



AS MERKO EHITUS

GROUP

2023 6 months and II quarter consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Financial year:	01.01.2023 – 31.12.2023
Reporting period:	01.01.2023 – 30.06.2023
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Auditor:	AS PricewaterhouseCoopers

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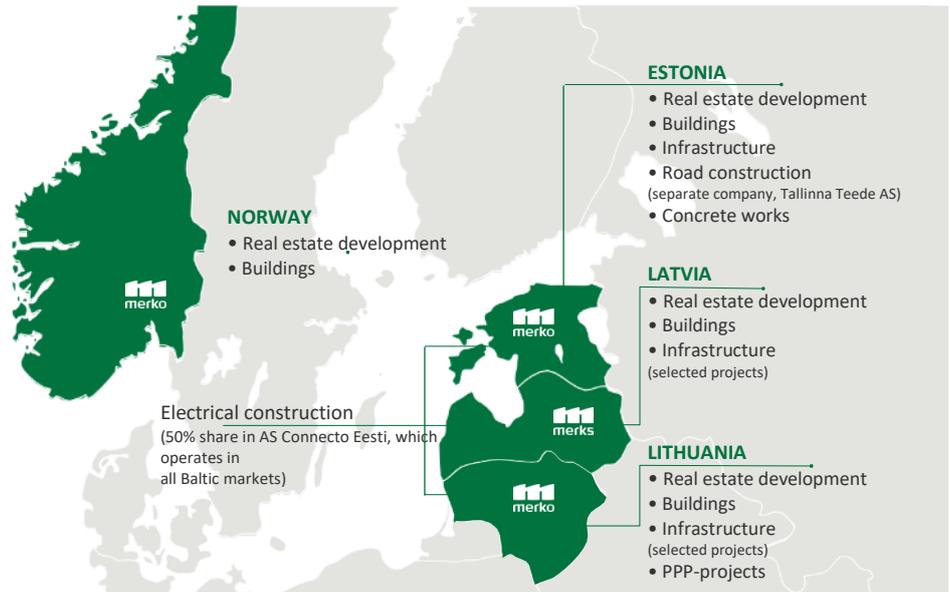
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BRIEF OVERVIEW OF THE GROUP

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

We create a better living environment and build the future.

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



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

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

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

SHARES

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

The main shareholder is AS Riverito (72%)

2022 KEY FIGURES

Revenue **409.6 million** euros

Net profit **34.6 million** euros

661 employees





STRATEGY

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



MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

Q2 2023 revenue for Merko Ehitus was EUR 142 million and the H1 figure was EUR 217 million. Net profit in Q2 was EUR 13.6 million and net profit for the last six months was EUR 19.4 million. Merko delivered 512 apartments to new homeowners and 15 commercial units to businesses in H1.

According to the management of Merko Ehitus, the profit for the first half of the year was strong, as expected, since a number of apartment developments were completed, and pre-sold apartments were delivered to home-buyers. At the same time, the backstock of pre-sold apartments is nearing exhaustion and the market situation today is very different compared to 2020 and 2021. The pace of new apartment sales has dropped significantly, due to which also the launch of new developments by Merko group and on the Baltic market as a whole has slowed greatly. This in turn will mean fewer developments reaching completion and fewer apartments sold in the coming years. On the positive side, the situation on the apartment market has stabilized in the first half of the year, adjustment to the changes in the economic environment continues and market is seeing slightly more relaxed sentiment. Although there are currently fewer apartment buyers purchasing as an investment, new home purchase transactions are still being closed. However, a rapid change in demand is not seen in the near future and the launch of new projects is viewed cautiously. In the first half of the year, the group invested a total of EUR 56.5 million into developments in progress and new immovables.

In the first six months of 2023, the group companies entered into new construction contracts worth EUR 255 million, which was 32% more than in the comparison period, and the balance of secured order-book grew by approximately 29% as compared to the last year to EUR 418 million. In the sense of construction volumes, the group's secured order-book will to a certain extent counterbalance the impacts of the apartment market decline in the next few years. At the same time, the operating environment in the construction sector remains unstable. Risk management is extremely important, as much as is possible given the high inflation and high interest rates, new regulations and administrative practices as well as the geopolitical situation.

In the first six months of the year, Merko delivered 512 apartments to new homeowners and 15 commercial units to businesses. As of the end of Q2, the group companies had 978 apartments on their balance sheets. Of apartments under construction, approximately 40% were covered by preliminary sale contracts. The largest apartment developments were Uus-Veerenni, Noblessner and Lahekalda in Tallinn, Erminurme in Tartu, Viesturdarzs, Mežpilseta and Magnolijas in Riga and Vilneles Skverai in Vilnius.

In Q2 of 2023, the largest sites under construction in Estonia were the Rae and Pelgulinna state gymnasiums, Hampton by Hilton and Hyatt hotel buildings, Arter Quarter and the infrastructure along the south-eastern border of the Republic of Estonia, Defence Forces buildings on Tapa base, a tram line between Old City Harbour and Rail Baltica Ülemiste passenger terminal and the first phase of Ülemiste terminal as well the renovation of Vana-Kalamaja Street. Projects in progress in Latvia were the GUSTAVS business centre and Elemental Business Centre office buildings. In Lithuania, wind farm infrastructure works and a substation in Kelmė region, and various buildings and infrastructure for NATO training centres.

2023 6M
REVENUE
217 MILLION EUROS

PROFIT
BEFORE TAX
20.2 MILLION EUROS

OVERVIEW OF THE II QUARTER AND 6 MONTHS RESULTS

PROFITABILITY

2023 6 months' pre-tax profit was EUR 20.2 million and Q2 2023 was EUR 14.1 million (6M 2022: EUR 8.4 million and Q2 2022 was EUR 4.9 million), which brought the pre-tax profit margin to 9.3% (6M 2022: 5.4%).

Net profit attributable to shareholders for 6 months 2023 was EUR 19.4 million (6M 2022: EUR 7.2 million) and for Q2 2023 net profit attributable to shareholders was EUR 13.6 million (Q2 2022: EUR 4.2 million). 6 months net profit margin was 8.9% (6M 2022: 4.6%).

REVENUE

Q2 2023 revenue was EUR 141.6 million (Q2 2022: EUR 87.8 million) and 6 months' revenue was EUR 217.3 million (6M 2022: EUR 156.2 million). 6 months' revenue increased by 39.1% compared to same period last year. The share of revenue earned outside Estonia in 6 months 2023 was 30.6% (6M 2022: 53.8%).

SECURED ORDER BOOK

As of 30 June 2023, the group's secured order book was EUR 418.2 million (30 June 2022: EUR 322.9 million). In 6 months 2023, group companies signed contracts in the amount of EUR 254.8 million (6M 2022: EUR 193.3 million). In Q2 2023, new contracts were signed in the amount of EUR 84.4 million (Q2 2022: EUR 22.1 million).

REAL ESTATE DEVELOPMENT

In 6 months 2023, the group sold a total of 512 apartments; in 6 months 2022, the group sold 214 apartments. The group earned a revenue of EUR 80.5 million from sale of own developed apartments in 6 months 2023 and EUR 27.1 million in 6 months 2022. In Q2 of 2023 a total of 367 apartments were sold, compared to 88 apartments in Q2 2022, and earned a revenue of EUR 61.2 million from sale of own developed apartments (Q2 2022: EUR 11.6 million).

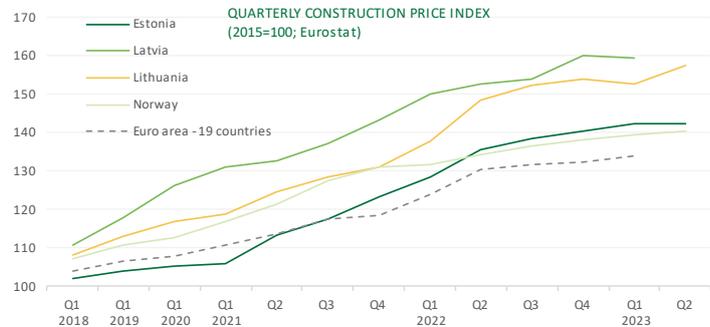
CASH POSITION

At the end of the reporting period, the group had EUR 9.8 million in cash and cash equivalents, and equity of EUR 186.0 million (51.3% of total assets). Comparable figures as of 30 June 2022 were EUR 16.8 million and EUR 156.7 million (41.5% of total assets), respectively. As of 30 June 2023, the group's net debt was EUR 68.0 million (30 June 2022: EUR 73.2 million).

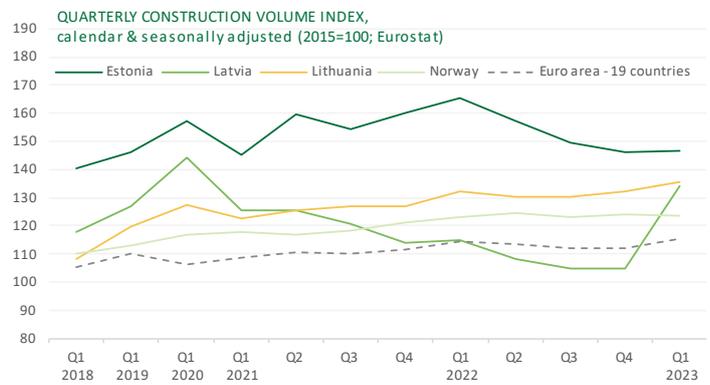
OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

CONSTRUCTION SERVICES

The rise in construction prices is finally coming to an end after eight quarters of growth that has left construction prices around 30% higher for that period. As early as in the second half of 2022, mass media headlines focused on a price correction affecting some materials but to this point, rising workforce and construction machinery prices have kept the overall index growing. From the first half of 2023, the rise in the workforce component has started abating. A swing toward a drop in construction prices is not to be expected, however. Instead, up to the end of 2023, we will see lateral movements of a few percent around current levels. The rise in interest rate expenses throughout the economy is also having an impact on construction machinery and material producers' cost prices and with continuing wage pressure, this keeps construction prices from starting to drop. Baltic markets have already seen plenty of examples where producers who offer input for the construction market have considered it economically more sensible to close production capacities and shut down rather than lowering sale prices. There is a considerable likelihood that the rise in expenses stemming from the tax hikes and waning of the pandemic relief measures will significantly accelerate the construction price rise. In the medium to long term, up to 2026, we continue to expect the additional expenses from the EU green deal and carbon trade to be channelled into price rises at different rates.



From the perspective of construction volumes, developments on markets have rather been positive. In line with our previous expectations, Lithuania has been able to maintain construction volumes and Latvia has even succeeded in raising them thanks to the renewable energy and military objects continuing to come to market and the construction work on Rail Baltica in Riga. Although Q2 statistics had not been published as of this writing, we expect volumes to grow in Estonia as well, since the drop in road construction in 2022 is having less and less impact and, similarly to Latvia and Lithuania, construction of renewable energy, military and Rail Baltic sites was launched in 2023. The increase in volumes also supports the belief that the drop in prices will be quite unlikely and temporary.



We see the outlook for the next couple of years ahead as modest, since high interest rates, wage pressure, government attempts to solve the tax puzzle, and the continuing war in Ukraine are driving down private sector investment activity. The current growth in the form of renewable energy and state-commissioned construction sites cannot be sustainable if the private sector does not rise to the same level as the state. Residential development will likely not see growth in demand in the current year and the grand apartment building renovation plan has not materialized in the expected volumes.

DEVELOPMENT OF APARTMENTS

Housing market statistics continue to defy those who forecast a general decline. Only Latvia showed a marginal correction, where we believe the main reason was a drop in sales volumes of new homes, which allowed the price drop for older apartment block buildings to become prominent. The prices of new housing seen in statistics continue to be buoyed by transactions executed on the basis of contracts under the law of obligations concluded earlier. The constantly low volume of transactions involving new housing in the first half of 2023 and the resulting decreasing statistical influence will, we believe, bring the price rise to an end during 2023. We stick to our assessment that the price rise is giving way to a plateau and a smaller lateral movement of prices. Older serial prefabricated apartment buildings have not experienced a major price drop thanks to the energy prices stabilizing at lower levels than those seen last year. This may not stay that way in the long term, since renovation requirements of the EU's energy efficient roadmap puts owners of apartments in older serial buildings in front of tough choices, the easiest way out being to sell their apartments. If the pressure to sell increases, prices will tend to fall. Accordingly, the price waves of older properties on the aftermarket can have a negative influence on prices of new developments as well. The low volume of developments launched in the last 12 months has kept the supply in balance with lower demand on the new development market, and we do not feel residential developers will experience higher sales pressure in the year ahead.



BUSINESS ACTIVITIES

The group business reporting is divided into two business segments:

- construction service;
- real estate development.

CONSTRUCTION SERVICE

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

million EUR

	6M 2023	6M 2022	VARIANCE	Q2 2023	Q2 2022	VARIANCE	12M 2022
Revenue	120.9	114.9	+5.2%	71.7	67.2	+6.7%	246.9
% of total revenue	55.6%	73.6%		50.6%	76.5%		60.3%
Operating profit	4.7	2.0	+137.9%	4.1	1.9	+114.2%	8.5
Operating profit margin	3.9%	1.7%		5.8%	2.9%		3.4%

In the 6 months of 2023, the revenue of the construction service segment was EUR 120.9 million (6M 2022: EUR 114.9 million). The sales revenue of construction service has increased by 5.2% compared to the same period last year. The construction service segment revenue for 6 months 2023 made up 55.6% of the group's total revenue (6M 2022: 73.6%). In this segment, the group earned an operating profit of EUR 4.7 million for 6 months (6M 2022: EUR 2.0 million). The operating profit margin was 3.9% (6M 2022: 1.7%). The operating profit was mainly affected by expiration of the by the expiration of old fixed-price contracts, the decrease of their share in turnover of the reporting period.

Larger projects in progress in the second quarter in construction service segment in Estonia included the Pelgulinna and Rae state gymnasiums, Hampton by Hilton and Hyatt hotel buildings, Arter Quarter, construction works of the Republic of Estonia's southeast land border, Defence Forces' buildings in the Tapa campus, tram line connecting Old Harbour and Rail Baltic's Ülemiste passenger terminal and the first phase of Ülemiste terminal as well as reconstruction of Vana-Kalamaja street. In Latvia, larger ongoing projects included the construction works of the GUSTAVS business centre and Elemental Business Centre office buildings. In Lithuania, larger projects were construction of wind farm infrastructure works and a substation in Kelmė region as well as various NATO training centres buildings and infrastructures were underway. In Norway, the group worked on smaller scale contracts.

REAL ESTATE DEVELOPMENT

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

million EUR

	6M 2023	6M 2022	VARIANCE	Q2 2023	Q2 2022	VARIANCE	12M 2022
Revenue	96.4	41.3	+133.6%	69.9	20.6	+239.5%	162.7
incl. revenue from sale of apartments	80.5	27.1		61.2	11.6		127.0
incl. construction service to joint venture projects	13.2	13.2		7.0	8.6		32.0
% of total revenue	44.4%	26.4%		49.4%	23.5%		39.7%
Operating profit	14.8	8.1	+83.4%	9.1	4.0	+129.9%	30.3
Operating profit margin	15.3%	19.5%		13.0%	19.2%		18.6%

In 6 months 2023, the group sold a total of 512 apartments (incl. 78 apartments in a joint venture) and 15 commercial premises (incl. 7 in a joint venture); in 6 months 2022, 214 apartments and 1 commercial premise. The group earned a revenue of EUR 80.5 million (VAT not included) from sale of developed apartments in 6 months 2023 and EUR 27.1 million (VAT not included) in 6 months 2022. In the revenue and operating profit of the real estate development segment also are reflected the sales of commercial premises and parking spaces of the real estate development projects and the result of public-private-partnership contracts, based on which the group companies provide construction service and property management services.

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

In 6 months of 2023, real estate development segment revenues increased by 133.6% compared to the same period last year and formed 44.4% of the group's total revenue (6 months of 2022: 26.4%).

The segment's operating profit for the 6 months of 2023 amounted to EUR 14.8 million (6 months of 2022: EUR 8.1 million) and the operating profit margin was 15.3% (6 months of 2022: 19.5%). The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, including the land acquisition price.

In 6 months of 2023, the group continued with the construction of the above-ground volumes of stage V of Lahekalda residential development project, but apartments are not accounted as ready-to-sell apartments. The decision to complete the construction will be taken depending on the market situation (6 months of 2022: started the construction 186 apartments). In the 6 months, the group invested a total of EUR 50.8 million (6 months of 2022: EUR 57.1 million) in the ongoing development projects.

One of the group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As of 30 June 2023, the group's inventories included land plots with development potential, where the construction works have not started, in the amount of EUR 89.5 million (30.06.2022: EUR 91.3 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	30.06.2023	30.06.2022	31.12.2022
Estonia	32.5	27.7	27.6
Latvia	24.1	27.0	23.6
Lithuania	31.5	35.0	31.3
Norway	1.4	1.6	1.6
Total	89.5	91.3	84.1

In 6 months of 2023, the group has obtained new land plots for real estate development purposes at acquisition cost of EUR 5.7 million (6 months of 2022: in the amount of EUR 24.9 million).

SECURED ORDER BOOK

As of 30 June 2023, the group's secured order book amounted to EUR 418.2 million, compared to EUR 322.9 million as of 30 June 2022, having increased by 29.5% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 6 months of 2023, EUR 254.8 million worth of new contracts were signed, which is increased by 31.8% compared to the same period of the previous year (6 months of 2022: EUR 193.3 million). The value of new contracts signed in the second quarter of 2023 amounted to EUR 84.4 million; in the second quarter of 2022 the value of new contracts signed amounted to EUR 22.1 million.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE SECOND QUARTER OF 2023

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Design and construction contract for the construction of new infrastructures of the construction of the first stage of Rail Baltica Ülemiste joint terminal. In carrying out the works, AS Merko Ehitus Eesti is the leading partner with a 50:50 ratio	Estonia	September of 2026	44.8
Construction contract for the construction of hotel building in Tallinn	Estonia	December of 2024	14.0
Construction contract for the construction of the first stage of hotel and office building in Tallin	Estonia	End of 2024	11.1

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

- On 13 July 2023 UAB Merko Statyba, part of AS Merko Ehitus group, and UAB LT Energija entered into the contract to perform the construction of foundations for 40 wind turbines, drainage and roads in a windfarm located in the Pagėgiai municipality, Lithuania. The contract value is approximately EUR 80 million and the project is scheduled to be completed in the end of 2025.

As of 30 June 2023, the private sector orders accounted for approximately 44% of the total balance in the group's secured order book (30.06.2022: approximately 78%). The private sector is rather taking a wait-and-see approach when making new investments, assessing the profitability of investments in the environment of higher interest rates and a weaker economy. Planned high-priority investments in the public sector will continue, as the budgetary financing is less affected by the rise in interest rates.

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 9.8 million (30.06.2022: EUR 16.8 million). As the group's cash position continues to be strong, the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As of the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 57.0 million, of which EUR 39.5 million was unused (30.06.2022: EUR 49.0 million, of which EUR 32.2 million was unused).

The 6-month cash flow from operating activity was positive at EUR 23.7 million (6 months of 2022: negative EUR 41.6 million), cash flow from investing activity was positive at EUR 1.0 million (6 months of 2022: negative EUR 3.3 million) and the cash flow from financing activity was negative at EUR 32.5 million (6 months of 2022: positive EUR 16.7 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 19.6 million (6 months of 2022: positive effect of EUR 10.0 million), from the changes in receivables and liabilities related to construction contracts of EUR 1.0 million (6 months 2022: negative effect of EUR 0.3 million), from the changes in trade and other receivables related to operating activities of EUR 10.2 million (6 months of 2022: negative effect of EUR 12.6 million) as well from the change in inventories of EUR 9.7 million (6 months of 2022: negative effect of EUR 65.2 million). The cash flows from inventories are mainly affected by the construction and sales cyclicity of developed apartments: the negative cash flow is due to the increase in the volume of inventories related to the construction of apartments, then the positive cash flow is due to the decrease in inventories at the sale of the apartments. The negative effects to cash flow from operating activities came from the change in trade and other payables related to operating activities of EUR 10.8 million (6 months of 2022: positive effect of EUR 32.3 million) and from the change in the provisions of EUR 1.3 million (6 months of 2022: negative effect of EUR 2.8 million). Interest was paid EUR 1.8 million (6 months of 2022: EUR 0.6 million) and corporate income tax was paid at EUR 1.8 million (6 months of 2022: EUR 1.6 million).

To support cash flows from operating activities, including increased volumes in apartment development, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (21.4% as of 30.06.2023; 23.9% as of 30.06.2022, 23.7% as of 31.12.2022).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 1.2 million, which is mainly related to the renewal of equipment in the field of construction (6 months of 2022 EUR 0.6 million) and the positive effect came from the sale of non-current assets in the amount of EUR 1.0 million (6 months of 2022: EUR 0.3 million) and EUR 1.2 million from the dividends received from the joint venture (6 months of 2022: no dividends received).

In cash flows from financing, the larger negative factors were dividend payment of EUR 17.7 million (6 months of 2022: EUR 17.7 million), the repayments of lease liabilities in the amount of EUR 0.6 million (6 months of 2022: net negative cash flow of EUR 0.5 million) and the change in loans related to net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 0.9 million (6 months of 2022: negative cash flow in the net amount of EUR 0.7 million) and from the net change in loans received and repaid in connection with development projects in the amount of EUR 6.0 million (6 months of 2022: net positive cash flow of EUR 15.6 million), which resulted from the repayment of loans taken for residential development projects, as well from the change in loans related to other activities in the amount of EUR 7.3 million (6 months of 2022: net positive cash flow of EUR 21.8 million).

The Q2 2023 cash flow from operating activity was positive at EUR 21.8 million (Q2 2022: negative EUR 30.9 million), cash flow from investing activity was positive at EUR 1.3 million (Q2 2022: negative EUR 0.2 million) and the cash flow from financing activity was negative at EUR 27.6 million (Q2 2022: positive EUR 18.1 million).

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		6M 2023	6M 2022	6M 2021	Q2 2023	Q2 2022	Q2 2021	12M 2022
Revenue	million EUR	217.3	156.2	145.9	141.6	87.8	85.8	409.6
Gross profit	million EUR	25.8	17.3	17.2	15.8	9.4	10.3	53.7
Gross profit margin	%	11.9	11.1	11.8	11.2	10.7	12.0	13.1
Operating profit	million EUR	18.1	8.6	10.9	12.4	4.9	7.0	35.0
Operating profit margin	%	8.3	5.5	7.5	8.8	5.6	8.2	8.6
Pre-tax profit	million EUR	20.2	8.4	10.5	14.1	4.9	6.7	37.1
Pre-tax profit margin	%	9.3	5.4	7.2	10.0	5.5	7.9	9.1
Net profit	million EUR	19.3	7.2	9.6	13.5	4.1	6.3	34.1
attributable to equity holders of the parent	million EUR	19.4	7.2	9.8	13.6	4.2	6.4	34.6
attributable to non-controlling interest	million EUR	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.5)
Net profit margin	%	8.9	4.6	6.7	9.6	4.8	7.5	8.5
Other income statement indicators		6M 2023	6M 2022	6M 2021	Q2 2023	Q2 2022	Q2 2021	12M 2022
EBITDA	million EUR	19.6	10.0	12.2	13.1	5.6	7.6	37.9
EBITDA margin	%	9.0	6.4	8.4	9.3	6.4	8.9	9.3
General expense ratio	%	4.8	6.2	5.2	3.8	5.5	4.5	4.9
Labour cost ratio	%	10.6	13.3	12.1	8.3	11.4	10.6	10.3
Revenue per employee	thousand EUR	333	237	219	217	133	129	623

OTHER SIGNIFICANT INDICATORS		30.06.2023	30.06.2022	30.06.2021	31.12.2022
Return on equity	%	25.8	16.5	16.4	20.4
Return on assets	%	12.2	7.9	9.2	9.2
Return on invested capital	%	18.9	14.1	14.5	15.1
Assets	million EUR	362.5	377.3	276.7	387.4
Equity	million EUR	185.4	156.5	149.4	183.7
Equity attributable to equity holders of the parent	million EUR	186.0	156.7	145.3	184.2
Equity ratio	%	51.3	41.5	52.5	47.5
Debt ratio	%	21.4	23.9	13.6	23.7
Current ratio	times	2.2	1.8	2.4	2.0
Quick ratio	times	0.6	0.5	0.9	0.6
Accounts receivable turnover	days	31	33	29	33
Accounts payable turnover	days	44	52	34	55
Average number of employees	people	652	658	667	657
Secured order book	million EUR	418.2	322.9	249.8	297.2

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

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

Legal risk

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

As of 30 June 2023, a provision has been set up at the group in the amount of EUR 1.5 million for covering potential claims and legal costs (30.06.2022: no provision has been formed).

Below is presented an overview of the key legal disputes and proceedings, which have taken place or ended during 2023 or are ongoing as of 30 June 2023 and which concern group entities is presented:

Estonia

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

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

Latvia

Latvian Competition Council administrative proceeding

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

On 13 September 2021, SIA Merks and AS Merko Ehitus contested the decision of the Latvian Competition Council in the Latvian administrative court. Before the court decision comes into effect, the fine of EUR 2.7 million levied by the Competition Council will not become payable and the possible claims for damages of third persons will not be subject to review nor other possible consequences arising from law will be applicable before the court decision enters into force. Currently it has not been possible to assess reliably the impact of potential damage claims on the company due to the large number of inputs open to change, the lack of practice of implementing joint and several liability and the ambiguity of other legal aspects.

The first court hearing to discuss the substance of the appeals took place on 12 October 2022. The next court hearings are scheduled for 13 and 26 September 2023.

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

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

SIA Ostas Celtnieks

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

submitted a parallel claim to the bankruptcy trustee of SIA "Ostas Celtnieks". The impact of this requirement has not been taken into account in the group's reporting.

Salaspils County Council

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

SIA Hanza 14

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

Impact of the war in Ukraine

More than a year has passed since the start of Russia's war of aggression in Ukraine. It is still not possible to estimate the impact of the war with accounting accuracy. Clearly, the sanctions, the energy price increase and the inflation triggered by both of them have led to a general increase in input prices by about 30-35%, while a complete distinction between the effects of the Covid pandemic and the effects of the war is not possible. At the same time, the group has been able to transfer the price increase to the buyers of services and products for the most part, and no permanent impact on the group's business activities or pre-tax profit has been observed. Simply put, the direct impact of Russian aggression on the group is below the threshold of significance.

However, the manifestation of indirect effects continues. The war continues to negatively affect the group's economic environment through the decrease in the pace of apartment sales, the negative effect of the contraction of the market cannot be passed on to anyone. The impact of the war also continues in the form of the sustained broader uncertainty, resulting in a decrease of the investments and purchases in the Baltic economic space. Quantification of this negative net effect requires stabilization of the economy at new equilibrium and can only take place in future periods.

EMPLOYEES AND LABOUR COSTS

As of 30 June 2023, Merko Ehitus group employed 674 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 4 (-0.6%). The number of employees decreased in Latvia and Lithuania and increased in Estonia 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 6 months 2023, the labour cost was EUR 23.0 million (6 months 2022: EUR 20.7 million), which increased by 11.0% compared to the same period previous year. The labour cost ratio decreased by 2.7 pp from 13.3% to 10.6% in comparable periods.

During 6 months of 2023, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 5.5 million in labour taxes in Estonia, being one of the largest labour tax payer in the construction sector (6 months 2022: EUR 5.0 million).

ETHICAL BUSINESS PRACTICES

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

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

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

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

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

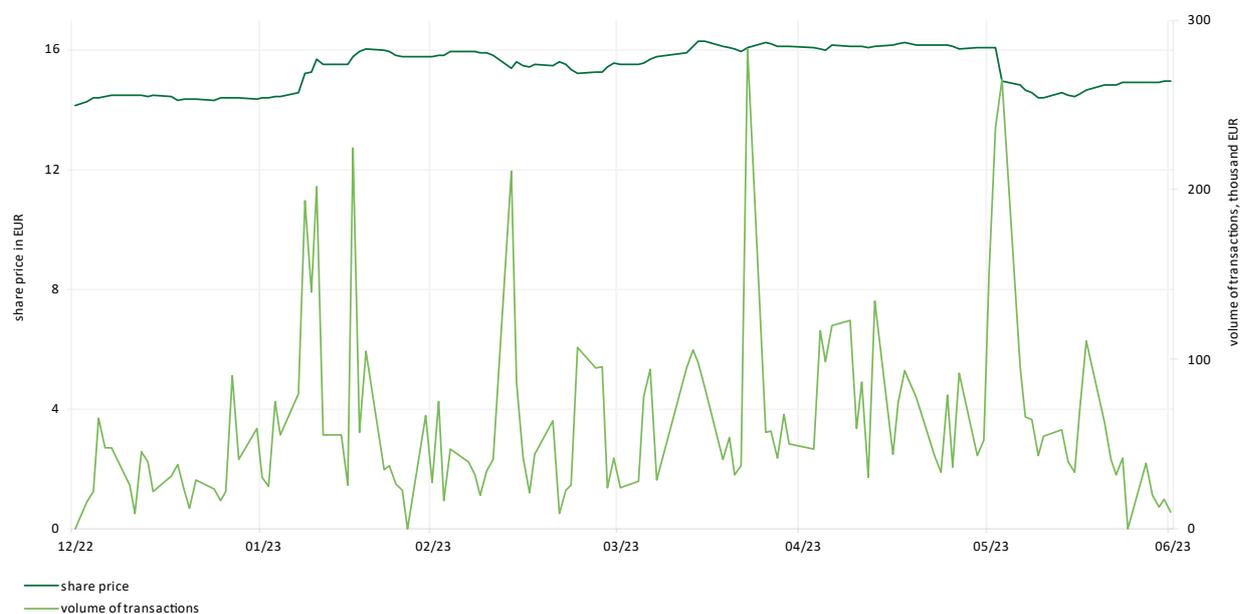
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As of 30 June 2023, the company has 17,700,000 shares. The number of shares has not changed during 2023.

A total of 16,511 transactions were conducted with the shares of Merko Ehitus in 6 months of 2023, with 0.51 million shares (2.9% of total shares) traded, generating a turnover of EUR 7.9 million (comparable figures in 6 months 2022 were accordingly: 25,376 transactions with 0.86 million shares traded (4.8% of total shares), generating a turnover of EUR 13.3 million). The lowest value-per-share transaction was recorded at the price of EUR 14.14 and the highest at EUR 16.36 per share (6 months of 2022: EUR 13.40 and EUR 16.96, accordingly). On 30 June 2023, the closing price of the share was EUR 14.96 (30.06.2022: EUR 13.92). As of 30 June 2023, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 264.8 million, which has increased by 7.5% compared to the end of the equivalent period of the prior year (30.06.2022: EUR 246.4 million).

	30.06.2023	30.06.2022	30.06.2021	31.12.2022
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	1.10	0.41	0.55	1.96
Equity per share, euros	10.27	9.11	8.45	9.57
P/B ratio	1.46	1.53	1.79	1.48
P/E ratio	5.65	9.27	10.87	7.24
Market value, million EUR	264.8	246.4	267.3	250.6

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 2023



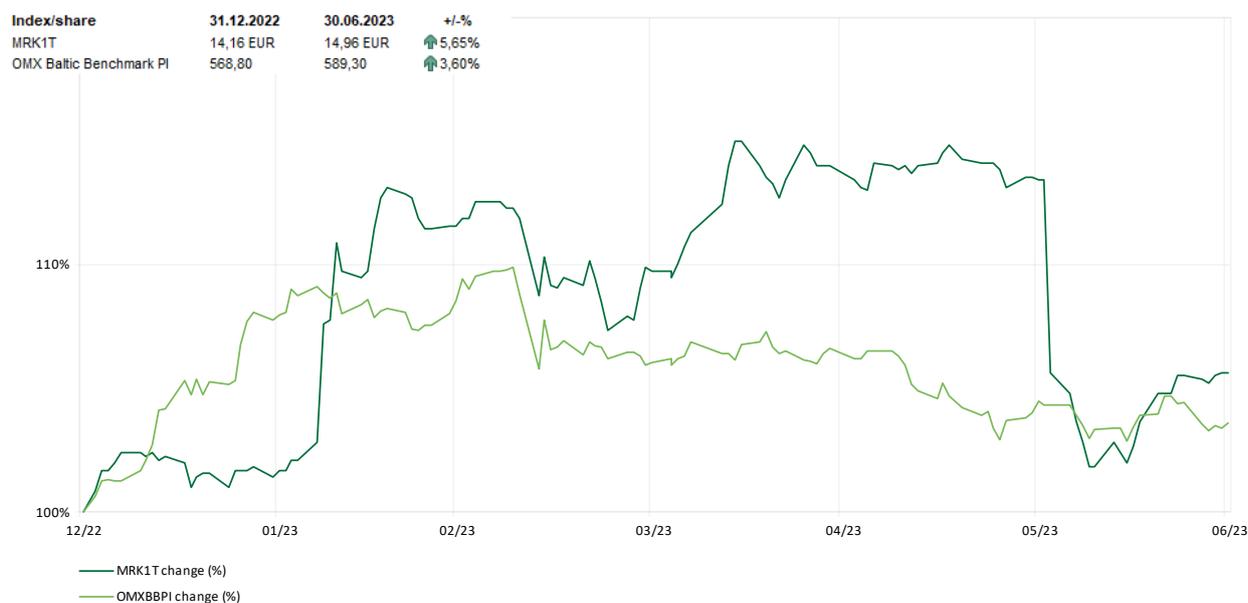
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS OF 30.06.2023

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.01%	12,742,686	71.99%
100,001 – 1,000,000	6	0.05%	1,293,954	7.31%
10,001 – 100,000	47	0.37%	945,774	5.34%
1,001-10,000	546	4.35%	1,494,079	8.44%
101-1,000	2,946	23.45%	976,013	5.51%
1-100	9,014	71.77%	247,494	1.40%
Total	12,560	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS OF 30.06.2023 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 30.06.2023	% OF TOTAL 31.03.2023	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	426,250	2.41%	2.35%	10,000
Firebird Republics Fund Ltd	319,586	1.81%	1.81%	-
Firebird Avrora Fund Ltd	186,361	1.05%	1.05%	-
SEB Life and Pension Baltic SE Estonian Branch	145,185	0.82%	0.84%	(3,602)
Clearstream Banking AG	112,851	0.64%	0.64%	70
Firebird Fund L.P.	103,721	0.59%	0.59%	-
Siseinfo OÜ	100,000	0.56%	0.56%	-
Hans Palla	54,000	0.31%	0.31%	-
Alforme OÜ	50,000	0.28%	0.28%	-
Total largest shareholders	14,240,640	80.46%	80.42%	6,468
Total other shareholders	3,459,360	19.54%	19.58%	(6,468)
Total	17,700,000	100%	100%	-

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



DIVIDENDS AND DIVIDEND POLICY

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

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

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

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

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

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

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

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

As of 30 June 2023, the management structure is as follows:



**In Estonia, the sister companies Merko Ehitus Eesti AS and Tallinna Teede AS are from the group's point of view managed based on the same principles, but have their executive management formed completely independent from each other.*

GROUP'S LEGAL STRUCTURE

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

Changes in the legal structure of the group

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

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

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

On 26 April 2023, UAB Merko Bustas, fully owned subsidiary of AS Merko Ehitus in Lithuania, established a 100% subsidiary UAB MB 4 Projektas.

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

TRANSACTIONS AFTER THE BALANCE SHEET DATE

On 1 July 2023, OÜ Merko Investments, fully owned subsidiary of AS Merko Ehitus, acquired a 100% stake in the company SIA Merks Mājas from the Latvian subsidiary SIA Merks through intra-group transactions. The change of ownership was registered on 19 July 2023.

On 1 July 2023, OÜ Merko Investments, fully owned subsidiary of AS Merko Ehitus, acquired a 100% stake in the company SIA SK Viesturdārzs from the Latvian subsidiary SIA Merks through intra-group transaction. The change of ownership was registered on 14 July 2023.

On 14 July 2023, Merko Investments AS, fully owned subsidiary of AS Merko Ehitus, acquired a 100% stake in Merko Bygg AS through recapitalization, in which the minority shareholders renounced their participation. The recapitalization has not been entered in the register as of the date of preparation of the report.

On 27 July 2023, OÜ Merko Kaevandused and OÜ Metsara-Metspere Kinnisvara, both belonging to AS Merko Ehitus group, signed a merger agreement. The merging company is OÜ Merko Kaevandused, as a result of the merger, the merged company OÜ Metsara-Metspere Kinnisvara ends without liquidation proceedings. The merger date is 1st of January 2024, after which all transactions of the acquired company will be deemed to be made on the account of OÜ Merko Kaevandused.

GENERAL MEETING OF SHAREHOLDERS

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

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

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

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

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

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

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

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

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

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

SUPERVISORY BOARD

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

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

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

As of 30 June 2023, the Supervisory Board of AS Merko Ehitus had three members, of whom, in accordance with the requirements of the Corporate Governance Recommendations, Kristina Siimar and Indrek Neivelt were independent members.

MANAGEMENT BOARD

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

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

The Supervisory Board of AS Merko Ehitus decided to appoint Mr. Urmas Somelar as a Member of the Management Board of the company for the three-year period, starting from 1 June 2023. The Management Board of AS Merko Ehitus will continue with three members: Mr. Andres Trink (Chairman), Mr. Tõnu Toomik and Mr. Urmas Somelar.

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. Urmas Somelar is responsible for the financial management, investor relations and compliance.

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as of 30 June 2023:

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

Changes in the management of group subsidiaries

The sole shareholder of AS Merko Ehitus Eesti decided to appoint Mr. Urmas Somelar as a Member of the Supervisory Board of the company for the three-year period, starting from 1 June 2023. The Supervisory Board of AS Merko Ehitus Eesti will continue with four members: Mr. Andres Trink (Chairman), Mr. Tõnu Toomik, Mr. Martin Rebane and Mr. Urmas Somelar.

The sole shareholder of SIA Merks, part of AS Merko Ehitus group, decided to appoint Mr. Jānis Zilgme as a Member of the Management Board of the company, starting from 4 July 2023, with the areas of responsibility in management, planning and control of construction projects in SIA Merks. The Management Board of SIA Merks will continue with two members: Mr. Andris Bišmeistars and Mr. Jānis Zilgme.

MANAGEMENT BOARD'S DECLARATION

Members of the Management Board of AS Merko Ehitus declare and confirm that the consolidated unaudited interim report for the 6 months of 2023, which consists of the management report and the interim financial statements, prepared according to the current International Financial Reporting Standards as adopted by the European Union, provides, to the best of their knowledge, a true and fair view of the development of business operations, assets, liabilities, financial position, results of the operations, cash flows, and profit or loss of AS Merko Ehitus and the consolidated undertakings as a whole, includes a description of the principal risks and uncertainties, and reflects transactions with related parties. The parent company and the companies, which are part of the consolidation group, are going concerns.

Andres Trink	Chairman of the Management Board	03.08.2023
Tõnu Toomik	Member of the Management Board	03.08.2023
Urmas Somelar	Member of the Management Board	03.08.2023

INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2023 6 months	2022 6 months	2023 II quarter	2022 II quarter	2022 12 months
Revenue	2	217,347	156,198	141,596	87,772	409,633
Cost of goods sold	3	(191,528)	(138,917)	(125,752)	(78,363)	(355,975)
Gross profit		25,819	17,281	15,844	9,409	53,658
Marketing expenses		(2,095)	(2,169)	(1,018)	(1,054)	(4,077)
General and administrative expenses		(8,261)	(7,522)	(4,296)	(3,799)	(15,860)
Other operating income		2,778	1,422	1,961	736	3,144
Other operating expenses		(147)	(455)	(85)	(394)	(1,834)
Operating profit		18,094	8,557	12,406	4,898	35,031
Finance income/costs		2,126	(193)	1,735	(33)	2,067
incl. finance income/costs from joint ventures		3,819	328	2,539	330	3,516
interest expense		(1,337)	(374)	(682)	(212)	(1,180)
foreign exchange gain (loss)		(290)	(67)	(80)	(119)	(138)
other financial income (expenses)		(66)	(80)	(42)	(32)	(131)
Profit before tax		20,220	8,364	14,141	4,865	37,098
Corporate income tax expense		(929)	(1,176)	(637)	(755)	(2,995)
Net profit for financial year		19,291	7,188	13,504	4,110	34,103
incl. net profit attributable to equity holders of the parent		19,450	7,202	13,570	4,196	34,640
net profit attributable to non-controlling interest		(159)	(14)	(66)	(86)	(537)
Other comprehensive income, which can subsequently be classified in the income statement						
Currency translation differences of foreign entities		72	(12)	19	(28)	30
Comprehensive income for the period		19,363	7,176	13,523	4,082	34,133
incl. net profit attributable to equity holders of the parent		19,490	7,189	13,580	4,169	34,648
net profit attributable to non-controlling interest		(127)	(13)	(57)	(87)	(515)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	1.10	0.41	0.77	0.24	1.96

The notes set out on pages 24-36 are an integral part of these interim financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	30.06.2023	30.06.2022	31.12.2022
ASSETS				
Current assets				
Cash and cash equivalents	5	9,795	16,773	17,665
Trade and other receivables	6	68,627	68,317	77,959
Prepaid corporate income tax		146	36	38
Inventories	7	216,142	228,240	225,661
		294,710	313,366	321,323
Non-current assets				
Investments in joint ventures		15,514	9,707	12,895
Other shares and securities		80	-	-
Other long-term loans and receivables	8	21,457	23,616	22,982
Deferred income tax assets		1,044	1,115	693
Investment property	9	11,435	11,536	11,485
Property, plant and equipment	10	17,640	17,347	17,452
Intangible assets	11	582	635	582
		67,752	63,956	66,089
TOTAL ASSETS		362,462	377,322	387,412
LIABILITIES				
Current liabilities				
Borrowings	12	39,783	48,854	49,687
Payables and prepayments	13	83,889	117,702	96,248
Income tax liability		1,419	2,275	1,241
Short-term provisions	14	9,805	6,879	9,820
		134,896	175,710	156,996
Non-current liabilities				
Long-term borrowings	12	37,965	41,153	42,236
Deferred income tax liability		1,774	1,649	2,355
Other long-term payables	15	2,472	2,322	2,133
		42,211	45,124	46,724
TOTAL LIABILITIES		177,107	220,834	203,720
EQUITY				
Non-controlling interests		(622)	(240)	(495)
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		(743)	(804)	(783)
Retained earnings		177,998	148,810	176,248
		185,977	156,728	184,187
TOTAL EQUITY		185,355	156,488	183,692
TOTAL LIABILITIES AND EQUITY		362,462	377,322	387,412

The notes set out on pages 24-36 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				Total	Non- control- ling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
Balance as at 31.12.2021	7,929	793	(791)	159,308	167,239	(227)	167,012
Profit (loss) for the reporting period	-	-	-	7,202	7,202	(14)	7,188
Other comprehensive income	-	-	(13)	-	(13)	1	(12)
Total comprehensive income (loss) for the reporting period	-	-	(13)	7,202	7,189	(13)	7,176
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	-	-	-	(17,700)	(17,700)	-	(17,700)
Balance as of 30.06.2022	7,929	793	(804)	148,810	156,728	(240)	156,488
Balance as at 31.12.2022	7,929	793	(783)	176,248	184,187	(495)	183,692
Profit (loss) for the reporting period	-	-	-	19,450	19,450	(159)	19,291
Other comprehensive income	-	-	40	-	40	32	72
Total comprehensive income (loss) for the reporting period	-	-	40	19,450	19,490	(127)	19,363
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	-	-	-	(17,700)	(17,700)	-	(17,700)
Balance as at 30.06.2023	7,929	793	(743)	177,998	185,977	(622)	185,355

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

The notes set out on pages 24-36 are an integral part of these interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2023 6 months	2022 6 months	2022 12 months
Cash flows from operating activities				
Operating profit		18,094	8,557	35,031
Adjustments:				
Depreciation and impairment		1,468	1,404	2,880
(Profit)/loss from sale of non-current assets		(767)	(161)	(313)
Change in receivables and liabilities related to construction contracts		986	(336)	(1,066)
Interest income from operating activities		(1,119)	(1,105)	(2,260)
Change in provisions		(1,332)	(2,824)	1,540
Change in trade and other receivables related to operating activities		10,192	(12,615)	(22,024)
Change in inventories		9,698	(65,235)	(62,360)
Change in trade and other payables related to operating activities		(10,798)	32,310	8,911
Interest received		998	683	2,188
Interest paid		(1,767)	(601)	(1,652)
Other finance income (costs)		(168)	(79)	(133)
Corporate income tax paid		(1,807)	(1,567)	(2,529)
Total cash flows from operating activities		23,678	(41,569)	(41,787)
Cash flows from investing activities				
Acquisition of subsidiaries		-	(695)	(695)
Acquisition of joint venture		-	(2,236)	(2,236)
Purchase of property, plant and equipment (excl. leased assets)		(1,062)	(555)	(1,117)
Proceeds from sale of property, plant and equipment		998	288	343
Purchase of intangible assets		(111)	(86)	(141)
Interest received		1	1	1
Dividends received		1,200	-	560
Total cash flows from investing activities		1,026	(3,283)	(3,285)
Cash flows from financing activities				
Proceeds from borrowings		46,881	54,868	147,990
Repayments of borrowings		(61,094)	(18,129)	(109,484)
Repayments of lease liabilities		(632)	(488)	(1,108)
Buyout of non-controlling interest		-	(1,886)	(1,886)
Dividends paid		(17,679)	(17,661)	(17,661)
Total cash flows from financing activities		(32,524)	16,704	17,851
Net increase/decrease in cash and cash equivalents		(7,820)	(28,148)	(27,221)
Cash and cash equivalents at the beginning of the period	5	17,665	44,930	44,930
Effect of exchange rate changes		(50)	(9)	(44)
Cash and cash equivalents at the end of the period	5	9,795	16,773	17,665

The notes set out on pages 24-36 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 6 months 2023 were prepared in accordance with the requirements of IAS 34 “Interim Financial Reporting” for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2022 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2022 audited annual report and 2022 6 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 6 months 2023 presents a true and fair view of the group’s economic results based on the principle of going concern. The influence of seasonality of construction and the influence of the cyclical nature of development activity on the period’s results can be considered insignificant.

NOTE 2 OPERATING SEGMENTS

in thousand euros

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

Reporting of the group’s operations are segmented as:

- construction service,
- real estate development.

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

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

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

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

2023 6 months	Construction service	Real estate development	Total segments
Revenue	121,490	119,834	241,324
Inter-segment revenue	(542)	(23,435)	(23,977)
Revenue from clients	120,948	96,399	217,347
incl. timing of revenue recognition at a point in time	384	82,123	82,507
timing of revenue recognition over time	120,564	14,276	134,840
Operating profit (loss)	4,677	14,771	19,448
Profit (loss) before tax	5,928	16,040	21,968
incl. interest income from operating activities	-	1,119	1,119
depreciation	(1,120)	(348)	(1,468)
impairment of inventories	-	(2,200)	(2,200)
recognition of provisions	(1,834)	(1,028)	(2,862)
profit from joint ventures	1,496	2,323	3,819
other finance income (costs)	(122)	(1,011)	(1,133)
incl. interest expenses	(43)	(776)	(819)
Assets 30.06.2023	87,272	252,551	339,823
incl. joint ventures	9,963	5,551	15,514

2022 6 months	Construction service	Real estate development	Total segments
Revenue	115,356	66,811	182,167
Inter-segment revenue	(429)	(25,540)	(25,969)
Revenue from clients	114,927	41,271	156,198
incl. timing of revenue recognition at a point in time	625	27,232	27,857
timing of revenue recognition over time	114,302	14,039	128,341
Operating profit (loss)	1,966	8,052	10,018
Profit (loss) before tax	2,217	7,729	9,946
incl. interest income from operating activities	21	1,084	1,105
depreciation	(1,123)	(281)	(1,404)
recognition of provisions	(4,157)	(125)	(4,282)
profit (loss) from joint ventures	353	(25)	328
other finance income (costs)	(23)	(293)	(316)
incl. interest expenses	(23)	(176)	(199)
Assets 30.06.2022	76,949	268,234	345,183
incl. joint ventures	7,406	2,301	9,707

2023 II quarter	Construction service	Real estate development	Total segments
Revenue	72,003	80,887	152,890
Inter-segment revenue	(326)	(10,968)	(11,294)
Revenue from clients	71,677	69,919	141,596
incl. timing of revenue recognition at a point in time	177	62,396	62,573
timing of revenue recognition over time	71,500	7,523	79,023
Operating profit (loss)	4,128	9,088	13,216
Profit (loss) before tax	5,144	10,017	15,161
incl. interest income from operating activities	-	548	548
depreciation	(538)	(202)	(740)
impairment of inventories	-	(2,200)	(2,200)
recognition of provisions	(822)	(964)	(1,786)
profit from joint ventures	1,130	1,409	2,539
other finance income (costs)	(52)	(459)	(511)
incl. interest expenses	(23)	(394)	(417)
Assets' change in II quarter	17,864	(31,511)	(13,647)
incl. joint ventures	(70)	1,409	1,339

2022 II quarter	Construction service	Real estate development	Total segments
Revenue	67,425	33,974	101,399
Inter-segment revenue	(248)	(13,379)	(13,627)
Revenue from clients	67,177	20,595	87,772
incl. timing of revenue recognition at a point in time	473	11,608	12,081
timing of revenue recognition over time	66,704	8,987	75,691
Operating profit (loss)	1,928	3,953	5,881

2022 II quarter	Construction service	Real estate development	Total segments
Profit (loss) before tax	2,213	3,702	5,915
incl. interest income from operating activities	21	543	564
depreciation	(579)	(133)	(712)
recognition of provisions	(2,707)	150	(2,557)
profit from joint ventures	342	(12)	330
other finance income (costs)	(15)	(237)	(252)
incl. interest expenses	(15)	(99)	(114)
Assets' change in II quarter	7,004	42,226	49,230
incl. joint ventures	342	(12)	330

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

In addition to the segment assets, as at 30.06.2023 the group holds assets in the amount of EUR 22,639 thousand (30.06.2022: EUR 32,139 thousand; 31.12.2022: EUR 30,146 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	2023 6 months	2022 6 months	2023 II quarter	2022 II quarter	2022 12 months
Pre-tax profit from reporting segments	21,968	9,946	15,161	5,915	41,290
Other operating profit (loss)	(1,355)	(1,461)	(811)	(983)	(3,801)
incl. recognition of provisions	-	-	-	-	(925)
finance income (costs)	(393)	(121)	(209)	(67)	(391)
incl. interest expenses	(356)	(91)	(181)	(56)	(341)
Total profit before tax	20,220	8,364	14,141	4,865	37,098

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

	2023 6 months		2022 6 months		2023 II quarter		2022 II quarter		2022 12 months	
Estonia	150,783	70%	72,141	44%	110,425	78%	42,197	48%	204,480	50%
Latvia	37,424	17%	36,980	25%	14,944	11%	19,773	23%	113,163	27%
Lithuania	26,363	12%	41,359	25%	14,485	10%	23,933	27%	84,564	21%
Norway	2,777	1%	5,718	6%	1,742	1%	1,869	2%	7,426	2%
Total	217,347	100%	156,198	100%	141,596	100%	87,772	100%	409,633	100%

CONTRACT ASSETS AND LIABILITIES

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Accrued income from construction services (Note 6)	14,218	15,034	15,378
Prepayments for construction services (Note 13)	(6,137)	(6,729)	(6,298)
Advance payments received for construction contract works (Notes 13, 15)	(8,762)	(8,697)	(5,184)
Recognised provision for onerous construction contracts (Note 14)	(7)	(211)	(8)

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

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Estonia	33,027	27,028	30,314
Latvia	10,877	10,929	10,786
Lithuania	1,244	1,138	1,199
Norway	103	130	115
Total	45,251	39,225	42,414

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2023 6 months	2022 6 months	2023 II quarter	2022 II quarter	2022 12 months
Construction services and properties purchased for resale	125,761	76,423	86,997	44,150	215,323
Materials	28,470	28,688	18,147	16,382	63,665
Labour costs	15,651	13,781	7,946	6,573	28,652
Construction mechanisms and transport	4,714	4,247	2,868	2,560	9,199
Design	3,767	3,873	1,961	1,982	8,561
Real estate management costs	500	364	217	180	827
Depreciation	1,029	960	519	490	1,973
Impairment of inventories	2,200	-	2,200	-	3,408
Provisions	2,862	4,282	1,786	2,557	11,291
Other expenses	6,574	6,299	3,111	3,489	13,076
Total cost of goods sold	191,528	138,917	125,752	78,363	355,975

NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2023 6 months	2022 6 months	2023 II quarter	2022 II quarter	2022 12 months
Net profit (loss) attributable to shareholders (<i>in thousand EUR</i>)	19,450	7,202	13,570	4,196	34,640
Weighted average number of ordinary shares (<i>thousand pcs</i>)	17,700	17,700	17,700	17,700	17,700
Earnings (loss) per share (<i>in euros</i>)	1.10	0.41	0.77	0.24	1.96

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

Dividends payable are recognised after the approval of profit allocation by the shareholders. In accordance with the profit allocation decision, in 2023 the parent company AS Merko Ehitus will pay dividends of EUR 17,700 thousand, i.e. EUR 1.00 per share (in 2022 were paid EUR 17,700 thousand). The income tax expense related to the payment of dividends, 496 thousand euros, which was recognised as deferred tax expense in the group in 2022, will be paid in third quarter. The group withheld an additional 7% income tax, 21 thousand euros, on the part of the dividends paid to private shareholders taxable at 14/86 income tax rate.

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

As at 30.06.2023 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 215 thousand euros (30.06.2022: EUR 36 thousand euros; 31.12.2022: EUR 742 thousand euros).

As of 30.06.2023, the parent company AS Merko Ehitus has EUR 313 thousand (30.06.2022: EUR 0; 31.12.2022: EUR 1660 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 30.06.2023, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 141,994 thousand (30.06.2022: EUR 118,816; 31.12.2022: EUR 140,704 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 78 thousand (30.06.2022: EUR 0; 31.12.2022: EUR 415 thousand), the corresponding income tax on dividends would amount to EUR 35,261 thousand (30.06.2022: EUR 29,190 thousand; 31.12.2022: EUR 34,761 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration. Above that amount, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out as net dividends). The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Bank accounts	9,609	16,773	17,665
Overnight deposits	186	-	-
Total cash and cash equivalents	9,795	16,773	17,665

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Trade receivables			
Accounts receivable	45,218	36,888	52,746
Allowance for doubtful receivables	(109)	(3,112)	(3,285)
	45,109	33,776	49,461
Tax prepayments excluding corporate income tax			
Value added tax	1,093	4,619	795
Other taxes	70	10	3
	1,163	4,629	798
Accrued income from construction services	14,218	15,034	15,378
Other short-term receivables			
Short-term loans	3,000	3,000	5,000
Interest receivables	137	43	-
Dividends receivables	-	560	-
Other short-term receivables	86	109	124
	3,223	3,712	5,124
Prepayments for services			
Prepayments for construction services	3,823	10,638	6,386
Prepaid insurance	938	314	642
Other prepaid expenses	153	214	170
	4,914	11,166	7,198
Total trade and other receivables	68,627	68,317	77,959
incl. short-term loan receivables from related parties (Note 16)	3,000	3,000	5,000
other short-term receivables and prepayments to related parties (Note 16)	13,633	7,366	8,049

NOTE 7 INVENTORIES

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Materials	586	824	503
Work-in-progress	79,608	117,910	92,049
Finished goods	42,083	11,912	43,414
Goods for resale			
Registered immovables purchased for resale/development	89,521	91,304	84,133
Other goods purchased for resale	3,285	222	4,249
	92,806	91,526	88,382
Prepayments for inventories			
Prepayments for real estate properties	-	-	517
Prepayments for other inventories	1,059	6,068	796
Total inventories	216,142	228,240	225,661

NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Long-term bank deposit	-	5	-
Long-term receivables from customers of construction services	21,457	23,611	22,982
Total other long-term loans and receivables	21,457	23,616	22,982

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Land	10,172	10,172	10,172
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(15)	(14)	(15)
	14	15	14
Buildings at carrying amount			
Cost	2,455	2,631	2,455
Accumulated depreciation	(1,206)	(1,282)	(1,156)
	1,249	1,349	1,299
Total investment property	11,435	11,536	11,485

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Land	1,266	1,266	1,266
Buildings at carrying amount*			
Cost	8,263	8,293	8,251
Accumulated depreciation	(3,399)	(3,074)	(3,211)
	4,864	5,219	5,040
Machinery and equipment at carrying amount*			
Cost	18,362	18,634	19,177
Accumulated depreciation	(9,018)	(9,993)	(10,521)
	9,344	8,641	8,656
Other fixtures at carrying amount			
Cost	4,608	4,784	4,814
Accumulated depreciation	(3,064)	(3,134)	(3,230)
	1,544	1,650	1,584
Prepayments for property, plant and equipment	622	571	906
Total property, plant and equipment	17,640	17,347	17,452

* As of 30 June 2023, the balance of buildings at carrying amount includes leased assets in a sum of EUR 592 thousand (30.06.2022: 733 thousand; 31.12.2022: EUR 662 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 3,616 thousand (30.06.2022: EUR 3,308 thousand; 31.12.2022: EUR 3,459 thousand).

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Goodwill			
Cost	62	70	69
	62	70	69
Software at carrying amount			
Cost	1,355	1,402	1,500
Accumulated depreciation	(1,052)	(992)	(1,099)
	303	410	401
Prepayments for intangible assets	217	155	112
Total intangible assets	582	635	582

NOTE 12 BORROWINGS

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Lease liabilities*			
Lease liabilities balance	4,346	4,151	4,302
incl. current portion	1,144	1,063	1,198
non-current portion 2...5 years	3,202	3,088	3,104
Bank loans			
Loan balance	67,347	74,822	73,560
incl. current portion	32,584	42,757	40,428
non-current portion 2...5 years	34,763	32,065	33,132
Loan from parent company			
Loan balance	-	5,000	8,000
incl. current portion (Note 16)	-	5,000	8,000
Loans from entities under common control			
Loan balance	6,000	6,000	6,000
incl. current portion (Note 16)	6,000	-	-
non-current portion 2...5 years (Note 16)	-	6,000	6,000
Loans from other related parties			
Loan balance	55	34	61
incl. current portion	55	34	61
Total loans			
Loans balance	73,402	85,856	87,621
incl. current portion	38,639	47,791	48,489
non-current portion 2...5 years	34,763	38,065	39,132
Total borrowings			
incl. current portion	77,748	90,007	91,923
non-current portion 2...5 years	39,783	48,854	49,687
non-current portion 2...5 years	37,965	41,153	42,236

* As of 30 June 2023, the lease liabilities include a balance of EUR 227 thousand to related parties (30.06.2022: EUR 280 thousand; 31.12.2022: EUR 254 thousand) (Note 16).

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Trade payables	43,376	59,396	46,020
Payables to employees	10,834	10,282	11,638
Tax liabilities, except for corporate income tax			
Value added tax	4,544	1,255	6,587
Personal income tax	556	545	615
Social security tax	1,494	1,362	1,680
Unemployment insurance tax	53	47	65
Contributions to mandatory funded pension	29	33	33
Other taxes	140	201	143
	6,816	3,443	9,123
Prepayments for construction services	6,137	6,729	6,298
Other liabilities			
Interest liabilities	57	25	113
Other liabilities	479	472	961
	536	497	1,074
Prepayments received *	16,190	37,355	22,095
Total payables and prepayments	83,889	117,702	96,248
incl. payables to related parties (Note 16)	2,484	2,548	2,519

* As of 30 June 2023, the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 8,762 thousand (30.06.2022: EUR 8,697 thousand; 31.12.2022: EUR 5,184 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 7,428 thousand (30.06.2022: EUR 28,658 thousand; 31.12.2022: EUR 16,911 thousand) (Note 2).

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Provision for warranty obligation for construction	4,406	3,846	4,425
Provision for costs of projects sold and work-in-progress projects	3,892	2,822	4,086
Provision for onerous construction contracts	7	211	8
Provision for legal costs and claims filed	1,500	-	1,200
Other provisions	-	-	101
Total short-term provisions	9,805	6,879	9,820

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Trade payables	2,472	2,068	2,133
Other long-term liabilities	-	254	-
Other long-term payables total	2,472	2,322	2,133
incl. other long-term payables to related parties (Note 16)	-	254	-

NOTE 16 RELATED PARTY TRANSACTIONS

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 30.06.2023, 30.06.2022 and 31.12.2022, AS Riverito owned 71.99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr. Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	30.06.2023	30.06.2022	31.12.2022		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	100	Estonia, Tallinn	Mining
OÜ Metsara-Metspere Kinnisvara	100	100	100	Estonia, Tallinn	Mining
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektai	100	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu Mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN 2 Projektas	100	-	-	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	100	100	Lithuania, Vilnius	Real estate
UAB MB 4 Projektas	100	-	-	Lithuania, Vilnius	Real estate
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA Merko Management Latvia (ex-SIA SK Viesturdarzs)	100	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	100	100	100	Latvia, Riga	Real estate
SIA Merks Mājas	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
SIA Zakusala Estates	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	-	100	100	Latvia, Riga	Construction
PS Merks-Ostas Celtnieks	65	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	100	Latvia, Riga	Construction
SIA Merko Būve	100	-	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	100	Finland, Helsinki	Construction (<i>in liquidation</i>)
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding
Merko Bygg AS	56	56	56	Norway, Sofiemyr	Construction
Løkenskogen Bolig AS	62	62	62	Norway, Sofiemyr	Real estate
Joint ventures					
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate
AS Connecto Eesti	50	50	50	Estonia, Tallinn	Construction

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

GOODS AND SERVICES

in thousand euros

	2023 6 months	2022 6 months	2022 12 months
Provided services and goods sold			
Parent company	6	7	15
Joint ventures	14,280	12,019	30,116
Entities under common control	44,029	13,947	44,941
Members of the management	108	-	186
Total services provided and goods sold	58,423	25,973	75,258
Interest income			
Joint ventures	136	51	196
Purchased services and goods			
Parent company	49	45	104
Joint ventures	45	75	203
Entities under common control	36	35	73
Members of the management	-	-	-
Total purchased services and goods	130	155	380
Interest expense			
Parent company	30	14	73
Entities under common control	161	64	153
Other related parties	1	-	1
Total interest expense	192	78	227

BALANCES WITH RELATED PARTIES

in thousand euros

	30.06.2023	30.06.2022	31.12.2022
Receivables from related parties			
Loans granted (Notes 6,8)			
Joint venture	3,000	3,000	5,000
Receivables and prepayments (Note 6)			
Parent company	3	4	5
Joint ventures	2,933	4,209	3,239
Entities under common control	10,697	3,153	4,805
Total receivables and prepayments	13,633	7,366	8,049
Total receivables from related parties	16,633	10,366	13,049
Payables to related parties			
Lease liabilities (Note 12)			
Entities under common control	227	280	254
Short-term loans received (Note 12)			
Parent company	-	5,000	8,000
Entities under common control	6,000	-	-
Other related parties	55	34	61
Total Short-term loans received	6,055	5,034	8,061
Payables and prepayments (Note 13)			
Parent company	-	18	-
Joint ventures	9	11	35
Entities under common control	2,474	2,455	2,444
Members of the management	-	64	40
Other related parties	1	-	-
Total payables and prepayments	2,484	2,548	2,519

	30.06.2023	30.06.2022	31.12.2022
Long-term loans received (Note 12)			
Entities under common control	-	6,000	6,000
Other long-term payables (Note 15)			
Other related parties	-	254	-
Total payables to related parties	8,766	14,116	16,834

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The cost of remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus incl. basic salaries and performance pay, as well as taxes and changes in reserves for the 6 months of 2023 were EUR 645 thousand (6 months of 2022: EUR 688 thousand; 12 months of 2022: EUR 1,363 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been concluded with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 6 months of 2023, the Management Board members of AS Merko Ehitus did not receive benefits (6 months of 2022: EUR 0; 12 months of 2022: EUR 0).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as of 30.06.2023:

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

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

The Management Board of the holding company AS Merko Ehitus has three members: Andres Trink, Tõnu Toomik and Urmas Somelar.

Shares held by members of the Management Board of AS Merko Ehitus as of 30.06.2023:

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

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	30.06.2023	30.06.2022	31.12.2022
Performance period's warranty to the customer	26,015	24,569	28,235
Tender warranty	34	12,150	10
Guarantee for warranty period	24,055	23,658	22,796
Prepayment guarantee	-	10,845	4,504
Contracts of surety	500	500	500
Total contingent liabilities	50,604	71,722	56,045

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