



AS MERKO EHITUS

GROUP

2020 9 months and III quarter consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2020 – 30.09.2020
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Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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BRIEF OVERVIEW OF THE GROUP

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



BUSINESS SEGMENTS

ESTONIA

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

LATVIA

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

LITHUANIA

General construction
Residential real estate development and investments

NORWAY

General construction

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

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

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

SHARES

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

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

2019 KEY FIGURES

Revenue **326.8 million** euros

Net profit **16.3 million** euros

694 employees



VISION

Our vision is reliable solutions and quality performance for your ideas.

VALUES

RESPONSIBILITY	We decide based on business thinking, awareness and ethical beliefs. We offer enduring and environmentally friendly solutions.
KEEPING PROMISES	We give realistic promises to the shareholders, contracting entities, cooperation partners, employees and we keep our promises. Good solutions are born in cooperation, the keeping of one's promises is mutual.
COMPETENCE	We value quality and professionalism. We constantly develop our professional knowledge and skills.
INITIATIVE	We manage processes and we are result-oriented. We accept the challenges which presume more.
CREATIVITY	We are open, innovative and creative in working out and implementing the solutions. We have a will to carry out forward-looking ideas.

STRATEGY

The business strategy of AS Merko Ehitus is focussed on increasing the company value by offering general contracting services in the field of construction of buildings and infrastructure facilities as well as developing residential real estate in its main home markets of Estonia, Latvia, Lithuania and Norway. Merko Ehitus aims to be a preferred partner to its clients for construction works.

MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

Merko Ehitus posted revenue of EUR 79.7 million and a net profit of EUR 4.9 million in the third quarter of 2020, the respective growth were 8.6% and 92%. The group's 9-month revenue amounted to EUR 209 million and net profit to EUR 13.1 million. In 9 months of 2020, Merko sold 534 apartments.

The majority of group's profit has come from the sale of apartments in previously launched projects. Merko sold the most apartments in Vilnius, where the good work done in the last couple of years has borne fruit. The share of apartment development in Merko's business has grown – therefore, the quarterly results may vary considerably, depending on when the projects are finished.

In the first 9 months of 2020, Merko's sales revenue in the area of real estate development grew more than three times compared to the same period in the preceding year, and the number of apartments sold increased more than 2.5 times. The largest apartment development projects include Uus-Veerenni, Lahekalda and Pikaliiva in Tallinn, Gaiļezers and Viesturdārzs in Riga, and Vilneles Slenis and Rinktinės Urban in Vilnius.

The majority of construction contracts concluded in 9 months are public procurements. According to the management, there will be no increase in the orders in the Baltic construction market in the coming 12 months. The group's companies concluded new contracts for EUR 248 million in the first 9 months of 2020 and for EUR 72.9 million in the third quarter. The largest of those were the establishment of the third stage of the Mustamäe medical campus of the North Estonia Medical Centre, the renovation of Nordic Hotel Forum and Tallink City Hotel in Estonia and the construction of the Orkla waffle and biscuit factory in Ādaži as well as a kindergarten in Salaspils, both in Latvia. As at the end of September, the group's secured order book balance was EUR 251.2 million.

In the third quarter, the largest projects in progress were the Tallinn School of Music and Ballet, the Arte Gymnasium, Terminal D parking house at the Tallinn passenger port, a data centre in Harju County, the reconstruction of Aaspere-Haljala road section, and the design and construction of the infrastructure of the Republic of Estonia's southeast land border. In Latvia, work continued on the school building and dormitory in Pinki and Lidl logistics centre as well as the reconstruction of the Riga Technical University Civil Engineering Faculty building. In Lithuania, the major ongoing projects included Hotel Neringa in Vilnius, wind park infrastructure facilities in Telšiai district, and, in Kaunas, the district police headquarter building and NATO barracks.

2020 9M
REVENUE
209 MILLION EUROS

PROFIT
BEFORE TAX
13.9 MILLION EUROS

OVERVIEW OF THE III QUARTER AND 9 MONTHS RESULTS

PROFITABILITY

2020 9 months' profit before tax was EUR 13.9 million and Q3 2020 was EUR 5.1 million (9M 2019: EUR 10.3 million and Q3 2019 was EUR 2.8 million), which brought the profit before tax margin to 6.6% (9M 2019: 4.5%).

Net profit attributable to equity holders of the parent in 9 months 2020 was EUR 13.1 million (9M 2019: EUR 7.0 million) and Q3 2020 net profit attributable to equity holders of the parent was EUR 4.9 million (Q3 2019: EUR 2.5 million). 9 months net profit margin was 6.2% (9M 2019: 3.1%). Compared to 9 months 2020, the net profitability of 2019 was influenced by, among other things, a significantly increased income tax expense: in Q2, the group's income tax expense on paid dividends was EUR 2.7 million. In 2020, the group's parent company has not paid dividends.

REVENUE

Q3 2020 revenue was EUR 79.7 million (Q3 2019: EUR 73.4 million) and 9 months' revenue was EUR 209.5 million (9M 2019: EUR 227.6 million). 9 months' revenue decreased by 8.0% compared to same period last year. The share of revenue earned outside Estonia in 9 months 2020 was 47.6% (9M 2019: 53.2%).

SECURED ORDER BOOK

As at 30 September 2020, the group's secured order book was EUR 251.2 million (30 September 2019: EUR 152.2 million). In 9 months 2020, group companies signed new contracts in the amount of EUR 248.0 million (9M 2019: EUR 127.6 million). In Q3 2020, new contracts were signed in the amount of EUR 72.9 million (Q3 2019: EUR 41.6 million).

REAL ESTATE DEVELOPMENT

In 9 months 2020, the group sold a total of 534 apartments (incl. 3 apartments in a joint venture); in 9 months 2019, the group sold 206 apartments (incl. 36 apartments in a joint venture). The group earned a revenue of EUR 67.0 million from sale of own developed apartments in 9 months 2020 and EUR 20.2 million in 9 months 2019. In Q3 of 2020 a total of 165 apartments (incl. 1 apartment in a joint venture) were sold, compared to 106 apartments (incl. 3 apartments in a joint venture) in Q3 2019, and earned a revenue of EUR 21.0 million from sale of own developed apartments (Q3 2019: EUR 10.9 million).

CASH POSITION

At the end of the reporting period, the group had EUR 25.4 million in cash and cash equivalents, and equity of EUR 143.3 million (53.0% of total assets). Comparable figures as at 30 September 2019 were EUR 13.4 million and EUR 121.1 million (39.4% of total assets), respectively. As at 30 September 2020, the group's net debt stood at EUR 25.2 million (30 September 2019: EUR 71.0 million).

OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

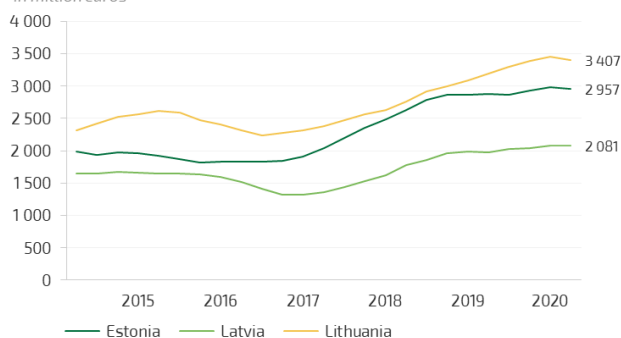
CONSTRUCTION SERVICES

Growth in construction volumes, which has been characteristic of the Baltic markets for the past years, has now stopped. General signs that the demand is tapering off were visible already last year. Private sector readiness to order new buildings had decreased. During the past couple of years a lot of new commercial buildings (offices, retail) had been brought to the market. This meant that competition between real estate developers had become stronger. Because of that the rental prices of commercial premises have remained basically the same for a prolonged period of time, while all other costs, including construction, have gradually increased. In 2020, the COVID-19 pandemic and the measures taken to curb its spread have had additional effect on the market. So far, in the Baltics, the effect has been mostly indirect, i.e. the readiness of clients to invest has decreased further, while the direct effect to construction activities through, for example, employees getting ill, the construction sites being closed or difficulties in supply chains becoming critical, has been rather subdued.

In the fourth quarter, the whole economy is entering a period, which since spring has been considered potentially the most difficult. The initial subsidy measures by the governments both to people as well as to businesses have mostly run their course, while the pandemic has not ended. Rather, the whole world is facing the so-called second wave of illness, the extent, seriousness and timeframe of which is very difficult to forecast. Under these circumstances it is unlikely that during the next 12 months the construction sector could show new growth. Instead, a search for a new balance is ongoing. Partly, the decrease in private sector demand could be compensated by the public sector. However, so far there has been very little evidence of a substantial increase in public sector demand. Partly, this is due to the fact that any noteworthy construction project has to have a longer preparatory phase (planning, designing). Also, the structure of public sector demand is different from private sector demand – there are more orders for infrastructure objects and less for buildings. Therefore, the positive effect from the possible increase of public sector demand will remain even smaller for companies, which are focused on providing services related to construction of buildings.

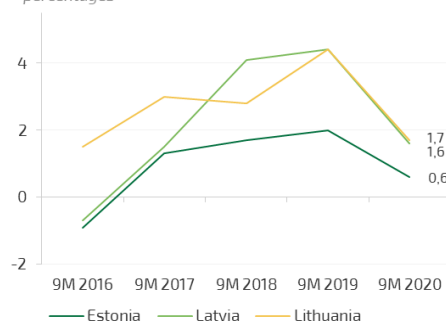
There has been no substantial correction in construction prices, at least so far. Still, the increase in prices has slowed down, being around +1% on a quarterly basis (in 9 month comparison the price increase has been a bit higher in Latvia and Lithuania, mostly due to stronger first quarter when the pandemic had not yet had a major impact on the market).

BALTIC STATES CONSTRUCTION MARKETS (WITH OWN FORCES)
ROLLING 12 MONTHS
in million euros



Source: national statistical offices

9 MONTHS' CHANGE IN CONSTRUCTION PRICE INDEX
percentages



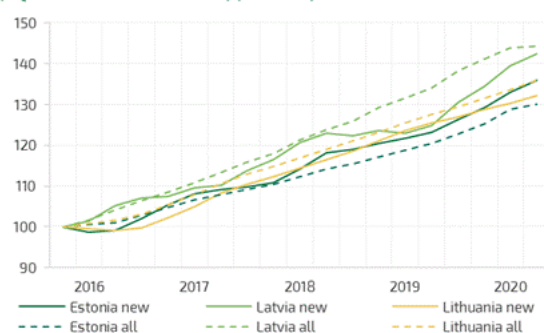
Source: national statistical offices

DEVELOPMENT OF APARTMENTS

Although the transaction activity of the apartment market fell significantly in spring, this was rather short-term. During the so-called first wave of the virus this low period lasted few months, when the functioning of large part of the economy as well as the society as a whole was hampered. After that, however, the number of transactions has recovered rather rapidly, reaching the pre-pandemic levels.

There has been no major decrease in apartment sales prices as the developers have not had a pressing need to do that. This shows that the developers in today's market are mostly well capitalized and do not depend on external financing in a critical way. Also, the banks have been acting constructively – loans have not been recalled nor have they been overly restrictive in their lending operations. This has meant that the developers have not had to sell the apartments quickly – rather, there is a general readiness that the sales periods might become longer.

NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX
(4 QUARTER ROLLING AVERAGE) (2015=100)



Source: Eurostat

Also, the transaction statistics show that there have been no major changes in the dynamic of sales prices. In all three Baltic markets the prices have continued to increase more or less at the previous pace. At the same time the buyers who have signed preliminary agreements a while ago have not started to back off. In case of older apartments the price increase has, perhaps, subdued, but here also no clear change in the trend can be witnessed. So far, the market has functioned well. However, just as for the rest of the economy, so for the apartment development business sector, the question remains: what will be the situation in the fourth quarter and the beginning of next year. Due to the so-called second wave of the pandemic, some countries in Europe have already set new restrictions, which will have negative impact on the functioning of the society as well as the economy. Such measures might also be taken in the Baltics, which could decrease the activity level of the real estate market. The extent and duration of these restrictions remain a pressing issue. Based on the experience so far it might be assumed that although the transaction volumes may decrease for some time, the sector will emerge also from the second wave, so that the activity will be restored and major drops in prices will be avoided. The readiness of developers for such a situation is higher than in spring when no one had experienced such a pandemic before.

BUSINESS ACTIVITIES

The group business reporting is divided into two business segments:

- construction service;
- real estate development.

CONSTRUCTION SERVICE

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

million EUR

	9M 2020	9M 2019	VARIANCE	Q3 2020	Q3 2019	VARIANCE	12M 2019
Revenue	134.1	204.0	-34.3%	56.4	61.9	-8.9%	256.7
% of total revenue	64.0%	89.6%		70.8%	84.4%		78.6%
Operating profit	3.1	9.0	-65.4%	2.1	1.4	+56.8%	13.3
Operating profit margin	2.3%	4.4%		3.8%	2.2%		5.2%

In the 9 months of 2020, the revenue of the construction service segment was EUR 134.1 million (9M 2019: EUR 204.0 million). The sales revenue of construction service has decreased by 34.3% compared to the same period last year. The construction service segment revenue for 9 months 2020 made up 64.0% of the group's total revenue (9M 2019: 89.6%). In this segment, the group earned an operating profit of EUR 3.1 million for 9 months (9M 2019: EUR 9.0 million). The operating profit margin was 2.3% (9M 2019: 4.4%).

In the third quarter, the group activities in the construction service segment continued at the same course. There were no major setbacks from the COVID-19 pandemic or the measures taken to curb its spread. Decreased revenue, compared to last year, is rather a reflection of the fact that the group has for some time now been consciously selective in signing new construction contracts. The group has been willing to sign fewer contracts instead of signing them on ever riskier terms coupled with low expected profitability.

In the fourth quarter as well as the beginning of next year, the group is prepared for possible negative developments arising from the growth of the pandemic's so-called second wave and the governmental measures imposed to fight its spread. The group companies as well as the construction sector and the society as a whole have gained experience in the first half of the year how to act in these difficult times. The group companies have mapped the main risks, reviewed how the work is organized and readied plans in case functioning in the constraints of restrictions becomes necessary again. Therefore the group can be expected to be able to keep the work processes running and the activities on construction sites continuing successfully, regardless of the seriousness of the situation. As the private sector demand has decreased due to the pandemic, in the short-term, overall increase in construction volumes on the market cannot be foreseen. The public sector has played an important part in the construction services segment already before the pandemic, and its share might increase further.

Larger projects in progress in the third quarter in construction service segment in Estonia included Tallinn School of Music and Ballet, data centre in Harju County, Tallinn Arte Gymnasium, Terminal D parking house at the Tallinn passenger port, the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre, construction of electric power cables of the Suur Väin strait, high-voltage power cables in Tallinn, construction works of water supply and sewerage piping in Kohila Parish, reconstruction of Aaspere-Haljala road section and construction works of the Republic of Estonia's southeast land border. In Latvia, larger ongoing projects in the third quarter included the construction works of college building and dormitory in Pinki and Lidl logistics centre as well as the reconstruction of Riga Technical University Civil Engineering Faculty building. In Lithuania, larger projects were Hotel Neringa in Vilnius, construction of wind farm balance of plant in Telšiai district, and, in Kaunas, the district Police headquarters building and NATO barracks. In Norway, the group worked on the reconstruction of the Haakon VII's 5 office building in Oslo as well as other smaller scale contracts.

REAL ESTATE DEVELOPMENT

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

million EUR

	9M 2020	9M 2019	VARIANCE	Q3 2020	Q3 2019	VARIANCE	12M 2019
Revenue	75.3	23.6	+219.3%	23.3	11.5	+103.0%	70.1
incl. sale of apartments	67.0	20.2		21.0	10.9		63.8
construction service to joint venture projects	1.0	1.9		0.3	0.2		2.1
sale of immovable properties	0.7	0.4		-	-		0.4
% of total revenue	36.0%	10.4%		29.2%	15.6%		21.4%
Operating profit	12.8	2.2	+488.3%	3.9	1.3	+206.9%	8.1
Operating profit margin	17.0%	9.2%		16.9%	11.2%		11.6%

In 9 months 2020, the group sold a total of 534 apartments (incl. 3 apartments in a joint venture) and 5 commercial premises (incl. 1 apartment in a joint venture); in 9 months 2019, 206 apartments (incl. 36 apartments in a joint venture) and 11 commercial premises (all in a joint venture). The group earned a revenue of EUR 67.0 million (VAT not included) from sale of own developed apartments in 9 months 2020 and EUR 20.2 million (VAT not included) in 9 months 2019.

In the case of projects developed in joint ventures, the real estate development business segment revenue reflects the construction services provided to the project by the group and the operating profit includes the realised construction profit for the period. The profit from development gained from sale of those apartments to end-customers is recognised in the group's reporting based on the equity method. In 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 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 9 months of 2020, real estate development segment revenues increased more than three times compared to the same period last year and formed 36.0% of the group's total revenue (9 months of 2019: 10.4%). Compared to the same quarter of the previous year, 361 own developed apartments more were handed over to customers, which resulted in a significant increase in revenue. Such developments have been as expected. For the past couple of years, the group has increased investments to apartment development considerably. Starting from the end of 2019 these have started to be realised in sales, which are reflected also in revenue and profit figures.

The segment's operating profit for the 9 months of 2020 amounted to EUR 12.8 million (9 months of 2019: EUR 2.2 million) and the operating profit margin was 17.0% (9 months of 2019: 9.2%). The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, including the land acquisition price. In 2020, the results have been influenced especially by the increased sale of own developed apartments.

At the end of the period, group's inventory comprised 289 apartments where a preliminary agreement had been signed (as at 30 September 2019: 411 such apartments): 115 completed apartments (87 in Estonia, 15 in Latvia and 13 in Lithuania) and 174 apartments under construction (121 in Estonia and 53 in Lithuania). The sale of these apartments had not yet been finalised and they had not been delivered to customers, either because the development site was still under construction or the site was completed at the end of the reporting period and the sales transactions had not all been finalised yet.

As at 30 September 2020, the group had a total of 355 apartments for active sale (as at 30 September 2019: 869 apartments) for which there were no pre-sale agreements and of which 176 had been completed (74 in Estonia, 82 in Latvia and 20 in Lithuania) and 179 were under construction (142 in Estonia and 37 in Lithuania).

In 9 months of 2020, the group launched the construction of a total of 109 new apartments in the Baltic states (9 months of 2019: 302 apartments). In the 9 months, the group invested a total of EUR 43.0 million (9 months of 2019: EUR 64.5 million) in the ongoing development projects.

After the reporting date, the group has started the construction of the second stage of the Lahekalda residential development project with 96 apartments in Tallinn, the first stage of the Erminurme residential development project with 18 apartments in Tartu, and the first stage of the Vilneles Skverai residential development project with 250 apartments in Vilnius.

In the third quarter, the sale of apartments progressed at a good pace. In the vast majority of the cases, the clients have not been backing off from presale agreements signed before the COVID-19 pandemic, while the signing of new presale agreements also picked up again at levels similar to those before the pandemic. The transaction activity continues to be supported by the banks' general willingness to provide loan financing.

One of the group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As at 30 September 2020, the group's inventories included land plots with development potential, where the construction works have not started, in the amount of EUR 69.4 million (30.09.2019: EUR 70.9 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	30.09.2020	30.09.2019	31.12.2019
Estonia	28.6	30.0	29.3
Latvia	26.9	26.9	26.9
Lithuania	13.9	14.0	14.0
Total	69.4	70.9	70.2

In the 9 months of 2020, the group has not purchased new land plots for real estate development purposes (9 months of 2019: EUR 18.7 million).

SECURED ORDER BOOK

As at 30 September 2020, the group's secured order book amounted to EUR 251.2 million, compared to EUR 152.2 million as at 30 September 2019, having increased by 65.0% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 9 months of 2020, EUR 248.0 million worth of new contracts were signed, which is almost twice compared to the same period of the previous year (9 months of 2019: EUR 127.6 million). The value of new contracts signed in the third quarter of 2020 amounted to EUR 72.9 million; in the third quarter of 2019 the value of new contracts signed amounted to EUR 41.6 million.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE THIRD QUARTER OF 2020

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Construction contract to design and construct the third stage of Mustamäe medical campus	Estonia	July of 2023	33.8
Construction contract for the construction of new Orkla wafer and biscuits production plant in Ādaži, Latvia	Latvia	January of 2022	32.0
Construction contract for the renovation of Tallink City Hotel at A. Laikmaa 5 in Tallinn	Estonia	Spring of 2021	8.6
Construction contract for the renovation of Nordic Hotel Forum at Viru väljak 3 in Tallinn	Estonia	Spring of 2021	8.0
Construction contract for the construction of a kindergarten in Salaspils, Latvia	Latvia	January of 2022	5.8

As at 30 September 2020, the public sector orders accounted for approximately 61% of the total balance in the group's secured order book (30.09.2019: approximately 59%). The share of public sector in the secured order book has increased considerably already from the beginning of last year, i.e. well before the spread of COVID-19, and the level of private sector procurements has decreased. The private sector demand in the Baltics has decreased as there has been ample supply of new commercial real estate on the market in the last few years and thus competition between developers has increased while construction prices have risen. Some of the development projects have been placed on hold. The pandemic has reduced demand from the private sector even further.

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

CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 25.4 million (30.09.2019: EUR 13.4 million). As the group's cash position continues to be strong, the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As at the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 37.6 million, of which EUR 29.8 million was unused (30.09.2019: EUR 37.6 million of which EUR 20.4 was unused). In addition to the overdraft facilities, the company has a working capital loan facility with a limit of EUR 3.5 million (30.09.2019: EUR 3.5 million) from AS Riverito, which was not withdrawn at the end of current period (30.09.2019: not withdrawn).

The 9-month cash flow from operating activity was positive at EUR 17.0 million (9 months of 2019: negative EUR 45.5 million), cash flow from investing activity was negative at EUR 2.3 million (9 months of 2019: negative EUR 1.6 million) and the cash flow from financing activity was negative at EUR 13.9 million (9 months of 2019: positive EUR 20.4 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 16.4 million (9 months of 2019: positive effect of EUR 11.7 million), from the changes in receivables and liabilities related to construction contracts of EUR 7.6 million (9 months of 2019: negative effect of EUR 8.6 million) and from the change in inventories of EUR 13.1 million (9 months of 2019: negative effect of EUR 64.5 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments. The negative effects to cash flow from operating activities came from change in the provisions of EUR 5.0 million (9 months of 2019: negative effect of EUR 1.7 million), from the changes in trade and other receivables related to operating activities of EUR 4.1 million (9 months of 2019: positive effect of EUR 7.6 million), change in trade and other payables related to operating activities of EUR 9.1 million (9 months of 2019: positive effect of EUR 13.9 million) and from the corporate income tax of EUR 0.9 million (9 months of 2019: EUR 2.8 million).

To support cash flows from operating activities, including raising the volumes in apartment development, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (18.7% as at 30.09.2020; 27.5% as at 30.09.2019; 22.6% as at 31.12.2019).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 2.5 million, which is mainly related to the renewal of equipment in the field of road construction, (9 months of 2019 EUR 1.4 million) and positive effect from the sale of non-current assets in the amount of EUR 0.2 million (9 months of 2019: EUR 0.4 million).

In cash flows from financing, the larger negative factors were the net change in loans received and repaid in connection with development projects in the amount of EUR 12.9 million (9 months of 2019: net positive cash flow of EUR 36.5 million), repayments of lease liabilities in the amount of EUR 0.7 million (9 months of 2019: net negative cash flow of EUR 0.8 million) and net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 0.4 million (9 months of 2019: negative cash flow in the net amount of EUR 0.4 million). Positive cash flow from financing activity were gained from positive change in loans related to construction projects and other activities in the net amount of EUR 0.2 million (9 months of 2019: net positive cash flow of EUR 2.9 million).

The Q3 2020 cash flow from operating activity was positive at EUR 9.8 million (Q3 2019: negative EUR 21.6 million), cash flow from investing activity was negative at EUR 0.7 million (Q3 2019: negative EUR 0.3 million) and the cash flow from financing activity was negative at EUR 7.5 million (Q3 2019: positive EUR 21.2 million)

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		9M 2020	9M 2019	9M 2018	Q3 2020	Q3 2019	Q3 2018	12M 2019
Revenue	million EUR	209.5	227.6	298.8	79.7	73.4	115.1	326.8
Gross profit	million EUR	25.2	20.9	21.8	8.7	6.2	8.8	34.8
Gross profit margin	%	12.0	9.2	7.3	10.9	8.5	7.6	10.7
Operating profit	million EUR	14.3	9.9	12.9	5.2	2.3	5.7	19.2
Operating profit margin	%	6.8	4.4	4.3	6.5	3.2	4.9	5.9
Profit before tax (PBT)	million EUR	13.9	10.3	12.6	5.1	2.8	5.6	20.3
PBT margin	%	6.6	4.5	4.2	6.4	3.8	4.9	6.2
Net profit	million EUR	12.6	7.3	12.5	4.7	2.7	5.6	16.5
attributable to equity holders of the parent	million EUR	13.1	7.0	12.3	4.9	2.5	5.6	16.3
attributable to non-controlling interest	million EUR	(0.4)	0.3	0.2	(0.2)	0.1	(0.0)	0.2
Net profit margin	%	6.2	3.1	4.1	6.1	3.5	4.9	5.0
Other income statement indicators		9M 2020	9M 2019	9M 2018	Q3 2020	Q3 2019	Q3 2018	12M 2019
EBITDA	million EUR	16.4	11.7	14.3	5.9	2.9	6.2	21.9
EBITDA margin	%	7.8	5.2	4.8	7.4	4.0	5.4	6.7
General expense ratio	%	5.4	5.0	3.7	5.1	4.7	3.2	5.3
Labour cost ratio	%	11.4	12.0	8.1	10.5	11.9	7.4	11.4
Revenue per employee	thousand EUR	316	318	399	120	102	154	461
OTHER SIGNIFICANT INDICATORS		30.09.2020		30.09.2019		30.09.2018		31.12.2019
Return on equity	%	16.4		11.1		16.2		12.9
Return on assets	%	8.0		4.9		7.3		5.6
Return on invested capital	%	12.6		9.8		13.3		11.1
Assets	million EUR	270.1		307.1		289.7		281.8
Equity	million EUR	147.1		126.0		129.5		134.6
Equity attributable to equity holders of the parent	million EUR	143.3		121.1		124.8		130.3
Equity ratio	%	53.0		39.4		43.1		46.2
Debt ratio	%	18.7		27.5		18.5		22.6
Current ratio	times	2.4		2.0		2.1		2.4
Quick ratio	times	0.8		0.6		1.1		0.8
Accounts receivable turnover	days	39		45		40		45
Accounts payable turnover	days	40		52		42		53
Average number of employees	people	663		717		748		709
Secured order book	million EUR	251.2		152.2		239.4		141.4

Ratio definitions are provided on page 37 of the report.

RISK MANAGEMENT

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

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

Legal risk

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

As at 30 September 2020, a provision has been set up at the group in the amount of EUR 0.2 million (30.09.2019: EUR 0.1 million) for covering potential claims and legal costs.

Below an overview of the key legal disputes and proceedings, which have taken place or ended during 2020 or are ongoing as of 30 September 2020 and which concern group entities is presented:

Estonia

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

The court cases in connection with Minister of the Environment regulation No 22 of 27 March 2015, which redrew the boundaries of species protection sites to exclude properties on Paekalda street owned by AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ (now merged with AS Merko Ehitus Eesti, part of AS Merko Ehitus group). On 2 February 2016, AS Merko Ehitus group companies, Suur-Paekalda OÜ and Väike-Paekalda OÜ, filed a complaint in Tallinn Administrative Court for compensation of damage. The plaintiffs are seeking a ruling ordering that the state pay damages of approximately EUR 3.2 million to Suur-Paekalda OÜ (exact amount to be determined) and approximately EUR 1.6 million to Väike-Paekalda (exact amount to be determined) as well as late interest at the rate specified in subsection 113 (1) of the Law of Obligations Act starting from 2 February 2016 until due compliance with the demand for compensation. The claims consist of direct patrimonial damage (reduction in the value of immovable property and expenditures made on development activity) and claims for revenue foregone (failed development activity in 2005-2007). On 22 April 2019 the Tallinn Administrative Court partially satisfied the appeal and ordered the Republic of Estonia to pay AS Merko Ehitus Eesti EUR 760 thousand and late interest until the principal claim is duly discharged. The court also ordered that procedural costs of EUR 12 thousand be paid to AS Merko Ehitus Eesti. Both sides filed an appeal to the Tallinn District Court, which partially annulled the decision of the Tallinn Administrative Court and sent the case back to Administrative Court to determine the amount of compensation. The cassation appeals of both parties to the dispute are in proceeding of the Supreme Court. The impact of this claim has not been taken into account in the group's reporting.

Latvia

Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The court hearing, which was scheduled for 4 June 2020, was postponed. The new court hearing is expected to take place on 3 December 2020. The possible effect of the potential positive outcome of this claim has not been taken into account in the group's financial reporting.

Starptautiskā lidosta "Rīga"

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

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

On 8 June 2018, Riga International Airport paid partly the claim submitted on September 21, 2017, therefore SIA Merks reduced the claim to EUR 248 thousand (EUR 76 thousand being the principal claim and EUR 172 thousand late interest). The parties reached a settlement, which provided that SIA Merks would deliver negotiated works to Riga International Airport by 31 March 2020, after which Riga International Airport would sign the final acceptance act. Deriving from the settlement, the parties asked the court to suspend the case. Because of the COVID-19 pandemic related restrictions the work processes have been delayed and the parties strive to reach an agreement by the end of 2020. No additional provisions are recognised in relation to the potential outcome of this claim.

Latvian Competition Council administrative proceeding

In August, 2019, the Latvian Competition Council (*Konkurences padome*) instituted administrative proceeding, the purpose of which, to the group's knowledge, is to ascertain whether there have been infringements of competition law in Latvia by construction companies. SIA Merks is among the construction companies involved in the proceeding. As of this report, the

management has no information about the future of the proceeding. To the knowledge of the group's Management Board, the Competition Council has extended the deadline for the proceeding until 1 August 2021. No provisions are recognised in relation to the effect of this proceeding.

SIA Ostas Celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas Celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas Celtnieks" according to its share in the contract. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. The court took the evidence of both parties to the proceedings and the next meeting will take place on 16 December 2020. The impact of this claim has not been taken into account in the group's reporting.

Lithuania

UAB Vilniaus Vandenys

On 18 May 2016, AS Merko Ehitus and UAB Merko Statyba, acting pursuant to the joint venture agreement, filed an action against UAB Vilniaus Vandenys in the total amount of EUR 183 thousand. The plaintiffs maintain that due to the actions of UAB Vilniaus Vandenys, both the construction period became longer and also additional works were carried out – works that the customer later refused to pay for. By decision of 9 January 2018, the court appointed an expertise, the result of which was submitted to the court on 14 December 2018. By the decision of 7 June 2019 the court dismissed the claim. On 5 July 2019 an appeal was presented to the higher court. By judgment of the Court of Appeal of Lithuania of 16 April 2020, the judgment at first instance was amended and an amount of EUR 140 thousand was awarded to AS Merko Ehitus and UAB Merko Statyba for additional work, default interest and court costs. The judgment has entered into force.

UAB Axis Power

On 3 September 2018, UAB Axis Power (sub-contractor) filed an action against UAB Merko Statyba (main contractor), part of AS Merko Ehitus group, in a total amount of EUR 846 thousand as compensation for carrying out concrete works, which were more complicated than foreseen at the signing of the contract. By the decision of 18 August 2019 the court appointed court expertise, the expected term of which was up to 6 months. The expertise ordered by UAB Merko Statyba has been submitted to the court, the expertise of the other party was submitted to the court on 15 October 2020. The time for a new hearing has not yet been set. The group finds the claim unsubstantiated and has not recognised provisions in relation to this claim.

EMPLOYEES AND LABOUR COSTS

As of 30 September 2020, Merko Ehitus group employed 677 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 35 (-4.9%). The number of employees has decreased in Estonia and Latvia and increased in Lithuania and Norway.

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

The group defines labour cost as salary (incl. fixed salary, additional pay, holiday pay, and performance pay), taxes based on salary, fringe benefits and taxes on fringe benefits. In 9 months 2020, the labour cost was EUR 23.9 million (9 months 2019: EUR 27.3 million), which decreased by 12.5% compared to the same period previous year. The labour cost ratio decreased by 0.6 pp from 12.0% to 11.4% in comparable periods.

During 9 months of 2020, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 5.8 million in labour taxes in Estonia, making it the largest labour tax payer in the construction sector (9 months 2019: EUR 6.2 million).

ETHICAL BUSINESS PRACTICES

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

We do business honestly, follow ethical principles in our activities and make sure our employees know and follow business ethics standards in their everyday work. To allow the principles to take firmer root, the Group has established a Code of Business Ethics.

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

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

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

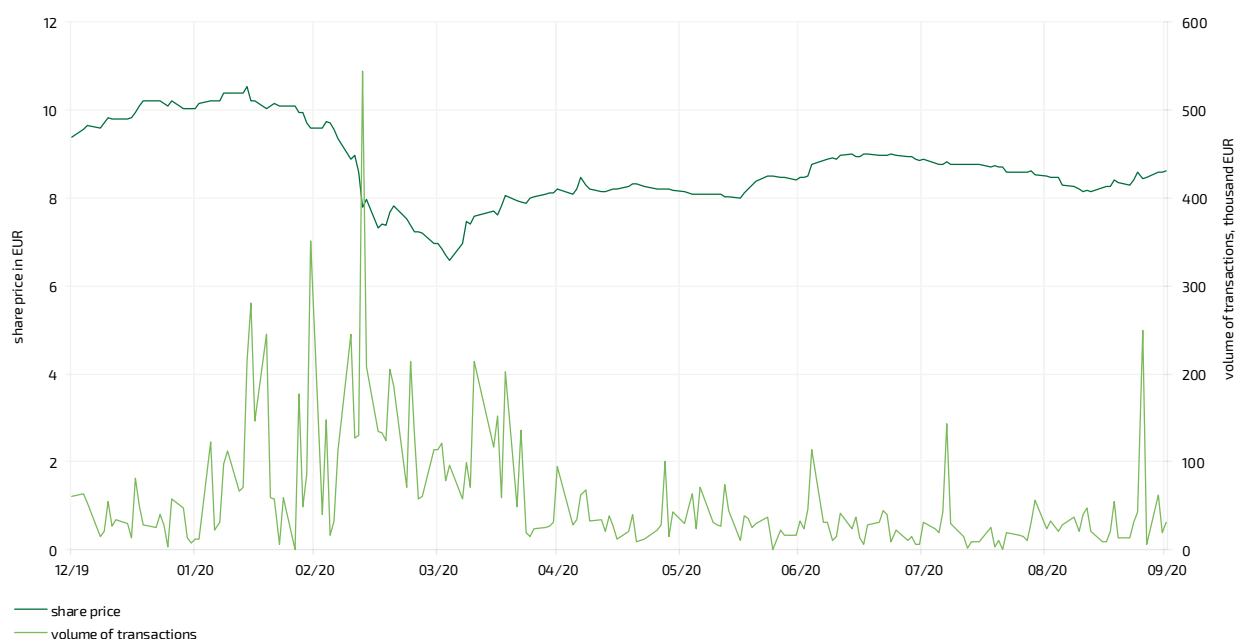
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As at 30 September 2020, the company has 17,700,000 shares. The number of shares has not changed during 2020.

A total of 17,335 transactions were conducted with the shares of Merko Ehitus in 9 months of 2020, with 1.32 million shares (7.4% of total shares) traded, generating a turnover of EUR 11.2 million (comparable figures in 9 months 2019 were accordingly: 7,179 transactions with 2.02 million shares traded (11.4% of total shares), generating a turnover of EUR 19.4 million). The lowest transaction was carried out with a price of EUR 6.56 and the highest with EUR 10.60 per share (9 months of 2019: EUR 8.90 and EUR 10.30, accordingly). On 30 September 2020, the closing price of the share was EUR 8.62 (30.09.2019: EUR 9.18). As at 30 September 2020, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 152.6 million, down 6.1% compared to the end of the equivalent period of the prior year (30.09.2019: EUR 162.5 million).

	30.09.2020	30.09.2019	30.09.2018	31.12.2019
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.74	0.40	0.70	0.92
Equity per share, euros	7.69	7.15	7.14	7.13
P/B ratio	1.12	1.28	1.37	1.32
P/E ratio	6.83	11.58	8.48	10.20
Market value, million EUR	152.6	162.5	173.5	166.0

Ratio definitions are provided on page 37 of the report.

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2020



STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 30.09.2020

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.02%	12,742,686	71.99%
100,001 – 1,000,000	9	0.16%	1,571,912	8.88%
10,001 – 100,000	46	0.84%	984,028	5.56%
1,001-10,000	519	9.43%	1,495,332	8.45%
101-1,000	2,167	39.39%	800,266	4.52%
1-100	2,759	50.16%	105,776	0.60%
Total	5,501	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 30.09.2020 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 30.09.2020	% OF TOTAL 30.06.2020	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	330,000	1.87%	1.79%	13,000
Firebird Republics Fund Ltd	326,648	1.85%	1.86%	(2,954)
Firebird Avrora Fund Ltd	180,950	1.02%	1.05%	(4,827)
Skandinaviska Enskilda Banken AB, Swedish customers	155,000	0.88%	0.88%	-
SEB Life and Pension Baltic SE Estonian Branch	148,787	0.84%	0.84%	-
Siseinfo OÜ	120,000	0.68%	0.65%	5,000
Clearstream Banking AG	111,737	0.63%	0.63%	284
Firebird Fund L.P.	106,790	0.60%	0.63%	(4,645)
Seitse Samuraid OÜ	105,000	0.59%	0.59%	-
Total largest shareholders	14,327,598	80.95%	80.91%	5,858
Total other shareholders	3,372,402	19.05%	19.09%	(5,858)
Total	17,700,000	100%	100%	-

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



DIVIDENDS AND DIVIDEND POLICY

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

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

The annual general meeting of shareholders of AS Merko Ehitus held at 6 May 2020 approved the Supervisory Board's proposal not to pay dividends from net profit brought forward to shareholders. In 2019 the total amount of dividend paid was EUR 17.7 million (EUR 1.00 per share), which is equivalent to a 92% dividend rate and a 10.9% dividend yield for the year 2018 (using the share price as at 31 December 2018).

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

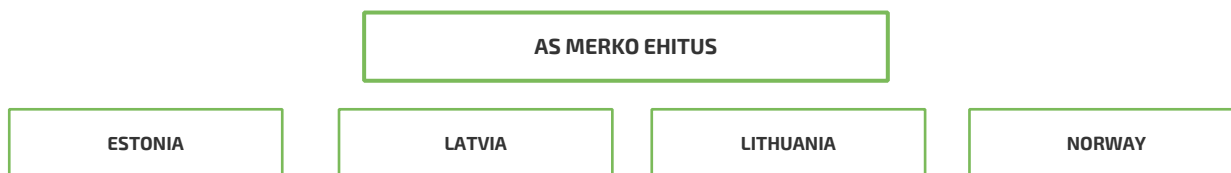
AS Merko Ehitus operates as a holding company to a group, the companies of which in Estonia, Latvia, Lithuania and Norway offer complete solutions in the field of construction and real estate development. The group's largest companies are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba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

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

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

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

As of 30 September 2020, the management structure is as follows:



GROUP'S LEGAL STRUCTURE

As at 30 September 2020, the group comprises 32 companies (30.09.2019: 32). The group's legal structure is predominantly based on regulatory requirements 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 Note 16 of the interim financial statements.

Changes in the legal structure of the group

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

On 27 December 2019, AS Merko Infra and OÜ Merko Kaevandused, fully owned subsidiaries of AS Merko Ehitus Eesti, signed a notarised division plan under which AS Merko Infra (company being divided) will divest the assets related to its quarry to OÜ Merko Kaevandused (recipient company). The balance sheet date of the division and transfer of assets was 1 January 2020. The final entry of the division in the Commercial Register was made on 18 June 2020.

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 annual general meeting of shareholders was held on 6 May 2020. In order to minimize the number of participants in the physical meeting during the novel coronavirus caused COVID-19 pandemic situation, the management board enabled shareholders to vote on the draft resolutions prepared in respect to the items on the agenda of the general meeting using electronic means prior

to the general meeting. The general meeting resolved to approve the annual report and the profit allocation proposal for 2019. It was decided not to pay dividends to shareholders for 2019.

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

Annual and special general meeting of shareholders shall be chaired by an independent person. In 2020, the annual general meeting was chaired by attorney-at-law Vesse Võhma who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board and Supervisory Board about the company's activities.

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

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

SUPERVISORY BOARD

The Supervisory Board shall plan the activities of the company, organise the management of the company 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 AS Merko Ehitus, the Supervisory Board has 3 to 5 members who shall be elected for the term of three years.

As at 30 September 2020, the Supervisory Board of AS Merko Ehitus had three members, of whom, in accordance with the requirements of the Corporate Governance Recommendations, Indrek Neivelt was an independent member.

MANAGEMENT BOARD

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

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

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

The Supervisory Board of AS Merko Ehitus decided to extend the powers of the Chairman of the Management Board of the company, Mr. Andres Trink, starting from 1 January 2021 for the next three years. The Management Board of AS Merko Ehitus will continue with two members: Mr. Andres Trink (Chairman) and Mr. Tõnu Toomik.

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

extended. The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board.

Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 30 September 2020:

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

Changes in the management of group subsidiaries

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

The Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Member of the Management Board, Mr. Alar Lagus, until 31 December 2020. With this decision the duration of the powers of the Members of the Management Board are aligned. The Management Board of AS Merko Ehitus Eesti will continue in a four-member panel: Mr. Ivo Volkov (The Chairman), Mr. Jaan Mäe, Mr. Alar Lagus and Mr. Veljo Viitmann.

MANAGEMENT BOARD'S DECLARATION

Members of the Management Board of AS Merko Ehitus declare and confirm that the consolidated unaudited interim report for the 9 months of 2020, which consists of the management report and the interim financial statements, prepared according to the current International Financial Reporting Standards as adopted by the European Union, provides, to the best of their knowledge, a true and fair view of the development of business operations, assets, liabilities, financial position, results of the operations, cash flows, and profit or loss of AS Merko Ehitus and the consolidated undertakings as a whole, includes a description of the principal risks and uncertainties, and reflects transactions with related parties. The parent company and the companies, which are part of the consolidation group, are going concerns.

Andres Trink	Chairman of the Management Board	05.11.2020
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Tõnu Toomik	Member of the Management Board	05.11.2020
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INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2020 9 months	2019 9 months	2020 III quarter	2019 III quarter	2019 12 months
Revenue	2	209,480	227,620	79,747	73,418	326,779
Cost of goods sold	3	(184,268)	(206,723)	(71,018)	(67,191)	(291,958)
Gross profit		25,212	20,897	8,729	6,227	34,821
Marketing expenses		(3,157)	(2,626)	(1,284)	(842)	(4,260)
General and administrative expenses		(8,148)	(8,841)	(2,755)	(2,600)	(12,988)
Other operating income		1,714	1,740	592	510	2,983
Other operating expenses		(1,316)	(1,222)	(64)	(969)	(1,318)
Operating profit		14,305	9,948	5,218	2,326	19,238
Finance income/costs		(432)	363	(122)	460	1,085
incl. finance income/costs from joint venture		204	845	112	642	1,766
interest expense		(530)	(471)	(200)	(185)	(656)
foreign exchange gain (loss)		(12)	-	(8)	4	-
other financial income (expenses)		(94)	(11)	(26)	(1)	(25)
Profit before tax		13,873	10,311	5,096	2,786	20,323
Corporate income tax expense		(1,227)	(2,983)	(441)	(95)	(3,833)
Net profit for financial year		12,646	7,328	4,655	2,691	16,490
incl. net profit attributable to equity holders of the parent		13,071	7,003	4,896	2,550	16,270
net profit attributable to non-controlling interest		(425)	325	(241)	141	220
Other comprehensive income, which can subsequently be classified in the income statement						
Currency translation differences of foreign entities		(117)	(10)	11	(39)	13
Comprehensive income for the period		12,529	7,318	4,666	2,652	16,503
incl. net profit attributable to equity holders of the parent		12,939	7,002	4,895	2,522	16,281
net profit attributable to non-controlling interest		(410)	316	(229)	130	222
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.74	0.40	0.28	0.14	0.92

The notes set out on pages 25-36 are an integral part of these interim financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	30.09.2020	30.09.2019	31.12.2019
ASSETS				
Current assets				
Cash and cash equivalents	5	25,353	13,355	24,749
Trade and other receivables	6	44,518	72,280	50,413
Prepaid corporate income tax		91	94	104
Inventories	7	153,433	183,056	166,226
		223,395	268,785	241,492
Non-current assets				
Investments in joint venture		2,702	1,577	2,498
Other long-term loans and receivables	8	16,238	10,590	11,094
Investment property	9	13,955	14,077	14,047
Property, plant and equipment	10	13,152	11,336	11,919
Intangible assets	11	664	777	777
		46,711	38,357	40,335
TOTAL ASSETS		270,106	307,142	281,827
LIABILITIES				
Current liabilities				
Borrowings	12	24,221	41,750	20,725
Payables and prepayments	13	60,916	84,643	69,585
Income tax liability		1,325	309	812
Short-term provisions	14	5,775	7,675	7,976
		92,237	134,377	99,098
Non-current liabilities				
Long-term borrowings	12	26,365	42,571	43,001
Deferred income tax liability		1,635	1,589	1,682
Other long-term payables	15	2,785	2,653	3,491
		30,785	46,813	48,174
TOTAL LIABILITIES		123,022	181,190	147,272
EQUITY				
Non-controlling interests		3,807	4,893	4,217
Equity attributable to equity holders of the parent				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	793	793
Currency translation differences		(842)	(722)	(710)
Retained earnings		135,397	113,059	122,326
		143,277	121,059	130,338
TOTAL EQUITY		147,084	125,952	134,555
TOTAL LIABILITIES AND EQUITY		270,106	307,142	281,827

The notes set out on pages 25-36 are an integral part of these interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings	Total		
Balance as at 31.12.2018	7,929	793	(721)	123,756	131,757	4,577	136,334
Balance as at 01.01.2019	7,929	793	(721)	123,756	131,757	4,577	136,334
Adjustment on the adoption of IFRS 16	-	-	-	-	-	-	-
Balance as at 01.01.2019 restated	7,929	793	(721)	123,756	131,757	4,577	136,334
Profit (loss) for the reporting period	-	-	-	7,003	7,003	325	7,328
Other comprehensive income	-	-	(1)	-	(1)	(9)	(10)
Total comprehensive income (loss) for the reporting period	-	-	(1)	7,003	7,002	316	7,318
Transactions with owners							
Option over shares relating to non-controlling interests	-	-	-	-	-	72	72
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	(72)	(17,772)
Total transactions with owners	-	-	-	(17,700)	(17,700)	-	(17,700)
Balance as at 30.09.2019	7,929	793	(722)	113,059	121,059	4,893	125,952
Balance as at 31.12.2019	7,929	793	(710)	122,326	130,338	4,217	134,555
Profit (loss) for the reporting period	-	-	-	13,071	13,071	(425)	12,646
Other comprehensive income	-	-	(132)	-	(132)	15	(117)
Total comprehensive income (loss) for the reporting period	-	-	(132)	13,071	12,939	(410)	12,529
Transactions with owners							
Option over shares relating to non-controlling interests	-	-	-	-	-	133	133
Dividends (Note 4)	-	-	-	-	-	(133)	(133)
Total transactions with owners	-	-	-	-	-	-	-
Balance as at 30.09.2020	7,929	793	(842)	135,397	143,277	3,807	147,084

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

The notes set out on pages 25-36 are an integral part of these interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2020 9 months	2019 9 months	2019 12 months
Cash flows from operating activities				
Operating profit		14,305	9,948	19,238
Adjustments:				
Depreciation and impairment		2,103	1,779	2,707
(Profit)/loss from sale of non-current assets		(165)	(244)	(309)
Change in receivables and liabilities related to construction contracts		7,588	(8,593)	(10,697)
Interest income from operating activities		(1,085)	(1,286)	(2,190)
Change in provisions		(4,963)	(1,709)	282
Change in trade and other receivables related to operating activities		(4,098)	7,613	26,854
Change in inventories		13,109	(64,487)	(48,118)
Change in trade and other payables related to operating activities		(9,075)	13,926	1,811
Interest received		1 058	1,192	2,265
Interest paid		(832)	(745)	(1,039)
Other finance income (costs)		(95)	(40)	(129)
Corporate income tax paid		(868)	(2,817)	(3,093)
Total cash flows from operating activities		16,982	(45,463)	(12,418)
Cash flows from investing activities				
Purchase of investment property		(7)	(407)	(410)
Purchase of property, plant and equipment (excl. leased assets)		(2,482)	(1,391)	(2,199)
Proceeds from sale of property, plant and equipment		206	422	508
Purchase of intangible assets		(49)	(231)	(273)
Interest received		-	2	2
Total cash flows from investing activities		(2,332)	(1,605)	(2,372)
Cash flows from financing activities				
Proceeds from borrowings		29,205	57,252	46,527
Repayments of borrowings		(42,275)	(18,296)	(28,211)
Repayments of lease liabilities		(713)	(762)	(1,006)
Dividends paid		(133)	(17,772)	(17,772)
Total cash flows from financing activities		(13,916)	(20,422)	(462)
Net increase/decrease in cash and cash equivalents		734	(26,646)	(15,252)
Cash and cash equivalents at the beginning of the period	5	24,749	39,978	39,978
Effect of exchange rate changes		(130)	23	23
Cash and cash equivalents at the end of the period	5	25,353	13,355	24,749

The notes set out on pages 25-36 are an integral part of these interim financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 9 months 2020 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2019 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2019 audited annual report and 2019 9 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 9 months 2020 present a true and fair view of the group's economic results based on the principle of going concern. The influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 1.1 CHANGES IN THE ACCOUNTING PRINCIPLE

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

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

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

AS Merko Ehitus group is currently assessing the potential impact of the IFRS Interpretation Committee agenda decision on its financial statements and will reflect the impact, if any, in its 2020 annual financial statements.

NOTE 2 OPERATING SEGMENTS

in thousand euros

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

Reporting of the group's operations are segmented as:

- construction service,
- real estate development.

Construction service segment includes all projects of the home markets in general construction, civil engineering and road construction. Other operating areas (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 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.

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

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.

2020 9 months	Construction service	Real estate development	Total segments
Revenue	134,688	89,956	224,644
Inter-segment revenue	(544)	(14,620)	(15,164)
Revenue from clients	134,144	75,336	209,480
incl. timing of revenue recognition at a point in time	1,018	69,306	70,324
timing of revenue recognition over time	133,126	6,030	139,156
Operating profit (loss)	3,134	12,817	15,951
Profit (loss) before tax	2,981	12,730	15,711
incl. interest income from operating activities	18	1,067	1,085
depreciation	(1,766)	(337)	(2,103)
recognition of provisions	(1,396)	(315)	(1,711)
reversal of provisions	3	-	3
profit from joint venture	-	204	204
other finance income (costs)	(17)	(209)	(226)
incl. interest expenses	(17)	(169)	(186)
Assets 30.09.2020	55,573	189,190	244,763
incl. joint venture	-	2,702	2,702

2019 9 months	Construction service	Real estate development	Total segments
Revenue	204,049	45,339	249,388
Inter-segment revenue	(24)	(21,744)	(21,768)
Revenue from clients	204,025	23,595	227,620
incl. timing of revenue recognition at a point in time	1,580	20,804	22,384
timing of revenue recognition over time	202,445	2,791	205,236
Operating profit (loss)	9,046	2,179	11,225
Profit (loss) before tax	8,894	2,826	11,720
incl. interest income from operating activities	39	1,247	1,286
depreciation	(1,509)	(270)	(1,779)
impairment of inventories	(175)	-	(175)
recognition of provisions	(3,556)	(580)	(4,136)
profit from joint venture	-	845	845
other finance income (costs)	(6)	(190)	(196)
incl. interest expenses	(10)	(181)	(191)
Assets 30. 09.2019	76,338	214,271	290,609
incl. joint venture	-	1,577	1,577

2020 III quarter	Construction service	Real estate development	Total segments
Revenue	56,975	26,943	83,918
Inter-segment revenue	(533)	(3,638)	(4,171)
Revenue from clients	56,442	23,305	79,747
incl. timing of revenue recognition at a point in time	352	21,038	21,390
timing of revenue recognition over time	56,090	2,267	58,357
Operating profit (loss)	2,141	3,928	6,069
Profit (loss) before tax	2,119	3,900	6,019
incl. interest income from operating activities	5	371	376
depreciation	(602)	(88)	(690)
recognition of provisions	(788)	(44)	(832)
profit from joint venture	-	112	112
other finance income (costs)	(7)	(103)	(110)
incl. interest expenses	(7)	(80)	(87)
Assets' change in III quarter	(3,296)	(4,255)	(7 551)
incl. joint venture	-	112	112

2019 III quarter	Construction service	Real estate development	Total segments
Revenue	61,949	20,586	82,535
Inter-segment revenue	(10)	(9,107)	(9,117)
Revenue from clients	61,939	11,479	73,418
incl. timing of revenue recognition at a point in time	696	11,019	11,715
timing of revenue recognition over time	61,243	460	61,703
Operating profit (loss)	1,364	1,280	2,644
Profit (loss) before tax	1,320	1,838	3,158
incl. interest income from operating activities	9	383	392
depreciation	(509)	(100)	(609)
recognition of provisions	(1,724)	(251)	(1,975)
profit from joint venture	-	642	642
other finance income (costs)	(1)	(83)	(84)
incl. interest expenses	(5)	(83)	(88)
Assets' change in III quarter	(3,519)	14,314	17,833
incl. joint venture	-	642	642

2019 12 months	Construction service	Real estate development	Total segments
Revenue	256,749	99,863	356,612
Inter-segment revenue	(47)	(29,786)	(29,833)
Revenue from clients	256,702	70,077	326,779
incl. timing of revenue recognition at a point in time	2,155	66,384	68,539
timing of revenue recognition over time	254,547	3,693	258,240
Operating profit (loss)	13,276	8,115	21,391
Profit (loss) before tax	13,053	9,607	22,660
incl. interest income from operating activities	47	2,143	2,190
depreciation	(2,264)	(443)	(2,707)
impairment of inventories	(175)	-	(175)
recognition of provisions	(3,934)	(1,533)	(5,467)
reversal of provisions	257	-	257
profit from joint venture	-	1,766	1,766
other finance income (costs)	(13)	(256)	(269)
incl. interest expenses	(17)	(239)	(256)
Assets 31.12.2019	54,944	195,073	250,017
incl. joint venture	-	2,498	2,498

In addition to the segment assets, as at 30.09.2020 the group holds assets in the amount of EUR 25,343 thousand (30.09.2019: EUR 16,533 thousand; 31.12.2019: EUR 31,810 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	2020 9 months	2019 9 months	2020 III quarter	2019 III quarter	2019 12 months
Pre-tax profit from reporting segments	15,711	11,720	6,019	3,158	22,660
Other operating profit (loss)	(1,645)	(1,278)	(851)	(320)	(2,153)
incl. recognition of provisions	-	-	-	-	(9)
finance income (costs)	(193)	(131)	(72)	(52)	(184)
incl. interest expenses	(138)	(127)	(47)	(51)	(178)
Total profit before tax	13,873	10,311	5,096	2,786	20,323

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

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2020 9 months		2019 9 months		2020 III quarter		2019 III quarter		2019 12 months	
Estonia	109,673	52%	106,565	47%	45,243	57%	40,307	55%	168,825	52%
Latvia	40,083	19%	74,699	33%	14,835	19%	19,060	26%	92,772	28%
Lithuania	51,576	25%	29,455	13%	16,169	20%	10,883	15%	46,202	14%
Norway	8,148	4%	16,901	7%	3,500	4%	3,168	4%	18,980	6%
Total	209,480	100%	227,620	100%	79,747	100%	73,418	100%	326,779	100%

CONTRACT ASSETS AND LIABILITIES

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Accrued income from construction services (Note 6)	7,034	13,712	11,689
Prepayments for construction services (Note 13)	(11,023)	(12,209)	(8,058)
Advance payments received for construction contract works (Note 13)	(3,661)	(7,503)	(5,637)
Recognised provision for onerous construction contracts (Note 14)	(779)	(1,758)	(1,295)

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

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Estonia	16,832	13,810	15,289
Latvia	13,095	13,391	13,333
Lithuania	429	448	476
Norway	117	118	143
Total	30,473	27,767	29,241

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2020 9 months	2019 9 months	2020 III quarter	2019 III quarter	2019 12 months
Construction services and properties purchased for resale	109,387	123,304	40,022	42,660	185,121
Materials	35,017	39,792	15,834	10,099	49,121
Labour costs	16,622	19,511	5,921	6,321	26,323
Construction mechanisms and transport	9,553	6,747	4,336	2,442	8,911
Design	3,858	2,918	1,398	867	4,394
Real estate management costs	239	295	88	88	401
Depreciation	1,403	1,134	458	402	1,835
Impairment of inventories	-	175	-	-	175
Provisions	1,708	4,136	832	1,975	4,939
Other expenses	6,481	8,711	2,129	2,337	10,738
Total cost of goods sold	184,268	206,723	71,018	67,191	291,958

NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2020 9 months	2019 9 months	2020 III quarter	2019 III quarter	2019 12 months
Net profit (loss) attributable to shareholders (in thousand EUR)	13,071	7,003	4,896	2,550	16,270
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700	17,700	17,700
Earnings (loss) per share (in euros)	0.74	0.40	0.28	0.14	0.92

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

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation decision, no dividends are paid from the parent company AS Merko Ehitus in 2020 (in 2019 dividends in the amount of EUR 17,700 thousand were paid, i.e. EUR 1.00 per share). Because of that, the group will not incur income tax expenses in 2020 in connection with dividend payments (in 2019 such income tax expenses were incurred in the amount of 2,749 thousand euros).

As at 30.09.2020, the parent company AS Merko Ehitus has previously taxed dividends and income received from abroad in a sum of EUR 3,507 thousand (30.09.2019: EUR 1 thousand; 31.12.2019: EUR 1 thousand), on which income tax has been withheld.

As at 30.09.2020, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 108,586 thousand (30.09.2019: EUR 89,870 thousand; 31.12.2019: EUR 97,533 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 877 thousand (30.09.2019: EUR 0 thousand; 31.12.2019: EUR 0 thousand), the corresponding income tax on dividends would amount to EUR 25,969 thousand (30.09.2019: EUR 22,467 thousand; 31.12.2019: EUR 24,083 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration, including the fact that the income tax on regularly payable dividends is applied to dividends taxed in Estonia starting only from 2018, and therefore in 2020 the sum of dividends that shall be taxed using the 14% rate is one third of the total sum of dividends that have been taxed in Estonia during 2018 and 2019. Above that sum, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out as net dividends). The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Cash on hand	-	-	6
Bank accounts	25,353	13,312	24,743
Overnight deposits	-	43	-
Total cash and cash equivalents	25,353	13,355	24,749

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Trade receivables			
Accounts receivable	36,965	46,922	34,148
Allowance for doubtful receivables	(1,979)	(1,106)	(856)
	34,986	45,816	33,292
Tax prepayments excluding corporate income tax			
Value added tax	683	1,613	695
Other taxes	26	2	3
	709	1,615	698
Accrued income from construction services	7,034	13,712	11,689
Other short-term receivables			
Short-term loans	51	6,040	1,700
Interest receivables	23	184	3
Other short-term receivables	121	201	172
	195	6,425	1,875
Prepayments for services			
Prepayments for construction services	1,258	4,240	2,441
Prepaid insurance	143	148	117
Other prepaid expenses	193	324	301
	1,594	4,712	2,859
Total trade and other receivables	44,518	72,280	50,413
incl. short-term loan receivables from related parties (Note 16)	-	4,450	1,650
other short-term receivables and prepayments to related parties (Note 16)	283	295	89

During the reporting year accounts receivables in overdue have been written down in the amount of EUR 1,138 thousand (during 9 months of 2019: EUR 1,035 thousand; during 12 months of 2019: EUR 795 thousand).

NOTE 7 INVENTORIES

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Materials	350	762	236
Work-in-progress	49,366	82,376	65,550
Finished goods	32,610	26,745	28,252
Goods for resale			
Registered immovables purchased for resale/development	69,439	70,860	70,193
Other goods purchased for resale	133	543	133
	69,572	71,403	70,326
Prepayments for inventories			
Prepayments for other inventories	1,535	1,770	1,862
Total inventories	153,433	183,056	166,226

NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Long-term loans	1,115	-	-
Long-term bank deposit	2	-	-
Long-term receivables from customers of construction services	15,121	10,590	11,094
Total other long-term loans and receivables	16,238	10,590	11,094
incl. long-term loan receivables from related parties (Note 16)	1,115	-	-

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Land	12,407	12,397	12,400
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(13)	(13)	(13)
	16	16	16
Buildings at carrying amount			
Cost	2,631	2,631	2,631
Accumulated depreciation	(1,099)	(967)	(1,000)
	1,532	1,664	1,631
Total investment property	13,955	14,077	14,047

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Land	712	712	712
Buildings at carrying amount*			
Cost	6,386	6,535	6,558
Accumulated depreciation	(2,845)	(2,507)	(2,629)
	3,541	4,028	3,929
Machinery and equipment at carrying amount*			
Cost	14,344	14,511	14,371
Accumulated depreciation	(8,560)	(8,489)	(8,671)
	5,784	6,022	5,700
Other fixtures at carrying amount			
Cost	4,011	3,443	4,018
Accumulated depreciation	(3,167)	(2,913)	(2,942)
	844	530	1,076
Prepayments for property, plant and equipment	2,271	44	502
Total property, plant and equipment	13,152	11,336	11,919

* As of 30 September 2020 the balance of buildings at carrying amount includes leased assets in a sum of EUR 333 thousand (30.09.2019: EUR 605 thousand; 31.12.2019: EUR 526 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 2,505 thousand (30.09.2019: EUR 2,379 thousand; 31.12.2019: EUR 2,456 thousand).

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Goodwill			
Cost	65	73	73
	65	73	73
Software at carrying amount			
Cost	2,000	1,819	2,024
Accumulated depreciation	(1,446)	(1,278)	(1,320)
	554	541	704
Prepayments for intangible assets	45	163	-
Total intangible assets	664	777	777

NOTE 12 BORROWINGS

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Lease liabilities*			
Lease liabilities balance	2,822	2,846	2,891
incl. current portion	857	791	806
non-current portion 2...5 years	1,965	2,055	2,085
Bank loans			
Loan balance	41,764	75,475	54,835
incl. current portion	17,364	39,959	18,919
non-current portion 2...5 years	24,400	35,516	35,916
Loans from entities under common control			
Loan balance	6,000	6,000	6,000
incl. current portion (Note 16)	6,000	1,000	1,000
non-current portion 2...5 years (Note 16)	-	5,000	5,000
Total loans			
Loans balance	47,764	81,475	60,835
incl. current portion	23,364	40,959	19,919
non-current portion 2...5 years	24,400	40,516	40,916
Total borrowings	50,586	84,321	63,726
incl. current portion	24,221	41,750	20,725
non-current portion 2...5 years	26,365	42,571	43,001

* As of 30 September 2020 the lease liabilities include a balance of EUR 95 thousand to related parties (30.09.2019: EUR 136 thousand; 31.12.2019: EUR 124 thousand) (Note 16).

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Trade payables	25,151	42,213	30,681
Payables to employees	7,940	9,178	10,647
Tax liabilities, except for corporate income tax			
Value added tax	2,556	974	4,270
Personal income tax	408	424	485
Social security tax	1,090	1,113	1,146
Unemployment insurance tax	37	41	48
Contributions to mandatory funded pension	28	26	33
Other taxes	277	182	205
	4,396	2,760	6,187
Prepayments for construction services	11,023	12,209	8,058
Other liabilities			
Interest liabilities	19	21	5
Dividends payables	128	-	-
Other liabilities	432	228	218
	579	249	223
Prepayments received *	11,827	18,034	13,789
Total payables and prepayments	60,916	84,643	69,585
incl. payables to related parties (Note 16)	152	237	12

* As of 30 September 2020 the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 3,661 thousand (30.09.2019: EUR 7,503 thousand; 31.12.2019: EUR 5,637 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 8,166 thousand (30.09.2019: EUR 10,531 thousand; 31.12.2019: EUR 8,152 thousand) (Note 2).

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Provision for warranty obligation for construction	3,620	3,564	3,507
Provision for costs of projects sold and work-in-progress projects	1,174	2,162	2,894
Provision for onerous construction contracts	779	1,758	1,295
Provision for legal costs and claims filed	202	120	202
Other provisions	-	71	78
Total short-term provisions	5,775	7,675	7,976

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Trade payables	2,140	2,218	2,476
Other long-term liabilities	645	435	1,015
Other long-term payables total	2,785	2,653	3,491
incl. other long-term payables to related parties (Note 16)	645	435	1,015

NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 30.09.2020; 30.09.2019 and 31.12.2019, AS Riverito owned 71.99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr. Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	30.09.2020	30.09.2019	31.12.2019		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
AS Merko Infra	100	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	-	100	Estonia, Tallinn	Mining
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Statinių Priežiūra ir Administravimas	100	100	100	Lithuania, Vilnius	Real estate
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektas	100	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu Mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku Aikštele	100	100	100	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	100	Lithuania, Vilnius	Real estate
OÜ Kiviaia Kinnisvara	-	100	100	Estonia, Tallinn	Real estate
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	100	Latvia, Riga	Real estate
SIA Industriālais Parks	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	75	Latvia, Riga	Real estate
PS Merks-Ostas Celtnieks	65	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	100	Finland, Helsinki	Construction
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	56	Norway, Sofiemyr	Construction
Joint venture					
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate

Additional information on the changes during the reported period is provided in chapter Corporate Governance in Management report on page 17.

GOODS AND SERVICES

in thousand euros

	2020 9 months	2019 9 months	2019 12 months
Provided services and goods sold			
Parent company	10	11	15
Joint venture	1,275	2,657	2,770
Entities under common control	342	560	847
Members of the management	549	415	2,441
Total services provided and goods sold	2,176	3,643	6,073
Interest income			
Joint venture	57	325	377
Purchased services and goods			
Parent company	68	68	90
Entities under common control	43	43	137
Members of the management	2	-	-
Total purchased services and goods	113	111	227
Interest expense			
Entities under common control	106	109	145
Total interest expense	106	109	145

BALANCES WITH RELATED PARTIES

in thousand euros

	30.09.2020	30.09.2019	31.12.2019
Receivables from related parties			
Loans granted (Notes 6,8)			
Joint ventures	1,115	4,450	1,650
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Joint venture	22	128	64
Entities under common control	-	163	9
Members of the management	257	-	12
Total receivables and prepayments	283	295	89
Total receivables from related parties	1,398	4,745	1,739
Payables to related parties			
Lease liabilities (Note 12)			
Entities under common control	95	136	124
Short-term loans received (Note 12)			
Entities under common control	6,000	1,000	1,000
Payables and prepayments (Note 13)			
Parent company	9	9	9
Entities under common control	15	15	3
Members of the management	-	213	-
Other related parties	128	-	-
Total payables and prepayments	152	237	12
Long-term loans received (Note 12)			
Entities under common control	-	5,000	5,000
Other long-term payables (Note 15)			
Other related parties	645	435	1,015
Total payables to related parties	6,892	6,808	7,151

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 9 months of 2020 was EUR 1518 thousand (9 months of 2019: EUR 1,982 thousand; 12 months of 2019: EUR 3,212 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 9 months of 2020, the Management Board members of major subsidiaries received EUR 131 thousand in compensation (9 months of 2019: EUR 0 thousand; 12 months of 2019: EUR 0 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

Track record and photographs of the members of the Supervisory Board can be found 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 30.09.2020:

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

* Toomas Annus holds the majority of the votes represented by shares in AS Riverito directly and through holding companies (176,351 shares out of a total of 250,540 shares). With that the votes held by AS Riverito in AS Merko Ehitus (12,742,686 shares) are deemed to belong to Toomas Annus.

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

Shares held by members of the Management Board of AS Merko Ehitus as at 30.09.2020:

		NO OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	600	0.00%
Tõnu Toomik	Member of the Management Board	-	-
		600	0.00%

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	30.09.2020	30.09.2019	31.12.2019
Performance period's warranty to the customer	24,725	30,358	24,896
Tender warranty	1,563	1,101	916
Guarantee for warranty period	22,435	21,066	19,964
Prepayment guarantee	9,752	6,835	6,835
Contracts of surety	1,945	7,864	7,783
Total contingent liabilities	60,420	67,224	60,394

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

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

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

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

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

DEFINITION OF RATIOS

Gross profit margin (%)	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
Operating profit margin (%)	=	$\frac{\text{Operating profit}}{\text{Revenue}}$
EBT margin (%)	=	$\frac{\text{Earnings before tax}}{\text{Revenue}}$
Net profit margin (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$
Return on equity, ROE (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Shareholders equity (average of the current 4 quarters)}}$
Return on assets, ROA (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Total assets (average of the current 4 quarters)}}$
Return on invested capital, ROIC (%)	=	$\frac{(\text{Profit before tax} + \text{interest expense} - \text{foreign exchange gain (loss)} + \text{other financial income}) \text{ of the current 4 quarters}}{(\text{Shareholders equity (average)} + \text{interest-bearing liabilities (average)}) \text{ of the current 4 quarters}}$
Equity ratio (%)	=	$\frac{\text{Shareholders' equity}}{\text{Total assets}}$
Debt ratio (%)	=	$\frac{\text{Interest-bearing liabilities}}{\text{Total assets}}$
Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	=	$\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$
Accounts receivable turnover(days)	=	$\frac{\text{Trade receivables of the current 4 quarters (average)} \times 365}{\text{Revenue of the current 4 quarters}}$
Accounts payable turnover (days)	=	$\frac{\text{Payables to suppliers of the current 4 quarters (average)} \times 365}{\text{Cost of goods sold of the current 4 quarters}}$
EBITDA (million EUR)	=	Operating profit + depreciation
EBITDA margin (%)	=	$\frac{\text{Operating profit} + \text{depreciation}}{\text{Revenue}}$
General expense ratio (%)	=	$\frac{\text{Marketing expenses} + \text{General and administrative expenses}}{\text{Revenue}}$
Labour cost ratio (%)	=	$\frac{\text{Labour costs}}{\text{Revenue}}$
Revenue per employee (EUR)	=	$\frac{\text{Revenue}}{\text{Number of employees (average)}}$
Earnings per share, EPS (EUR)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$
Equity/share (EUR)	=	$\frac{\text{Shareholders equity (average of the current 4 quarters)}}{\text{Number of shares}}$
Dividend per share (EUR)	=	$\frac{\text{Payable dividends}}{\text{Number of shares}}$
Dividend rate (%)	=	$\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$
Dividend yield (%)	=	$\frac{\text{Dividends payable per share}}{\text{Share price 31.12}}$
P/E	=	$\frac{\text{Share price 30.09}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 30.09}}{\text{Equity per share (average of the current 4 quarters)}}$
Market value	=	Share price 30.09 × Number of shares