESSNER

The aluminium sculpture entitled "Vanad head ajad" (Good Old Days) by Edith Karlson on Noblessner Square in Tallinn was supported by Merko and BLRT Grupp. It is the largest aluminium sculpture erected in a public urban space in the Baltics to date and one of the few monumental artworks initiated by the private sector in post-re-independence Estonia. The aluminium surface of the sculpture is rough, unpolished and it is in an interesting dialogue with the surrounding buildings and Noblessner square. The five-metre sculpture is a riveting sight, prompts questions and gives flight to the imagination.

ST. NICHOLAS MUSEUM ELEVATOR

The Art Museum of Estonia launched St. Nicholas Church tower lift project in 2019 and Merko takes part in this as both a consultant on the content and a supporter. The idea of opening the St. Nicholas steeple to the public, create an observation platform and establish an elevator originated in the 1970s. A glass elevator will be established for the church, leading through four intermediate levels to an observation platform in the 105 m high steeple, giving a view of the Old Town from all sides. The permanent exhibition will be expanded on the intermediate levels of the tower and new artworks will be added.

EDUCATION AND NEXT GENERATION

We help to raise a next generation of construction professionals in cooperation with universities, taking part in research and innovation projects and supporting major conferences in the field. In addition, we help people in need through charity projects.

In Latvia, Merks supported the building information modelling (BIM) conference, and one off the biggest real estate and investing conferences in the Baltics - the Baltic Real Estate Leaders (BREL) Forum – as well as a conference organized by DB.lv, titled "Developments on the new real estate market" and the Latvian Association of Engineers and Builders campaign promoting construction learning, which includes lectures and site visits.

MERKO SCHOLARSHIP

Since 2007, Merko has been awarding scholarships in its name in cooperation with Tallinn University of Technology Development Fund. In 2021, the 4,000-euro young teacher and researcher's scholarship went to tenured assistant professor with the civil engineering faculty's Institute of Construction and Architecture, Martin Thalfeldt. His research focuses on the energy efficiency of buildings and interior climate and he recently landed a research grant from the Estonian Research Agency. A 2500-euro engineering studies scholarship went to third-year student in construction management and building design Karro Haav, who after a summer internship at Merko continued work at Merko's Tallinn School of Ballet and Music job site.

CHARITY PROJECTS

In Estonia, Merko supported by non-profit association Do Good with 15,000 euros, which purchases household appliances for about half a hundred families in need. This is one of the largest donations to Do Good so far. In the first months of the project, those in need have received equipment for food preparation and storage and washing and drying clothes, as well as smaller appliances that make daily life easier. Instead of the Christmas party that was cancelled due to the coronavirus in 2021, Merks organised a well-functioning online quiz for its employees, as a result of which 3,310 euros were donated to the Dod piec charity project. It is Latvia's biggest charity event, and the main topic in 2021 was making the world more accessible for people with special needs.

RECOGNITION IN 2021

Being recognized is part of our company's culture and we place a high value on the honours received by the group's companies, work and colleagues.

RECOGNITION OF OBJECTS

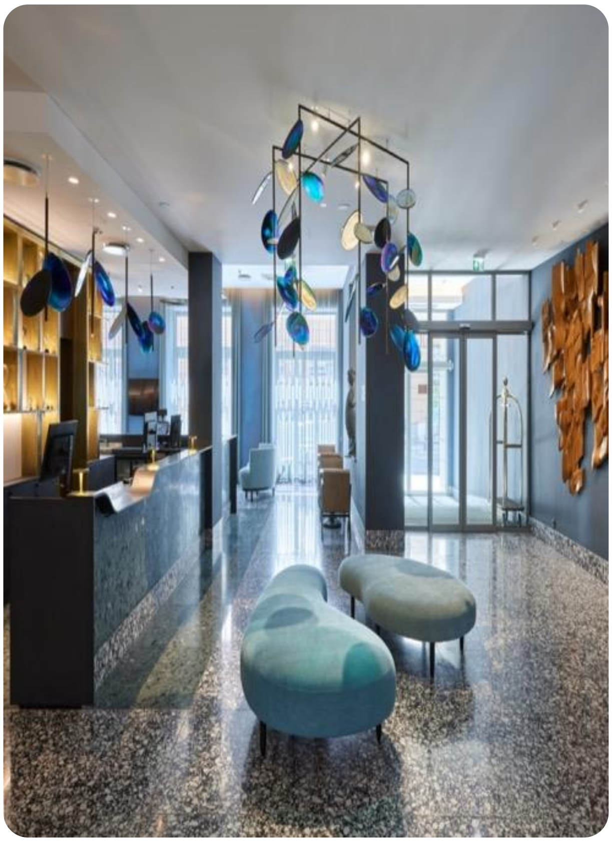
The Jäneda substation won the title of Elektrilevi's best construction achievement of 2020 in Estonia in the category of regional and distribution substations. A completely new substation was built in Jäneda, with both a 110 kV part for Elering (the TSO) and a 10 kV part for Elektrilevi (distribution grid).

Several Merko Ehitus Eesti projects were nominated at competitions in the sector – the Aaspere-Haljala 2+2 road segment construction at the Construction Project of the Year competition in the category of infrastructure, the first stage of the Lahekalda apartment buildings, Aaspere traffic junction and the Saustinõmme overpass in the Concrete Construction Project of the Year, the pavilion for Kärdla's new central square in the Timber Building of the Year competition. A nominee for the title of the best living environment at the Baltic Real Estate Awards 2021 was the Uus-Veerenni residential quarter, Noblessner for the title of best urban environment, and the Väike-Järve business centre for best shopping centre.

At Latvia's most prestigious competition, Latvia's Best Building of 2020, organized by the Latvian Builders Association, first place went to the Lidl logistics centre built by Merks, the international higher education school in Pinki won in the timber building category, and the second phase of the Merks Viesturdārzs apartment development in the BIM category Besides that, Merks's work was nominated in the categories of production facility, best new public building, BIM project and new apartment building.

At a competition held by the Lithuanian Real Estate Developers Association and the Sustainable Development Academy, titled "For the Good of the Sustainable Development", the honour of best residential real estate development 2021 award went to Vilnelės Slėnis, a development built by Merko in Vilnius. The Balsiai school, which was developed as a PPP project, designed, built and maintained and administered by Merko – won a special gold award at the competition: the best of the best real estate projects for 2007–2020.

At the annual competition held by the Lithuanian Confederation of Industrialists, a gold medal went to Merko's two Vilnius-based projects – the Vilnelės Slėnise apartment development project and the Neringa hotel and restaurant.



At Latvia's Most Energy-efficient Building, second place in the most energy-efficient new apartment building category went to the first stage of the Merks Viesturdārzs apartment development.

At the Latvian Construction Awards 2020, third place in the timber building category went to the international higher educational institution in Pinki and the first phase of the Merks Viesturdārzs apartment development was nominated in the new apartment buildings category.

At the Sustainability in Construction, Architecture and Building Engineering 2021 competition, the nursery school in Salaspils won second place in the category of Most Sustainable Project in 2021 and the international higher education institution in Pinki took third in the category of Most Sustainable Building in Latvia 2021.

EMPLOYEE RECOGNITIONS

- An employee of the group's Latvian subsidiary Merks, Jānis Dzenis, was recognized as the year's best BIM specialist.
- At Young Construction Engineer of the Year 2021, Uku Sikk, senior engineer with Merko Ehitus Eesti structural engineering department, was nominated for his work on the second phase of Uus-Veerenni residential development, and at the Builder of the Year 2021 competition, Raiki Reiljan, project manager at group subsidiary Tallinna Teede AS, was nominated for her work on Tondiraba Park.
- At the Praktik Cum Laude competition organized by the Estonian Employers' Confederation, technician with the general construction division Karro Haav was nominated for his work at Merko Ehitus Eesti.
- Merko Ehitus Eesti's junior BIM engineer Kerdo Kütt was awarded the title future player in the field of digital construction at a competition organized by the digital construction cluster.

COMPANY RECOGNITIONS

- At the most competitive companies' competition held by the Estonian Chamber of Commerce and Industry, Merko won an award for the most competitive construction company. It was its 15th such honour.
- In early 2021, the job site CVKeskus.ee drew up a summary of the companies that were most popular with new hires in the last 10 years. Merko was among the top 30 companies in Estonia (no. 28) and was the only company in the construction and real estate sector to be ranked among the most desirable employers.
- A job expectations and employer reputation survey conducted by employer branding agency Instar polled 9,000 students at Estonian universities and vocational schools and people with work experience, asking them to rate the attractiveness of 242 Estonian organizations. Merko came in first in its sector based on the ratings from technology students.
- In a survey conducted by the job sites CV-Online/CV.ee, more than 3,200 people from different age groups and areas of activity rated the best employers. Merko was in seventh place in the rankings of the best employers in the Estonian production sector.

MOST RENOWNED REAL ESTATE DEVELOPER IN ESTONIA

According to the results of a survey conducted by Kantar Emor, Merko is the best-known and most renowned real estate developer in Estonia for the third year in a row. Respondents consider high professionalism to be the basis of Merko's reputation. A total of almost 500 people took part in the survey, including those who have bought an apartment in Tallinn or Harju County in recent years and those who plan to buy an apartment in or on a new development in Tallinn or nearby area.

MANAGEMENT REPORT

BUSINESS MODEL: CONSTRUCTION SERVICES TO CUSTOMERS

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

SUITABLE PLOT AND DETAIL PLAN

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

CONCEPT

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

OFFER AND PRICE ESTIMATE

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

ENGINEERING AND DESIGN

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

GENERAL CONTRACTING OF CONSTRUCTION

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

FITTINGS

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

WARRANTY-PERIOD SERVICE

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

BUSINESS MODEL: PROPERTY DEVELOPMENTS

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

THE OPTIMUM PLOT

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

PLANNING THE AREA

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

CONCEPT OF DEVELOPMENT

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

ENGINEERING AND DESIGN

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

GENERAL CONTRACTING OF CONSTRUCTION

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

SALES AND MARKETING

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

WARRANTY-PERIOD SERVICE

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

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		2021	2020	2019
Revenue	million EUR	339.4	315.9	326.8
Gross profit	million EUR	46.8	43.7	34.8
Gross margin	%	13.8	13.8	10.7
Operating profit	million EUR	32.2	25.5	19.2
Operating profit margin	%	9.5	8.1	5.9
Profit before tax	million EUR	32.1	24.5	20.3
EBT margin	%	9.5	7.7	6.2
Net profit	million EUR	29.0	22.5	16.5
attributable to equity holders of the parent	million EUR	29.1	23.0	16.3
attributable to non-controlling interest	million EUR	(0.1)	(0.5)	0.2
Net margin	%	8.6	7.3	5.0

Other income statement indicators		**2021**	**2020**	**2019**
EBITDA	million EUR	34.8	28.2	21.9
EBITDA margin	%	10.3	8.9	6.7
General expense ratio	%	5.2	5.6	5.3
Labour cost ratio	%	11.3	11.5	11.4
Revenue per employee	thousand EUR	521	478	461

Other significant indicators		**31.12.2021**	**31.12.2020**	**31.12.2019**
Return on equity	%	18.8	16.2	12.9
Return on assets	%	10.0	8.4	5.6
Return on invested capital	%	16.9	13.1	11.1
Assets	million EUR	324.4	256.9	281.8
Equity	million EUR	167.0	157.4	134.6
Equity attributable to equity holders of the parent	million EUR	167.2	153.2	130.3
Equity ratio	%	51.6	59.6	46.2
Debt ratio	%	16.2	11.3	22.6
Current ratio	times	2.4	2.7	2.4
Quick ratio	times	0.9	1.0	0.8
Accounts receivable turnover	days	31	35	45
Accounts payable turnover	days	39	37	53
Number of employees as at 31.12	people	670	666	694
Average number of employees (total group)	people	651	661	709
Order book	million EUR	257.3	225.1	141.4

Calculation of ratios is provided on page 106 of the report.

ECONOMIC ENVIRONMENT IN 2021

GENERAL ECONOMIC ENVIRONMENT

	2021				2020			
	Euro area	**Estonia**	**Latvia**	**Lithuania**	**Euro area**	**Estonia**	**Latvia**	**Lithuania**
GDP annual change in current prices	+5.3%	+8.3%	+4.8%	+4.9%	-6.4%	-3.0%	-3.8%	-0.1%
Construction price index annual change	:	+9.4%	+6.8%	+6.6%	+1.3%	+0.5%	+7.3%	+2.0%
Unemployment rate (end of period)	6.9%	5.1%	7.6%	5.8%	8.1%	7.1%	8.0%	9.5%

Source: Eurostat (:) not available at the time of reporting

2021 will be remembered for the rapid economic recovery from the effects of the Covid-19 pandemic, a shortage of qualified workforce, and soaring inflation and energy prices. Surprisingly strong demand for new housing was another hallmark of the past year. Although restrictions aimed at limiting the spread of the pandemic remained in place in a number of areas of life, their impact on construction and real estate development was modest and the pandemic exerted a more local, sporadic impact, in the form of work postponed due to specific waves of infections.

The economic recovery was uneven across different sectors and geographic areas. A more uniform recovery was hindered by the ongoing problems in global supply chains, the effect of restrictions on the free movement of the workforce, and the traditionally higher importance of tourism, lodging and entertainment to some countries' economies. For the year, the gross domestic product in the Eurozone (19 EU countries) grew by +5.3% (in 2020, GDP shrank -6.4%). The Baltic states' smaller and more open economies are in the EU vanguard in terms of the speed of the recovery. Flash estimates show that in the Eurozone, Estonia's growth rate was outperformed by only Malta (+9,3%), which is similarly small and open; and among all EU members, Croatia as well (+10.4%).

In the second half of the year, inflation rose, above all due to the steep rise in prices of oil, gas and electricity. The monthly growth in the consumer price index was upwards of 10% in all three Baltics, although the annual average remained below 5%. But even the latter figure significantly exceeds the norm, and central banks' assurances ceased to have an effect by the end of the year.

Unemployment fell practically everywhere in connection with the rapid recovery, reaching 6.9% for the Eurozone as a whole in December 2021 (8.1% in December 2020). Unemployment also fell significantly in the Baltics. The change was extraordinarily large in Lithuania, where the unemployment rate fell from 9.9% in September 2020 to 5.8% 15 months later. In general, unemployment of 5-6% is considered the lower limit for a normally functioning labour market. That means Estonia and Lithuania achieved a level in late 2021 where the lack of available workers has started curtailing further growth. The situation in Latvia is somewhat better, but it is hard to evaluate the difference in how pandemic relief measures will impact various countries, in terms of denting peoples' motivation to participate actively on the labour market. Simultaneously with the emergence of structural labour shortage, the growth of the labour cost index in industry, construction and services accelerated – at a record pace of +14.6% in Lithuania. This confirms the assessment of economists that the Baltic economies are operating close to theoretical maximum and competition for the last available workers has led to a massive wage rise in those sectors that are operating at a profit.

Labour cost index annual change (%)	**Q1 2020**	**Q2 2020**	**Q3 2020**	**Q4 2020**	**Q1 2021**	**Q2 2021**	**Q3 2021**
Euro area	3.8	4.0	1.6	3.0	1.2	0.3	2.4
Estonia	4.2	2.4	1.2	1.3	5.3	5.2	7.4
Latvia	6.2	4.9	4.9	6.8	4.3	5.1	4.3
Lithuania	8.4	11.5	5.8	5.0	11.0	6.8	14.6

Source: Eurostat

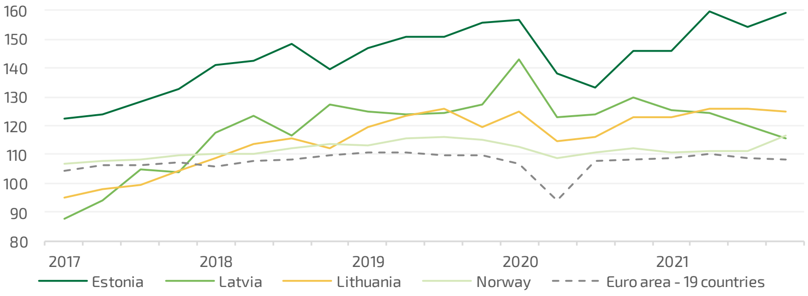
In addition to wage growth, domestic consumer spending has also been supported substantially by countries' various support measures designed to assist these areas of activity and workers who are in the greatest difficulty due to the pandemic. The Estonian economy and domestic consumer spending were also affected by a one-off event – the reform of the second pillar of the pension system and the disbursement of more than 1.2 billion euros to the population as a result thereof.

CONSTRUCTION MARKET

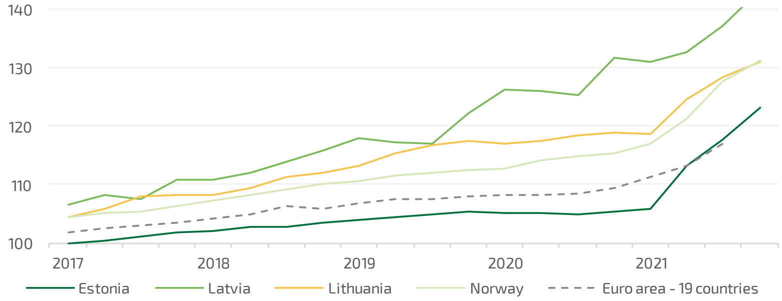
By the end of the second year of the pandemic, 2021, construction volumes in the Baltics had practically reached pre-crisis levels. There are differences between countries, but they are not so significant to indicate a possible difference in recovery of the economy and construction activity. The drop in construction volumes seen at the end of 2021 was certainly not caused by the influences of the pandemic, but rather by:

- continuing problems in supply chains, which prevent a sufficient amount of materials from being delivered on time;
- shortage of qualified workers in the construction sector, which in combination with inflationary pressures has increased wages;
- price hikes by construction companies to ensure profitability of operations;
- additional time taken by customers for analysis before launching investments with clearly increased budgets.

It should also be noted that the effect of the stimulus measures in the EU recovery package was not yet apparent in 2021, as the corresponding monetary amounts had not reached construction markets in any of the Baltics.


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

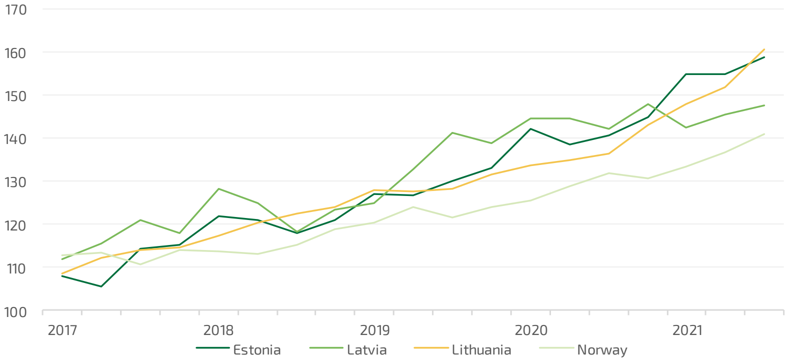
According to our assessment, the main factor influencing construction was the rapid increase in the price of construction service that started in Q2 of 2021. The energy price shock and unexpectedly high inflation rate entered the picture in the last quarter of the year. Due to the confluence of these factors, the prices of construction services set new records in all countries in which Merko operates and have started impacting construction volumes. Construction companies' ability to pass on the price rise to customers is quite limited to a short time period, but the pressure in this regard has grown throughout 2021, since the rise in the price of inputs exceeds the ordinary margins of construction contracts and no business can constantly operate at a loss.


QUARTERLY CONSTRUCTION PRICE INDEX (2015=100; Eurostat)

Looking at the growth of construction price indices in all Merko markets, we can confidently say that construction input prices will not return to the old, 2020 level. The continued rise of energy prices and price pressure exerted on all other economic sectors will prevent the prices of materials or wages to decrease again.

2021 did not bring any supply-chain setbacks to Merko's own projects, nor was there any need to pause large job sites due to the spread of illness or government restrictions. Demand from the private sector, measured by the proportion of construction contracts, grew, and public sector demand fell. This may just be a temporary shift, since traditionally the private sector is more flexible, with a faster reaction time during times of change, and the public sector requires more time to adjust to new prices.

APARTMENT DEVELOPMENT


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

The high volume on the new apartment market was constant throughout 2021 in the Baltics, remaining most modest in Latvia but staying very high in Estonia and Lithuania. Despite experts' previous opinions that the price rise would not be sustainable, apartment prices set new records and the volumes also returned to the levels last seen prior to the worldwide financial crisis and recession. After treading water in the first quarters of the year, Latvia's apartment market also showed the first signs of becoming more active.

The rise in construction prices – described in the Construction Market section – undoubtedly applied pressure on developers' profit margins, but judging by the price rise on the new homes market, the developers managed to pass most or even all of the price rise along to buyers. The prices of new housing in Tallinn and Vilnius have risen significantly compared to a year ago, while the rise has not been as noteworthy in Riga.

In recent years, housing prices have gone up at an even rate in all three Baltics, but so far it has remained comparable with the rise in incomes. In Riga, according to the Housing Affordability Index tracked by Swedbank, housing affordability has consistently improved since 2015, but mainly due to the relatively lower apartment price increase in the secondary market. In Lithuania, affordability has also improved over the same period, but not as strongly as in Riga. In Estonia, apartment prices have remained more or less on par with average salaries, and affordability fluctuates without creating a trend. The above index shows the extent that the average household net wage covers the minimum income required to afford an apartment. An index value of 150 means 150% coverage or 50% higher than the required minimum income. The values of the index in the Q4 of 2021 (Q4 of 2020) were in respectively 147.5 in Tallinn (153.3), 145.3 in Vilnius (143.7) and 208.5 in Riga (189.0).

OUTLOOK FOR 2022

The Merko group does not prepare its own macroeconomic forecasts, relying in its activities planning on estimates derived from macroeconomic forecasts from Swedbank, SEB and Luminor.

The economic forecasts current during the preparation of the annual report call for the economic recovery to continue in 2022, albeit at a more moderate level, 3.2-4.5%. Concurrently, the banks project a very steep increase in the consumer price index, on the order of 6.0-7.0%, and continuing low unemployment – in a range of 4.5-6.6%.

The prospects for the complete recovery of the economy in light of pandemic problems receding was dealt a terrible blow by the war started by Russia on 24 February. The impacts of this calamity – of a totally different variety and at another level – cannot be forecasted, but it should start becoming apparent in the second half of 2022 how the sanctions on Russia will impact the Baltic economies. Questions regarding energy price trends and the availability of energy sources as a whole will persist as long as new equilibrium in the region's energy economy has not been achieved.

Inflation, which reached double figures as of late 2021 due to the increase in money in circulation, may not relent in this new situation, as wartime is characterized by deficits in certain groups of goods and indefinite price elasticity. As to how logistics will adapt to the new situation and the magnitude of the price transfer from energy sources to commodities, this will affect the consumer price index in the near future more than any change of course by central banks –money supply and interest rates – would be capable of doing. On one hand, it will undoubtedly increase investment propensity into asset classes with stable value, including real estate, which Merko's construction and development activity of course centres on. Secondly, an uncertain long-term outlook for the entire region will affect the flow of foreign investment into the Baltic region and this determines long-term demand for business real estate.

Indeed, growing uncertainty is probably the keyword that best describes the outlook for 2022. Even if the current hostilities cease without directly impacting the Baltic region, several regionally important economic sectors will be left looking for a new equilibrium for a longer period. The European Union is certain to channel massive funding for post-war reconstruction – but this is money that will not be available elsewhere and postpone economic recovery in unscathed regions.

CONSTRUCTION SERVICES

The construction sector in 2022 will likely not be capable of posting significant growth. The main obstacles will be the shortage of workers, continuing problems in supply chains and, as a result, persistent price rises. An easing of the shortage in workers has become extremely doubtful in light of the war in Ukraine. Demand for construction in the private sector, particularly in the renewable energy sector, is expected to be strong and, in light of the higher energy prices, these sectors will certainly have good creditworthiness. Demand from the public sector should also remain strong due to several infrastructure projects that have already been announced. At the same time, the public sector's expense forecasting has to grapple with the long budgeting process cycle, and uncertainty has actually increased regarding provision of additional budgetary funds to cover the rising construction prices.

The risks themselves – although the factors behind them are now completely different – remain largely similar to those of last year: possible supply chain problems due to plants shutting down, transport restrictions and slower progress on construction job sites. In such conditions, it will be important for general contractors to ensure strong capitalization and sufficient liquidity to withstand and survive any periods of hardship. They also must be capable of taking responsive action in the changing conditions to ensure that construction service continues to be of high quality even when the working processes cannot function in the ordinary manner.

Considering the strong financial footing of the Merko Ehitus group and the broad-based capability for providing construction services, all of the conditions are in place for getting through 2022 successfully. The group will certainly have to be selective when it comes to projects and carefully analyse not only developments in the economic environment but the political situation more broadly. It will be important to maintain profitability of operations, sacrificing, if necessary, volume growth by projects risk assessment of which is severely impeded or impossible.

APARTMENT DEVELOPMENT

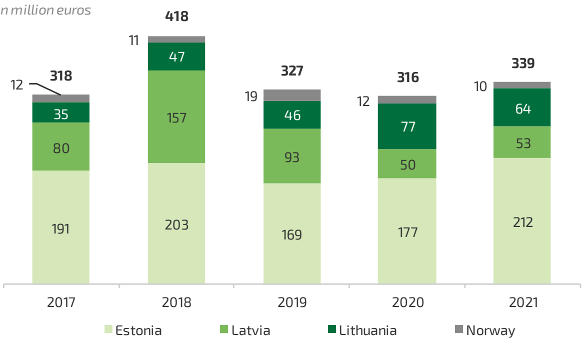
We expect a gradual calming of the housing market in the second half of 2022, above all in Tallinn and Vilnius, which stood out in 2021 for their activity level and price rise. Last year's surging interest in real estate as one of the most stable asset classes should recede little by little. The uncertainty caused by the war will not leave the apartment development segment unscathed, and the subsequent behaviour of investors acquiring apartments for the purpose of renting them out may in particular defy forecasting. Still, the market will remain active, as the popularity of more energy efficient solutions is growing in light of the high energy prices. The main threat to the real estate market is increasing inflation and central banks' countermeasures, which may reduce the number of people who can afford new homes. The behaviour of commercial banks when it comes to providing financing for individuals and companies, including real estate developers, continues to be a key question.

Merko Ehitus's long-term view in the field of apartment development has not changed – the group is and will continue to develop integral residential environments, focusing on larger districts, offering reliable quality and expert spatial solutions. In the short term, the group will appraise the rapidly changing environment on an ongoing basis and make its investment decisions as the situation unfolds. Thanks to its strong financial standing, Merko Ehitus will, where necessary, be capable of extending the sale periods for its projects and, in more complicated periods, take investment decisions that will have a long-term positive effect on the group's financial situation.

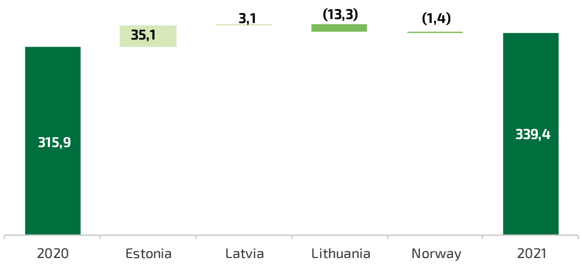
OPERATING RESULT

REVENUE AND PROFIT

DISTRIBUTION OF GROUP REVENUE BY GEOGRAPHICAL LOCATION
in million euros

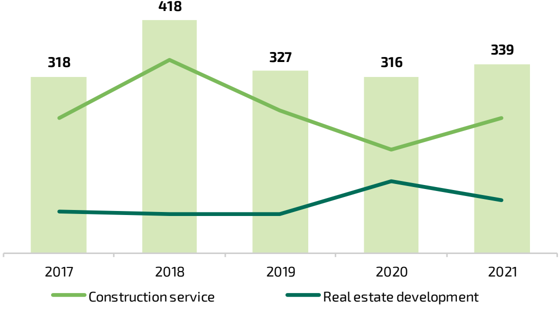


CHANGES IN GROUP REVENUE
in million euros

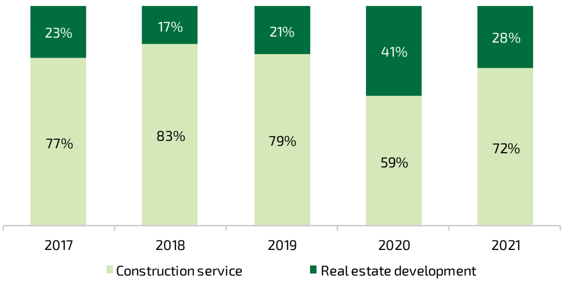


In 2021, the revenue of Merko Ehitus group was EUR 339.4 million, (2020: EUR 315.9 million). 62.6% of the period's revenue was generated in Estonia, 18.8% in Lithuania, 15.6% in Latvia and 3.0% in Norway (2020: 56.1% in Estonia, 24.4% in Lithuania, 15.7% in Latvia and 3.7% in Norway). Compared to 2020, the group's revenue increased by EUR 23 million or 7.4%, including a 19.8% increase in Estonia and 6.2% in Latvia, and the revenue decreased by 17.2% in Lithuania and 12.2% in Norway. The group's sales revenue increased due to the increase in construction volumes, while the sales revenue of the real estate development business area decreased compared to 2020, as there were no completed apartments to hand over to customers.

DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
in million euros



DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
in million euros

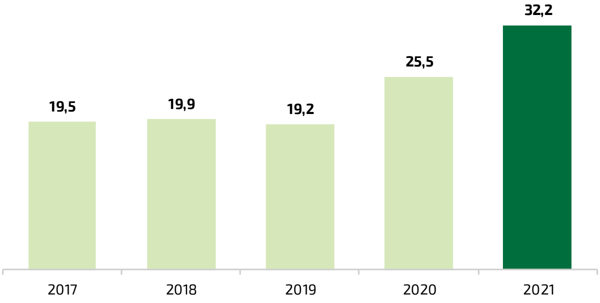


In the structure of sales revenue, construction services accounted again for a significantly larger share, accounting for 72% of the group's total sales revenue (2020: 59%). The sales volume of apartments decreased in 2021, while the volumes of construction services increased. In recent years, the group has focused on apartment development, and regarding construction services, the group monitors that a suitable risk-return ratio is ensured when commissioning new construction projects. It has been abandoned to engage in price competition rather than to increase the portfolio of construction contracts at high risk.

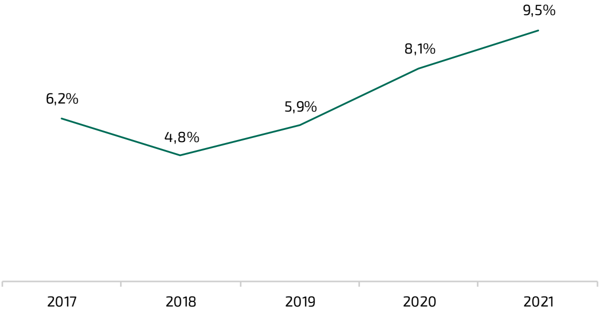
By country, Estonian sales continued to account for the largest share of revenue – 63% (2020: 56%). The group finds it strategically important for the business operations to be diversified both geographically and in terms of business segments. Thus, the group continues to strengthen and implement its competitive advantages outside Estonia and is closely monitoring the development and opportunities in both the Baltic states and in Norway, as well as balancing construction activities with real estate development projects.

In 2021, the group's operating profit totalled EUR 32.2 million (2020: EUR 25.5 million). The operating profit margin in 2021 (9.5%) increased by 1.4 pp compared to last year (2020: 8.1%). The decision to focus more on real estate development business area, the profitability of which is higher than that of the construction service business area, has borne fruit.

GROUP OPERATING PROFIT
in million euros

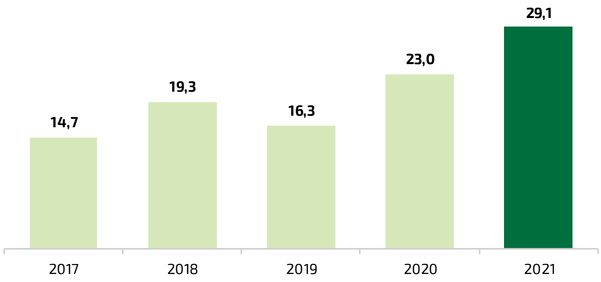


GROUP OPERATING PROFIT MARGIN
percentages

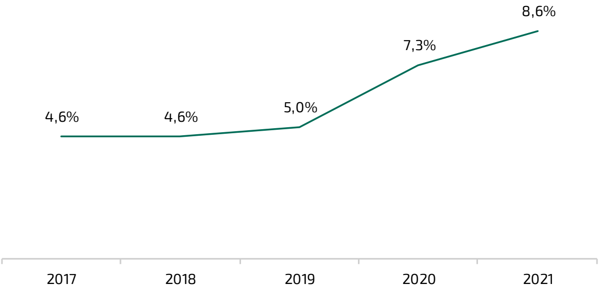


In 2021, the group's pre-tax profit totalled EUR 32.1 million and the net profit attributable to owners of the parent company was EUR 29.1 million, compared to the pre-tax profit of EUR 24.5 million and net profit attributable to owners of the parent company of EUR 23.0 million in 2020. The group's profit before tax margin was 9.5% (2020: 7.7%) and net margin was 8.6% (2020: 7.3%).

GROUP NET PROFIT
in million euros



GROUP NET PROFIT MARGIN
percentages



BUSINESS ACTIVITIES

The group operates in Estonian, Latvian, Lithuanian and Norwegian market through its subsidiaries.
See additionally the detailed management structure on page 34.

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

- **GENERAL CONSTRUCTION:** construction of various buildings, including commercial and office buildings, retail and entertainment centres, hotels and spas, as well as public buildings, dwellings and specific industrial buildings. In the context of main contracting, we provide high quality complete solutions to meet the client's needs.
- **CIVIL ENGINEERING:** design and construction of infrastructure facilities. The field includes port, waste handling and road infrastructure (bridges, tunnels, overpasses, roads), various environment protection facilities, drinking water and waste-water treatment facilities, water and sewerage mains built using both open and no-dig methods, and various other engineering and technical sites.
- **ELECTRICAL CONSTRUCTION:** The electrical construction business area moved, as a result of the transformation, to AS Connecto Eesti which became a joint venture of Merko, and the provision of electrical construction services continues in AS Connecto Eesti (read Note 19).
- **ROAD CONSTRUCTION:** various road maintenance services in Estonia: road construction, maintenance repair of roads, supervision of excavation works and the condition of roads, provision of repair services for machinery.
- **CONCRETE WORKS:** solutions for buildings and infrastructure constructed of prefabricated or concrete panels by group companies and out-of-house customer.
- **REAL ESTATE DEVELOPMENT:** development of apartment projects, long-term real estate investments and real estate projects for business purposes.

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

Merko group's investments in 2021 are presented in detail in Notes 22-24 to the financial statements.
The legal structure of the Merko group is presented in detail in Notes 18 and 19 to the financial statements.

CONSTRUCTION SERVICE

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

million EUR

	2021	2020	CHANGE
Revenue	243.4	186.8	+30.3%
% of total revenue	71.7%	59.1%	
Operating profit	11.8	4.6	+159.1%
Operating profit margin	4.9%	2.4%	

In 2021, the revenue of the construction service segment was EUR 243.4 million (2020: EUR 186.8 million). Compared to the previous year, sales revenue in the business area increased by 30.3%. The increase in sales revenue was largely due to increase in private sector orders in 2020. However, the group will continue to remain selective regarding its construction contracts. The construction service segment revenue for 2021 made up 71.7% of the group's total revenue, having increased by 12.6 pp compared to the year before (2020: 59.1%).

In 2021, the group earned an operating profit of EUR 11.8 million in this segment (2020: EUR 4.6 million). The operating profit margin was 4.9%, which is 2.5 pp higher than the comparable ratio in 2020 (2.4%).

The effects of the COVID-19 pandemic on the construction services business remained modest. Work on sites continued at a more or less normal pace, with no significant downtime occurring due to employee health or delays in deliveries. The group's companies have mapped the main risks, reviewed the current work organisation and are already accustomed to crisis planning measures in order to continue operating even in the face of possible new restrictions. Although private sector demand has responded more flexibly to the pandemic and recovered faster than in the public sector, overall growth in construction volumes is not seen in the short term, economic uncertainty and the war initiated by Russia are making investors more uncertain and affecting public sector priorities.

Among the substantial projects in process that started in 2021 and earlier and will continue in 2022 were, in Estonia, the construction works of the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre, Tallinn School of Music and Ballet, the construction works of water supply and sewerage piping in Kohila Parish and 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 projects included the constructions of the Orkla wafer and biscuits production plant, the construction works of reconstruction of Riga Technical University Civil Engineering Faculty building, GUSTAVS business center, as well as city park and youth house in Kauguri and the NATO base in Ādaži. In Lithuania, larger projects were construction of wind farm balance of plants in Mažeikiai, Šilalė and Jonava districts, and, in Kaunas, the district Police headquarters building, NATO barracks and Continental Automotive production building were underway. In Norway, mostly smaller scale contracts were in the works.

LARGEST PROJECTS COMPLETED IN 2021

PROJECT NAME		LOCATION	COUNTRY
Commercial and service building	new	Liiva road 61, Tiskre	Estonia
Tondiraba park	new	Lasnamäe district, Tallinn	Estonia
Tallinna Arte Gymnasium	rec	E.Vilde road 62, Tallinn	Estonia
Tallink City Hotel	rec	A.Laikmaa 5, Tallinn	Estonia
Nordic Hotel Forum	rec	Viru väljak 3, Tallinn	Estonia
Public water supply and sewerage facilities	rec/new	Saku rural municipality, Harjumaa	Estonia
Kaunas Police Headquarters building	new	Radvilenu 1c, Kaunas	Lithuania
Wind farm	new	Telšiai district, Tryškiai	Lithuania
Wind farm	new	Dejunai village, Anyksciai district	Lithuania
Wind farm foundations	new	Žeimių village, Jonava district	Lithuania
NATO barracks	rec	Vaidoto str 209, Kaunas	Lithuania

REAL ESTATE DEVELOPMENT

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

million EUR

	2021	2020	CHANGE
Revenue	96.0	129.1	-25.7%
incl. revenue from sale of apartments	72.7	116.6	
incl. construction service from public-private-partnerships	6.9	6.4	
incl. construction service to joint venture projects	7.6	1.6	
incl. revenue from immovable properties	5.2	1.0	
% of total revenue	28.3%	40.9%	
Operating profit	22.7	23.7	-4.4%
Operating profit margin	23.6%	18.4%	

A total of 496 apartments (incl. 1 apartment in a joint venture) were sold in 2021 at the total value of EUR 72.7 million (excl. VAT), compared to 895 apartments (incl. 3 apartments in a joint venture) and EUR 116.6 million in 2020. In addition, the group sold 7 commercial areas, in 2020 9 commercial areas (incl. 2 in a joint venture). Of the 496 apartments sold 371 were located in Estonia, 59 in Latvia, 66 in Lithuania. In the revenue and operating profit of the real estate development segment also the sale of commercial premises and parking spaces of the real estate development projects and the result of projects under development of joint venture are reflected, as well as the result of public-private-partnership contracts, based on which the group companies provide construction service and property management services.

In 2021, the share of revenue from the real estate development segment formed 28.3% of the group's total revenue (2020: 40.9%), having decreased over the year by 12.6 pp. Compared to the previous year, 397 fewer apartments were handed over to customers in our own developments, which led to a significant drop in sales revenue. Such developments were expected – in 2020, the group had more apartments ready to conclude real right agreements. The market has recovered quickly from the pandemic, demand is high, apartment ownerships are ready to transfer apartments and enter into a real right contract according to building schedules.

In 2021, operating profit of the real estate development segment amounted to EUR 22.7 million (2020: EUR 23.7 million) and the operating profit margin was 23.6% (2020: 18.4%), which increased by 5.2 pp compared to the same period previous year. The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, incl. the land acquisition price. Profitability also depends on the distribution of sales revenue in the development business segment between sub-activities (sale of apartments, construction services for joint projects, sale of immovable properties). In case of construction services for joint projects, the profit from construction is recognised in the course of construction and the profit from development is realised at a later stage, upon sale of apartments to the final customer, based on the equity method.

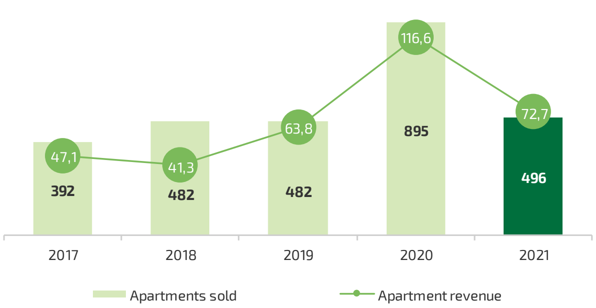
Managing a substantial portfolio of immovables requires careful and detailed planning of the whole process: the development of apartment buildings starts by planning, designing and construction, and ends with the sale of completed production and warranty service. The underlying idea of our development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

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

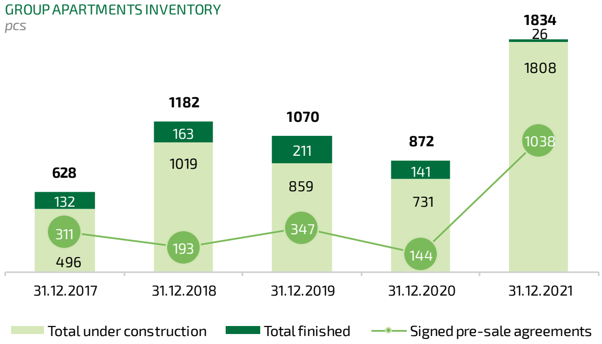
The objective of the group is always to create homes that architecturally fit the specific region, have an attractive living environment, functional design solutions, quality interior design materials, optimal construction cost and energy efficiency. A home that is being offered for customers must be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

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

APARTMENTS SOLD / APARTMENT REVENUE
pcs / in million euros



GROUP APARTMENTS INVENTORY
pcs

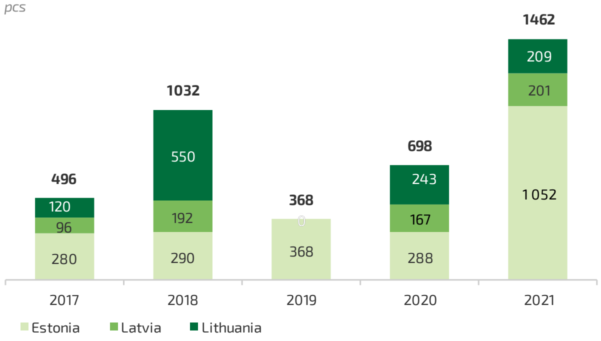


At the end of the period, Merko Ehitus group's inventory of apartments amounted to 1834 units, of which 26 were completed and 1808 in construction. 1038 apartments were covered with preliminary agreements, incl. 20 completed apartments and 1018 apartments under construction. The sale of these apartments had not yet been finalised and the apartments had not been delivered to customers, as the development sites are still under construction or the sites were completed at the end of the reporting period and the sales transactions have not all been finalised yet.

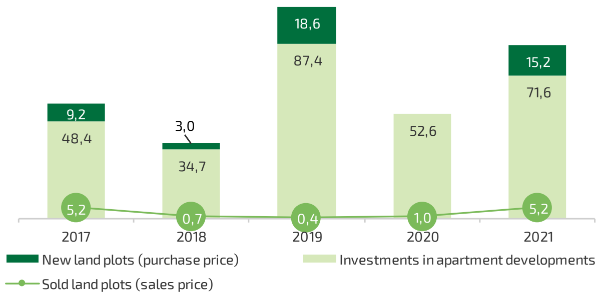
As at 31 December 2021, Merko Ehitus group had a total of 796 apartments for active sale (as at 31 December 2020: 728 apartments), for which there are no pre-sale agreements and of which 6 have been completed and 790 are under construction. The number of apartments on sale as at 31 December 2021 has increased by 68 apartments compared to 31 December 2020, while 1462 new apartments were started in 2021, compared to 698 new apartments in 2020.

In 2021, the group invested a total of EUR 71.6 million (2020: EUR 52.6 million) in new development projects launched in 2021 as well as projects already in progress from previous year.

APARTMENTS LAUNCHED BY GEOGRAPHICAL LOCATION
pcs



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



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

One of the group's objectives is to keep the land plot portfolio at a level that ensures stable inventory of property development projects, considering the market conditions. As at 31 December 2021, the group's inventories included land plots with development potential, where the construction works had not started, of EUR 66.1 million (31.12.2020: EUR 60.7 million).

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

million EUR

	31.12.2021	**31.12.2020**
Estonia	25.9	24.9
Latvia	25.0	25.4
Lithuania	13.6	10.4
Norway	1.6	-
Total	**66.1**	**60.7**

In 2021, the group purchased new land plots at an acquisition cost of EUR 15.2 million (no new land plots were acquired in 2020)

THE APARTMENT DEVELOPMENTS COMPLETED IN 2021

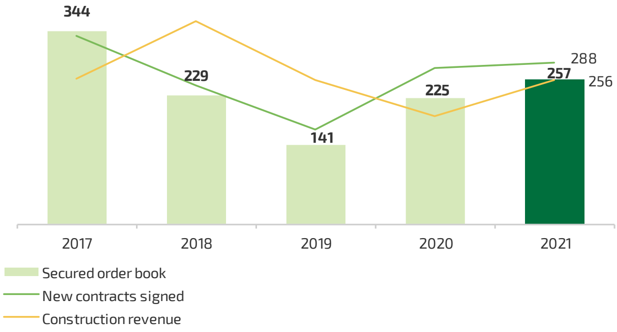
PROJECT		LOCATION	SIZE
Erminurme 10 (Erminurme 1st stage)	new	Tartu, Estonia	18 apartments
Äkke 1, 3 (Pikaliiva 4th stage)	new	Tallinn, Estonia	49 apartments
Pille 4 (Veerenni 3rd stage)	new	Tallinn, Estonia	58 apartments
Paekalda 16, 12 (Lahekalda 2nd stage)	new	Tallinn, Estonia	96 apartments
Äkke 5, 7 (Pikaliiva 5th stage)	new	Tallinn, Estonia	66 apartments
Erminurme 12, 16 (Erminurme 2nd stage)	new	Tartu, Estonia	37 apartments

SECURED ORDER BOOK

As at 31 December 2021, the group's secured order book (excluding own property developments) amounted to EUR 257.3 million as compared to EUR 225.1 million as at 31 December 2020. The secured order book excludes the group's proprietary residential development projects and work related to developing real estate investments.

In 2021, new construction contracts worth EUR 288.1 million were signed (excludes property developments), compared to EUR 277.2 million in the prior year.

SECURED ORDER BOOK
in million euros



LARGEST CONSTRUCTION CONTRACTS SIGNED IN 2021

in millions of euros (as announced during 2021 on Nasdaq Baltic stock exchange)

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION DATE	COST
Design-build contract with the groups 50% joint venture Kodusadam OÜ for construction of a new real estate development project in the Noblessner seafront quarter in Tallinn *	Estonia	First half of 2023	31.4
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 Liivalaia business and residential complex in Tallinn	Estonia	First half of 2022	14.0
Construction contract to perform construction works of Elemental Skanste office buildings in Riga	Latvia	Spring of 2023	49.0
Construction contract for construction of GUSTAVS business center in Riga	Latvia	December of 2022	22.0
Construction contract for the construction of a city park and youth house in Kauguri	Latvia	Summer of 2022	6.7
Construction contract to perform the wind farm balance of plant construction works in Akmenė district	Lithuania	Q3 of 2022	19.0
Construction contract to perform the wind farm balance of plant construction works in Šilalė district	Lithuania	Q1 of 2023	15.0
Construction contract for the construction of a production building in Kaunas district	Lithuania	First half of 2022	10.0
Construction contract to design and construct the second stage of a Tesla service centre in Oslo	Norway	February of 2022	4.1

**The sales revenue and profit from Kodusadam OÜ contract will be realised in the real estate development segment pursuant to provision of construction service.*

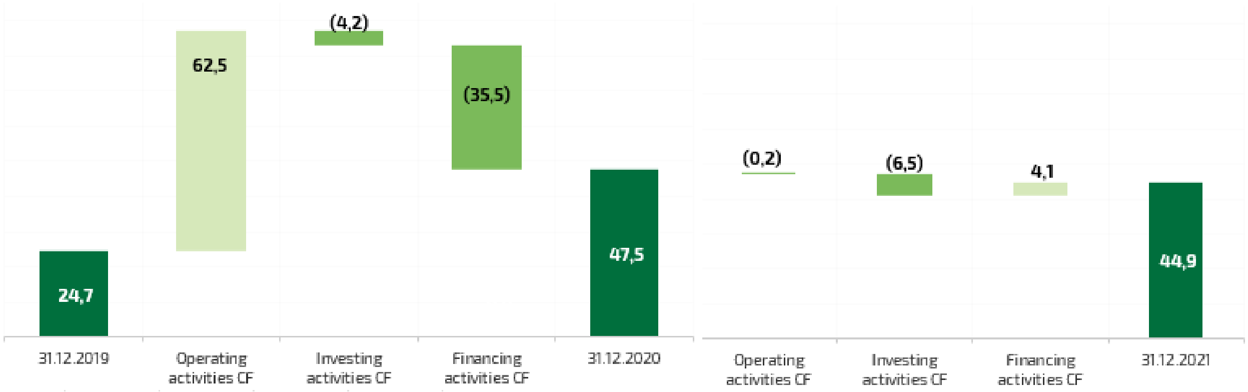
In 2021, the volume of concluded contracts in the private sectors increased significantly, accounting for 73% of the balance of the group's secured order book (31.12.2020: approximately 34%).

CASH FLOWS

The change in short-term investments and cash equivalents in 2021 of Merko Ehitus group was negative by EUR 2.6 million and as at 31 December 2021 the group had cash and cash equivalents in the amount of EUR 44.9 million (31.12.2020: EUR 47.5 million).

The operating cash flows of 2021 were negative by EUR 0.2 million (2020: positive by EUR 62.5 million), cash flow from investing activity was negative by EUR 6.5 million (2020: negative by EUR 4.2 million) and the cash flow from financing activity was positive by EUR 4.1 million (2020: negative by EUR 35.5 million).

CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The cash flow from operating activities had positive effect from EBITDA of EUR 34.8 million (2020: positive effect of EUR 28.2 million), from the change in trade and other payables related to operating activities of EUR 30.9 million (2020: negative effect of EUR 11.9 million) and from the change in the provisions of EUR 2.0 million (2020: negative effect of EUR 1.1 million). The negative effects to cash flow from operating activities came from changes in receivables and liabilities related to construction contracts of EUR 7.2 million (2020: positive effect of EUR 2.8 million), from the changes in trade and other receivables related to operating activities of EUR 21.1 million (2020: positive effect of EUR 7.0 million) and change in inventories of EUR 34.1 million (2020: positive effect of EUR 40.2 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments, while in 2021 the negative cash flow was due to the increase in the volume of inventories related to the construction of apartments, then the positive cash flow in 2020 was due to the decrease in inventories in the sale of the apartments. Interest was paid in the amount of EUR 0.8 million (2020: EUR 1.1 million) and corporate income tax was paid in the amount of EUR 3.2 million (2020: EUR 1.1 million).

Cash flows from investing activities include negative effect from the acquisition of non-current assets and in the amount of EUR 2.6 million, which is mainly related to the renewal of construction equipment (2020: EUR 4.5 million), and the acquisition of an associated company in the net amount of EUR 4.1 million (2020: no acquisitions), and positive effect from the sale of non-current assets in the amount of EUR 0.2 million (2020: EUR 0.3 million).

To support cash flows from operating activities the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (16.2% of total assets as at 31.12.2021; 11.3% as at 31.12.2020).

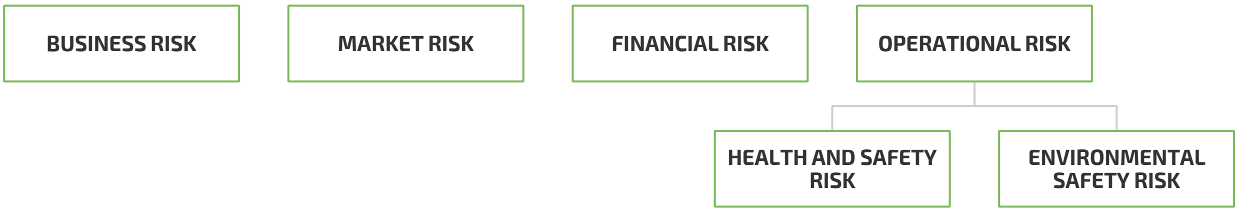
In cash flows from financing, the larger negative factors were dividend payment of EUR 17.7 million (2020: EUR 0.1 million), repayments of lease liabilities in the amount of EUR 1.0 million (2020: net negative cash flow of EUR 0.9 million). Positive cash flow from financing activity was gained from the 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 9.4 million (2020: positive cash flow in the net amount of EUR 1.1 million) and the net change in loans received and repaid in connection with development projects in the amount of EUR 13.4 million, which was due to the increase of the number of apartments in apartment development projects under construction (2020: net negative cash flow of EUR 28.0 million).

RISK MANAGEMENT

Risk management is part of strategic management and is inseparable from daily operations of the group. In managing risks, the main objective of the group is to determine most significant risks and to manage these risks in a balanced way so that the group achieves its strategic and financial objectives. The group considers it important to assess the risks holistically, not focusing on the effects of an individual risk or by aggregating the risks cumulatively. Turning constant attention to risk management enables to exclude or minimise a possible economical loss. The following are deemed by the group to be the most significant risks: business risk, market risk, operational risk and financial risk; the latter includes credit risk, liquidity risk and legal risk. Detailed description of financial risks is provided in Note 34 of the financial statements. Based on the group's balance sheet structure and the market position, none of these risks has a significant impact as at the date of this report.

Group risk management is coordinated by the management board. In addition, the management board of each subsidiary develops, implements and maintains processes for managing significant risks affecting the operations and results of the respective subsidiary. Each group company and business unit must ensure that risks are managed on an ongoing basis with reference to the objectives it has been assigned. Risk-taking is a normal part of business, but in doing so, it must be ensured that the continuity and sustainability of operations is ensured if the risk materializes. The group assesses ongoing business risks and risks affecting investments in a calculated manner.

Merko Ehitus divides risks into four main categories:



Business risk

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

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

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

Market risk

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

The residential development is one of the main sources of market risk arising from the value of real estate for Merko Ehitus group. The real estate market has become more competitive and in pre-launch risk assessment, consideration is given to such important aspects as the project's location, development volume, planning solutions and the target group. Due to the competitiveness of the real estate market, setting the right sale price for new development projects in the given region has become very important. For managing the price risk, price statistics of own projects and that available from public sources is being constantly analysed.

In 2020, the COVID-19 pandemic and the related imposition of national restrictions and changes in societal behaviour were added as a significant market risk. The group has implemented codes of conduct that are applied depending on the level of transmission of the infection in society. The pandemics has also affected the supply chain security: the disruption of the supply of construction materials, goods, machinery and necessary equipment jeopardizes the timely completion of a construction site or makes it significantly more expensive. Thus, when concluding contracts, the respective risk must already be recognized and ways of mitigation provided. The group monitors both local and international developments of the pandemic in order to make timely adjustments to its action plans, if necessary.

Market risk that is partially related to financial risks also includes ***currency risk and interest rate risk***. The analysis of these risks is provided in Note 34 of the financial statements.

Financial risk

Financial risks consist of risks related to adequate capitalisation level and financing, currency, interest rate and credit risk. Financial risks are managed by the accounting and finance rules, as controls applied thereof. The group's finance department is responsible for forecasting the cash flows of Merko Ehitus, continuously monitoring various subsidiaries' cash positions and forecasts. The group has implemented a regular budgeting and reporting procedures whereby the group's annual forecasts are updated three times a year and deviations from forecasts are looked into.

The analysis on ***credit, liquidity and legal risks*** is provided in Note 34 of the financial statements.

Operational risk

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

Considering the group's field of business, it is essential in operational risk management that the improvement and application of safety standards and regulations continues and that supervision of compliance with environmental requirements is increased. One measure for managing operational risks is the implementation of quality and environmental management systems. Risks related to occupational health and safety in construction are assessed and managed in all units and process stages of the group. The largest construction companies of the group have implemented quality management system ISO 9001 and environmental management system ISO 14001 and health and safety management system ISO 45001. All management systems are certified. The group employs 8 (2020: 8) full-time quality specialists who are responsible for developing quality, safety and management systems and ensuring their functioning.

Insurance is used as additional mitigation of operational risks, especially for risks that cannot otherwise be mitigated. The group concludes total risk insurance contracts with insurance companies to hedge the risk of unanticipated loss events occurring in the construction process. The general policy is entered into for one year and it compensates the customer, subcontractors and third parties for any losses caused by AS Merko Ehitus group company or its subcontractor. The risks of the projects, which the annual policy does not cover (water construction, railroad construction, bridges, etc.), are additionally mapped out and an insurance contract is concluded separately for each object taking into consideration its specifics. In concluding contracts for services involving design work, an insurance contract for professional liability is required from subcontractors or an insurance contract at own expense is concluded, covering the damage arising from design, erroneous measurement, advice and instructions. The services of insurance brokers are used in mapping out risks, concluding insurance contracts and handling loss events. In 2021, indemnity applications submitted to insurance companies totalled EUR 0.35 million (2020: EUR 0.08 million), and insurance benefits were received in the amount of EUR 0.13 million (2020: EUR 0.04 million).

A warranty provision has been provided at the group to cover for the construction errors, which have become evident during the warranty period. In 2021, warranty provisions were set up at the group in the total amount of EUR 2.14 million (2020: EUR 1.17 million) and disbursements amounted to EUR 1.29 million (2020: EUR 1.15 million). As at the year-end, the group's warranty provision amounted to EUR 3.77 million (31.12.2020: EUR 3.45 million). For work performed by subcontractors, the subcontractors are responsible for remedying the defects that became evident during the warranty period. For critically important contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank first demand guarantees.

ETHICAL BUSINESS PRACTICES

Merko's core values include doing ethical business, as this helps to achieve profitable growth, maintain the trust of stakeholders, and support fair competition and equal treatment. AS Merko Ehitus group does not tolerate corruption in any form. All employees of the group must proceed from ethical principles in everything that they do. In order to facilitate this, the group has enacted a Code of Business Ethics, which all Merko group employees are obliged to read and adhere to. The topic of business ethics has been thoroughly covered on the group's website https://group.merko.ee/en/corporate-responsibility/.

All employees, partners and customers can report clear or potential unethical conduct via various anonymous channels, of which an overview is on the website: https://group.merko.ee/en/corporate-responsibility/reporting-channels/. The reporting and information analysis system implemented in AS Merko Ehitus ensures security, confidentiality and, if so desired, anonymity at every stage of the process. Each reported misconduct will be investigated by an independent cooperation partner – AS Merko Ehitus's contractual partner Ernst & Young – and will lead to appropriate action. In 2021, the group did not receive any hints (2020: no hints received).

In addition, key persons at Merko Ehitus are obliged to file a declaration of personal interests that covers data on holdings in companies, positions held on management bodies of companies and other legal persons, membership of professional organisations, information on valid registrations of economic activities and other data that might indicate a possible conflict of interest. In 2021 or 2020, no conflict of interest cases of key persons were identified by the group.

EMPLOYEES

A safe working environment is top priority for the group's companies to avoid accidents at work and health problems. The group's construction companies have an occupational health and safety management system certified according to ISO 45001. Those responsible for the field or employees who have a closer contact with these topics in their work (first aid givers, those who work with open flame, lifters and so on) undergo regular occupational health and safety training for this reason.

As an employer, Merko takes the necessary measures for protecting employees against discrimination. Merko has included the corresponding principles in the code and handbook of business ethics. The business ethics topic is covered in detail on the group's website https://group.merko.ee/en/corporate-responsibility/.

PERSONNEL POLICY

The group's personnel policy supports the achievement of Merko's goals by ensuring the continuity of the organization and management, maintaining common values and the presence of competent employees. Merko's success is based on cooperation between professionals with long-term experience in their field and the top young performers of the future. The wisdom and experience passed on from colleague to colleague will ensure that our existing strengths continue, and that new and innovative practices are adopted. We ensure a supportive work environment, a fair and competitive salary commensurate with the employee's contribution, and in the case of an additional motivation package, we focus on highlighting healthy lifestyles and family values. In order to assess employee satisfaction and collect feedback, we regularly conduct development interviews and satisfaction surveys.

ORGANIZATION, HUMAN DEVELOPMENT AND VALUATION

Merko's biggest asset is its people and one key building block of the company's success is employees' professionalism. The goal of the company's training and development activities is to support all facets of human resources development, strengthening teams and sharing experiences. Besides the work, we recognize acquisition of additional education and employee competence and professional qualifications. In addition, we support employee participation in professional training and conference outside the company. Events with physical participation, webcasts and on-demand streamable 24/7 trainings where employees can pick up new knowledge at their convenience have been used.

With the goal of contributing to educating the next generation of professionals in the construction sector, we enrich academic studies through sharing practical experiences and academic knowledge. We organize tours and work shadow days for youths on our sites, carry out lectures in schools, take part in student events, offer practical possibilities and we issue our own scholarships.

We compensate our employees fairly considering their contribution to achieving the company's goals. A more detailed overview of remuneration is provided as a part of the Remuneration report (see page 102). We recognize achievement and exceeding of the agreed objectives. In Merko, it is customary to celebrate key events in employees' personal lives – birthdays, school graduation, marriage, childbirth and going off to school for the first time, etc. Since we place value on family values, we hold events intended for both employees and their family members. To our seasoned employees, we offer additional incentives, such as extra holidays and leave, and also maintain their salary while they are serving national defence functions.

ENVIRONMENT AND SOCIAL RESPONSIBILITY

The Merko group's construction companies shape urban space and landscapes through their activities. The main environmental factor in the construction sector is the construction waste generated on site. Therefore, dealing with environmental aspects is a high priority for us, the follow-up of construction waste has been carefully planned and drafted. If possible, sorting of waste is organized on construction sites, all construction waste is handed over to a handler with a waste permit, and we keep systematic records on the waste that is generated at our construction sites.

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

SHARE AND SHAREHOLDERS

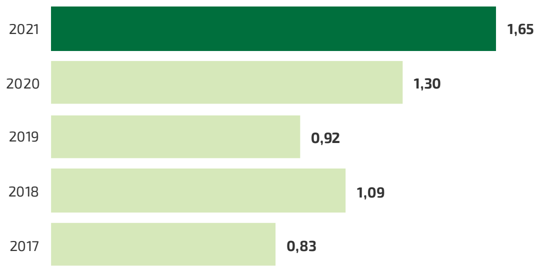
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As at 31 December 2021, the company has 17,700,000 shares. The number of shares did not change during 2021.

In 2021, 46,961 transactions were conducted with the shares of Merko Ehitus in the course of which 2.06 million shares were traded (11.6% of shares outstanding), with the total monetary value of transactions at EUR 29.8 million (comparative data for 2020: 22,033 transactions, in the course of which 1.62 million shares were traded (9.2% of shares outstanding) and the total monetary value of transactions was EUR 14.0 million). The lowest share price was EUR 9.48, and the highest share price was EUR 17.14 (2020: EUR 6.56 and EUR 10.60 respectively). The closing price of the share as at 31 December 2021 was EUR 15.22 (31.12.2020: EUR 9.46). As at 31 December 2021, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 269.4 million, up 60.9% compared to the end of the equivalent period in the prior year (31.12.2020: EUR 167.4 million).

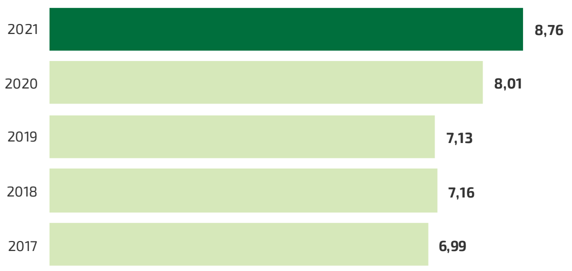
INFORMATION ON SECURITY

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

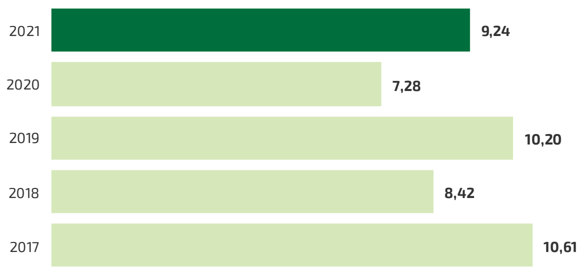
EARNINGS PER SHARE(EPS)
euros



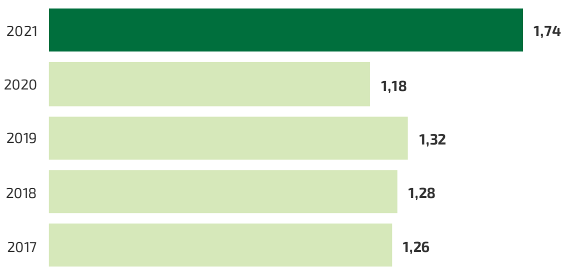
EQUITY PER SHARE
euros



P/E RATIO
times



P/B RATIO
times



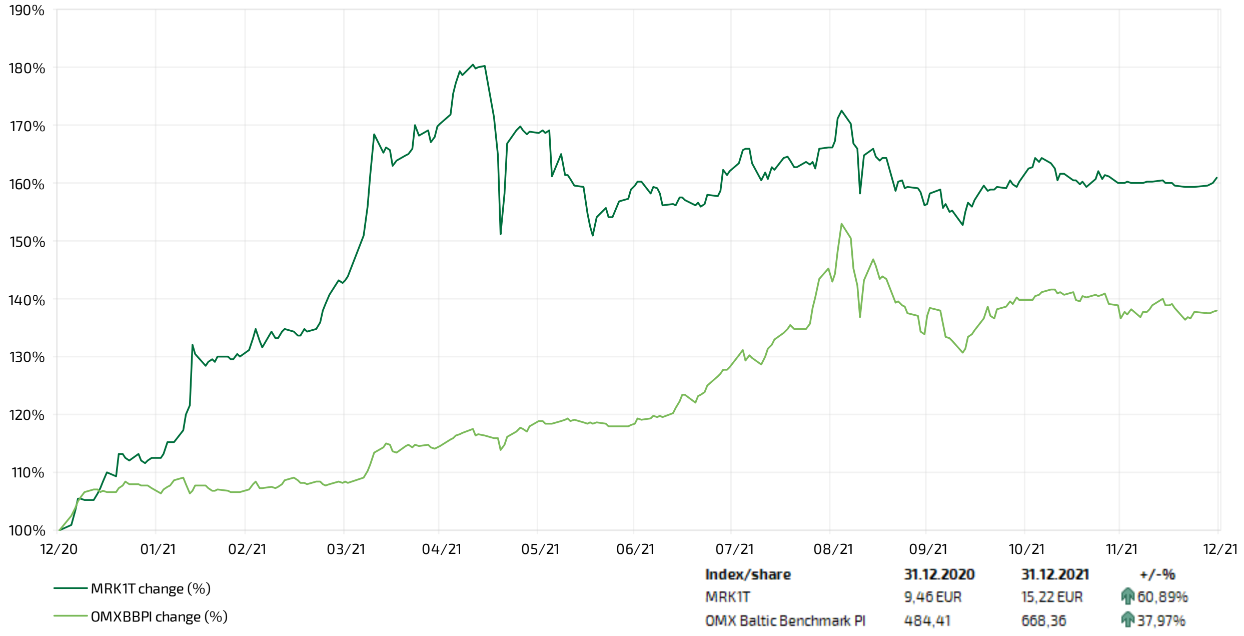
TRADING HISTORY OF SECURITY, IN EUROS

	2021	**2020**	**2019**
Highest	17.14	10.60	10.30
Lowest	9.48	6.56	8.74
Average	14.41	8.80	9.55
Closing as at 31.12	15.22	9.46	9.38
Change as at 31.12, %	+60.89	+0.85	+2.00
Traded shares, pcs	2,061,047	1,623,435	2,231,912
Turnover, million EUR	29.78	13.97	21.31
Market value as at 31.12, million EUR	269.4	167.4	166.0

STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.12.2021

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	0.07%	1,362,455	7.70%
10 001 – 100 000	49	0.53%	1,087,146	6.14%
1001-10 000	511	5.49%	1,476,206	8.34%
101-1000	2,425	26.05%	849,612	4.80%
1-100	6,316	67.85%	181,895	1.03%
Total	**9,309**	**100%**	**17,700,000**	**100%**

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX BALTIC BENCHMARK PRICE INDEX IN 2021



Index/share	**31.12.2020**	**31.12.2021**	**+/-%**
MRK1T	9,46 EUR	15,22 EUR	⬆60,89%
OMX Baltic Benchmark PI	484,41	668,36	⬆37,97%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.12.2021 AND CHANGE COMPARED TO THE PREVIOUS YEAR

	NUMBER OF SHARES	% OF TOTAL 31.12.2021	% OF TOTAL 31.12.2020	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	377,435	2.13%	1.86%	47,435
Firebird Republics Fund Ltd	313,953	1.77%	1.83%	(9,347)
Firebird Avrora Fund Ltd	174,894	0.99%	1.01%	(3,173)
SEB Life and Pension Baltic SE Estonian Branch	148,787	0.84%	0.84%	-
Siseinfo OÜ	130,000	0.73%	0.71%	4,129
Clearstream Banking AG	113,665	0.64%	0.63%	1,724
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	**14,285,141**	**80.71%**	**80.57%**	**24,358**
Total other shareholders	3,414,859	19.29%	19.43%	(24,358)
Total	**17,700,000**	**100%**	**100%**	**-**

DIVIDENDS AND DIVIDEND POLICY

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

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

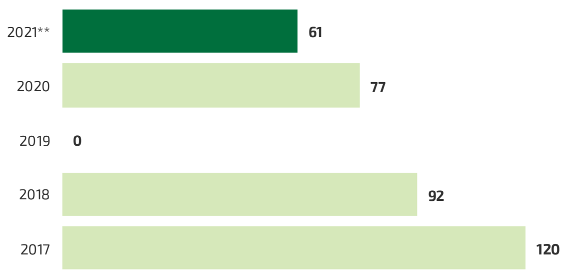
On 5 May 2021, the shareholders of AS Merko Ehitus approved the Supervisory Board's proposal to the shareholders to pay out the total amount of EUR 17.7 million (EUR 1.00 per share) as dividends from net profit brought forward, which is equivalent to a 77% dividend rate and a 10.6% dividend yield for 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 applied 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 withheld an additional 7% income tax from dividends paid to shareholders that were natural persons and on which the 14/86 income tax rate had been applied.

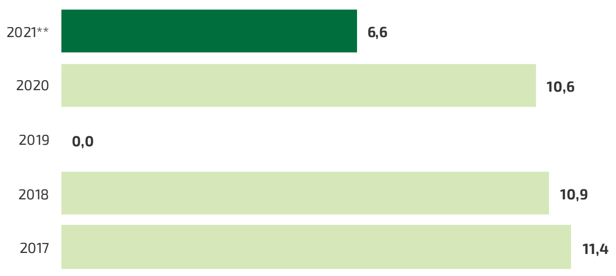
The Management Board proposes to pay the shareholders EUR 17.7 million as dividends from net profits brought forward (EUR 1.00 per share) in 2022, which is equivalent to a 61% dividend rate and a 6.6% dividend yield for the year 2021 (using the share price as at 31 December 2021).

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

DIVIDEND RATE
percentages



DIVIDEND YIELD *
percentages



** Using share price as at 31.12.*
*** 2021 figures based on Management Board proposal regarding dividend payment.*

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

CORPORATE GOVERNANCE RECOMMENDATIONS REPORT

CORPORATE GOVERNANCE AND STRUCTURE

Adherence to the principles of Corporate Governance Recommendations is part of the management of AS Merko Ehitus. Generally, this system is regulated by relevant legislation, the company's articles of association and the company's internal policies. Starting from 1 January 2006, issuers of shares listed on the Nasdaq Tallinn Stock Exchange are recommended to adhere to the principles of Corporate Governance Recommendations approved by the Financial Supervisory Authority that covers good practices of enterprise management and treatment of shareholders. AS Merko Ehitus has followed these principles throughout 2021.

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

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

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

It is important to maintain a simple organisational structure in the group, and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum efficiency in group management, we in some cases differentiate the management structure and legal structure. The group's management is carried out on a country basis. The group's country and business area detailed management structure as at 31 December 2021 is the following:

AS MERKO EHITUS

ESTONIA
LATVIA
LITHUANIA
NORWAY

As at 31 December 2021, the group comprises of 33 companies (31.12.2020: 31). The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 18 and 19 of the financial statements.

GENERAL MEETING OF SHAREHOLDERS

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

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) were 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.

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

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

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

Annual and extraordinary general meeting of shareholders shall be chaired by an independent person. On behalf of the company, usually the Chairman of the Management Board and the Chairman of the Supervisory Board shall participate in the General Meeting of AS Merko Ehitus, and if necessary, other members of the Management and Supervisory Boards shall be involved. If necessary, the company's auditor shall participate.

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

SUPERVISORY BOARD

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

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

As of 31 December 2021, the Supervisory Board of AS Merko Ehitus had three members. The terms of office of all members are valid until 6 May 2023.

Toomas Annus
Chairman of the Supervisory Board

Positions held:

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

Education:

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

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

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

Teet Roopalu
Member of the Supervisory Board

Positions held:
2004-… AS Merko Ehitus, Member of the Supervisory Board
2010-… AS Riverito, Member of the Management Board
2003-… AS Kapitel (AS E.L.L. Kinnisvara until 2017), Member of the Supervisory Board
2015-… Järvevana OÜ, Member of the Management Board
2002-2004 AS Merko Ehitus, Adviser to the Management Board
Has worked for different construction companies, including as a director of finance. Has been in charge of economic activities in the EKE system as a chief economist; worked as a bank director; and has also worked in building design.
Member of Supervisory Boards of group subsidiaries.
Education:
Tallinn University of Technology, construction economics and organisation
Number of shares: -

Indrek Neivelt
Member of the Supervisory Board

Positions held:
2008-… AS Merko Ehitus, Member of the Supervisory Board
2020-… OÜ Respiray, Chairman of the Management Board
2018-… AS Pocopay, Member of the Supervisory Board
2015-2018 AS Pocopay, Member of the Management Board
2016-… OÜ Poco Holding, Member of the Management Board
Has held various executive positions in Hansapank (now Swedbank), incl. Director General of the Group, Chairman of the Management Board and also in Bank Saint Petersburg as the Chairman of the Supervisory Board.
Belongs to Supervisory Boards of various companies.
Education:
Tallinn University of Technology, civil engineering economics and management
Stockholm University, banking and finance, MBA
Number of shares: 31,635 (Trust IN OÜ)

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

The meetings of the Supervisory Board generally take place once a month, except in summer months. In 2021, the Supervisory Board held 16 regular meetings. No extraordinary Supervisory Board meetings were held. Participation of members of the Supervisory Board at meetings:

NAME	PARTICIPATION IN MEETINGS	PARTICIPATION %
Toomas Annus	16	100%
Teet Roopalu	16	100%
Indrek Neivelt	16	100%

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

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

No termination benefits are paid to the members of the Supervisory Board upon the termination or non-extension of the contract. In the 2021 and 2020 financial years, the members of the Supervisory Board were remunerated as follows (in euros):

NAME	2021	2020
Teet Roopalu	38,347	38,347
Indrek Neivelt	38,347	38,347
TOTAL	**76,694**	**76,694**

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

MANAGEMENT BOARD

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

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

Andres Trink

Chairman of the Management Board
Appointed: 1 January 2012
Term ends: 31 December 2023

Positions held:

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

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

Education:

Tallinn University of Technology, automated management systems specialty (summa cum laude)
Estonian Business School, international business administration (unfinished)
Graduate of the INSEAD University (France), executive management programme

Number of shares: 1,100

Tõnu Toomik

Member of the Management Board
Appointed: 6 June 2013
Term ends: 5 June 2022

Positions held:

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

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

Education:

Tallinn University of Technology, industrial and civil engineering

Number of shares controlled: -

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

Members of the Management Board have entered into three-year contracts of service with the company. The procedure and principles of remuneration of Management Board members are written in the Remuneration report on page 102.

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the most significant subsidiaries that are wholly owned by AS Merko Ehitus as at 31 December 2021:

COMPANY *	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti *(66,452,918 euros)*	Andres Trink (Chairman), Tõnu Toomik, Martin Rebane	Ivo Volkov (Chairman), Jaan Mäe, Veljo Viitmann
OÜ Merko Investments *(21,583,804 euros)*	-	Andres Trink, Urmas Somelar
SIA Merks *(28,244,920 euros)*	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Andris Bišmeistars (Chairman)
SIA Merks Mājas *(57,243,097 euros)*	-	Andris Bišmeistars (Chairman)
UAB Merko Statyba *(12,464,412 euros)*	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Chairman), Jaanus Rästas
UAB Merko Bustas *(10,672,555 euros)*	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Chairman)

** The figures in brackets indicate the amount of equity held by the parent company's owners in significant subsidiaries as at 31 December 2021.*

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 member at the time, Mr. Priit Roosimägi.

The structure of the group is disclosed in Note 18 to the financial statements and the remuneration for the members of the management board of the major subsidiaries is provided in Note 32 of the financial statements.

AUDIT COMMITTEE

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

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

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

Members of the audit committee are not separately remunerated.

REPORTING AND FINANCIAL AUDIT

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

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

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

Financial audits are conducted based on International Standards on Auditing. The auditor of AS Merko Ehitus is approved by the general meeting of shareholders. The selection process is managed by the Supervisory Board and its findings are presented to the general meeting for approval. By the resolution made by the general meeting in 2021, the financial auditor for annual reports of 2021-2022 is AS PricewaterhouseCoopers (PwC). Auditors authorised to sign the report differ, depending on the country of residence of the group company. Chartered auditor Eva Jansen-Diener is responsible for the consolidated audit report.

AS Merko Ehitus considers it important to ensure independence of the financial auditor and to avoid conflicts of interest. In 2021, PwC provided to AS Merko Ehitus advisory services permitted under Estonian Audit Act. We find that the financial audit conducted in 2021 was in compliance with regulative acts, international standards and expectations. PwC presented the results in two stages: a) as part of an interim audit and b) with regard to the final audit before the independent auditor's report was issued. The auditor's independent report is presented on pages 91-99

CONFLICT OF INTEREST AND HANDLING OF INSIDER INFORMATION

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

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

As at 31 December 2021, the group's insider register lists 89 persons with permanent access (31.12.2020: 84 persons). The group keeps records on insiders in accordance with requirements set forth in the Securities Market Act, the Regulation (EU) No 596/2014 of the European Parliament and of the Council (market abuse regulation) and Nasdaq Tallinn rules and regulations.

To the best of our knowledge, in the financial year 2021 there were no cases of any misuse of insider information or conflicts of interest. No transactions with related parties were made at other than market terms. No transactions between the company and its member of the board, a person close to or connected to the member of the board were carried out in the financial year of 2021, which would be regarded as significant for the company.

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

An overview of transactions with related parties in 2021 is provided in Note 32 of the financial statements.

DISCLOSURE OF INFORMATION

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

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

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

Important information shall be disclosed through the stock exchange system and on the group's website. In 2021, AS Merko Ehitus published 49 stock exchange releases through the stock exchange system.

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

We will publish 2022 consolidated interim reports as follows:

DATE	EVENT
05.05.2022	2022 3 months unaudited interim report
04.08.2022	2022 6 months and II quarter unaudited interim report
03.11.2022	2022 9 months and III quarter unaudited interim report

Our objective is to support fair pricing of Merko shares through constant and continued distribution of information to all market participants. Moreover, our objective is to maintain the loyalty of existing shareholders towards the company and to create interest in new shareholders and analysts. To achieve this goal, quarterly and annual reports, stock exchange releases and presentations are prepared and investor meetings are held with shareholders and analysts. We also collect and analyse feedback from investors and analysts to increase the value of information to be disclosed.

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

The investor calendar published on the AS Merko Ehitus website https://group.merko.ee/en/investors/reports-and-investor-calendar/ provides an overview of investor meetings both past and upcoming. Current shareholders can request their participation in planned meetings shown on the investor calendar. Requests should be made in a timely fashion. In addition to the investor meeting date, time and names of participants, Merko's website has a section with the presentations used at the meetings. In 2021, AS Merko Ehitus organised 1 investor meeting (2020: 5).

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

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

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

DECLARATION OF CONFORMITY TO CORPORATE GOVERNANCE RECOMMENDATIONS

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

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

CORPORATE GOVERNANCE RECOMMENDATIONS[1]	EXPLANATIONS BY MANAGEMENT AND SUPERVISORY BOARDS
1.3.2 Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.	In 2021, due to the continuing pandemic situation, the general meeting was held in writing. AS Merko Ehitus continues to put the need to protect human health ahead of the rules applicable in normal circumstances.
1.3.3 Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.	AS Merko Ehitus did not provide the possibility to observe and attend the regular general meeting in 2021 through means of communication as such need has not been identified so far.

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

CORPORATE GOVERNANCE RECOMMENDATIONS[1]	EXPLANATIONS BY MANAGEMENT AND SUPERVISORY BOARDS
3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number dependent members. An independent member is a person, who has no such business, family or other ties with the Issuer, a company controlled by the Issuer, a controlling shareholder of the Issuer, a company belonging to the Issuer's group or a member of a directing body of these companies, that can affect their decisions by the existence of conflict of interests. The independence requirements are presented in the annex of the Corporate Governance Recommendations. ANNEX. Requirements of independence Independent is the member of the Supervisory Board, who: (h) has not been an independent member of the Supervisory Board for more than ten (10) years;	The supervisory board of AS Merko Ehitus consists of three members, of which Indrek Neivelt is an independent member. Indrek Neivelt has been a member of the supervisory board since 6 November 2008, i.e. for more than ten years. Still, the management and supervisory boards are convinced that Indrek Neivelt remains independent from the Issuer, any company controlled by the Issuer, the controlling shareholder of the Issuer, any company belonging to the Issuer's group and any member of a management body of these companies, when making decisions as the member of the supervisory board. Indrek Neivelt continues to comply with all other requirements of independence and as a member of the supervisory board acts in the best interests of all the shareholders.
5.2 The Issuer shall publish the disclosure dates of information subject to disclosure throughout a year (including the annual report, interim reports and notice calling a general meeting) at the beginning of the fiscal year in a separate notice, called financial calendar.	AS Merko Ehitus disclosed the financial calendar for 2022 on 20 December 2021. It did not include the date on which the notice calling general meeting is going to be disclosed, as it will be announced later as a result of the decisions of the Management Board and the Supervisory Board.
6.1.1 On meeting of the Supervisory board, where the annual account shall be reviewed the auditor of the Issuer shall participate upon invitation of the Supervisory Board.	The auditor does not usually attend the AS Merko Ehitus Supervisory Board meeting. Auditor presents an overview about the results of the performed audit as a written report to the audit committee, which has been formed by the Supervisory Board as its work body. In case the members of the audit committee find it necessary to receive additional explanations, they may turn to the auditor using means of communication or invite the auditor to the audit committee meeting to provide explanations.

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

Merko Ehitus has not deemed it necessary to implement diversity policies as it bases its decisions on onboarding, work assessments and remuneration of its managers and employees on the group's best interests as well as the education, competencies and work results of the managers and employees, and not on their sex and gender, age, ethnicity, or other such characteristics. The group has enacted a code of business ethics, which also includes the principle of equal treatment of employees. In 2021, no such violations were identified in the group, which would have suggested discrimination of employees or violations of human rights. Also, no work-related complaints were submitted to labour dispute committees against the group in 2021.

MANAGEMENT DECLARATION

The Management Board declares and confirms that according to their best knowledge, the year 2021 annual accounts, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, present a correct and fair view of the assets, liabilities, financial position and profit or loss of AS Merko Ehitus and the undertakings involved in the consolidation as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial status of AS Merko Ehitus and the undertakings involved in the consolidation as a whole and contains a description of the main risks and doubts.

Andres Trink	Chairman of the Management Board	/ digitally signed /	31.03.2022
Tõnu Toomik	Member of the Management Board	/ digitally signed /	31.03.2022

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of euros

	Note	**2021**	**2020**
Revenue	3	339,375	315,918
Cost of goods sold	4	(292,563)	(272,169)
Gross profit		**46,812**	**43,749**
Marketing expenses	5	(3,611)	(4,212)
General and administrative expenses	6	(13,925)	(13,412)
Other operating income	7	3,508	2,320
Other operating expenses	8	(582)	(2,979)
Operating profit		**32,202**	**25,466**
Finance income	9	12	1
Finance costs	10	(886)	(866)
Profit (loss) from associates and joint ventures	19	799	(144)
Profit before tax		**32,127**	**24,457**
Corporate income tax expense	11	(3,104)	(1,954)
Net profit for financial year		**29,023**	**22,503**
incl. net profit attributable to equity holders of the parent		29,140	22,994
net profit attributable to non-controlling interest		(117)	(491)
Other comprehensive income (loss), which can subsequently be classified in the income statement			
Currency translation differences of foreign entities		33	(115)
Comprehensive income for the period		**29,056**	**22,388**
incl. attributable to equity holders of the parent		29,163	22,890
attributable to non-controlling interest		(107)	(502)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	12	1.65	1.30

The notes set out on pages 48-90 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2021	31.12.2020
ASSETS			
Current assets			
Cash and cash equivalents	14	44,930	47,480
Trade and other receivables	15	55,484	32,657
Prepaid corporate income tax		114	306
Inventories	17	160,593	126,332
		261,121	**206,775**
Non-current assets			
Investments in associates and joint ventures	19	7,703	2,354
Other long-term loans and receivables	20	24,079	17,979
Deferred income tax assets	21	622	653
Investment property	22	13,828	13,922
Property, plant and equipment	23	16,350	14,521
Intangible assets	24	669	711
		63,251	**50,140**
TOTAL ASSETS		**324,372**	**256,915**
LIABILITIES			
Current liabilities			
Borrowings	26	11,636	13,649
Payables and prepayments	27	90,054	55,846
Income tax liability		681	1,202
Short-term provisions	28	7,976	6,347
		110,347	**77,044**
Non-current liabilities			
Long-term borrowings	26	41,001	15,409
Deferred income tax liability	21	3,112	3,001
Other long-term payables	29	2,900	4,026
		47,013	**22,436**
TOTAL LIABILITIES		**157,360**	**99,480**
EQUITY			
Non-controlling interests	18	(227)	4,207
Equity attributable to equity holders of the parent			
Share capital	31	7,929	7,929
Statutory reserve capital		793	793
Currency translation differences		(791)	(814)
Retained earnings		159,308	145,320
		167,239	**153,228**
TOTAL EQUITY		**167,012**	**157,435**
TOTAL LIABILITIES AND EQUITY		**324,372**	**256,915**

The notes set out on pages 48-90 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings	Total		
Balance as at 31.12.2019	**7,929**	**793**	**(710)**	**122,326**	**130,338**	**4,217**	**134,555**
Profit (loss) for the financial year	-	-	-	22,994	22,994	(491)	22,503
Other comprehensive income (loss)	-	-	(104)	-	(104)	(11)	(115)
Total comprehensive income (loss) for the financial year	-	-	**(104)**	**22,994**	**22,890**	**(502)**	**22,388**
Transactions with owners							
Option over shares relating to non-controlling interests	-	-	-	-	-	625	625
Dividends (Note 13)	-	-	-	-	-	(133)	(133)
Total transactions with owners	**-**	**-**	**-**	-	-	**492**	**492**
Balance as at 31.12.2020	**7,929**	**793**	**(814)**	**145,320**	**153,228**	**4,207**	**157,435**
Profit (loss) for the financial year	-	-	-	29,140	29,140	(117)	29,023
Other comprehensive income (loss)	-	-	23	-	23	10	33
Total comprehensive income (loss) for the financial year	-	-	**23**	**29,140**	**29,163**	**(107)**	**29,056**
Transactions with owners							
Non-controlling interests of purchased subsidiary	-	-	-	-	-	1	1
Contribution to subsidiary's share capital	-	-	-	-	-	37	37
Purchase of non-controlling interest (Note 18)		-	-	2,548	2,548	(4,434)	(1,886)
Option over shares relating to non-controlling interests		-	-	-	-	69	69
Dividends (Note 13)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	**-**	**-**	**-**	**(15,152)**	**(15,152)**	**(4,327)**	**(19,479)**
Balance as at 31.12.2021	**7,929**	**793**	**(791)**	**159,308**	**167,239**	**(227)**	**167,012**

For share capital see also Note 31.

The notes set out on pages 48-90 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2021	2020
Cash flows from (used in) operating activities			
Operating profit		32,202	25,466
Adjustments:			
Depreciation and impairment	22-24	2,593	2,751
(Profit)/loss from sale of non-current assets	7	(111)	(250)
(Profit)/loss from sale of a business unit	7	(500)	-
Change in receivables and liabilities related to construction contracts	3	(7,164)	2,794
Interest income from operating activities	7	(2,116)	(1,499)
Change in provisions	28	1,981	(1,072)
Change in trade and other receivables related to operating activities		(21,079)	7,017
Change in inventories	17	(34,148)	40,231
Change in trade and other payables related to operating activities		30,916	(11,937)
Interest received	7, 9, 15, 20	1,355	1 349
Interest paid	10, 27	(764)	(1,068)
Other finance income (costs)	10	(204)	(139)
Corporate income tax paid		(3,161)	(1,132)
Total cash flows from (used in) operating activities		**(200)**	**62,511**
Cash flows from investing activities			
Acquisition of subsidiaries	18	(1)	-
Acquisition of associates	19	(4,550)	-
Purchase of investment properties	22	(7)	(7)
Purchase of property, plant and equipment (excl. leased assets)	23, 26	(2,403)	(4,321)
Proceeds from sale of property, plant and equipment	7, 23	146	289
Purchase of intangible assets	24	(233)	(143)
Proceeds from sale intangible assets	24	19	-
Sale of business unit	7, 19	500	-
Interest received	9, 15	12	1
Total cash flows from investing activities		**(6,517)**	**(4,181)**
Cash flows from (used in) financing activities			
Proceeds from borrowings	26	27,882	20,433
Repayments of borrowings	26	(5,119)	(54,911)
Repayments of lease liabilities	26	(951)	(922)
Contributions to the subsidiary's share capital from non-controlling shareholder	18	9	-
Dividends paid	13	(17,686)	(133)
Total cash flows from (used in) financing activities		**4,135**	**(35,533)**
Net increase/decrease in cash and cash equivalents		**(2,582)**	**22,797**
Cash and cash equivalents at the beginning of the period	14	**47,480**	**24,749**
Effect of exchange rate changes		**32**	**(66)**
Cash and cash equivalents at the end of the period	14	**44,930**	**47,480**

The notes set out on pages 48-90 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1. GENERAL INFORMATION

The consolidated financial statements of AS Merko Ehitus (hereinafter the parent) and its subsidiaries (hereinafter collectively the group) for the financial year ended 31 December 2021 were signed by the Management Board on 31 March 2022.

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

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

From 22 July 1997, the shares of AS Merko Ehitus are listed on Nasdaq Tallinn Stock Exchange, while the shares listed as of the reporting date have been listed since 11 August 2008 – AS Järvevana (business register code 10068022, previously named AS Merko Ehitus, currently named OÜ Järvevana), the shares of which were listed, was divided on 1 August 2008, during which AS Merko Ehitus (business register code 11520257) was established and the assets and the enterprise of AS Järvevana, with certain exceptions, were transferred to the established company. As at 31 December 2021, the majority shareholder AS Riverito owned 71.99% of the Company's shares through which the ultimate controlling person is Toomas Annus.

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

1.2. BASES FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the group's consolidated financial statements as at and for the year ended 31 December 2020.

NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND CHANGES

Certain new or revised standards and interpretations have been issued that are mandatory for the group's annual periods beginning on or after 1 January 2022, and which the group has not early adopted:

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

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

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

- The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.
- The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework.
- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The group assesses that there is no material impact of application of the amendments to its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The group assesses that there is no material impact of application of the amendments to its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The group assesses that there is no material impact of application of the amendments to its financial statements

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

1.4. CONSOLIDATION

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

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

Group entities use uniform accounting policies.

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

1.5. BUSINESS COMBINATIONS

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

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

Goodwill is subsequently measured at its cost less any impairment losses. Goodwill arising in a business combination is not amortised. Instead, an impairment test is carried out once a year. Goodwill is written down to its recoverable amount if the carrying amount is not recoverable (Note 1.11).

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

TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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

1.6. ASSOCIATES

Associates are all entities in which the group has significant influence but not control over their operating and financial policies. Significant influence is presumed to exist when the parent owns between 20% and 50% of the voting rights. Investments in associates are initially recognised at cost and subsequently measured using the equity method of accounting. Investments in associates include goodwill identified on acquisition.

The group's share of its associates' post-acquisition profits or losses is recognised in the group's income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, the group will not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

1.7. JOINT VENTURES

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

1.8. JOINTLY CONTROLLED OPERATIONS

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

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

1.9. FOREIGN CURRENCY

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

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

1.10. FINANCIAL ASSETS

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

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

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

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

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

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

As at 31 December 2020 and 31 December 2021, all the group's financial assets (trade receivables, contractual assets, loans granted, bank deposits, cash and cash equivalents, and other financial assets) were classified in this category.

The group has no investments in equity instruments.

1.11. IMPAIRMENT OF ASSETS

FINANCIAL ASSETS AT AMORTISED COST

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

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

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

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

NON-FINANCIAL ASSETS

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

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

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

1.12. INVENTORIES

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

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

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

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

A completed real estate property is sold either in units (by houses, apartments, office spaces, etc.) or as a whole. Revenue is recognised as income from the sale of goods (Note 1.21). Upon the sale of real estate properties, the group and the acquirer enter into a notarised agreement for transferring the property, and a respective entry is made in the land register.

1.13. INVESTMENT PROPERTY

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

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

1.14. PROPERTY, PLANT AND EQUIPMENT

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

An item of property, plant and equipment is carried in the statement of financial position at its cost less any accumulated depreciation. The cost consists of the purchase price and other costs directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Subsequent expenditure incurred for items of property, plant and equipment is recognised as non-current assets when it is probable that future economic benefits associated with the asset will flow to the group and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses at the time they are incurred. For right-of-use assets refer to note 1.16. Items of property, plant and equipment leased under the lease terms are accounted for similarly to purchased property, plant and equipment.

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

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

Land is not depreciated.

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

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

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

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

1.15. INTANGIBLE ASSETS

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

SOFTWARE AND INFORMATION SYSTEMS

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

1.16. LEASED ASSETS

THE GROUP AS A LESSEE

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

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

According to IFRS 16 lease term is:

- non-cancellable period of a lease – a period during which the lessee has no option to terminate the lease;
- periods covered by an option to terminate the lease – if the lessee is reasonably certain not to exercise that option;
- periods covered by an option to extend the lease - if the lessee is reasonably certain to exercise that option and has an option to extend the lease during one more time period. The same applies to termination options: if the lessee is certain not to use the termination option, the option should not be used to reduce the lease term.

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

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

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

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

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

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

THE GROUP AS THE LESSOR

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

1.17. FINANCIAL LIABILITIES

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

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

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

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

1.18. INCOME TAX AND DEFERRED INCOME TAX

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

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

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

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

Legal entities in Latvia, Lithuania, Norway and Finland that are part of the group calculate taxable income and corporate income tax in accordance with the legislation of the Republic of Latvia, the Republic of Lithuania, the Kingdom of Norway and the Republic of Finland. The profits in the Republic of Latvia are taxed upon their distribution with a rate of 20/80 (2020: the profits are taxed upon their distribution with a rate of 20/80). The profits of entities located in the Republic of Lithuania are taxed at the rate of 15% (2020: 15%), in the Kingdom of Norway at the rate of 22% (2020: 22%) and in the Republic of Finland at the rate of 20% (2020: 20%).

1.19. EMPLOYEE BENEFITS

TERMINATION BENEFITS

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

PROFIT-SHARING AND BONUS PLANS

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

1.20. PROVISIONS

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

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

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

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

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

1.21. REVENUE

REVENUE FROM CONTRACTS WITH CUSTOMERS

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

REVENUE FROM CONTRACTS WITH CUSTOMERS – CONSTRUCTION SERVICES

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

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

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

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

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

The group provides construction services through a PPP (public private partnership) project, which are accounted for in accordance with the principles of the concession agreement (IFRIC 12). Revenue from providing construction services is recognized in the period in which the services are rendered and accepted by the customer. As the construction period and operating of the contractual assets last for a total of more than 10 years, the receivable from the customer is recognized as a long-term receivable, from which interest income is calculated. The receivable for interest income is also recognized as a long-term receivable, as the customer pays for the construction and operating of the contractual asset only during the course of the operating period (Note 20).

CONSTRUCTION OF RESIDENTIAL PROPERTIES

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

FINANCING COMPONENT

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

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

1.22. CASH AND CASH EQUIVALENTS

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

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

1.23. LOANS GRANTED

Loans granted are recognised in the group based on business principles and the loans are issued to companies with whom contracts are in place for the purpose of co-financing development projects. Real estate developers are granted loans on condition that the group receives an opportunity to provide construction service in the developments being financed. Due to the direct link between the loans and the group's business activity, the said loans and the related interests received are recognised in the cash flow statement under cash flows from operating activities (Note 16).

1.24. CONTINGENT LIABILITIES

Contingent liabilities are those liabilities the realisation of which is less probable than non-realisation or the amount of which cannot be determined reliably. Contingent liabilities are not recognised in the statement of financial position, but they are disclosed in the notes to the financial statements (Note 33).

1.25. STATUTORY RESERVE CAPITAL

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

1.26. EVENTS AFTER THE BALANCE SHEET DATE

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

1.27. DIVIDENDS

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

1.28. SEGMENT REPORTING

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

NOTE 2 MANAGEMENT ESTIMATES

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

REVENUE FROM CONSTRUCTION SERVICES

Revenue from contracts with customers related to providing construction services is recognised based on the ratio of contract's actual incurred costs and the contract's estimated costs, which also assumes that the stage of completion of the construction contracts can be reliable assessed as of the reporting period. A precise, systematic calculation and estimation of costs, forecasting and reporting of income and expenses has been introduced for determining the stage of completion. The estimated final result to be derived from each construction project is being constantly monitored, deviations from the budget are analysed and if necessary, the profit estimate is adjusted. As at 31 December 2021, the amount of the provision for onerous contracts was EUR 582 thousand (2020: EUR 312 thousand), which was determined after the evaluation of the stage of completion of construction contracts. The risk analysis showed that a change in the estimated costs of construction projects in the range of +/-5% would result in a change in the net profit between EUR - 10,112/+5,499 thousand (2020: EUR -8,350/+2,976 thousand).

INVENTORY WRITE-DOWN

Inventories are valued separately by individual properties (registered immovable or building). A business plan is prepared for each property based on its nature (intended use and building rights currently effective or being effected) and the project's costs are compared with expected income. If the property's costs exceed the expected revenue to be generated from the realisation of the project (net realisable value), the group shall write down assets in the amount by which the costs exceed income. Due to the volatility of the construction market and low liquidity of the real estate market, determination of the net realisable value of the assets depends largely on management estimates. The sensitivity analysis of inventories showed that had the net realisable value been overestimated by 10% (i.e. income would be 10% lower upon the disposal of assets), the group's write-down of inventories (work-in-progress, finished goods, acquisition of real estate properties for sale/development) would have been EUR 34 thousand higher in 2021 (2020: EUR 741 thousand higher), incl. real estate properties for sale/development in the amount of EUR 33 thousand (2020: EUR 741 thousand) and work-in-progress in the amount of EUR 1 thousand (2020: EUR 0 thousand). In 2021, no impairment losses were recognized for inventories of work-in-progress, finished goods and acquisition of real estate properties for sale/development, therefore no impairment test has been performed. In 2020, if the value had been underestimated by 10% (income would be 10% higher upon the disposal of assets), the write-down of inventories would have been EUR 222 thousand lower, incl. finished goods in the amount of EUR 222 thousand.

VALUATION OF RECEIVABLES

For valuation of receivables, each receivable is analysed separately. For determining the need for a complete or partial write-down of receivables, the debtor's financial position, the collateral provided, the solutions offered to pay off the debt and the previous payment behaviour of the debtor are considered taking also into account the future outlook of the debtor, including its business logic and how that corresponds to the general economic developments as well as to the developments of particular economic sector (Note 15).

PROVISION FOR WARRANTY OBLIGATIONS

For determining the provision for warranty obligations, the historical cost of the group's warranty works is considered (Note 28).

VALUATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

An impairment test is carried out for property, plant and equipment and intangible assets when an event or change in circumstances indicates that impairment may have occurred. Based on management estimates, as at 31 December 2021 and 2020, no impairment tests were performed, as there were no indications of impairment of assets. As at 31 December 2021, the carrying amount of property, plant and equipment was EUR 16,350 thousand (31.12.2020: EUR 14,521 thousand) and the carrying amount of intangible assets was EUR 669 thousand (31.12.2020: EUR 711 thousand) (Notes 23, 24).

VALUATION OF INVESTMENT PROPERTY

Investment properties are recognised at cost, less any accumulated depreciation and any impairment losses. Management estimates that the carrying amount of investment properties as at 31 December 2021 does not significantly differ from their fair value, with the exception of book value of land in the amount of EUR 12,363 thousand, the fair value of which by expert opinion was EUR 28,376 thousand (31 December 2020: the carrying amount of investment properties did not significantly differ from their fair value, with the exception of book value of land in the amount of EUR 12,356 thousand, the fair value of which by expert opinion was EUR 27,970 thousand). Management's estimate regarding the fair value of investment properties is based on the existing market value of the assets. The estimated amount for which the asset can be exchanged in a transaction between independent parties at the date of estimation is considered its market value. External experts were not involved in the estimation of the fair value of investment properties, with the exception of land reclassified from inventories. Market value estimates are mostly based on market transactions, with the exception of real estate that is estimated using discounted cash flow method. As at 31 December 2021, the carrying amount of investment property was EUR 13,828 thousand (31.12.2020: EUR 13,922 thousand) (Note 22).

NOTE 3 OPERATING SEGMENTS

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

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

- construction service,
- real estate development.

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

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

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

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

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

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

in thousands of euros

2021	**Construction service**	**Real estate development**	**Total segments**
Revenue	247,694	130,176	377,870
Inter-segment revenue	(4,271)	(34,224)	(38,495)
Revenue from clients	**243,423**	**95,952**	**339,375**
incl. clients whose revenue is at least 10% of the group's consolidated revenue:			
client A (Estonian state)	69,436	-	69,436
Timing of revenue recognition at a point in time	1,846	80,536	82,382
Timing of revenue recognition over time	241,577	15,416	256,993
Operating profit (-loss)	**11,819**	**22,673**	**34,492**
Segment pre-tax profit (loss)	**12,477**	**22,149**	**34,626**
incl. interest income from operating activities (Note 7)	97	2,019	2,116
depreciation (Notes 4, 5, 6)	(2,064)	(529)	(2,593)
recognition of provisions (Notes 4, 6, 28)	(5,806)	(2,241)	(8,047)
reversal of provisions (Note 4, 6, 28)	513	101	614
profit (loss) from associates and joint ventures (Note 19)	827	(28)	799
other finance income (costs) (Notes 9, 10)	(41)	(467)	(508)
incl. interest expenses	(34)	(346)	(380)
Segment assets 31.12.2021	**65,923**	**203,775**	**269,698**
incl. associates and joint ventures (Note 19)	5,377	2,326	7,703

2020	**Construction service**	**Real estate development**	**Total segments**
Revenue	188,735	147,891	336,626
Inter-segment revenue	(1,888)	(18,820)	(20,708)
Revenue from clients	**186,847**	**129,071**	**315,918**
incl. clients whose revenue is at least 10% of the group's consolidated revenue:			
client A (Estonian state)	95,359	-	95,359
Timing of revenue recognition at a point in time	1,381	119,915	121,296
Timing of revenue recognition over time	185,466	9,156	194,622
Operating profit (-loss)	**4,561**	**23,710**	**28,271**
Segment pre-tax profit (loss)	**4,385**	**23,122**	**27,507**
incl. interest income from operating activities (Note 7)	23	1,476	1,499
depreciation (Notes 4, 5, 6)	(2,245)	(506)	(2,751)
impairment of inventories (Notes 4, 17)	(382)	(222)	(604)
recognition of provisions (Notes 4, 6, 28)	(1,806)	(1,430)	(3,236)
reversal of provisions (Note 4, 6, 28)	79	-	79
profit (loss) from joint ventures (Note 19)	-	(144)	(144)
other finance income (costs) (Notes 9, 10)	(27)	(353)	(380)
incl. interest expenses	(29)	(288)	(317)
Segment assets 31.12.2020	**52,239**	**163,083**	**215,322**
incl. joint ventures (Note 19)	-	2,354	2,354

In addition to the segment assets, as at 31 December 2021 the group holds assets in the amount of EUR 54,674 thousand (31 December 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 thousands of euros

	2021	2020
Pre-tax profit from reporting segments	**34,626**	**27,507**
Other operating profit (loss)	(2,291)	(2,805)
incl. recognition of provisions (Notes 6, 28)	(17)	(9)
finance income (costs)	(208)	(245)
incl. interest expenses	(131)	(176)
Total profit before tax	**32,127**	**24,457**

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

As the basis for the figure, that is allocated to segments based on revenue proportion, is the sum of group's unallocated costs, the interest income (expenses) in the sum of EUR -158 thousand (31 December 2020: EUR -225 thousand) has not been presented separately in the respective cost item.

REVENUE BY CLIENT LOCATION

in thousands of euros and percentage

	2021		2020	
Estonia	212,405	62%	177,344	56%
Latvia	52,825	16%	49,735	16%
Lithuania	63,905	19%	77,173	24%
Norway	10,240	3%	11,666	4%
Total	**339,375**	**100%**	**315,918**	**100%**

CONTRACT ASSETS AND LIABILITIES

in thousands of euros

	31.12.2021	31.12.2020
Accrued income from construction services (Note 15)	15,050	7,741
Prepayments for construction services (Note 27)	(7,024)	(6,926)
Advance payments received for construction contract works (Note 27, 29)	(12,963)	(8,576)
Recognised provision for onerous construction contracts (Note 28)	(582)	(312)

During the accounting year advance payments received prior for construction contract works in a sum of EUR 8,576 thousand (2020: EUR 5,637 thousand) were recognised as revenue. As of 31 December 2021, the group's secured order book stood at EUR 257,266 thousand (2020: EUR 225,114 thousand), for which the revenue is recognised in future periods. According to management estimation, 84% of revenue is going to be recognised in 2022 and 16% in 2023.

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

in thousands of euros

	31.12.2021	31.12.2020
Estonia	24,175	17,896
Latvia	13,202	13,096
Lithuania	1,039	383
Norway	134	133
Total	**38,550**	**31,508**

NOTE 4 COST OF GOODS SOLD

in thousands of euros

	2021	2020
Construction services and properties purchased for resale	181,370	174,208
Materials	49,647	42,526
Staff costs	26,313	24,509
Construction mechanisms and transport	10,027	11,687
Design	5,022	5,103
Real estate management costs	385	323
Depreciation (Note 3)	1,731	1,815
Impairment of inventories (Notes 3, 17)	-	604
Provisions (Notes 3, 28)	7,565	3,100
Other expenses	10,503	8,294
Total cost of goods sold	**292,563**	**272,169**

NOTE 5 MARKETING EXPENSES

in thousands of euros

	2021	2020
Staff costs	2,369	2,380
Advertising, sponsorship	793	1,350
Transport	127	143
Depreciation	107	117
Other expenses	215	222
Total marketing expenses	**3,611**	**4,212**

NOTE 6 GENERAL AND ADMINISTRATIVE EXPENSES

in thousands of euros

	2021	2020
Staff costs	9,706	9,546
Office expenses, communication services	438	469
Consulting, legal, auditing*	634	433
Transport	300	348
Computer equipment and software	551	631
Depreciation	755	819
Provisions (Notes 3, 28)	(115)	66
Other expenses	1,656	1,100
Total general and administrative expenses	**13,925**	**13,412**

* Customer contract fees of the audit firms accounted for during the accounting year were EUR 143 thousand for audit fees (2020: EUR 137 thousand) and EUR 156 thousand for other business activities (2020: EUR 15 thousand).

NOTE 7 OTHER OPERATING INCOME

in thousands of euros

	2021	2020
Interest income from operating activities	2,116	1,499
Profit from sale of non-current assets	111	250
Fines and penalties for delay received	202	409
Collection of doubtful receivables (Notes 15, 34)	2	5
Other income	1,077	157
Total other operating income	**3,508**	**2,320**

Other income calculated in the reporting year includes the sale of the electrical construction business area of AS Merko Infra to AS Connecto Eesti in the amount of 500 thousand euros (Note 19).

NOTE 8 OTHER OPERATING EXPENSES

in thousands of euros

	2021	2020
Fines, penalties	154	48
Gifts, donations	212	218
Doubtful receivables expense (Notes 15, 34)	87	2,683
Other expenses	129	30
Total other operating expenses	**582**	**2,979**

NOTE 9 FINANCE INCOME

in thousands of euros

	2021	2020
Interest income (Note 3)	12	1
Total finance income	**12**	**1**

NOTE 10 FINANCE COSTS

in thousands of euros

	2021	2020
Interest expense (Notes 3, 26)	681	719
Foreign exchange losses	8	7
Other finance costs	197	140
Total finance costs	**886**	**866**

NOTE 11 CORPORATE INCOME TAX

in thousands of euros

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

2021	Latvia	Lithuania	Norway	Estonia	Total
Profit (loss) before tax	474	10,753	(316)	21,216	32,127
Tax rate applicable to profits	0%	15%	22%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	0	(1,613)	70	-	(1,543)
Tax calculated on expenses not deductible for tax purposes	-	(218)	-	-	(218)
Tax effect of income not subject to tax	-	171	-	-	171
Tax losses of previous periods recognised in the reporting period	-	1	(2)	-	(1)
Tax losses not recognised in the reporting period	-	(12)	(16)	-	(28)
Income tax withheld on dividends (Note 13)	-	-	-	(1,334)	(1,334)
Deferred income tax on dividends	-	-	-	(151)	(151)
Total income tax expense	**0**	**(1,671)**	**52**	**(1,485)**	**(3,104)**
incl. income tax expense	0	(1,610)	(24)	(1,334)	(2,968)
deferred income tax expense (Note 21)	-	(61)	76	(151)	(136)

2020	**Latvia**	**Lithuania**	**Norway**	**Estonia**	**Total**
Profit (loss) before tax	1,897	11,276	(1,405)	12,689	24,457
Tax rate applicable to profits	0%	15%	22%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	(1)	(1,691)	309	-	(1,383)
Tax calculated on expenses not deductible for tax purposes	-	642	(12)	-	630
Tax effect of income not subject to tax	-	88	-	-	88
Tax losses of previous periods recognised in the reporting period	-	69	10	-	79
Deferred income tax on dividends	-	-	-	(1,368)	(1,368)
Total income tax expense	**(1)**	**(892)**	**307**	**(1,368)**	**(1,954)**
incl. income tax expense	(1)	(1,574)	296	-	(1,279)
deferred income tax expense (Note 21)	-	682	11	(1,368)	(675)

Pursuant to IAS 12, the deferred income tax expense and liability will be recognized in AS Merko Ehitus group consolidated financial statements based on the share of net profit in the year ended that is planned to be paid out as dividends in the foreseeable future (Note 1.18).

As of 31.12.2021 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 1,519 thousand euros (31.12.2020: EUR 1,368 thousand euros).

As of 31.12.2021, the parent company AS Merko Ehitus has no previously taxed dividends and income received from abroad on which income tax has been withheld (31.12.2020: EUR 3,507 thousand), on which income tax has been withheld.

As of 31 December 2021, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 126,814 thousand (31.12.2020: EUR 116,547 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 0 thousand (31.12.2020: EUR 877 thousand), the corresponding income tax on dividends would amount to EUR 31,703 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 12 EARNINGS PER SHARE

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

	2021	**2020**
Net profit attributable to shareholders *(in thousand EUR)*	29,140	22,994
Weighted average number of ordinary shares *(thousand pcs)*	17,700	17,700
Basic earnings per share *(in euros)*	**1.65**	**1.30**

In 2021 and 2020, the group did not have any potential ordinary shares to be issued; therefore, the diluted earnings per share equal the basic earnings per share.

NOTE 13 DIVIDENDS PER SHARE

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 applied 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 withheld an additional 7% income tax from dividends paid to shareholders that were natural persons and on which the 14/86 income tax rate had been applied.

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 17,700 thousand as dividends from net profit, i.e. EUR 1.00 per share. 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. The group incurred income tax expenses in 2021 in connection with dividend payments in an amount of 1,334 thousand euros (Note 11).

NOTE 14 CASH AND CASH EQUIVALENTS

in thousands of euros

	31.12.2021	31.12.2020
Bank accounts	44,930	47,480
Total cash and cash equivalents (Note 34)	**44,930**	**47,480**

NOTE 15 TRADE AND OTHER RECEIVABLES

in thousands of euros

	31.12.2021	31.12.2020
Trade receivables (Note 34)		
Accounts receivable	35,444	25,391
Allowance for doubtful receivables	(3,347)	(3,525)
	32,097	**21,866**
Tax prepayments excluding corporate income tax		
Value added tax	1,021	585
Other taxes	50	35
	1,071	**620**
Accrued income form construction services (Notes 3, 34)	15,050	**7,741**
Other short-term receivables		
Short-term loans (Notes 16, 34)	1,115	371
Interest receivables (Note 34)	-	1
Other short-term receivables (Note 34)	195	118
	1,310	**490**
Prepayments for services		
Prepayments for construction services	5,547	1,570
Prepaid insurance	158	137
Other prepaid expenses	251	233
	5,956	**1,940**
Total trade and other receivables	**55,484**	**32,657**
incl. short-term loan receivables from related parties (Note 16)	1,115	-
other short-term receivables and prepayments to related parties (Note 32)	3,573	369

Although in 2021 the share of overdue receivables decreased from 8.6% to 7.3% of total receivables, the amount of overdue invoices increased to EUR 2,338 thousand as of 31.12.2021 (31 December 2020: 1,885 thousand), as the total amount of receivables increased. By 10 March 2022, EUR 935 thousand or 40.0% of overdue invoices had been received as of the reporting date. In 2021, the share of receivables overdue for more than 121 days increased as well as the total amount of overdue receivables, but overall the average collection period of trade receivables decreased to 31 days (2020: 35 days).

	2021	2020
Doubtful receivables at the beginning of the period	(3,525)	(856)
Reporting period doubtful receivables expenses (Note 8)	(56)	(2,683)
Receivables written off during the year as uncollectible	232	9
Received doubtful receivables (Note 7)	2	5
Doubtful receivables at the end of the period	**(3,347)**	**(3,525)**

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

A more detailed overview of the group's credit risk is provided in Note 34.

NOTE 16 LOANS GRANTED

in thousands of euros

	Joint ventures (Note 32)	**Unrelated legal entities**	**Unrelated individuals**	**Total**
2021				
Loan balance at beginning of the year	1,115	368	3	1,486
Granted	-	3,861	-	3,861
Received	-	(4,229)	(3)	(4,232)
Loan balance at end of the year	**1,115**	-	-	**1,115**
incl. current portion (Notes 15, 34)	1,115	-	-	1,115
Interest rate	6.0%	7-15%	5%	
2020				
Loan balance at beginning of the year	1,650	50	-	1,700
Granted	1,210	339	6	1,555
Received	(1,745)	(21)	(3)	(1,769)
Loan balance at end of the year	**1,115**	**368**	**3**	**1,486**
incl. current portion (Notes 15, 34)	-	368	3	371
non-current portion 2…5	1,115	-	-	1,115
Average effective interest rate	6.0%	7-15%	5%	

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

NOTE 17 INVENTORIES

in thousands of euros

	31.12.2021	**31.12.2020**
Materials	347	351
Work-in-progress	82,953	38,626
Finished goods	6,819	25,210
Goods for resale		
Registered immovables purchased for resale/development	66,160	60,667
Other goods purchased for resale	149	87
	66,309	**60,754**
Prepayments for inventories		
Prepayments for real estate properties	4,109	-
Prepayments for other inventories	56	1,391
	4,165	**1,391**
Total inventories	**160,593**	**126,332**

The inventories pledged as collateral as at 31 December 2021 for loans total EUR 90,959 thousand (2020: EUR 57,706 thousand) (Note 30).

In 2021, inventories have not been written down to their net realisable value (2020: EUR 604 thousand).

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

NOTE 18 SHARES IN SUBSIDIARIES

	Ownership and voting rights %		Location	Area of operation
	31.12.2021	31.12.2020		
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	-	100	Estonia, Tallinn	Road construction
AS Merko Infra	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	Estonia, Tallinn	Mining
Tallinna Teede AS	100	-	Estonia, Tallinn	Road construction
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
UAB Timana	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektai	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	Estonia, Tallinn	Real estate
UAB Balsiu Mokyklos SPV	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	100	-	Latvia, Riga	Real estate
SIA Merks Mājas (ex-Merks Investicijas)	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	-	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	-	Latvia, Riga	Real estate
SIA Zakusala Estates	100	-	Latvia, Riga	Real estate
SIA Ropažu Priedes	-	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	-	75	Latvia, Riga	Real estate
PS Merks-Ostas Celtnieks	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	Finland, Helsinki	Construction
Merko Investments AS	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	Norway, Sofiemyr	Construction
Løkenskogen Bolig AS	62	-	Norra, Sofiemyr	Real estate

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 Løkenskogen 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 3 September 2021, the name changes of SIA Merks Investicijas, a 100% subsidiary of SIA Merks, a AS Merko Ehitus group company, was registered in the Latvian Commercial Register, and the new name of the company is SIA Merks Mājas. On 21 September 2021, SIA Merks Mājas acquired a 100% holding in real estate development subsidiaries SIA Ropažu Priedes and SIA Zakusala Estates from the parent company in intra-group transactions. The development of Latvian real estate in the Merko Ehitus group will in the future take place under the trademark of Merks mājas and apartment development projects will be carried out through SIA Merks Mājas.

On 21 October 2021, AS Merko Infra and OÜ Merko Kaevandused, both belonging to AS Merko Ehitus group, signed a merger agreement. The acquiring company is OÜ Merko Kaevandused. AS Merko Infra will be acquired by OÜ Merko Kaevandused and as a result of the merger, the company being acquired will wind up without liquidation proceedings and OÜ Merko Kaevandused will become the legal successor of AS Merko Infra. The merger date was 1st of January 2022, after which all transactions of the acquired company will be deemed to be made on the account of OÜ Merko Kaevandused.

As an intra-group transaction in Latvia, on 30 November 2021, SIA Merks, a 100% subsidiary of AS Merko Ehitus, acquired from subsidiary SIA Merks Mājas a 100% holding in the real estate development subsidiary SIA Industrialais Parks

On 15 December 2021, a subsidiary of AS Merko Ehitus group, SIA Merks Mājas, signed an agreement to obtain a 25% holding in the subsidiary SIA Zakusala Estates from the minority shareholder ZE-Holding AS at the purchase price of EUR 1,886 thousand. After the acquisition of the additional shareholding, SIA Zakusala Estates became a 100% subsidiary of Merks Mājas.

As at 31 December 2021, the group's non-controlling interest in equity is EUR -227 thousand (31.12.2020: EUR 4,207 thousand, including SIA Zakusala Estates non-controlling interest in the amount of EUR 4,444 thousand).

TRANSACTIONS AFTER THE BALANCE SHEET DATE

On 16 March 2022, a subsidiary of AS Merko Ehitus group, OÜ Merko Kaevandused, acquired a 100% holding in OÜ Metsara-Metspere Kinnisvara, with a share capital of EUR 409 thousand and for a purchase price of EUR 695 thousand.

NOTE 19 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	Ownership and voting rights %		Location	Area of operation
	31.12.2021	31.12.2020		
Associates and joint ventures				
AS Connecto Eesti	35	-	Estonia, Tallinn	Construction
Kodusadam OÜ	50	50	Estonia, Tallinn	Real estate

in thousands of euros	Investment at 31.12.2020	Changes in 2021		Investment at 31.12.2021
		acquisition	profit (loss) on entities	
Associates and joint ventures				
Connecto Eesti AS	-	4,550	827	5,377
Kodusadam OÜ	2,354	-	(28)	2,326
Total associates and joint ventures	**2,354**	**4,550**	**799**	**7,703**

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

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. The transfer of shares and completion of the transactions took place in July 2021. Upon the acquisition of the holding, the electrical construction business area of AS Merko Infra, a 100% subsidiary of AS Merko Ehitus, was sold to AS Connecto Eesti. In August, transactions were completed in which the electrical construction business area of Merko Infra and OÜ Elrek-Mont merged with AS Connecto Eesti. In the future the services will be provided under Connecto brand.

ACQUISITION OF ASSOCIATE

Name of company acquired	**AS Connecto Eesti**
Share %	35
Acquisition date	01.07.2021

in thousand euros	**Fair value**
Cash	1,363
Receivables	3,347
Non-current assets	1,009
Borrowings	(482)
Other liabilities	(2,970)
Fair value of net assets	**2,267**

	Fair value
Acquisition cost	**4,550**
Goodwill	**2,283**
Paid for share of associate in cash	(4,550)
Received from sale of Merko Infra electrical unit in cash	500
Net outflow of cash – investing activities	**(4,050)**

The investment into the associated company includes a goodwill of EUR 2,283 thousand as determined upon acquisition, which is largely related to the company's ability to jointly win repeated long-term contracts in procurements under the Connecto trademark as well as its readiness to participate in large-scale projects both in Estonia and abroad.
The investment into the associated company is initially recorded at acquisition cost, and from July using the equity method.
Changes in the associated company, recognized based on the equity method in 2021, contain deferred income tax on dividends in accordance with IAS 12 and elimination of the goodwill impairment triggered by the differences in the Estonian Financial Reporting Standards and the IFRS in the total amount of EUR 61 thousand.

As at the balance sheet date, a goodwill impairment test has been carried out with regard to AS Connecto Eesti's cash generating unit holding the goodwill. The goodwill impairment test has been performed based on the principle of prudence. The recoverable value of the assets is determined as the value-in-use, based on the management estimates of the cash flow forecasts for the next 5 years. The cash flows of the forecast period are estimated based on reasonable growth rates. Management has assessed the prospects of power and communication networks over the near-term horizon, establishing the long-term growth rate for revenue and expenditure at 2.0%, and the average growth rate for turnover during the forecast period at 5.7%, with an average EBITDA margin of 6.0%. The weighted average cost of capital of 9.0% has been used as the discount rate, in line with the company's field of activity and risk level. The gross profit margin budgeted by the management relies on the business experience of previous periods and the competitive situation on the market. No impairment losses were evident in the reporting period, with no impairment of goodwill thus recognized.

ASSOCIATES AND JOINT VENTURES

in thousands of euros

	Assets 31.12.			**Liabilities 31.12**							
	Cash	**Other current assets**	**Non-current assets**	**Short-term borrowings**	**Other current liabilities**	**Long-term loans**	**Other long-term liabilities**	**Equity 31.12.**	**Income**	**Expenses**	**Net profit (-loss)**
2021											
AS Connecto Eesti	8,947	12,573	3,251	248	14,190	434	82	9,817	33,778	(31,242)	2,536
Kodusadam OÜ	4,164	14,244	85	2,230	11,611	-	-	4,652	420	(475)	(55)
Total	**13,111**	**26,817**	**3,336**	**2,478**	**25,801**	**434**	**82**	**14,469**	**34,198**	**(31,717)**	**2,481**
2020											
Kodusadam OÜ	712	7,253	-	-	1,028	2,230	-	4,707	2,112	(2,401)	(289)
Total	**712**	**7,253**	**-**	**-**	**1,028**	**2,230**	**-**	**4,707**	**2,112**	**(2,401)**	**(289)**

In 2021, interest expenses have not been recognised in the expenses of joint ventures (2020: 0 thousand) as the loan usage costs are capitalized during construction period. Interest expenses have been recognised in the expenses of associates EUR 9 thousand.

In connection with the joint venture, the group has contractual obligations to finance, as needed, the joint ventures' activities with loans totalling EUR 3,250 thousand (31.12.2021: EUR 3,250 thousand), of which the group has paid EUR 1,115 thousand in total (31.12.2020: EUR 1,115 thousand). In addition, the group has an obligation to provide construction services in future periods in amount of EUR 48,644 thousand (31.12.2020: EUR 233 thousand).

TRANSACTIONS AFTER THE BALANCE SHEET DATE

On 25 February 2022, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus group, signed a contract with Aardekapp OÜ to acquire additional 15% holding (82,500 shares) in AS Connecto Eesti. The agreement is a continuation of the share acquisition agreements entered into on 2 June 2021. After the acquisition of an additional shareholding, the Merko group owns 50% of AS Connecto Eesti and the company will become a joint venture between AS Merko Ehitus Eesti and Aardekapp OÜ.

NOTE 20 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousands of euros

	31.12.2021	31.12.2020
Long-term loans (Note 34)	-	1,115
Long-term bank deposit (Note 34)	5	2
Long-term trade receivables (Note 34) *	24,074	16,862
Total other long-term loans and receivables	**24,079**	**17,979**
incl. long-term loan receivables from related parties (Note 16)	-	1,115

* incl. long-term receivables from a buyer of Balsiu School in amount of EUR 9,682 thousand (31.12.2020: EUR 10,009 thousand) and long-term receivables from a buyer of Kaunas Police Headquarters building in amount of EUR 14,311 thousand (Note 1.21).

NOTE 21 DEFERRED INCOME TAX ASSETS AND LIABILITIES

in thousands of euros

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

31.12.2021	**Lithuania**	**Norway**	**Estonia**	**Total**
Deferred income tax assets				
effect of construction contract works	274	-	-	274
effect of recognition of provisions	345	-	-	345
other effects	3	-	-	3
Total deferred income tax assets	**622**	-	-	**622**
Deferred income tax liability				
effect of other payables	(1,545)	(43)	-	(1,588)
effect of exchange rates	-	(5)	-	(5)
deferred income tax on dividends	-	-	(1,519)	(1,519)
Total deferred income tax liability	**(1,545)**	**(48)**	**(1,519)**	**(3,112)**
Deferred income tax expense of the financial year (Note 11)	(61)	76	(151)	(136)

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

NOTE 22 INVESTMENT PROPERTIES

in thousands of euros

	Land	Right of superficies	Buildings	Total
Cost at 31.12.2019	12,400	29	2,631	15,060
Accumulated depreciation 31.12.2019	-	(13)	(1,000)	(1,013)
Carrying amount at 31.12.2019	**12,400**	**16**	**1,631**	**14,047**
Acquisition and improvements	7	-	-	7
Depreciation	-	-	(132)	(132)
Carrying amount at 31.12.2020	**12,407**	**16**	**1,499**	**13,922**
Cost at 31.12.2020	12,407	29	2,631	15,067
Accumulated depreciation 31.12.2020	-	(13)	(1,132)	(1,145)
Carrying amount at 31.12.2020	**12,407**	**16**	**1,499**	**13,922**
Acquisition and improvements	7	-	-	7
Depreciation	-	(1)	(100)	(101)
Carrying amount at 31.12.2021	**12,414**	**15**	**1,399**	**13,828**
Cost at 31.12.2021	12,414	29	2,631	15,074
Accumulated depreciation 31.12.2021	-	(14)	(1,232)	(1,246)
Carrying amount at 31.12.2021	**12,414**	**15**	**1,399**	**13,828**

As at 31 December 2021, the carrying amounts of investment properties do not significantly differ from their fair values, with the exception of land, the fair value of which has been estimated by valuation expert at EUR 28,370 thousand (31.12.2020: the carrying amounts of investment properties did not significantly differ from their fair values, with the exception of land, the fair value of which had been estimated by valuation expert at EUR 27,970 thousand). Fair values have mainly been estimated based on comparable transactions (Level 2). Fair value measurement was carried out using Level 3 inputs of the fair value hierarchy.

Investment properties have been acquired for the purpose of earning rental income and/or for capital appreciation. Buildings located on the plot of land have temporarily been leased out under the operating lease terms. Information about the earned rental income and direct administrative expenses of investment properties leased out is disclosed in Note 25.

As at 31 December 2021, investment properties pledged as collateral for loans total EUR 13,618 thousand (31.12.2020: EUR 13,692 thousand) (Note 30).

NOTE 23 PROPERTY, PLANT AND EQUIPMENT

in thousands of euros

	Land	Buildings	Machinery and equipment	Other fixtures	Construction in progress and prepayments	Total
Cost at 31.12.2019	712	6,558	14,371	4,018	502	26,161
Accumulated depreciation at 31.12.2019	-	(2,629)	(8,671)	(2,942)	-	(14,242)
Carrying amount at 31.12.2019	**712**	**3,929**	**5,700**	**1,076**	**502**	**11,919**
incl. leased assets (Note 25)		526	2,456	-	-	2,982
Currency translation differences	-	-	(1)	(4)	-	(5)
Acquisition and improvements	-	8	1,387	190	3,739	5,324
incl. leased assets	-	8	995	-	-	1,003
Disposals	-	(91)	(211)	(2)	-	(304)
Reclassification	-	-	282	-	(282)	-
Write-offs	-	(65)	-	(9)	-	(74)
Depreciation	-	(430)	(1,540)	(369)	-	(2,339)
Carrying amount at 31.12.2020	**712**	**3,351**	**5,617**	**882**	**3,959**	**14,521**
Cost at 31.12.2020	712	6,040	14,377	4,027	3,959	29,115
Accumulated depreciation at 31.12.2020	-	(2,689)	(8,760)	(3,145)	-	(14,594)
Carrying amount at 31.12.2020	**712**	**3,351**	**5,617**	**882**	**3,959**	**14,521**
incl. leased assets (Note 25)	-	186	2,487	-	-	2,673
Currency translation differences	-	-	-	2	-	2
Acquisition and improvements	-	521	1,873	224	1,848	4,466
incl. leased assets	-	521	1,541	-	-	2,062
Disposals	-	-	(306)	-	-	(306)
Disposal in the course of business combination	-	-	-	(63)	-	(63)
Reclassification	-	1,623	2,737	703	(5,063)	-
Write-offs	-	-	(2)	-	-	(2)
Depreciation	-	(359)	(1,635)	(274)	-	(2,268)
Carrying amount at 31.12.2021	**712**	**5,136**	**8,284**	**1,474**	**744**	**16,350**
Cost at 31.12.2021	712	8,184	17,920	4,523	744	32,083
Accumulated depreciation at 31.12.2021	-	(3,048)	(9,636)	(3,049)	-	(15,733)
Carrying amount at 31.12.2021	**712**	**5,136**	**8,284**	**1,474**	**744**	**16,350**
incl. leased assets (Note 25)		543	2,881	-	-	3,424

Information on leased assets is provided in Note 25, and on lease payments in Note 26.

As at 31 December 2021, property, plant and equipment pledged as collateral for loans total EUR 2,299 thousand (31.12.2020: EUR 2,892 thousand) (Note 30).

NOTE 24 INTANGIBLE ASSETS

in thousands of euros

	Goodwill	Software	Prepayments	Total
Cost at 31.12.2019	73	2,024	-	2,097
Accumulated amortisation and impairment at 31.12.2019	-	(1,320)	-	(1,320)
Carrying amount at 31.12.2019	**73**	**704**	**-**	**777**
Currency translation differences	(4)	1	-	(3)
Acquisitions	-	25	118	143
Reclassification	-	103	(103)	-
Write-offs	-	(1)	-	(1)
Amortisation and impairment	-	(205)	-	(205)
Carrying amount at 31.12.2020	**69**	**627**	**15**	**711**
Cost at 31.12.2020	69	2,122	15	2,206
Accumulated amortisation and impairment at 31.12.2020	-	(1,495)	-	(1,495)
Carrying amount at 31.12.2020	**69**	**627**	**15**	**711**
Currency translation differences	3	1	-	4
Acquisitions	-	55	178	233
Obtained in the course of business combination	1	-	-	1
Disposals	-	(19)	-	(19)
Disposal in the course of business combination	-	(39)	-	(39)
Reclassification	-	121	(121)	-
Write-offs	-	(14)	-	(14)
Amortisation and impairment	-	(208)	-	(208)
Carrying amount at 31.12.2021	**73**	**524**	**72**	**669**
Cost at 31.12.2021	73	1,401	72	1,546
Accumulated amortisation and impairment at 31.12.2021	-	(877)	-	(877)
Carrying amount at 31.12.2021	**73**	**524**	**72**	**669**

NOTE 25 LEASED ASSETS

in thousands of euros

	Office space and warehouses	Vehicles and equipment	Total
31.12.2019			
Cost	793	3,665	4,458
Accumulated depreciation	(267)	(1,209)	(1,476)
Carrying amount (Note 23)	**526**	**2,456**	**2,982**
Additions	8	995	1,003
Termination of lease contracts	(90)	(172)	(262)
Depreciation	(258)	(792)	(1,050)
31.12.2020			
Cost	495	3,684	4,179
Accumulated depreciation	(309)	(1,197)	(1,506)
Carrying amount (Note 23)	**186**	**2,487**	**2,673**
Additions	521	1,541	2,062
Termination of lease contracts	-	(333)	(333)
Depreciation	(164)	(814)	(978)
31.12.2021			
Cost	1,016	4,538	5,554
Accumulated depreciation	(473)	(1,657)	(2,130)
Carrying amount (Note 23)	**543**	**2,881**	**3,424**

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

in thousands of euros

	2021	2020	Note
Interest expense	45	41	10
Expense relating to short-term leases	112	187	4, 5, 6
Expense relating to leases of low-value assets	94	105	4, 5, 6

Consideration paid for leases recognised as fixed assets (including the leases that ended during the period) amounted to EUR 834 thousand in 2021 (2020: EUR 1,144 thousand).

Consideration paid for short-term cancellable leases for vehicles as right-of-use assets amounted to EUR 71 thousand in 2021 (2020: EUR 148 thousand). Rented assets have not been subleased.

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

	31.12.2021	31.12.2020
Cost	2,682	2,682
Accumulated depreciation	(1,232)	(1,132)
Carrying amount	**1,450**	**1,550**

	2021	2020
Operating lease income received for investment properties (Note 22)	234	243
Future operating lease income:	**559**	**697**
Next year	266	234
In 2…5 years	286	456
Later than 5 years	7	7
Direct administrative expenses of investment properties (Note 22)	(148)	(192)

NOTE 26 BORROWINGS

in thousands of euros

		Loans from				
	Lease liabilities	**banks**	**entities under common control** (Note 32)	**other entities**	**total**	**Total borrowings** (Note 34)
2021						
Balance at beginning of the year	2,703	20,299	6,000	56	26,355	29,058
Received	2,068	27,833	-	49	27,882	29,950
Repaid	(951)	(5,070)	-	(49)	(5,119)	(6,070)
Sale/return to lessor	(301)	-	-	-	-	(301)
Loan balance as at end of the year	**3,519**	**43,062**	**6,000**	**56**	**49,118**	**52,637**
incl. current portion	868	10,712	-	56	10,768	11,636
non-current portion 2…5 years	2,651	32,350	6,000	-	38,350	41,001
Accrued interest of reporting period	45	596	130	1	727	772
incl. capitalised interest cost	-	101	-	-	101	101
Interest rate range	1.0%-2.49% +3-6 month Euribor	0.98%-2.7% +3-12 month Euribor	2.65%+6 month Euribor	4%+12 month Euribor		
Base currencies	EUR	EUR	EUR	EUR		

	Lease liabilities	Loans from				Total borrowings (Note 34)
		banks	entities under common control (Note 32)	other entities (Note 32)	total	
2020						
Balance at beginning of the year	2,891	54,835	6,000	-	60,835	63,726
Received	1,003	20,377	-	56	20,433	21,436
Repaid	(922)	(54,911)	-	-	(54,911)	(55,833)
Sale/return to lessor	(269)	-	-	-	-	(269)
Exchange rate	-	(2)	-	-	(2)	(2)
Loan balance as at 31.12.2019	**2,703**	**20,299**	**6,000**	**56**	**26,355**	**29,058**
incl. current portion	790	6,859	6,000	-	12,859	13,649
non-current portion 2…5 years	1,913	13,440	-	56	13,496	15,409
Accrued interest of reporting period	41	856	142	0	998	1,039
incl. capitalised interest cost	-	320	-	-	320	320
Interest rate range	1.0%-2.49% +3-6 month Euribor	1.05%-2.78% +3-12 month Euribor; 1.69%+Eonia 6.46%-7.26%	2.65%+6 month Euribor	4%+12 month Euribor		
Base currencies	EUR	EUR, NOK	EUR	EUR		

	2021	2020
Minimum future payments under lease liabilities	3,628	2,788
incl. current portion	911	826
non-current portion with the term of 2...5 years	2,717	1,962

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

	2021	2020
Lease liabilities		
1-5 months	681	435
6-12 months	2,295	2,082
Bank loans		
1-5 months	14,410	11,381
6-12 months	28,652	8,918
Loans from entities under common control		
6-12 months	6,000	6,000
Loans from other entities		
6-12 months	56	56
Total	**52,094**	**28,872**

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

	2021	2020
Lease liabilities	543	186
Total	**543**	**186**

Loan collaterals and pledged assets are presented in Note 30.

NOTE 27 PAYABLES AND PREPAYMENTS

in thousands of euros

	31.12.2021	31.12.2020
Trade payables (Note 34)	**29,413**	**20,948**
Payables to employees	**11,640**	**11,788**
Tax liabilities, except for corporate income tax		
value added tax	3,119	3,199
personal income tax	546	470
social security tax	1,270	1,180
unemployment insurance tax	58	50
contributions to mandatory funded pension	39	36
other taxes	124	98
	5,156	**5,033**
Prepayments for construction services (Notes 3, 34)	**7,024**	**6,926**
Other liabilities (Note 34)		
interest liabilities	20	1
other liabilities	2,338	592
	2,358	**593**
Prepayments received *	**34,463**	**10,558**
Total payables and prepayments	**90,054**	**55,846**
incl. payables to related parties (Note 32)	2,503	3

* As of 31 December 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 12,435 thousand (31.12.2020: EUR 6,997 thousand) and of prepayments received connection with residential properties (apartment buyers) in a sum of EUR 22,028 thousand (31.12.2020: EUR 3,561 thousand) (Note 3).

NOTE 28 PROVISIONS

in thousands of euros

	Provision for warranty obligation for construction	**Provision for onerous construction contracts**	**Provision for legal costs and claims filed** (Note 34) *	**Provision for costs of projects sold and work-in-progress of projects**	**Other provisions**	**Total**
2021						
Balance at beginning of the year	3,448	312	202	2,319	66	6,347
Recognised (Notes 3, 4, 6)	2,145	644	-	5,189	86	8,064
Reversed (Notes 3, 6)	(412)	-	(202)	-	-	(614)
Used during the year	(1,292)	(374)	-	(3,971)	(66)	(5,703)
Related with business combination	(118)	-	-	-	-	(118)
Balance at end of the year	**3,771**	**582**	**-**	**3,537**	**86**	**7,976**
incl. current portion	3,771	582	-	3,537	86	7,976
2020						
Balance at beginning of the year	3,507	1,295	202	2,894	78	7,976
Recognised (Notes 3, 4, 6)	1,170	285	-	1,724	66	3,245
Reversed (Notes 3, 6)	(79)	-	-	-	-	(79)
Used during the year	(1,150)	(1,268)	-	(2,299)	(78)	(4,795)
Balance at end of the year	**3,448**	**312**	**202**	**2,319**	**66**	**6,347**
incl. current portion	3,448	312	202	2,319	66	6,347

* Additional information is provided in subsection “Legal risk” in Note 34.

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

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

NOTE 29 OTHER LONG-TERM PAYABLES

in thousands of euros

	31.12.2021	31.12.2020
Trade payables (Note 34)	2,110	2,120
Prepayments received *	528	1,579
Other long-term payables (Note 34)	262	327
Total other long-term payables	**2,900**	**4,026**
incl. other long-term payables to related parties (Notes 32)	262	327

* As of 31 December 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 528 thousand (31.12.2020: EUR 1,579 thousand) (Note 3).

NOTE 30 LOAN COLLATERALS AND PLEDGED ASSETS

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

in thousands of euros

Commercial pledges	31.12.2021	31.12.2020
Movable property	59,464	42,941
Financial assets *	25,679	18,778
Total	**85,143**	**61,719**

* The financial assets of UAB Balsiu Mokyklos SPV, which OÜ Merko Property has pledged to secure the investment loan in the amount of EUR 6,082 thousand for the benefit of OP Corporate Bank plc Lithuanian branch (31.12.2020: EUR 6,607 thousand for the benefit of OP Corporate Bank plc Lithuanian branch) and the financial assets of UAB VPSP2, which UAB Merko Statyba has pledged to secure the investment loan in the amount of EUR 1,576 thousand for the benefit of AB SEB bankas.

Mortgages	31.12.2021	31.12.2020
Inventories (Note 17)	90,959	57,706
Land and buildings (Note 23)	2,299	2,892
Investment properties (Note 22)	13,618	13,692
Total	**106,876**	**74,290**

Pledges of shares

In addition to the commercial pledge on financial assets, OÜ Merko Property has pledged the shares of its wholly-owned subsidiary UAB Balsiu Mokyklos SPV for the benefit of OP Corporate Bank plc Lithuanian branch. An investment loan in the amount of EUR 6,082 thousand (31.12.2020: EUR 6,607 thousand for the benefit of OP Corporate Bank plc Lithuanian branch) is secured by the pledge. UAB Merko Statyba has pledged the shares of its wholly-owned (100%) subsidiary UAB VPSP2 for the benefit of AB SEB bankas. An investment loan in the amount of EUR 11,508 thousand is secured by the pledge.

NOTE 31 SHARE CAPITAL

There were no changes in share capital during 2021 and 2020.

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

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

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

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

As at 31.12.2021 and 31.12.2020, the share of capital of AS Merko Ehitus was EUR 7,929 thousand and the consolidated net assets of AS Merko Ehitus were EUR 167,239 thousand (31.12.2020: EUR 153,228 thousand), therefore the Company's equity and share capital were in compliance on both balance sheet date with the requirements established in the Republic of Estonia. The calculated value of the share was 0.447966 euros.

NOTE 32 RELATED PARTY TRANSACTIONS

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.12.2021 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.

GOODS AND SERVICES

in thousands of euros

	2021	2020
Provided services and goods sold		
Parent company	13	13
Joint ventures *	6,307	1,494
Entities under common control	15,729	844
Members of the management **	399	838
Total services provided and goods sold	**22,448**	**3,189**
Interest income		
Joint ventures	68	74
Purchased services and goods		
Parent company	90	90
Associate	145	-
Entities under common control	64	68
Members of the management	1	3
Total purchased services and goods	**300**	**161**
Interest expense		
Entities under common control	130	142
Other related parties	1	-
Total interest expense	**131**	**142**

BALANCES WITH RELATED PARTIES
in thousands of euros

	31.12.2021	31.12.2020
Receivables from related parties		
Loans granted (Note 15, 16, 20)		
Joint ventures	1,115	1,115
Receivables and prepayments (Note 15)		
Parent company	4	4
Joint ventures	1,924	25
Entities under common control	1,616	340
Members of the management	29	-
Total receivables and prepayments	**3,573**	**369**
Total receivables from related parties	**4,688**	**1,484**
Payables to related parties		
Lease liabilities (Note 26)		
Entities under common control	31	82
Short-term loans received (Note 26)		
Entities under common control	-	6,000
Payables and prepayments (Note 27)		
Parent company	9	-
Associate and joint venture	8	-
Entities under common control	2,446	3
Members of the management	40	-
Total payables and prepayments	**2,503**	**3**
Long-term loans received (Note 26)		
Entities under common control	6,000	-
Other related parties	-	56
Total long-term loans received	**6,000**	**56**
Other long-term payables (Note 29)		
Other related parties	262	327
Total payables to related parties	**8,796**	**6,468**

* Provided services to joint ventures consist mainly of construction services.
** In 2021, construction and design services were provided to management members and sold an apartment. In 2020, apartments were sold and handed over. These were not significant transactions for the group.

With regard to receivables from related parties, no impairments were performed in either 2021 or 2020.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

In 2021, the members of the Supervisory and Management Boards of AS Merko Ehitus and Management Boards of its significant subsidiaries were paid gross fees totalling EUR 2,937 thousand (2020: EUR 3,857 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorisation agreements have been entered into with the members of the Supervisory Board according to which no termination benefits are paid to them upon the termination of the contract. Upon premature removal or termination of authority of the members of the Supervisory and Management Boards, the group has the obligation to pay compensation totalling EUR 1,196 thousand (2020: EUR 974 thousand). In the 12 months of 2021, the Management Board members of major subsidiaries received EUR 141 thousand in compensation (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 in the management report and on AS Merko Ehitus website at group.merko.ee/en/management-and-supervisory-board/.

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31 December 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 controls through a holding company the majority of the votes determined by shares in AS Riverito. Thus, the shares of AS Riverito and the votes determined by it in AS Merko Ehitus (12,742,686 shares) are considered to be under the control of Toomas Annus.*

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31 December 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 33 CONTINGENT LIABILITIES

in thousands of euros

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

	31.12.2021	31.12.2020
Performance period's warranty to the customer	28,573	24,901
Tender warranty	31	669
Guarantee warranty period	19,639	22,253
Prepayment guarantee	15,026	11,589
Payment guarantee	0	516
Contracts of surety	1,466	1,834
Total contingent liabilities	**64,735**	**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 completed.
Tender warranty – warranty provider guarantees to the customer arranging the tender process that the tenderer will sign a contract as per tender conditions.
Guarantee for warranty period – warranty provider guarantees to the customer that the construction defects discovered during the warranty period will be eliminated.
Prepayment guarantee – warranty provider guarantees to the customer that advances will be reimbursed, if contractor fails to deliver goods or services agreed.
Payment guarantee – guarantor guarantees repayments of the customer's/developer's loan.
Contracts of surety – the group guarantees the timely fulfilment of group member's liabilities towards a third party (e.g. providing services by a certain date in the agreed amount).

As at 31 December 2021 the group has recognised a provision (Note 28) with regards to the guarantee for warranty period which is based upon historical experience and contractual volumes.

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

For legal risks, please refer to the respective paragraph of Note 34.

NOTE 34 RISK MANAGEMENT

FINANCIAL RISKS MANAGEMENT

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

1. CREDIT RISK

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

Free cash is mostly held in bank account or term deposits at banks, which are part of Swedbank, SEB, Luminor and OP Corporate Bank groups. Baltic banks, which are part of Swedbank and SEB group do not have separate ratings by Moody's. The parent company of Swedbank group, Swedbank AB, has a Moody's long-term credit rating Aa3 (2020: Aa3) and the parent company of SEB group, Skandinaviska Enskilda Banken AB, has a Moody's long-term credit rating Aa2 (2020: Aa2). OP Corporate Bank PLC has a Moody's long-term credit rating Aa3 (2020: Aa3). Luminor Bank has a Moody's long-term credit rating Baa1 (2020: Baa1).

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 31 December 2021. The management estimates that the group cash and cash equivalents are not exposed to significant credit risk.

FINANCIAL ASSETS EXPOSED TO CREDIT RISK
in thousands of euros

	Allocation by due dates		Carrying amount	Collateral
	1-12 months	2-5 years		
31.12.2021				
Cash and cash equivalents (Note 14, 20)	44,930	5	44,935	-
Trade receivables (Notes 15, 20)	32,097	24,074	56,171	-
Accrued income from construction service (Notes 3, 15)	15,050	-	15,050	-
Loans granted (Notes 15, 16, 20)	1,115	-	1,115	-
Other short-term receivables (Note 15)	195	-	195	-
Total	**93,387**	**24,079**	**117,466**	**-**
31.12.2020				
Cash and cash equivalents (Note 14, 20)	47,480	2	47,482	-
Trade receivables (Notes 15, 20)	21,866	16,862	38,728	-
Accrued income from construction service (Notes 3, 15)	7,741	-	7,741	-
Loans granted (Notes 15, 16, 20)	371	1,115	1,486	367
Interest receivables (Notes 15, 20)	1	-	1	-
Other short-term receivables (Note 15)	118	-	118	-
Total	**77,577**	**17,979**	**95,556**	**-**

The group's customers are primarily large local entities or public sector entities (as at 31 December 2021, the public sector proportion in accounts receivable amounted to 21.4% (31.12.2020: 28.9%) with well-known and sufficient creditworthiness.

TRADE RECEIVABLES BY DUE DATE

in thousands of euros

	31.12.2021		31.12.2020	
Not overdue	53,833	95.8%	36,843	95.1%
1-30 days overdue	723	1.3%	946	2.5%
31-60 days overdue	566	1.0%	87	0.2%
61-90 days overdue	192	0.3%	107	0.3%
91-120 days overdue	34	0.1%	45	0.1%
121-180 days overdue	194	0.4%	7	0.0%
More than 180 days overdue	629	1.1%	693	1.8%
Total trade receivables (Notes 15, 20)	**56,171**	**100%**	**38,728**	**100%**

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

As at the balance sheet date, the amount of overdue receivables was EUR 2,338 thousand (31.12.2020: EUR 1,885 thousand), of which EUR 935 thousand has been collected by 10 March 2022. In a year, the share of overdue short-term receivables in total receivables decreased from 4.9% to 4.2%. The group keeps track of payment history for all customers separately for each receivable. Customers who have exceeded the payment deadline are handled personally in order to find solutions that ensure the best possible protection of the group's interests. According to management estimates, which are based on customers' historical payment behaviour, background assessment on the payment behaviour and business perspectives of new clients, the receivables reported in the financial statements will be paid off by the buyers. The receivables, which were not overdue at the balance sheet date, will be paid by due date. As well as invoiced trade receivables, management estimates the credit risk of accrued income from construction service to be low. The management bases its assessment on the regular monitoring of the financial position and payment behaviour of the contractual partner and the outlook of the contractor's economic sector and general economic developments. Trade receivables and receivables from customers of construction works under the stage of completion method have not been guaranteed with additional collateral as is customary in the industry.

As at balance sheet date, the loans granted to joint ventures, the economic activities of which the group has a good overview of, totalled EUR 1,115 thousand (31.12.2020: 1,115 thousand) and therefore, no additional collateral is required. As at 31 December 2021, there were no loans granted to unrelated parties (31.12.2020: 371 thousand).

2. MARKET RISK

INTEREST RISK

Interest risk arises from interest rate changes in the financial markets because of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor or the interbank rates of the countries of incorporation of the entities. As at 31 December 2021, the share of interest-bearing liabilities in the group's capital structure was 16.2% of the balance sheet total (as at 31 December 2020, 11.3% of the balance sheet total). According to the management, the effect of changes in the interest rate environment to be insignificant for the group's results over the next 12 months.

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

As at 31 December 2021, the group's interest-bearing liabilities totalled EUR 52,637 thousand (31.12.2020: EUR 29,058 thousand), of which short-term loans and repayments of long-term liabilities in 2022 totalled EUR 11,636 thousand (31.12.2020: EUR 13,648 thousand) and long-term loans and lease liabilities totalled EUR 41,001 thousand (31.12.2020: EUR 15,410 thousand). As at 31 December 2021, the group's loans granted totalled EUR 1,115 thousand (31.12.2020: EUR 1,486 thousand), all of which were classified as short-term loans with repayments in 2022 (31.12.2020: EUR 371 thousand short-term loan). Floating loan interest depended on interbank market 1- 12 month interest in the entity's domicile and Euribor. As at 31 December 2021, the break-down of interest-bearing borrowings and loans granted was as follows:

	31.12.2021	31.12.2020
Fixed rate liabilities	543	186
Liabilities with floating rate interests 1-5 months	15,092	11,815
Liabilities with floating rate interests 6-12 months	37,002	17,057
Total interest-bearing borrowings (Note 26)	**52,637**	**29,058**
Fixed rate receivables	1,115	1,486

The management estimates that there will be no changes in the base interest rates, which could have a significant impact on the financial position of the group: the market continues to have low (including negative) base interest rates. Assuming that average Euribor would rise 10 basis points above the zero level over the next 12 months as compared to the beginning of the year and there is no change in the position of liabilities, interest expenses would increase by EUR 53 thousand (31.12.2020: EUR 29 thousand). All the loans granted have fixed interest rate and therefore a change in the reference rates would have no impact on the interest income.

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

FOREIGN EXCHANGE RISK

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

	In EUR	**In NOK**
31.12.2021		
Assets	96.8%	3.2%
Liabilities	97.0%	3.0%
31.12.2020		
Assets	96.7%	3.3%
Liabilities	95.3%	4.7%

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

3. LIQUIDITY RISK

The group's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31 December 2021, the group´s current ratio was 2.4 (31.12.2020: 2.7) and the quick ratio 0.9 (31.12.2020: 1.0). In addition to available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at end of the year, the group entities had concluded overdraft contracts with banks in the total amount of EUR 49,000 thousand, of which EUR 48,981 thousand was unused (31.12.2020: EUR 44,103 thousand, of which EUR 44,085 thousand was unused). In 2022, the contracts in a total amount of EUR 4,000 thousand will expire, which renewal will be considered.

The management estimates that the group's capital structure – equity ratio of 51.6% (31.12.2020: 59.6%) and a moderate proportion of interest-bearing liabilities at 16.2% (31.12.2020: 11.3%) of the balance sheet total – ensures the group's trustworthiness for creditors. It also enables to prolong existing financial liabilities and raise additional working capital funds, if needed.

FINANCIAL ASSETS/LIABILITIES

in thousands of euros

	Allocation by due date			**Total**	**Carrying amount**
	1-3 months	4-12 months	2-5 years		
31.12.2021					
Assets					
Cash and overnight deposits (Note 14, 20)	44,930	-	5	44,935	44,935
Trade receivables (Notes 15, 20)	26,659	5,438	24,074	56,171	56,171
Accrued income from construction services (Notes 3, 15)	15,050	-	-	15,050	15,050
Loans and interest (Notes 15, 16, 20)	-	1,115	-	1,115	1,115
Other short-term receivables (Note 15)	127	68	-	195	195
Total	**86,766**	**6,621**	**24,079**	**117,466**	**117,466**
Liabilities					
Trade payables (Notes 27, 29)	24,049	5,364	2,110	31,523	31,523
Prepayments for construction services (Notes 3, 27)	7,024	-	-	7,024	7,024
Loan and lease liabilities (Note 26) *	4,459	7,177	41,001	52,637	52,637
Other liabilities (Note 27, 29)	2,034	324	262	2,620	2,620
Total	**37,566**	**12,865**	**43,373**	**93,804**	**93,804**
Net assets / liabilities	**49,200**	**(6,244)**	**(19,294)**	**23,662**	**23,662**

	Allocation by due date			**Total**	**Carrying amount**
	1-3 months	4-12 months	2-5 years		
31.12.2020					
Assets					
Cash and overnight deposits (Note 14, 20)	47,480	-	2	47,482	47,482
Trade receivables (Notes 15, 20)	18,893	2,973	16,862	38,728	38,728
Accrued income from construction services (Notes 3, 15)	7,741	-	-	7,741	7,741
Loans and interest (Notes 15, 16, 20)	31	341	1,115	1,487	1,487
Other short-term receivables (Note 15)	58	60	-	118	118
Total	**74,203**	**3,374**	**17,979**	**95,556**	**95,556**
Liabilities					
Trade payables (Notes 27, 29)	16,278	4,670	2,120	23,068	23,068
Prepayments for construction services (Notes 3, 27)	6,926	-	-	6,926	6,926
Loan and lease liabilities (Note 26) *	3,827	9,822	15,409	29,058	29,058
Other liabilities (Note 27, 29)	233	360	327	920	920
Total	**27,264**	**14,852**	**17,856**	**59,972**	**59,972**
Net assets / liabilities	**46,939**	**(11,478)**	**123**	**35,584**	**35,584**

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

4. FAIR VALUE ESTIMATION

According to the estimation of the group, the carrying values of financial assets at amortised cost (Notes 14, 15, 16, 20) and financial liabilities at amortised cost (Notes 26, 27, 29) in the consolidated balance sheet as at 31 December 2021 and 31 December 2020 do not vary significantly from their fair value.

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

The fair value of trade receivables (31.12.2021: EUR 9,682 thousand; 31.12.2020: EUR 10,009 thousand) related to Balsiu– equals their carrying amount, as the impact of discounting is not significant. The carrying amount of future receivables related to Balsiu School is EUR 19,625 thousand (31.12.2020: EUR 21,079 thousand) and the fair value of the mentioned receivables is equal to EUR 19,399 thousand using the effective interest rate of 0.16% (31 December 2020: EUR 20,819 thousand using the effective interest rate of 0.16%). The fair value of trade receivables (31.12.2021: EUR 14,311 thousand) related to Kaunas Police Headquarters – equals their carrying amount, as the impact of discounting is not significant. The carrying amount of future receivables related to Kaunas Police Headquarters is EUR 20,914 thousand and the fair value of the mentioned receivables is equal to EUR 20,698 thousand using the effective interest rate of 0.16%. As the amount receivable is due from the state institutions, the interest rate used for the fair value calculation is a long-term borrowing rate at the end of the period applicable to the Republic of Lithuania (www.ecb.europa.eu/stats/financial_markets_and_interest_ rates/long_term_interest_rates).

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

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

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

Level 1: Financial instruments valued at unadjusted prices on the stock market or other active regulated market. As at 31 December 2021 and 2020, the group did not have any Level 1 financial instruments.

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

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

CAPITAL MANAGEMENT

The group considers borrowings and total equity as capital. As at 31 December 2021, the total equity attributable to equity owners of the parent was EUR 167,239 thousand (31.12.2020: EUR 153,228 thousand). The group's principle is to maintain a strong equity base for the purpose of retaining its trustworthiness among its shareholders, creditors, and the market, and to ensure the group's sustainable development. Over the long term, the group's goal is to increase income for its shareholders and ensure its ability to pay dividends.

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

The group considers it important to ensure an optimal capital structure. Therefore, it monitors that the group's equity to assets ratio is at least 40% (31.12.2021: 51,6%, 31.12.2020: 59.6%).

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

	31.12.2021	**31.12.2020**
Borrowings	52,637	29,058
Less: cash and cash equivalents and short-term deposits	(44,930)	(47,480)
Net debt	7,707	(18,422)
Total equity attributable to owners of the parent	167,239	153,228
Total net debt and equity attributable to equity owners of the parent	174,946	134,806
Share of net borrowings	4,4%	(13.7%)

The group's net debt at 31 December 2021 was EUR 7.7 million (31.12.2020: negative EUR 18.4 million).

	31.12.2021	**31.12.2020**
Cash and cash equivalents	44,930	47,480
Short-term borrowings	(11,636)	(13,649)
Long-term borrowings	(41,001)	(15,409)
Net debt	(7,707)	18,422
Cash and cash equivalents	44,930	47,480
Fixed rate liabilities	(543)	(186)
Variable rate liabilities	(52,094)	(28,872)
Net debt	(7,707)	18,422

	Cash and cash equivalents	**Borrowings**	**Lease liabilities**	**Total**
Net debt 31.12.2019	24,749	(60,835)	(2,891)	(38,977)
Cash flow	22,797	34,478	922	58,197
Effect of exchange rate changes	(66)	2	-	(64)
New lease contracts	-	-	(1,003)	(1,003)
Termination of lease liabilities	-	-	269	269
Net debt 31.12.2020	**47,480**	**(26,355)**	**(2,703)**	**18,422**
Cash flow	(2,582)	(22,763)	951	(24,394)
Effect of exchange rate changes	32	-	-	32
New lease contracts	-	-	(2,068)	(2,068)
Termination of lease liabilities	-	-	301	301
Net debt 31.12.2021	44,930	(49,118)	(3,519)	(7,707)

MANAGEMENT OF OTHER RISKS

LEGAL RISK

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

As at 31 December 2021, no provision has been formed (31.12.2020: EUR 202 thousand) for covering potential claims and legal costs. (Note 28).

An overview of the key legal disputes of group entities ended during 2021 and ongoing as of 31 December 2021 is presented below.

ESTONIA

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

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

LATVIA

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 parties reached an out-of-court settlement and the positive effect of the claim is reflected in the group's financial report.

Starptautiskā lidosta "Rīga"

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

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

On 8 June 2018, Riga International Airport paid partly the claim submitted on September 21, 2017, therefore SIA Merks reduced the claim to EUR 248 thousand (EUR 76 thousand being the principal claim and EUR 172 thousand late interest). The parties reached a settlement, which provided that SIA Merks would deliver negotiated works to Riga International Airport by 31 March 2020, after which Riga International Airport would sign the final acceptance act. Due to the restrictions related to the COVID-19 pandemic, the works process was extended, but by the end of 2020, SIA Merks had performed the agreed works and the parties submitted a new settlement to the court, which was approved by the court on 8 March 2021. In the accounting year, the claims of the parties were settled, and the amounts withheld by Riga International Airport were paid to SIA Merks.

Latvian Competition Council administrative proceeding

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

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

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

The Latvian Competition Council asked the court for an extension for submitting its arguments against the opinions of the plaintiffs and the Latvian administrative court respectively established 15 December 2021 as the new term for replying. At the time of compiling current report, the response from Latvian Competition Council's has not been made available to the applicants nor has a hearing been scheduled.

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

Considering the as yet unestablished schedule for the court proceedings, it is not possible to estimate the discounted or present value of a possible fine with a reasonably high level of probability (i.e. reliably), therefore the Group has not made any provisions.

SIA Ostas Celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas Celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas Celtnieks" according to its share in the consortium. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. The court took the evidence from both parties to the proceedings and advised the parties to enter into a suitable arrangement for both parties. No agreement was reached, SIA "Ostas Celtnieks" filed a counterclaim against SIA Merks for lost profits, which prolongs the process. SIA Merks submitted an application to transfer the court proceedings from Liepāja Circuit Court to Riga Economic Court, which was established and opened in 2021. The next court session is scheduled for 19 April 2022. The impact of this claim has not been taken into account in the group's reporting.

VALUE OF ASSETS

In 2021, the group recognised EUR 86 thousand (2020: EUR 3,287 thousand) in impairment losses on assets and inventories, incl. EUR 56 thousand on the write-off of doubtful receivables (2020: EUR 2,683 thousand) and EUR 30 thousand loss from write-off of prepayments to suppliers (2020: EUR 336 thousand), no impairment loss of inventory was made in 2021 (2020: EUR 222 thousand on finished goods and EUR 46 thousand on other goods purchased for resale). The receivables expensed in prior periods in the amount of EUR 2 thousand were collected (2020: EUR 5 thousand). See also Notes 15 and 17 for further details.

WAR IN UKRAINE

Russia's war in Ukraine is having a negative impact on society and the economy. In addition to the general increase in uncertainty, the war is causing a number of market failure situations: the collapse of commodity markets, the disruption of supply chains, the indefinite price elasticity of some commodity groups, and the rapid change in regulations. One can hope that market failures will remain temporary and limited to individual goods and services and will not overgrow large-scale economic and political crises that disrupt existing economic mechanisms. The impact of single and limited market failures can be mitigated by the company with flexibility and swift response to ensure alternative deliveries, minimisation of negative financial impact and timely delivery of works to customers.

NOTE 35 SUPPLEMENTARY DISCLOSURES ON THE PARENT COMPANY

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

INCOME STATEMENT

in thousands of euros

	2021	2020
Revenue	1,360	284
Cost of goods sold	(594)	(45)
Gross profit	**766**	**239**
Marketing expenses	(20)	(569)
General and administrative expenses	(2,185)	(2,160)
Other operating income	1,608	1,908
Other operating expenses	(102)	(148)
Operating profit (loss)	**67**	**(730)**
Finance costs	(208)	(245)
Finance income from investments in subsidiaries	14,077	3,512
Profit before tax	**13,936**	**2,537**
Deferred income tax expense	(19)	-
Net profit for the year	**13,917**	**2,537**

STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2021	31.12.2020
ASSETS		
Current assets		
Cash and cash equivalents	6,827	4,220
Receivables and prepayments	173	11,331
Inventories	-	561
	7,000	**16,112**
Non-current assets		
Investments in subsidiaries	115,264	123,887
Other long-term financial assets	50,955	36,881
Property, plant and equipment	166	210
Intangible assets	44	69
	166,429	**161,047**
TOTAL ASSETS	**173,429**	**177,159**
LIABILITIES		
Current liabilities		
Borrowings	55	6,075
Trade and other payables	1,467	1,374
Short-term provisions	16	8
	1,538	**7,457**
Non-current liabilities		
Long-term borrowings	6,099	127
	6,099	**127**
TOTAL LIABILITIES	**7,637**	**7,584**
EQUITY		
Share capital	7,929	7,929
Statutory reserve capital	793	793
Retained earnings	157,070	160,853
TOTAL EQUITY	**165,792**	**169,575**
TOTAL LIABILITIES AND EQUITY	**173,429**	**177,159**

STATEMENT OF CHANGES IN EQUITY

in thousands of euros

Parent	**Share capital**	**Statutory reserve capital**	**Retained earnings**	**Total**
Balance as at 31.12.2019	**7,929**	**793**	**158,316**	**167,038**
Net profit for financial year	-	-	2,537	2,537
Balance as at 31.12.2020	**7,929**	**793**	**160,853**	**169,575**
Carrying amount of holdings under control or significant influence				(123,887)
Value of holdings under control or significant influence under the equity method				107,540
Adjusted unconsolidated equity as at 31.12.2020				**153,228**
Net profit for financial year	-	-	13,917	13,917
Dividends	-	-	(17,700)	(17,700)
Balance as at 31.12.2021	**7,929**	**793**	**157,070**	**165,792**
Carrying amount of holdings under control or significant influence				(115,264)
Value of holdings under control or significant influence under the equity method				116,711
Adjusted unconsolidated equity as at 31.12.2021				**167,239**

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

CASH FLOW STATEMENT

in thousands of euros

	2021	2020
Cash flows from operating activities		
Operating profit (loss)	67	(730)
Adjustments:		
Depreciation and impairment	112	106
Interest income from business activities	(1,605)	(1,899)
Change in provisions	(25)	324
Change in trade and other receivables related to operating activities	(3,442)	2,840
Change in inventories	561	(1)
Change in trade and other payables related to operating activities	113	(18)
Interest received	2,129	2,066
Interest paid	(132)	(176)
Other finance income and costs	(76)	(63)
Corporate income tax paid	(19)	-
Total cash flows from operating activities	**(2,317)**	**2,449**
Cash flows from investing activities		
Acquisition of subsidiaries	(19,500)	-
Investments in subsidiaries	(77)	(3)
Reduction of equity in subsidiary	28,200	235
Purchase of property, plant and equipment (excl. leased assets)	(3)	(5)
Proceeds from sale of property, plant and equipment	-	2
Purchase of intangible assets	(9)	(5)
Interest received	1	-
Dividends received	14,077	3,506
Total cash flows from investing activities	**22,689**	**3,730**
Cash flows from financing activities		
Proceeds from borrowings	-	1
Loan repayments received	(4)	(1,986)
Repayments of lease liabilities	(75)	(75)
Dividends paid	(17,686)	-
Total cash flows from financing activities	**(17,765)**	**(2,060)**
Net increase/decrease in cash and cash equivalents	**2,607**	**4,119**
Cash and cash equivalents in the beginning of period	**4,220**	**103**
Effect of exchange rate changes	**-**	**(2)**
Cash and cash equivalents at end of the period	**6,827**	**4,220**

Independent auditor’s report

To the Shareholders of Aktsiaselts MERKO EHITUS

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Aktsiaselts MERKO EHITUS (the “Company”) and its subsidiaries (together – the “Group”) as at 31 December 2021, and the Group´s consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 31 March 2022.

What we have audited

The Group’s consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

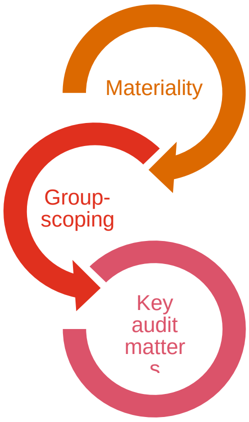
Independence

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

During the period from 1 January 2021 to 31 December 2021 we have not provided any non-audit services to the Company and its subsidiaries

Our audit approach

Overview



- Overall group audit materiality is EUR 3.4 million, which represents approximately 1% of consolidated total revenue.

- A full scope audit was performed by Group's audit team or, under our instructions, by PwC network firms and other firms for Group entities covering 97% of the Group's revenues and 96% of the Group's assets. Selected audit procedures were performed on remaining balances.

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

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

Materiality

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

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

Overall Group audit materiality	EUR 3.4 million
How we determined it	Approximately 1% of consolidated total revenues
Rationale for the materiality benchmark applied	We have calculated overall materiality using consolidated revenue benchmark, as by our estimate it is the key metric used

	by the Group's management, shareholders and creditors, in evaluating the performance of the Group.

Key audit matters

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

Key audit matters	**How our audit addressed the key audit matters**
Revenue recognition on construction contracts (refer to Note 1 'Summary of significant accounting policies – subsection 1.21 'Revenue' and Note 3 'Operating Segments' for further details). In 2021 the Group has recognised revenue of EUR 339 million, EUR 243 million of which is related to construction services. The Group's revenues from construction services are generated from a large portfolio of contracts with different terms regarding service fee, use of subcontractors or partners and profit sharing. Revenue from construction contracts is recorded by reference to the progress towards satisfaction of performance obligations (stage of completion). Determining the stage of completion requires the management to estimate the cost to complete the contract, as well as any possible adjustments to the contractual fee, at each measurement date. Accounting estimates have subjective nature and rely on many sources of information, both within the Group and external, about the expected outcome of a contract. The complexity resulting from both the large number of varying contractual terms and estimation uncertainties regarding the expected outcome of construction contracts could lead to errors that may become material, when aggregated. As such, revenue recognition on construction contracts requires significant time and resource to audit due to both its magnitude	We audited revenue recognition on construction contracts through a combination of controls testing and substantive testing. We assessed if Group had appropriately applied the guidance in the revenue standard, IFRS 15 regarding accounting for revenue, including for revenue recognised over time. We performed testing of the design, implementation and operating effectiveness of controls supporting identification of contractual terms, selection of suitable accounting policies and assessment of the stage of completion. The controls testing was supported by substantive audit procedures. We selected a sample of contracts and performed substantive procedures that included, but were not limited to: • reconciling the contract fee used in calculating the revenue based on the stage of completion to the contract; • reconciling incurred contract costs included in revenue calculation to accounting records and testing the proper allocation of costs to individual contracts; • testing correct periodisation of contract costs; • checking the formula used for calculation of revenue based on stage of completion; • investigating the estimates of margins during current and comparative periods applied for revenue calculation of the same contracts to identify potential management bias.

and complexity, and is therefore considered to be a key audit matter.	We also evaluated the correctness of disclosures in relation to the construction contracts.
Valuation of inventory relating to property developments (refer to Note 1 ‘Summary of significant accounting policies – subsection 1.12 ‘Inventories’, Note 17 ‘Inventories’ and Note 34 ‘Risk management’ subsection ‘value of assets’ for further details). As at 31 December 2021 the Group’s statement of financial position sheet includes inventory in the amount of EUR 156 million, of which EUR 7 million were finished apartments, EUR 83 million unfinished apartments and EUR 66 million land purchased for development and resale (mostly with the aim of being developed as residential property). Inventories are carried at the lower of cost and net realisable value. With property prices, especially those of residential property, following the economic cycle and exhibiting substantial fluctuation over time, net realisable value of the inventory of finished and unfinished apartments and property for resale needs to be carefully monitored against the carrying amount. Should the net realisable value of a property fall below its carrying amount, a write-down to net realisable value is necessary. Determining the net realisable value of property requires estimates of the expected selling price and may require estimates of the cost to complete the development of the property. Due to the magnitude and related estimation uncertainty, valuation of inventory of finished and unfinished apartments and land to be developed for sale is considered a key audit matter.	We assessed the management’s expertise to perform valuation of property. The management is experienced in property valuation and the outcomes of completed development projects have usually met the profitability estimates. We evaluated the model prepared by the management for determining the net realisable value and identifying any necessary write-down. We performed testing of the inputs used in the valuation model. Our work targeted individual properties on our assessment of the risk, based on the location, carrying amount and any specific conditions related to a property. For inputs based on estimates, which include unit costs applicable for completing the construction and sales price, we assessed the reasonableness of the inputs by comparing them with historical data from completed projects and available market information such as construction price indexes. Where available, we compared the estimated sales prices with comparable market transactions. It was evident from our work that sufficient attention had been paid to each property’s individual characteristics including their construction quality, geographic location and relevant legal or contractual obligations. We also assessed the appropriateness of disclosures provided in respect of net realisable value of inventory, including sensitivity analysis.

How we tailored our Group audit scope

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

The Group comprises a number of subsidiaries that are further disclosed in Note 18. A full scope audit was performed by PwC Estonia or, under our instructions, by other PwC network firms and firms outside PwC network for entities covering 97% of the Group's revenues and 96% of assets. The remaining entities of the Group were immaterial, therefore we only performed selected audit procedures on these components relating to specified account balances or disclosures.

Where work was performed by component auditors, we determined the level of involvement we needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

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

Reporting on other information including the Management report

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

Our opinion on the consolidated financial statements does not cover the other information, including the Management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act.

In accordance with the Securities Market Act with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 135^3 (3) of the Securities Market Act.

Based on the work undertaken in the course of our audit, in our opinion:
- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management report has been prepared in accordance with the requirements of the Accounting Act; and
- the Remuneration Report has been prepared in accordance with Article 135^3 (3) of the Securities Market Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged as part of our audit engagement letter by the Management Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of Aktsiaselts MERKO EHITUS for the year ended 31 December 2021 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and those charged with governance

The Management Board of the Company is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for overseeing the consolidated financial reporting process, which should also be understood as the preparation of financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our limited assurance engagements in accordance with the International Standard on Assurance Engagements (Estonia) 3000 (revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (ISAE (EE) 3000 (revised)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE (EE) 3000 (revised) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality control requirements

We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation; and
- evaluating the appropriateness of the Group’s' use of XBRL markups selected from the ESEF taxonomy.

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

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

Appointment and period of our audit engagement

We were first appointed as auditors of Aktsiaselts MERKO EHITUS, as a public interest entity, for the financial year ended 31 December 2008. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for Aktsiaselts MERKO EHITUS, as a public interest entity, of 14 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of Aktsiaselts MERKO EHITUS can be extended for up to the financial year ending 31 December 2027.

AS PricewaterhouseCoopers

/signed/	/signed/
Eva Jansen-Diener Certified auditor in charge, auditor’s certificate no. 501	Janno Hermanson Auditor’s certificate no. 570

31 March 2022
Tallinn, Estonia

Translation note:

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

Translation of the company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (Link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100098328/reports).

PROFIT ALLOCATION PROPOSAL

in euros

Total retained earnings as at 31.12.2021	**159,308,499**
incl. net profit for 2021	29,140,326

The Management Board proposes profit allocation as follows:

Dividends (EUR 1.00 per share)	17,700,000
Retained earnings after profit allocation	**141,608,499**

Andres Trink	Chairman of the Management Board	/ digitally signed /	31.03.2022
Tõnu Toomik	Member of the Management Board	/ digitally signed /	31.03.2022

OTHER NOTES TO THE ANNUAL REPORT

REMUNERATION REPORT

REMUNERATION OF EXECUTIVES

Pursuant to legal acts, AS Merko Ehitus releases an overview of remuneration paid to executives and its conformity to the remuneration principles. The principles of remuneration of executives and the corresponding procedure are developed and approved by the AS Merko Ehitus supervisory board, thus preventing and mitigating any conflict of interest. Most recently, the supervisory board approved a full updated set of the remuneration principles for executives on 14 December 2021 and it is to be presented to the general meeting of shareholders in 2022. Amendment proposals submitted at the meeting by shareholders in regard to the executive remuneration principles will be reviewed and taken into account if supported by a simple majority at the meeting.

In the 2021 and 2020 financial years, the Management Board members' recognized cost of remuneration incl. basic salaries and performance pay, as well as taxes and changes in reserves for the reporting year were as follows (in euros):

	2021	2021 performance pay ROE component	2021 performance pay strategic objectives component	**2020**
Andres Trink	**383,836**	**97,200**	**132,800**	**528,499**
Incl. basic salaries	136,142	-	-	111,389
Incl. performance pay	230,000	97,200	132,800	200,000
Incl. taxes and changes in reserves	17,694	-	-	217,110
Tõnu Toomik	**373,723**	**87,480**	**117,520**	**509,216**
Incl. basic salaries	115,305	-	-	93,322
Incl. performance pay	205,000	87,480	117,520	180,000
Incl. taxes and changes in reserves	53,418	-	-	235,894
TOTAL	**757,559**	**184,680**	**250,320**	**1,037,715**

Performance pays represent the gross performance-based pay allocated and paid for the previous year's performance and recognized in the reporting year. Changes in reserves also include the reserve formed to cover performance pays to be paid in subsequent years for this reporting year.

The performance-based pay allocated to executives for their performance in 2021 financial year conform to the remuneration principles, motivating the executives to achieve and maintain a high calibre of return on equity and to launch and implement strategic initiatives for strengthening the group's position on its home markets. No exceptions to the remuneration policies were made in allocating remuneration to the executives for the results of the financial ear 2021.

In 2021, none of the executives received remuneration from other companies belonging to the group and they were not granted or offered shares or share options as remuneration. Nor did the group's supervisory board initiate any reclaims of performance bonuses in regard to the executives.

REMUNERATION OF EMPLOYEES

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

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 2021, the labour cost was EUR 38.4 million (2020: EUR 36.4 million), up 5.4% from the previous year.

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

The following table shows, for each of the last five financial years, the annual change in the group's performance, and the average remuneration paid to employees and executives. The growth of the employees' average remuneration during the five-year period (35.3%) is distributed differently as compared to the growth in the average remuneration to executives in the five-year period (24.7%), but overall is significantly greater.

	2021	**2020**	**2019**	**2018**	**2017**
Net profit attributable to equity holders of the parent (million EUR)	29.1	23.0	16.3	19.3	14.7
Return on equity (%)	18.8	16,2	12.9	15.3	11.9
Average number of fulltime employees (people)	651	661	709	743	732
Labour cost (million EUR)	38.4	36.4	37.4	34.4	31.9
Average labour cost per year for employees (thousand EUR)	59.0	55.1	52.7	46.3	43.6
Number of managers	2	2	2	2	2
Average labour cost per year for managers (thousand EUR)	378.8	518.9	405.7	386.5	303.8
Change in labour costs of employees (%)	7.0	4.5	14.0	6.0	14.4
Change in labour costs of managers (%)	-27.0	27.9	5.0	27.2	4.6

Pursuant to the principles of accrual accounting, the labour costs also include the expense borne by the company in the reporting year on forming reserves and does not equal the actual disbursements during the reporting year; instead it includes considerations to be paid out in future periods.

KEY FINANCIAL INDICATORS IN 2017-2021

CONSOLIDATED INCOME STATEMENT

in thousands of euros

	2021	2020	2019	2018	2017
Revenue	339,375	315,918	326,779	418,011	317,598
Cost of goods sold	(292,563)	(272,169)	(291,958)	(384,962)	(286,747)
Gross profit (loss)	**46,812**	**43,749**	**34,821**	**33,049**	**30,851**
% of revenue	*13.8%*	*13.8%*	*10.7%*	*7.9%*	*9.7%*
Marketing expenses	(3,611)	(4,212)	(4,260)	(3,285)	(3,215)
General and administrative expenses	(13,925)	(13,412)	(12,988)	(12,304)	(11,289)
Other operating income	3,508	2,320	2,983	3,527	3,793
Other operating expenses	(582)	(2,979)	(1,318)	(1,115)	(601)
Operating profit (loss)	**32,202**	**25,466**	**19,238**	**19,872**	**19,539**
% of revenue	*9.5%*	*8.1%*	*5.9%*	*4.8%*	*6.2%*
Finance income	12	1	3	8	4
Finance costs	(886)	(866)	(684)	(696)	(849)
Profit (loss) from joint ventures	799	(144)	1,766	591	78
Profit (loss) before tax	**32,127**	**24,457**	**20,323**	**19,775**	**18,772**
% of revenue	*9.5%*	*7.7%*	*6.2%*	*4.7%*	*5.9%*
Corporate income tax expense	(3,104)	(1,954)	(3,833)	(375)	(3,020)
Net profit (loss) for the financial year	**29,023**	**22,503**	**16,490**	**19,400**	**15,752**
incl. attributable to equity holders of the parent	29,140	22,994	16,270	19,343	14,694
% of revenue	*8.6%*	*7.3%*	*5.0%*	*4.6%*	*4.6%*
Attributable to non-controlling interests	(117)	(491)	220	57	1,058

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2021	31.12.2020	31.12.2019	31.12.2018	31.12.2017
ASSETS					
Current assets					
Cash and cash equivalents	44,930	47,480	24,749	39,978	39,210
Trade and other receivable	55,484	32,657	50,413	76,183	75,844
Prepaid corporate income tax	114	306	104	224	492
Inventories	160,593	126,332	166,226	117,992	118,421
	261,121	**206,775**	**241,492**	**234,377**	**233,967**
Non-current assets					
Investments in joint ventures	7,703	2,354	2,498	732	79
Other long-term loans and receivables	24,079	17,979	11,094	10,391	17,163
Deferred income tax assets	622	653	-	-	5
Investment properties	13,828	13,922	14,047	13,771	15,719
Property, plant and equipment	16,350	14,521	11,919	9,715	9,665
Intangible assets	669	711	777	671	497
	63,251	**50,140**	**40,335**	**35,280**	**43,128**
TOTAL ASSETS	**324,372**	**256,915**	**281,827**	**269,657**	**277,095**
LIABILITIES					
Current liabilities					
Borrowings	11,636	13,649	20,725	19,900	24,218
Payables and prepayments	90,054	55,846	69,585	77,016	74,972
Corporate income tax liability	681	1,202	812	381	413
Short-term provisions	7,976	6,347	7,976	8,100	4,569
	110,347	**77,044**	**99,098**	**105,397**	**104,172**
Non-current liabilities					
Long-term borrowings	41,001	15,409	43,001	24,266	35,138
Deferred income tax liability	3,112	3,001	1,682	1,481	1,259
Other long-term payables	2,900	4,026	3,491	2,179	1,789
	47,013	**22,436**	**48,174**	**27,926**	**38,186**
TOTAL LIABILITIES	**157,360**	**99,480**	**147,272**	**133,323**	**142,358**
EQUITY					
Non-controlling interests	(227)	4,207	4,217	4,577	4,567
Equity attributable to equity holders of the parent					
Share capital	7,929	7,929	7,929	7,929	7,929
Statutory reserve capital	793	793	793	793	793
Currency translation differences	(791)	(814)	(710)	(721)	(702)
Retained earnings	159,308	145,320	122,326	123,756	122,150
	167,239	**153,228**	**130,338**	**131,757**	**130,170**
TOTAL EQUITY	**167,012**	**157,435**	**134,555**	**136,334**	**134,737**
TOTAL LIABILITIES AND EQUITY	**324,372**	**256,915**	**281,827**	**269,657**	**277,095**

OTHER KEY FIGURES

attributable to equity holders of the parent

		2021	2020	2019	2018	2017
EBITDA	million EUR	34.8	28.2	21.9	21.9	22.2
EBITDA margin	%	10.3	8.9	6.7	5.2	7.0
General expense ratio	%	5.2	5.6	5.3	3.7	4.6
Staff costs ratio	%	11.3	11.5	11.4	8.2	10.1
Revenue per employee	thousand EUR	521	478	461	563	434
ROE	%	18.8	16.2	12.9	15.3	11.9
ROA	%	10.0	8.4	5.6	6.9	5.8
ROIC	%	16.9	13.1	11.1	11.5	11.4
Equity ratio	%	51.6	59.6	46.2	48.9	47.0
Debt ratio	%	16.2	11.3	22.6	16.4	21.4
Current ratio	times	2.4	2.7	2.4	2.2	2.2
Quick ratio	times	0.9	1.0	0.8	1.1	1.1
Accounts receivable turnover	days	31	35	45	40	40
Accounts payable turnover	days	39	37	53	41	40
Number of employees as at 31.12	people	670	666	694	764	757
Average number of employees	people	651	661	709	743	732
Secured order book as at 31.12	million EUR	257	225	141	229	344
New contracts signed	million EUR	288	277	170	246	335

SHARE-RELATED KEY FIGURES

attributable to equity holders of the parent

		2021	2020	2019	2018	2017
Earnings per share (EPS)	EUR	1.65	1.30	0.92	1.09	0.83
Equity per share	EUR	8.76	8.01	7.13	7.16	6.99
Dividend per share	EUR	*	1.00	-	1.00	1.00
Dividend rate	%	*	77	-	92	120
Dividend yield	%	*	10.6	-	10.9	11.4
P/B ratio	times	1.74	1.18	1.32	1.28	1.26
P/E ratio	times	9.24	7.28	10.20	8.42	10.61
Share price trend						
Average	EUR	14.41	8.80	9.55	10.02	9.27
Highest	EUR	17.14	10.60	10.30	11.80	9.69
Lowest	EUR	9.48	6.56	8.74	8.70	8.75
Share price as at 31.12	EUR	15.22	9.46	9.38	9.20	8.81
Market value as at 31.12	million EUR	269.4	167.4	166.0	162.8	155.9
Share turnover trend						
Share turnover	million EUR	29.78	13.97	21.31	12.16	4.69
Transactions	pcs	46,961	22,033	8,558	4,299	2,203
Shares traded	million pcs	2.06	1.62	2.23	1.18	0.51
Ratio of shares traded	%	11.6	9.2	12.6	6.7	2.9
Number of shares	million pcs	17.70	17.70	17.70	17.70	17.70
Number of shareholders as at 31.12	pcs	9,309	5,658	3,924	2,664	2,040

** Ratios related to dividends for 2021 will depend on the decision of the general meeting of shareholders to pay dividends.*

DEFINITIONS OF RATIOS

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

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

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

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

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

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

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

Equity ratio (%) = $\frac{\text{Shareholders' equity}}{\text{Total assets}}$

Debt ratio (%) = $\frac{\text{Interest-bearing liabilities}}{\text{Total assets}}$

Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

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

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

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

EBITDA (million EUR) = Operating profit + depreciation

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

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

Labour cost ratio (%) = $\frac{\text{Labour costs}}{\text{Revenue}}$

Revenue per employee (EUR) = $\frac{\text{Revenue}}{\text{Number of employees (average)}}$

Earnings per share, EPS (EUR) = $\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$

Equity/share (EUR) = $\frac{\text{Shareholders' equity (average of the current 4 quarters)}}{\text{Number of shares}}$

Dividend per share (EUR) = $\frac{\text{Payable dividends}}{\text{Number of shares}}$

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

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

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

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

Market capitalisation = Share price 31.12 x Number of shares

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

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

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

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

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

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

Revenue break-down of the parent of AS Merko Ehitus for the year 2021 is presented according to Estonian Classification of Economic Activities EMTAK, as required under the Commercial Code § 4 p.6:

in thousands of euros

EMTAK code		**2021**	**2020**
	Real estate activities		
6420	activities of holding companies	452	249
6810	sales of own real estate	895	23
6820	renting and operating of own or leased real estate	13	12
	Total revenue	**1,360**	**284**

SUSTAINABLE DEVELOPMENT REPORT

SUSTAINABILITY REPORTING PRINCIPLES

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

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

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

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

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

STAKEHOLDERS

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

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

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

GRI CONTENT INDEX

Standard	Disclosure	Page	Information
GRI 102: General Disclosures			
ORGANISATIONAL PROFILE			
102-1	Name of the organisation	p. 2	
102-2	Products, services and trademarks	p. 4, 15-16, 22, note 3	
102-3	Location of headquarters	p. 2	
102-4	Location of operations	p. 4, 22, note 18	
102-5	Ownership and legal form	p. 4, 31-33, 34-38	
102-6	Markets served	p. 4, 22, 34, note 3	
102-7	Scale of the organisation	p. 4, 17, 22-24	
102-8	Basic information on employees	p. 30, 102, 114	
102-9	Supply chain		Merko Ehitus group companies use suppliers and subcontractors extensively in all operating countries. The materials used in construction come from an extensive network of suppliers located mainly in Europe and in the operating countries of the group companies. Merko Ehitus group companies mainly act as general contractors, as a result of which the large extent of the workforce used in construction, (except for project management and work segments performed by their own employees) are subcontractors in the country where the construction site is located.
102-10	Significant changes during the reporting period		-
102-11	Precautionary Principle or approach	p.9, 28-29, 114-115	
102-12	External initiatives		No significant commitments to voluntary charters and other initiatives.
102-13	Memberships in associations		Merko Ehitus group companies are members in the following associations and organisations: Estonian Chamber of Commerce and Industry Estonian Association of Construction Entrepreneurs Estonian Waterworks Association Estonia Concrete Association Estonian Digital Construction Cluster Estonian Utilities Association Estonian Infra Construction Association Latvian Chamber of Commerce and Industry Latvian National Real Estate Developers Alliance Latvian Construction Industry Digitalization Association Latvian Association of Civil Engineers Skanste Development Agency Lithuanian Builders Association Lithuanian Real Estate Developers Association Entreprenørforeningen Bygg og Anlegg
STRATEGY			
102-14	CEO's statement	p. 5	-
ETHICS AND INTEGRITY			
102-16	Organisation's values, principles, standards, norms of behaviour and codes of ethics	p. 6, 30	In its operations, the group is guided by the strategy and values of Merko Ehitus and responsible management system and business principles, including code of business ethics and Our Merko ('Meie Merko' in Estonia), which summarizes the nature, principles and values of Merko. These are included in the orientation of new personnel and also highlighted in various events and materials for personnel.
GOVERNANCE			
102-18	Governance structure	p. 34-38	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholders	p. 108	
102-41	Collective bargaining agreements		Merko Ehitus group does not have general collective bargaining agreements, it complies with company-specific agreements in line with local legislation.

102-42	Identification and selection of stakeholders	p. 108	
102-43	Approach to stakeholder engagement	p. 108	
102-44	Key topics and concerns raised		Customers and employee satisfaction surveys, grievances about labour practices. In 2021, the number of new grievances about labour practices against Merko group amounted to 0 (2020: none), the number of grievances (both from current and previous years) addressed was 0 (2020: none) and the number of grievances (both from current and previous years) resolved was 0 (2020: none). The keyword of 2021 was the COVID-19 pandemic and as a result we devoted more attention to distributing information and looking out for employee health. We continued to hold quarterly information briefings for companies' managements and subsidiaries' employees and maintained open communication. To prevent the spread of the virus, we prepared guidelines for conduct and regularly issued guidance which, overall, ensured that work could continue smoothly

A satisfaction survey conducted in the group's Estonian subsidiary Merko Ehitus Eesti in 2021 drew a response rate of 73%. They rated their satisfaction with work and how work is organized, cooperation on their own team and with other units and coping with the changes caused by COVID-19. In spite of the complicated year, employee satisfaction had risen in nearly all fields compared to the previous survey. Employees said they were generally able to cope with the changes in work arrangements caused by the pandemic and did not sense a decline in job performance. Remote work received a variety of ratings but most employees found working from home suitable and said they wanted to use the option in future as well.

A satisfaction survey conducted among employees at the Latvian subsidiary Merks focused on employee mental health during the period of restrictions caused by the COVID- 19 pandemic. Among other things, employees were asked about their plans to return to the office after the second wave of the virus, experience working from a home office and existence of the necessary equipment, support for employees from direct supervisors. They were also given the chance to ask questions to the company's management. The survey results suggested that Merks employees were satisfied with working from home, while employees also wanted to return to the office; because of this, arrangements were introduced to allow employees to variously use either option. Nearly all of the employees confirmed receiving the necessary support from their direct supervisor.

CUSTOMER SATISFACTION

Feedback from clients helps make our products and services better. In Estonia, we asked in 2021 close to 500 clients after their purchase about their satisfaction with various aspects the apartment and the buying process. One-third of the people surveyed responded and their average net promoter score was +61 on a scale of -100 to +100. In Latvia, we conducted a feedback survey among buyers of the first phase of Merks Viesturdārzs apartment development in Riga, focusing on their satisfaction with the upgraded hearing system. Following the completion of the construction site, we gauge clients' satisfaction with our service and construction process. In 2021, a satisfaction survey was conducted in Estonia among the customers behind six completed construction sites.

REPORTING PRACTICE			
102-45	Entities included in the consolidated financial statements		The report covers all of Merko Ehitus group's functions, unless otherwise mentioned.
102-46	Defining report content and topic Boundaries	p. 108	
102-47	List of material topics	p. 108	
102-48	Restatements of information		-
102-49	Changes in reporting		-
102-50	Reporting period	p. 2	The reporting period is the calendar year, January 1, 2021 – December 31, 2021
102-51	Date of most recent previous report		The most recent previous integrated annual report was published on April 7, 2021.
102-52	Reporting cycle		The report is published annually.
102-53	Contact point		Urmas Somelar, AS Merko Ehitus Head of Group Finance Unit

102-54	Claims of reporting in accordance with the GRI Standards		This report has been prepared in accordance with the GRI Standards (*Global Reporting Initiative)* Core option.
102-55	GRI Content Index	p. 109-116	
102-56	External assurance		The GRI report has not been assured by a third party.
MATERIAL TOPICS			
GRI 201: Economic Performance 2016			
GRI 103-1 to GRI 103-3	Management approach 2016	p. 103-105	The activities of Merko Ehitus group have a significant economic impact on society and the company's main stakeholders. The group companies are important employers and taxpayers, and the company creates business opportunities for suppliers and subcontractors by its activities. The business activities of Merko Ehitus are long-term and future-oriented in nature. Group has made considerable investments into assets, the realisation horizon of which we measure in years. Cooperation with stakeholders is important for the group in order to ensure the sustainability of business activities.
201-1	Direct economic value generated and distributed		

Direct economic value generated and distributed for stakeholders 2021 (2020)

Customers Revenue EUR 339.4 million (315.9)	**Suppliers** Materials and goods, EUR 59.7 million (54.2) External services EUR 181.4 million (174.2)	**Employees** 670 employees (666) Labour costs EUR 38.4 million (36.4)
	Investors Dividends EUR 17.7 million (0.0)	**Public sector** Corporate income tax expense EUR 3.1 million (2.0)

Merko Ehitus group approach to taxes

Group is committed to being a responsible taxpayer in all operating countries. It complies with local and international tax regulations, practices and interpretations, as well as requirements concerning tax returns and other documentation. Merko Ehitus group applies the market price principle pursuant to the OECD Transfer Pricing Guidelines and local transfer pricing regulations in the group's internal business transactions.

PAID* TAXES BY COUNTRIES

in thousands of euros

	2021	2020
Estonia	24,620	23,463
Latvia	2,025	5,553
Lithuania	7,806	13,682
Norway	838	1,165
Total	**35,289**	**43,863**

** Actually paid and not calculated tax amounts.*

PAID* TAXES BY TAX TYPES

in thousands of euros

	2021	2020
Value added tax	14,057	26,612
Taxes on employee wages	14,571	14,804
Other taxes	1,455	1,417
Corporate income tax	5,206	1,030
Total	**35,289**	**43,863**

** Actually paid and not calculated tax amounts.*

GRI 202: Market Presence 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		The success of group's business operations in each operating country (Estonia, Latvia, Lithuania, Norway) depends on the local people who are familiar with the business environment and cultures of each country. Although the group's structure is international, in each country we operate as local companies.
202-2	Proportion of management hired from the local community at significant locations of operation	p 34-38	The group is managed on the basis of countries in which it is active and the local leaders of companies are generally nationals of those countries.

GRI 203: Indirect Economic Impacts 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		As the leading construction company in the Baltic region, the group's economic activities have a significant impact on the local economic environment. The group's companies build buildings and facilities and develop real estate, creating a better living environment. The group designs and builds new buildings: homes for thousands of families as

			well as large public buildings, including educational institutions, national defence facilities, office buildings and shopping malls. The roads, bridges, tunnels and viaducts Merko has built make traffic safer and faster; while water treatment plants and public water and sewerage pipelines improve the quality of life and provide quality drinking water to hundreds of thousands of people. In addition, Merko has helped to ensure the necessary electrical connection for life to hundreds of thousands of companies and families and build and maintain public roads. In addition to the living environments developed and built by us, Merko develops public space in cooperation with local governments. All of this serves to renew and improve the general environment, where, among other things, economic relations can develop more efficiently and more closely than before, thereby creating value for other market participants.
203-1	Infrastructure investments and services	p. 7, 23	
203-2	Significant indirect economic impacts	p. 7-11, 30	
GRI 204: Procurement Practices 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		The group's business is based on fair and transparent business ethics.
204-1	Proportion of spending on local suppliers at significant locations of operation	notes 4-5	The materials and services used in construction are generally from the local market or supplied from within the EU. Detailed data is not reported at group level.
GRI 205: Anti-corruption 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		Merko's core values include ethical business activities, and any forms of corruption are unacceptable for the group. All employees of the group must be guided by ethical principles and observe the code of business ethics established in the group and other documents and guidelines of the group's companies and principles shared in training. We also expect our customers and partners to follow ethical business practices in their daily work.
205-2	Communication and training on anti-corruption policies and procedures	p. 29	Merko continuously provides training and orientation to its personnel on the prevention of corruption and other illegal operating practices. The content and scope of the training depends partly on the role of the persons concerned.
205-3	Confirmed incidents of corruption and actions taken		There were no confirmed incidents of corruption in 2021. In addition to the prevention of corruption, Merko Ehitus group has a principle of investigating all suspected cases of misconduct and deciding on further action based on the results of the investigation.
GRI 301: Materials 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		Due to the fact that construction activities involve the use of many different building materials and products, the efficiency of such use is a significant cost-related area that is constantly in focus. Each construction project is unique; therefore, it is difficult to develop a uniform material efficiency indicator that would accurately reflect the actual level of efficiency. Thus, material efficiency is monitored and managed on an individual project basis. Besides project-bases analysis, Merko Ehitus is also engaged in the broader development of design organisation and technical calculation preparation practices from the viewpoint of material efficiency, focusing on the optimisation of building structures and the choice of materials. In choosing building materials and products, the construction companies in Merko group follow the principles of ensuring the requirements of European Parliament and of the Council regulation No 305/2011 and the national legal acts.
GRI 302 Energy 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		The group's main activity is construction management, which is not particularly energy-intensive compared to production activities. The group's business activities include many projects of different types and volume, and energy consumption can therefore vary considerably across periods. In conducting its activities, the company primarily focuses on energy efficiency on a project and unit level, developing various energy-efficient work methods and replacing its vehicles and tools as energy efficiency improves.
301-1	Energy consumption within the organisation		The group's construction companies comply with the principles of environmental management system standard ISO 14001 and hold the respective certificate. The European Union Member States are obliged to comply with the Energy Efficiency Directive (2012/27/EU) and the

			local legislation that requires Merko to comply with its large company energy audit obligation. The regular energy audits of Merko group companies have been regularly submitted and declared to be in conformity.
301-2	Energy consumption outside of the organisation		The group's energy consumption outside of the organisation is mainly of a local nature and is based on the principles of construction management – sites with larger numbers of workers are mainly located near capitals, i.e. close to where the workers live, while the project management of smaller projects that are located farther away from the headquarters is often concentrated. Such projects are managed from the headquarters, which reduces energy consumption, fuel consumption and CO_2 emissions. Merko group companies follow energy-efficient construction solutions in the design of buildings that meet the national requirements of the group's construction companies.
GRI 306: Waste 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		Construction activities, particularly at sites that involve demolitions works, generate large quantities of waste. Similarly to the question of materials and energy, the issue of re-using waste, reducing the volumes of waste and recycling waste is an issue of cost-efficiency for the group, which is managed on a project and unit basis. The waste generated at construction sites is sorted and delivered to a waste handler who holds a waste permit. If possible, waste is re-used depending on local recycling methods and the principles of legislation.
GRI 307: Environmental Compliance 2016			
GRI 103-1 to GRI 103-3	Management approach 2016	p. 9, 30	
307-1	Non-compliance with environmental laws and regulations		No significant fines and sanctions for non-compliance with environmental regulations during the period.
GRI 401: Employment 2016			
GRI 103-1 to GRI 103-3	Management approach 2016	p. 30, 102	
401-1	New employee hires and employee turnover		In the financial year, 144 people joined and 140 people left (2020: 90 people joined and 118 people left) of the Merko group (including both termless and fixed-term contracts). The age groups are not gathered at group level.
401-2	Benefits provided to full time employees	p. 30	

TOTAL NUMBER OF EMPLOYEES BY EMPLOYMENT CONTRACT

	2021		2020	
Permanent contract	632	94%	630	95%
Temporary contract	38	6%	36	5%
Total	**670**	**100%**	**666**	**100%**

TOTAL NUMBER OF EMPLOYEES BY GEOGRAPHICAL LOCATION

	2021		2020	
Estonia	440	66%	458	69%
Latvia	85	13%	76	11%
Lithuania	122	18%	109	16%
Norway	23	3%	23	4%
Total	**670**	**100%**	**666**	**100%**

TOTAL NUMBER OF PERMANENT EMPLOYEES BY EMPLOYMENT TYPE

	2021		2020	
Full-time	602	95%	592	94%
Part-time	30	5%	38	6%
Total	**632**	**100%**	**630**	**100%**

TOTAL NUMBER OF EMPLOYEES BY EMPLOYMENT POSITION

	2021		2020	
Management	16	2%	16	2%
Middle management, specialists	423	63%	421	63%
Workers	233	35%	229	35%
Total	**670**	**100%**	**666**	**100%**

TOTAL NUMBER OF EMPLOYEES BY GENDER

	2021		2020	
Male	555	83%	570	86%
Female	115	17%	96	14%
Total	**670**	**100%**	**666**	**100%**

GRI 403: Occupational Health and Safety 2018		
GRI 103-1 to GRI 103-3	Management approach 2016	A safe working environment is top priority for the group's companies in order to avoid accidents at work and health problems. We provide our employees with the necessary work equipment and personal protective gear and organize occupational health and safety supervision and training, including continuing education. To forestall health problems, plan a safer work environment and use health rehabilitation measures (such as massage therapy), we provide health checks periodically at our healthcare partners, the content and frequency depends on the nature of the hazards in the specific employee's work. We offer employees the option of getting flu and tick-borne encephalitis vaccinations. Starting in 2020, we also offered COVID-19 testing. The stressful work in the construction sector is counterbalanced by efforts to support employees' personal life and healthy lifestyles. To promote sports for everyone and keep work capacity high, we popularize healthy lifestyles and compensate employees for costs on sport and health. During the pandemic year, we encouraged people to spend more time being active outdoors and use recreational trails all across Estonia, the construction and development of which Merko has supported for more than 15 years.
403-1 to 403-7		The group's construction companies ensure the activities required by law in the field of occupational health and safety, supplemented by implementation of the requirements of the occupational health and safety management system. The group's construction companies have an occupational health and safety management system certified according to ISO 45001. In 2021, 79% of Merko Ehitus group's employees worked in companies with an international health and safety certificate ISO 45001 (2020: 79%).
403-9 403-10	Rates of injury, fatalities and absenteeism	.

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

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

	2021	2020	2019
Total number of injuries/accidents excluding minor (first-aid level)	5	9	3
Total number of occupational illnesses	0	0	0
Total number of lost days due to occupational injuries/accidents or illnesses	212	368	138
Total number of absentee days	7,668	5,757	4,451
Total number of fatalities *	0	0	0
Injury rate (per 100 employees)	0.8	1.5	0.5
Occupational diseases rate (per 100 employees)	0.0	0.0	0.0
Lost days rate (per 100 employees)	52.9	61.6	21.6
Absentee rate per year (%)	5.1	3.9	2.8

Calculation of ratios is provided on page 106 of the report.

** In 2021, there were no work-related accident, which resulted in injury to an employee of a subcontractor to which Merko group companies are liable for the general safety of the working environment (2020: 0; 2019: 1) and were no fatal accidents to such employees (2020: 0; 2019: 0).*

<table>
<tr><th colspan="4">GRI 404: Training and Education 2016</th></tr>
<tr><td>GRI 103-1 to GRI 103-3</td><td>Management approach 2016</td><td></td><td></td></tr>
<tr><td>404-2</td><td>Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings</td><td>p. 30, 114</td><td>Merko's master class, a format established in 2020, continued in 2021, serving as a centre for Merko Ehitus Eesti employee teaching and development activity. The good experience using online study format allowed in-house training to be continued via MS Teams at times when the risk of coronavirus transmission was higher. The advantage of the digital environment is that it allows remote participation in training and later on-demand access to the recordings.
In-person seminar days were also held in 2021, with the necessary safety rules observed. The quality department launched two important seminars, the goal of which was to share previous experience within the company. The most important lessons learnt in recent months and years were discussed at the construction quality seminar. It is of utmost importance that the lessons learned on the job site be disseminated to as many civil engineers as possible in order to raise the quality of subsequent work.
The group's Latvian subsidiary Merks organized a lecture by a professional coach on how to adapt to the new work arrangements and prevent burnout among remote workers. Over 90% of employees took part in the two-hour training and it drew a rating of 7.2 points on a 10-point scale and 60% of the employees said they felt the information they heard was useful. Employees said they had a high regard for the practical assignments solved in group format, as it allowed them to interact with colleagues they otherwise do not have contact with in their everyday work.</td></tr>
<tr><td>404-3</td><td>Employees receiving regular performance and career development reviews</td><td></td><td>THE NUMBER OF EMPLOYEES WHO RECEIVED AN ANNUAL PERFORMANCE REVIEW
<table>
<tr><th></th><th colspan="2">2021</th><th colspan="2">2020</th></tr>
<tr><td>Estonia*</td><td>-</td><td>-</td><td>150</td><td>33%</td></tr>
<tr><td>Latvia</td><td>23</td><td>27%</td><td>15</td><td>20%</td></tr>
<tr><td>Lithuania</td><td>122</td><td>100%</td><td>109</td><td>100%</td></tr>
<tr><td>Norway</td><td>3</td><td>13%</td><td>-</td><td>-</td></tr>
<tr><td>Total</td><td>148</td><td>22%</td><td>274</td><td>41%</td></tr>
</table>
<i>* Due to the pandemic in 2021, no reviews were conducted in Estonia</i></td></tr>
<tr><th colspan="4">GRI 413: Local Communities 2016</th></tr>
<tr><td>GRI 103-1 to GRI 103-3</td><td>Management approach 2016</td><td></td><td>Operating in the construction and real estate development sector requires good relations with local communities on whom the company's business activities have an effect. Works at construction sites are organised so as to keep the disturbance of the surrounding residents, businesses and passers-by to a minimum, and those directly affected by construction works are given prior notice of plans to carry out construction works. Upon preparing new real estate developments, consideration is given to the practices of the former users of the development area, and the constructed buildings are surrounded with integral environments that correspond to the expectations of the local communities and suit the overall urban environment.</td></tr>
</table>

413-1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	p. 10-11, 15-16, 108	In the financial year, the group supported sports, education and culture with donations amounting to a total of EUR 0.14 million (2020: EUR 0.14 million).
413-2	Operations with significant actual and potential negative impacts on local communities		-
GRI 415: Political Contributions 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		The group's principle is not to make political donations.
415-1	Contributions to political parties and related institutions		Merko Ehitus group does not support any politicians, political parties or other political institutions.