



AS MERKO EHITUS

GROUP

2019 12 months and IV quarter consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2019 – 31.12.2019
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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BRIEF OVERVIEW OF THE GROUP

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



BUSINESS SEGMENTS

ESTONIA

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

LATVIA

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

LITHUANIA

General construction
Residential real estate development and investments

NORWAY

General construction

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

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

International quality, environmental protection and occupational safety **certificates ISO 9001, ISO 14001, OHSAS 18001**

SHARES

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

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

2019 KEY FIGURES

Revenue **326.8 million** euros

Net profit **16.3 million** euros

694 employees



VISION

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

VALUES

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

STRATEGY

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

MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

Merko Ehitus posted revenue of EUR 99 million and net profit of EUR 9.3 million in Q4 of 2019, close to a one-third gain over the same period a year ago. In Q4, the revenue generated by the real estate development business area more than doubled compared to 2018 and made up approximately 47% of the group's revenue as a whole. In 2019, the 12-month revenue of Merko Ehitus was EUR 327 million and net profit was EUR 16.3 million. As discussed with the supervisory board, the group's management board proposes to pay shareholders 0.60 euros per share as dividends.

The fourth quarter of Merko Ehitus was expected to be strong. The professional work of the group companies' teams and timely completion of apartment development projects contributed to the result. The forecasts of group's management were somewhat exceeded as some apartment development projects were completed earlier than planned and sales were faster thanks to greater interest from buyers.

The decline in annual sales revenue by about one fifth was expected because of the extraordinarily high comparison base of 2018, which included the construction of some very large shopping centres in Tallinn and Riga. The group's smaller secured order book also reflects the situation on the market: fewer commercial real estate sites are being built because competition is stiffer, construction prices have risen and financing conditions have become more complicated. The price competition on the main contracting market continues to be tight. So it is all the more gratifying to note that in spite of the lower revenue, we were able to improve profitability through a more precise selection of construction projects and the team's effectiveness. The year's net profit figure was impacted by significantly higher income tax expenses compared to 2018 in connection with the payment of dividends. The group's profit before taxes for the 12 months was EUR 20.3 million and increased by 2.8% from the year before.

**2019 12M
REVENUE**
327 MILLION EUROS

**PROFIT
BEFORE TAX**
20.3 MILLION EUROS

The proportion of the real estate development business area has continued to increase, and in Q4 it made up close to 47% of the entire group's revenue. The real estate development business area's sales revenue was EUR 46.5 million in Q4 and totalled EUR 70.1 million for the 12 months. In Q4, Merko sold a total of 276 apartments, 482 for the entire year, and the respective figures for commercial areas sold were 13 and 24. The apartment market in Tallinn, Riga and Vilnius is stable and our focus continues to be on large development areas where we can establish an integral residential environment and launch and build development projects stage by stage based on demand.

In 2019, the group invested EUR 87.4 million into new and ongoing development projects and started construction of a total of 368 new apartments in the Baltics. The largest projects were the Uus-Veerenni, Lahekalda and Pikaliiva residential projects in Tallinn; in Riga, the Gaiļezers and Viesturdārzs developments; and, in Vilnius, the Vilneles slenis and Rinktinės Urban developments.

Q4 2019 revenue of Merko Ehitus was EUR 99 million (Q4 of 2018: EUR 119 million), EBITDA was EUR 10.2 million (Q4 of 2018: 7.6 million), and net profit was EUR 9.3 million (Q4 of 2018: EUR 7.0 million). In Q4 2019, Merko subsidiaries signed new agreements worth EUR 42 million and the volume of new contracts over the 12 months of 2019 stood at EUR 170 million. As of 31 December 2019, the group's secured order book amounted to EUR 141 million, compared to EUR 229 million on the same date in the previous year.

The largest projects in progress in Q4 in Estonia were the construction of Terminal D parking house at the Tallinn passenger port, Türi Basic School, the student home for Rakvere Vocational School and the commercial building at Pärnu mnt 186, as well as the reconstruction of the Aaspere-Haljala road section. In Latvia, the largest projects in progress were the construction of the Pinki school building and dormitory, Lidl's logistics centre, Alfa shopping centre, and Laima chocolate factory, as well as the reconstruction of the Riga Technical University Civil Engineering Faculty building. In Lithuania, the larger projects were the construction of Neringa Hotel, Quadrum office building, and a private school in Vilnius.

OVERVIEW OF THE IV QUARTER AND 12 MONTHS RESULTS

PROFITABILITY

2019 12 months' profit before tax was EUR 20.3 million and for Q4 2019 it was EUR 10.0 million (12M 2018: EUR 19.8 million and Q4 2018: EUR 7.1 million), which brought the profit before tax margin to 6.2% (12M 2018: 4.7%).

Net profit attributable to equity holders of the parent in 12 months 2019 was EUR 16.3 million (12M 2018: EUR 19.3 million) and Q4 2019 net profit attributable to equity holders of the parent was EUR 9.3 million (Q4 2018: EUR 7.0 million). 12 months' net profit margin was 5.0% (12M 2018: 4.6%). Net profitability was influenced by, among other things, a significantly increased income tax expense: in Q2, the group's income tax expense on paid dividends was EUR 2.7 million greater than the year before. There was no income tax expense on the dividends paid in 2018 – the dividends were distributed from dividends paid by foreign subsidiaries to the parent.

REVENUE

Q4 2019 revenue was EUR 99.2 million (Q4 2018: EUR 119.2 million) and 12 months' revenue was EUR 326.8 million (12M 2018: EUR 418.0 million). 12 months' decreased by 21.8% compared to same period last year. The share of revenue earned outside Estonia in 12 months 2019 was 48.3% (12M 2018: 51.5%).

SECURED ORDER BOOK

As at 31 December 2019, the group's secured order book was EUR 141.4 million (31 December 2018: EUR 229.0 million). In 12 months 2019, group companies signed new contracts in the amount of EUR 169.6 million (12M 2018: EUR 246.4 million). In Q4 2019, new contracts were signed in the amount of EUR 42.0 million (Q4 2018: EUR 89.4 million).

REAL ESTATE DEVELOPMENT

In 12 months 2019, the group sold a total of 482 apartments (incl. 47 apartments in a joint venture); in 12 months 2018, the group sold 482 apartments as well (incl. 131 apartments in a joint venture). The group earned a revenue of EUR 63.8 million from sale of own developed apartments in 12 months 2019 and EUR 41.3 million in 12 months 2018. In Q4 of 2019 a total of 276 apartments (incl. 11 apartments in a joint venture) were sold compared to 227 apartments (incl. 84 apartments in a joint venture) in Q4 2018, and earned a revenue of EUR 43.6 million from sale of own developed apartments (Q4 2018: EUR 17.0 million).

CASH POSITION

At the end of the reporting period, the group had EUR 24.7 million in cash and cash equivalents, and equity of EUR 130.3 million (46.2% of total assets). Comparable figures as at 31 December 2018 were EUR 40.0 million and EUR 131.8 million (48.9% of total assets), respectively. As at 31 December 2019, the group had net debt of EUR 39.0 million (31 December 2018: EUR 4.2 million).

PROPOSAL FOR DISTRIBUTION OF PROFITS

As discussed with the Supervisory Board, the Management Board proposes to distribute to shareholders EUR 10.6 million in dividends (0.60 euro per share) from retained earnings in 2020. This is equivalent to a 65% dividend rate for 2019.

OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

CONSTRUCTION SERVICES

A consistent trend could be seen on the Baltic construction market throughout 2019: Estonian and Latvian volumes remained unchanged and Lithuania saw continued strong growth. The construction volume index in Estonia is about 10% greater than at the peak of the boom in the second half of the 2000s while in Latvia and Lithuania it is still about 20% below that.

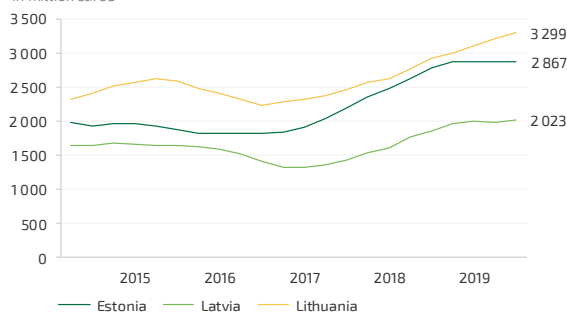
In terms of volumes of building permits for residential premises, Estonia appears to have peaked – although issued permits regained growth in the second half of the year after almost one and a half years of decline, total volumes were still just short of the highest level of 2017. It should be kept in mind that new near-zero energy requirements came into effect for residential buildings in the beginning of 2020, due to which there was a rush to receive as many building permits as possible in 2019. Most probably this also contributed to the uptick.

In Latvia, volumes of building permits for residential premises declined during the first three quarters of 2019, while new growth was seen in Lithuania after couple of years of decrease. The Estonian and Lithuanian residential market continues to be active – even if no new record levels are attained in building permits, the overall volume is high. In Latvia on the other hand, developments are proceeding at a more modest pace. The volume of building permits for non-residential premises in Estonia has declined from its peak during past couple of years. Latvia has seen precisely the opposite – couple of years of continuous growth starting from a trough. Developments in Lithuania fall into an in-between area: the slightly positive trend seen for the past few years is continuing at a relatively high general level.

In conclusion, the construction markets in the three countries are progressing in somewhat different directions and paces, so the developments in each of the countries should be viewed separately. The Norwegian construction market is continuing to grow at a stable 3% per year, as it has for several years now.

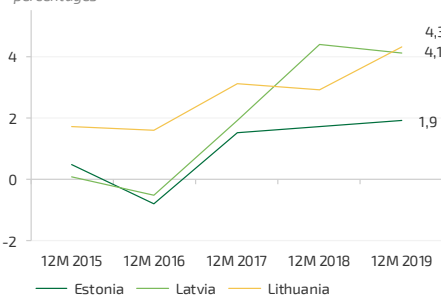
Construction prices continued rising in 2019: more than 4% in Latvia and Lithuania, and close to 2% in Estonia. In Estonia and Lithuania, the pace of growth remained more or less the same for the whole year, while in Latvia it has settled down somewhat. Workforce expenses continued to contribute the largest share of the price rise, growing close to 8% in Latvia and Lithuania and about 4% in Estonia.

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



Source: national statistical offices

12 MONTHS' CHANGE IN CONSTRUCTION PRICE INDEX
percentages

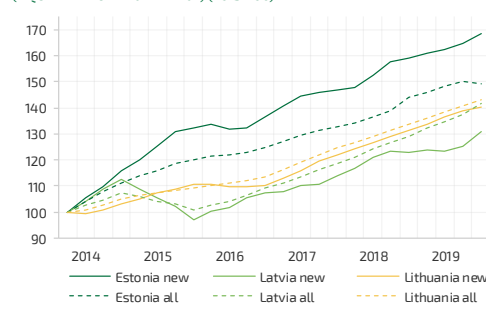


Source: national statistical offices

DEVELOPMENT OF APARTMENTS

Estonia has seen a relatively consistently even growth in volumes of permits for use in the last eight years or so; with the peak of the previous boom years exceeded in 2018. In Lithuania, the volumes of permits for use have stabilized above the peak levels of the previous boom. The general volumes in Latvia are lower than in the other two countries, although this market is showing signs of regaining momentum as well – the trend in volumes of permits for use has been positive for two-three years and the growth has appeared to be accelerating in 2019. Still, there is a noteworthy difference between the number of building permits and the number of permits for use in Latvia (although the gap is closing) while they are about equal in Estonia and Lithuania. This could point to the fact that the Estonian and Lithuanian markets have found a certain balance, with additional housing planned at about the same pace at which housing units enter use, while in Latvia it is still presumed that the general volumes on the market could increase. Whether this expectation will be met is a separate question.

NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX
(4 QUARTER ROLLING AVERAGE) (2013=100)



Source: Eurostat

In Estonia and Lithuania, the dynamics of housing prices are essentially the same they have been for the past few years – prices are constantly rising in unison with growing income. In Latvia, in 2019 the price level of new dwelling returned to growth as well, after a plateau that lasted for some 1.5 years. Along with the growth in the number of permits for use, this shows that the market activity in Riga has increased.

In general, the developments on the apartment markets in all three countries are positive and fairly stable. That means there is no clear oversupply to be seen that would exert pressure on prices, nor are the rising prices forming a bubble. The risks continue to be mostly external, pertaining to the general situation of international trade and the economic health of the main trading partners for the Baltic states. General sentiment in the local economies – dynamics of incomes, unemployment level, inflation and loan conditions – depends on these external factors. As long as the local trends remain similar to what they have been so far, there is no reason to expect a general slump on the real estate market.

BUSINESS ACTIVITIES

Starting from 2019, the management board of AS Merko Ehitus decided to change the segment reporting structure in the group's financial reports and harmonise it with the group's internal reporting structure.

As a result of the change, the Estonian construction service and other home market construction service will be merged and instead of three business segment there will be two:

- construction service;
- real estate development.

The change is due to the fact that the volumes of construction services provided in group's home markets have become more evenly distributed. Therefore, the management board of AS Merko Ehitus is focusing on the construction service business segment as a whole and does not deem it necessary to treat Estonian construction service as a separate business segment.

CONSTRUCTION SERVICE

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

million EUR

	12M 2019	12M 2018	VARIANCE	Q4 2019	Q4 2018	VARIANCE
Revenue	256.7	347.1	-26.0%	52.7	96.6	-45.4%
% of total revenue	78.6%	83.0%		53.1%	81.0%	
Operating profit	13.3	10.7	+23.9%	4.2	3.2	+31.3%
Operating profit margin	5.2%	3.1%		8.0%	3.3%	

In the 12 months of 2019, the revenue of the construction service segment was EUR 256.7 million (12M 2018: EUR 347.1 million). The sales revenue of construction service has decreased by 26.0% compared to the same period last year. The construction service segment revenue for 12 months 2019 made up 78.6% of the group's total revenue (12M 2018: 83.0%). In this segment, the group earned an operating profit of EUR 13.3 million for 12 months (12M 2018: EUR 10.7 million). The operating profit margin was 5.2% (12M 2018: 3.1%).

The operating profit margin of the construction service business segment for 2019 was 5.2% (2018: 3.1%). An increase in the profitability compared to the year before confirms that the approach to concentrate on increasing efficiency and to choose to sign only those construction contracts, which provide proper profitability with a sensible risk level, has been correct. Quarter to quarter the profitability will keep on fluctuating quite broadly depending on the projects at hand and their level of completion. It is important to ensure proper level of profitability for a whole year or even a longer period. The market as a whole is not very favourable for this task: price competition between main contractors has not eased up, while the overall volume of new projects on the market has decreased. Because of that, retaining the operating profitability level demands an increasingly stronger effort in finding efficiency as well as focusing on projects, in case of which it is possible to generate added value to the client through high quality of project management, and the provided service can be priced accordingly.

It is important that the pricing is fair and transparent, and that the contractual risks are distributed in a balanced way between the client and the main contractor. Focusing only on underbidding is short-sighted and does not, in the end of the day, work on the client's favour either. Because of low price, the quality of the works suffers, staying on schedule becomes questionable, and at times even the completion of the works might not be a given. For the group, maintaining or increasing the revenue is not a goal onto itself. Revenue must be balanced against taken risks and estimated profitability.

Larger projects in progress in the fourth quarter in construction service segment in Estonia included the construction works of commercial building at Pärnu mnt 186, Terminal D parking house at the Tallinn passenger port, student home of Rakvere Vocational School, Türi Basic School buildings, support warehouse and medical centre in Tapa armed forces campus, construction of electric power cables of Suur Väin straits, high-voltage power cables in Tallinn, construction works of water supply and sewerage piping in Metsanurme, Kasemetsa and Üksnurme area, reconstruction of Aaspere-Haljala road section, and road repair and maintenance works in Tallinn. In Latvia, larger ongoing projects in Q4 included the construction works of Alfa shopping centre, Lidl logistics centre, Laima chocolate factory, college building and dormitory in Pinki, as well as reconstruction of Riga Technical University Civil Engineering Faculty building. In Lithuania, larger projects were the construction works of Neringa hotel, Quadrum office building, and a private school building in Vilnius, as well district Police headquarters building in Kaunas. In Norway, mostly smaller scale contracts were in the works for the group in the fourth quarter.

REAL ESTATE DEVELOPMENT

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

million EUR

	12M 2019	12M 2018	VARIANCE	Q4 2019	Q4 2018	VARIANCE
Revenue	70.1	70.9	-1.2%	46.5	22.6	+104.9%
incl. sale of apartments	63.8	41.3		43.6	17,0	
construction service to joint venture projects	2.1	15.5		0.2	3,0	
sale of immovable properties	0.4	9.5		-	-	
% of total revenue	21.4%	17.0%		46.9%	19.0%	
Operating profit	8.1	11.3	-28.3%	5.9	4.5	+32.3%
Operating profit margin	11.6%	16.0%		12.8%	19.8%	

In 12 months 2019, the group sold a total of 482 apartments (incl. 47 apartments in a joint venture) and 24 commercial areas (incl. 14 in a joint venture); in 12 months 2018, 482 apartments (incl. 131 apartment in a joint venture) 15 commercial areas (incl. 1 in a joint venture). The group earned a revenue of EUR 63.8 million (VAT not included) from sale of own developed apartments in 12 months 2019 and EUR 41.3 million (VAT not included) in 12 months 2018.

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

In 12 months of 2019, real estate development segment revenues decreased by 1.2% compared to the same period last year. In the 12 months of 2019, the share of revenue from the real estate development segment formed 21.4% of the group's total revenue (12 months of 2018: 17.0%). At the same time a considerable amount of apartment developments under construction so far were completed in Q4, which meant that the sales revenue in Q4 compared to the same quarter a year before more than doubled (+104.9%). A much stronger revenue in Q4 compared to the first three quarters of the year was expected owing to the timing of the development projects, which foresaw reaching completion in Q4 and even more so in 2020. Still, actual sales in Q4 were even somewhat above that of management forecasts as some apartment development projects were completed earlier than planned and sales were faster thanks to greater interest from buyers.

The segment's operating profit for the 12 months of 2019 amounted to EUR 8.1 million (12 months of 2018: EUR 11.3 million) and the operating profit margin was 11.6% (12 months of 2018: 16.0%). 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 2019, the tone was set by increased sales of own developed apartments and a lower level of sales of immovable properties as well as decreased provision of construction service to joint venture projects.

At the end of the period, group's inventory comprised 347 apartments where a preliminary agreement had been signed (as at 31 December 2018: 193 apartments): 29 completed apartments (8 in Estonia, 19 in Latvia and 2 in Lithuania) and 318 apartments under construction (113 in Estonia, 32 in Latvia and 173 in Lithuania). The sale of these apartments had not yet been finalised and delivered to customers, because the development site is still under construction or the site was completed at the end of the reporting period and the sales transactions have not all been finalised yet. Owing to the fact that in Lithuania larger projects than before have been under construction, for which also the interest of buyers has been at a good level, for the first time in Merko's history, the pre-sale level of apartments in Lithuania was higher than in Estonia.

As at 31 December 2019, the group had a total of 723 apartments for active sale (as at 31 December 2018: 989 apartments), for which there are no pre-sale agreements and of which 182 have been completed (43 in Estonia, 111 in Latvia and 28 in Lithuania) and 541 are under construction (255 in Estonia, 64 in Latvia and 222 in Lithuania).

In 12 months of 2019, the group launched the construction of a total of 368 new apartments in the Baltic states (12 months of 2018: 1032 apartments). In the 12 months, the group invested a total of EUR 87.4 million (12 months of 2018: EUR 34.7 million) in new development projects launched in 2019 as well as projects already in progress.

After the reporting date, the group has decided to start the construction of the third stage of Uus-Veerenni residential development project in Tallinn with 59 apartments.

One of group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As at 31 December 2019, the group's inventories included land plots with development potential, where the construction works have not started, in amount of EUR 70.2 million (31.12.2018: EUR 54.5 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	31.12.2019	31.12.2018
Estonia	29.3	26.9
Latvia	26.9	26.6
Lithuania	14.0	1.0
Total	70.2	54.5

In the 12 months of 2019, the group has purchased new land plots for real estate development purposes at an acquisition cost of EUR 18.6 million (12 months of 2018: EUR 3.0 million), including an acquisition of a real estate development area in Vilnius for EUR 13 million and land plots in Estonia for a total of EUR 5.6 million.

SECURED ORDER BOOK

As at 31 December 2019, the group's secured order book amounted to EUR 141.4 million, compared to EUR 229.0 million as at 31 December 2018, having decreased by 38.2% 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 12 months of 2019, EUR 169.6 million worth of new contracts were signed, while EUR 246.4 million were signed during the same period in 2018. The value of new contracts signed in the fourth quarter of 2019 amounted to EUR 42.0 million; in the fourth quarter of 2018 the value of new contracts signed amounted to EUR 89.4 million.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FOURTH QUARTER OF 2019

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Construction contract for the replacement of three 110 kV electric power lines with ground cables in Tallinn	Estonia	End of 2020	5.1

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

- On 6 January 2020, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and MCF Group Estonia OÜ entered into a contract for the construction of the first stage of data campus in Saue Parish, Harju County. The contract value is approximately EUR 9.0 million and buildings will be completed in May 2021.
- On 7 January 2020, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and OÜ Kohila Maja entered into a contract to perform construction works of water supply and sewerage piping in Kohila Parish, Rapla County. The contract value is approximately EUR 14.3 million and buildings will be completed in December 2021.
- On 12 February 2020, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and AS YIT Eesti entered into a contract for conducting concrete works of Saustinõmme viaduct in Saku Parish, Harju County. The contract value is approximately EUR 2.3 million and works are scheduled to be completed by the end of 2020.
- On 12 February 2020, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and GVP Invest Estonia OÜ entered into a contract for the construction of a hotel building located at Tartu mnt 49, Tallinn. The contract value is approximately EUR 8.9 million and building is scheduled to be completed in December 2021.

As at 31 December 2019, the private sector orders accounted for approximately 36% of the total balance in the group's secured order book (31.12.2018: approximately 70%). The share of public sector in the secured order book has increased considerably during the year. The level of private sector procurements has decreased. During the past couple of years, a quite substantial amount of new commercial real estate has been brought to the market, which has increased the competition between the developers, while the construction prices have increased. In part, this has caused developers to reconsider their plans and to put some development projects on hold. In the contracts of the public sector mainly civil engineering and road construction areas are setting the tone for which the group has specific knowhow and experience. In terms of general construction, Merko participates selectively only in those public procurements where the group sees certain competitive edge, which lies outside the usual narrow price-based approach of public sector clients.

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. Retaining the foothold and growing further must be done in a profitable way. The group is therefore focused on ensuring that sales revenue is grown only on the basis of projects with an acceptable risk to reward ratio.

CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 24.7 million (31.12.2018: EUR 40.0 million). As the group's cash position continues to be strong, the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As at the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 37.6 million, of which EUR 30.0 million was unused (31.12.2018: EUR 34.1 million of which EUR 25.6 was unused). In addition to the overdraft facilities, the company has a working capital loan facility with a limit of EUR 3.5 million (31.12.2018: EUR 3.5 million) from AS Riverito, which was not withdrawn at the end of current period (31.12.2018: not withdrawn).

The 12-month cash flow from operating activity was negative at EUR 12.4 million (12 months of 2018: positive EUR 33.8 million), cash flow from investing activity was negative at EUR 2.4 million (12 months of 2018: negative EUR 0.0 million) and the cash flow from financing activity was negative at EUR 0.5 million (12 months of 2018: negative EUR 33.0 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 21.9 million (12 months of 2018: positive effect of EUR 21.9 million), from the changes in trade and other receivables related to operating activities of EUR 26.9 million (12 months of 2018: negative effect of EUR 1.3 million), change in trade and other payables related to operating activities of EUR 1.8 million (12 months of 2018: negative effect of EUR 1.8 million) and change in the provisions of EUR 0.3 million (12 months of 2018: positive effect of EUR 4.7 million). The negative effects to cash flow from operating activities came from changes in receivables and liabilities related to construction contracts of EUR 10.7 million (12 months 2018: positive effect of EUR 11.2 million), change in inventories of EUR 48.1 million (12 months of 2018: positive effect of EUR 0.6 million) and from the corporate income tax of EUR 3.1 million (12 months of 2018: EUR 0.4 million). The group is focusing on investments to apartment development, which has brought about significant increase in the volume of inventories during the year 2019.

To support cash flows from operating activities, including raising the volumes in apartment development, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (22.6% as at 31.12.2019; 16.4% as at 31.12.2018).

Cash flows from investing activities include negative effect from the acquisition of non-current assets and investment property in the amount of EUR 2.9 million (12 months of 2018 EUR 1.1 million) and positive effect from the sale of non-current assets in the amount of EUR 0.5 million (12 months of 2018: EUR 0.7 million).

In cash flows from financing, the larger negative factors were dividend payment of EUR 17.8 million (12 months 2018: EUR 17.8 million), repayments of lease liabilities in the amount of EUR 1.0 million (12 months of 2018: net negative cash flow of EUR 0.6 million) and net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 0.5 million (12 months of 2018: negative cash flow in the net amount of EUR 1.4 million), as well as from negative change in loans related to construction projects and other activities in the net amount of EUR 6.8 million (12 months of 2018: net positive cash flow of EUR 4.2 million). Positive cash flow from financing activity was gained from net amount of loans received and repaid in connection with development projects in the amount of EUR 25.6 million (12 months of 2018: net negative cash flow of EUR 20.1 million).

The Q4 2019 cash flow from operating activity was positive at EUR 33.0 million (Q4 2018: positive EUR 27.1 million), cash flow from investing activity was negative at EUR 0.8 million (Q4 2018: negative EUR 0.3 million) and the cash flow from financing activity was negative at EUR 20.9 million (Q4 2018: negative EUR 10.6 million)

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		12M 2019	12M 2018	12M 2017	Q4 2019	Q4 2018	Q4 2017
Revenue	million EUR	326.8	418.0	317.6	99.2	119.2	102.8
Gross profit	million EUR	34.8	33.0	30.9	13.9	11.3	14.2
Gross profit margin	%	10.7	7.9	9.7	14.0	9.4	13.8
Operating profit	million EUR	19.2	19.9	19.5	9.3	7.0	10.7
Operating profit margin	%	5.9	4.8	6.2	9.4	5.8	10.4
Profit before tax (PBT)	million EUR	20.3	19.8	18.8	10.0	7.1	10.6
PBT margin	%	6.2	4.7	5.9	10.1	6.0	10.3
Net profit	million EUR	16.5	19.4	15.8	9.2	6.9	8.9
attributable to equity holders of the parent	million EUR	16.3	19.3	14.7	9.3	7.0	8.1
attributable to non-controlling interest	million EUR	0.2	0.1	1.1	(0.1)	(0.1)	0.8
Net profit margin	%	5.0	4.6	4.6	9.3	5.9	7.9
Other income statement indicators		12M 2019	12M 2018	12M 2017	Q4 2019	Q4 2018	Q4 2017
EBITDA	million EUR	21.9	21.9	22.2	10.2	7.6	11.2
EBITDA margin	%	6.7	5.2	7.0	10.3	6.3	10.9
General expense ratio	%	5.3	3.7	4.6	5.8	3.8	4.2
Labour cost ratio	%	11.4	8.2	10.1	10.2	8.6	8.4
Revenue per employee	thousand EUR	461	563	434	140	161	140

OTHER SIGNIFICANT INDICATORS		31.12.2019	31.12.2018	31.12.2017
Return on equity	%	12.9	15.3	11.9
Return on assets	%	5.6	6.9	5.8
Return on invested capital	%	11.1	11.5	11.4
Assets	million EUR	281.8	269.7	277.1
Equity	million EUR	134.6	136.3	134.7
Equity attributable to equity holders of the parent	million EUR	130.3	131.8	130.2
Equity ratio	%	46.2	48.9	47.0
Debt ratio	%	22.6	16.4	21.4
Current ratio	times	2.4	2.2	2.2
Quick ratio	times	0.8	1.1	1.1
Accounts receivable turnover	days	45	40	40
Accounts payable turnover	days	53	41	40
Average number of employees	people	709	743	732
Secured order book	million EUR	141.4	229.0	344.4

Ratio definitions are provided on page 41 of the report.

RISK MANAGEMENT

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

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

Legal risk

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

As at 31 December 2019, a provision has been set up at the group in the amount of EUR 0.2 million (31.12.2018: EUR 0.1 million) for covering potential claims and legal costs.

Below an overview of the key legal disputes and proceedings, which have taken place or ended during 2019 or are ongoing as of 31 December 2019 and which concern group entities is presented:

Estonia

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

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

Latvia

Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The next court hearing is scheduled on 27 February 2020. The possible effect of the potential positive outcome of this claim has not been taken into account in the group's financial reporting.

Starptautiskā lidosta "Rīga"

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

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

On 8 June 2018, Riga International Airport paid partly the claim submitted on September 21, 2017, therefore SIA Merks reduced the claim to EUR 248 thousand (EUR 76 thousand being the principal claim and EUR 172 thousand late interest). The parties have reached a settlement, which provides that SIA Merks will deliver negotiated works to Riga International Airport by 31 March 2020, after which Riga International Airport will sign the final acceptance act. Deriving from the settlement, the parties have asked the court to suspend the case, and the next court hearing is scheduled on 7 May 2020. No additional provisions are recognised in relation to the potential outcome of this claim.

Latvian Competition Council administrative proceeding

On 3 September 2019, Latvian Competition Council (*Konkurences padome*) officials carried out administrative proceeding activities in the office of SIA Merks. As part of the activities the Chairman of SIA Merks's Management Board was interviewed by the officials. To the group's knowledge, the purpose of the on-going proceeding is to ascertain whether there have been infringements of competition law in Latvia by construction companies. SIA Merks is among the construction companies involved in the proceeding.

As of this report, the management has no information about the future of the proceeding. No provisions are recognised in relation to the effect of this proceeding.

SIA Ostas celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas celtnieks" according to its share in the contract. So far, SIA "Ostas celtnieks" has not covered its share of the loss. The court hearing is scheduled on 12 March 2020. The impact of this claim has not been taken into account in the group's reporting.

Lithuania

UAB Vilniaus vandenys

On 18 May 2016, AS Merko Ehitus and UAB Merko Statyba, acting pursuant to the joint venture agreement, filed an action against UAB Vilniaus vandenys in the total amount of EUR 183 thousand. The plaintiffs maintain that due to the actions of UAB Vilniaus vandenys, both the construction period became longer and also additional works were carried out – works that the customer later refused to pay for. By decision of 9 January 2018, the court appointed an expertise, the result of which was submitted to the court on 14 December 2018. By the decision of 7 June 2019 the court dismissed the claim. On 5 July an appeal was presented to the higher court. The potential positive outcome of this claim is not recognised in the group's financial reporting.

UAB Axis

On 3 September 2018, UAB Axis power (sub-contractor) filed an action against UAB Merko Statyba (main contractor), part of AS Merko Ehitus group, in the total amount of EUR 846 thousand as compensation for carrying out concrete works, which were more complicated than foreseen at signing of the contract. By the decision of 18 August 2019 the court appointed court expertise, the expected term of which is up to 6 months. The group finds the claim unsubstantiated and has not recognised provisions in relation to this claim.

EMPLOYEES AND LABOUR COSTS

As of 31 December 2019, Merko Ehitus group employed 694 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 70 (-9.2%). The number of employees has decreased in Estonia, Latvia and Lithuania and increased in Norway due to increase of construction volumes.

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 12 months 2019, the labour cost was EUR 37.4 million (12 months 2018: EUR 34.4 million), which increased by 8.8% compared to the same period previous year. The labour cost ratio increased by 3.2 pp from 8.2% to 11.4%.

During 12 months of 2019, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 7.9 million in labour taxes in Estonia, making it the largest labour tax payer in the construction sector (12 months 2018: EUR 6.1 million).

ETHICAL BUSINESS PRACTICES

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

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

The topic of business ethics has been thoroughly covered on the group's website:
group.merko.ee/en/corporate-governance-2/responsibility/ethical-business-practices/.

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

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

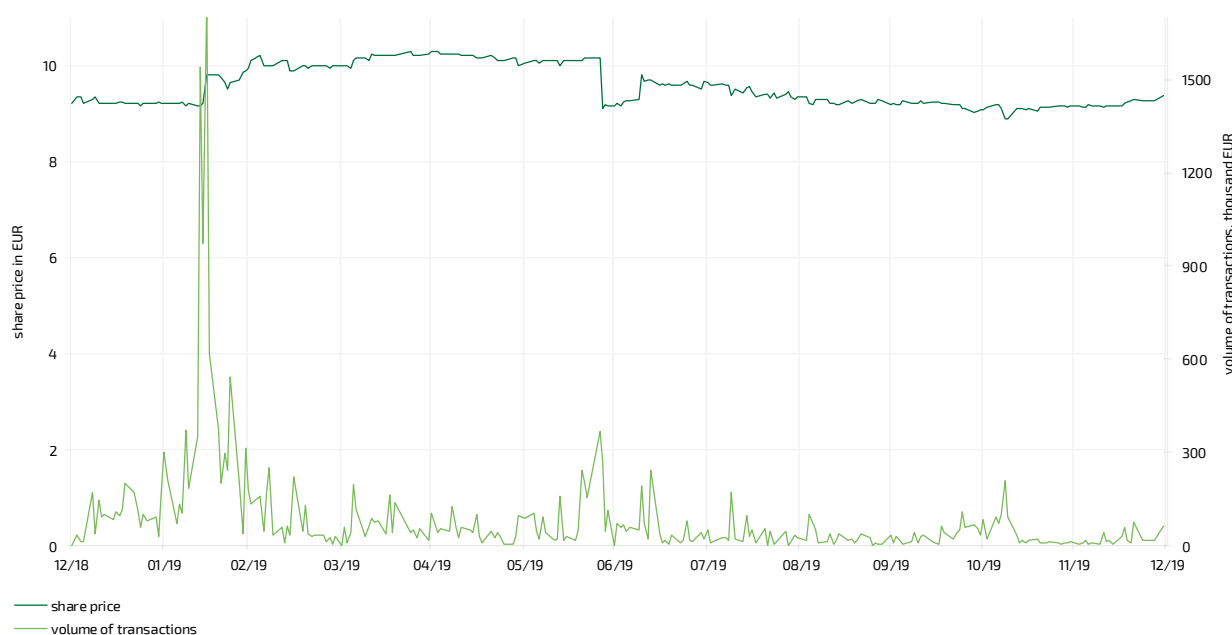
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As at 31 December 2019, the company has 17,700,000 shares. The number of shares has not changed during 2019.

A total of 8,558 transactions were conducted with the shares of Merko Ehitus in 12 months of 2019, with 2.23 million shares (12.6% of total shares) traded, generating a turnover of EUR 21.3 million (comparable figures in 12 months 2018 were accordingly: 4,299 transactions with 1.18 million shares traded (6.7% of total shares), generating a turnover of EUR 12.2 million). The lowest transaction was carried out with a price of EUR 8.74 and the highest with EUR 10.30 per share (12 months of 2018: EUR 8.70 and EUR 11.80, accordingly). On 31 December 2019, the closing price of the share was EUR 9.38 (31.12.2018: EUR 9.20). As at 31 December 2019, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 166.0 million, up 2.0% compared to the end of the equivalent period of the prior year (31.12.2018: EUR 162.8 million).

	31.12.2019	31.12.2018	31.12.2017
Number of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.92	1.09	0.83
Equity per share, euros	7.13	7.16	6.99
P/B ratio	1.32	1.28	1.26
P/E ratio	10.20	8.42	10.61
Market value, million EUR	166.0	162.8	155.9

Ratio definitions are provided on page 41 of the report.

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2019



STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.12.2019

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.03%	12,742,686	71.99%
100,001 – 1,000,000	9	0.23%	1,615,685	9.13%
10,001 – 100,000	43	1.10%	1,037,150	5.86%
1,001-10,000	516	13.15%	1,484,002	8.38%
101-1,000	1,932	49.24%	746,499	4.22%
1-100	1,423	36.25%	73,978	0.42%
Total	3,924	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.12.2019 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.12.2019	% OF TOTAL 30.09.2019	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
Firebird Republics Fund Ltd	329,602	1.86%	1.86%	-
OÜ Midas Invest	296,100	1.67%	1.66%	2,300
Firebird Avrora Fund Ltd	188,927	1.07%	1.07%	-
Skandinaviska Enskilda Banken AB, Swedish customers	161,438	0.92%	0.92%	(1,000)
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	148,787	0.84%	0.84%	-
Siseinfo OÜ	115,000	0.65%	0.65%	-
Firebird Fund L.P.	114,585	0.65%	0.65%	-
Clearstream Banking AG	108,228	0.61%	0.00%	108,228
Total largest shareholders	14,358,371	81.12%	80.50%	109,528
Total other shareholders	3,341,629	18.88%	19.50%	(109,528)
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2019



DIVIDENDS AND DIVIDEND POLICY

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

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

The annual general meeting of shareholders of AS Merko Ehitus held at 8 May 2019 approved the Supervisory Board's proposal to pay the shareholders 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 92% dividend rate and a 10.9% dividend yield for the year 2018 (using the share price as at 31 December 2018). Comparable figures in 2018 were accordingly: EUR 17.7 million (EUR 1.00 per share) as dividends, which is equivalent to a 120% dividend rate and a 11.4% dividend yield for the year 2017 (using the share price as at 31 December 2017).

According to the Estonian Income Tax Law subsection 50 (1¹), AS Merko Ehitus can pay dividends, without any additional income tax expense and liabilities occurring, up to the amount it has received dividends from subsidiaries, which are resident companies of a Contracting State of the European Economic Area (EEA) Agreement subject to that state's income tax legislation. As the group did not incur income tax expenses arising in connection with disbursement of dividends in Estonia in 2018, only the 20/80 regular rate of income tax was applied to dividends paid in 2019 and no additional income tax was withheld from dividends paid to shareholders that were resident natural persons. The dividend payment to the shareholders took place on 1 July 2019.

As discussed with the Supervisory Board, the Management Board proposes to pay the shareholders EUR 10.62 million as dividends from net profits brought forward (EUR 0.60 per share) in 2020, which is equivalent to a 65% dividend rate and a 6.4% dividend yield for the year 2019 (using the share price as at 31 December 2019). While in 2018, no income tax cost for the group arose in Estonia in connection with the payment of dividends, in 2019 it did arise in connection with EUR 10.3 million worth of paid dividends. Pursuant to that, in 2020, the group shall recognise income tax cost on regularly payable dividends of EUR 3.4 million, based on a sum, which corresponds to one third of the EUR 10.3 million, using the corresponding tax rate of 14/86 on (net) dividends. As per the Estonian Income Tax Act, the group shall withhold an additional 7% income tax from the dividends taxed with the 14/86 rate that are paid to shareholders who are natural persons.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

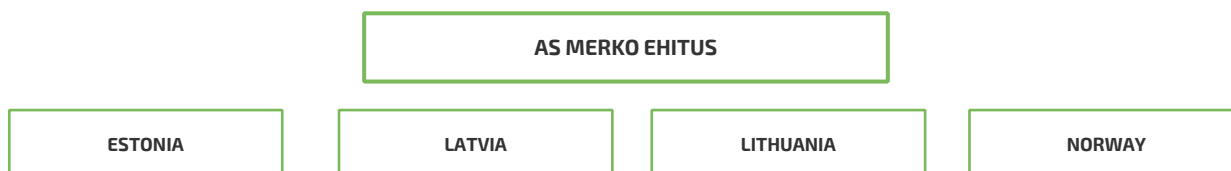
AS Merko Ehitus operates as a holding company to a group, the companies of which in Estonia, Latvia, Lithuania and Norway offer complete solutions in the field of construction and real estate development. The group's largest companies are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba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

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

The overview of the Management Board and Supervisory Board have been presented on page 19 and in Note 16 of the consolidated 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 31 December 2019, the management structure is as follows:



GROUP'S LEGAL STRUCTURE

As at 31 December 2019, the group comprises 33 companies (31.12.2018: 32). The group's legal structure is predominantly based on regulatory requirements and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 16 of the financial statements.

Changes in the legal structure of the group

On 29 October 2018, a merger between OY Merko Finland and Hartian OY, both belonging to AS Merko Ehitus group, was initiated. The acquiring company was OY Merko Finland. As a result of the merger, the company being acquired (Hartian OY) wound up without liquidation proceedings and OY Merko Finland become the legal successor of the company being acquired. The merger date was 1 January 2019, after which all transactions of the acquired company will be deemed to be made on the account of the acquiring company. The final entry in the Commercial Register was made on 30 April 2019.

On 17 December 2018, Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, signed a notarised division plan. According to the plan, company OÜ Vahi Lastehoid was established as a result of the division, to which apartment ownerships, located on Pärna allee in Tartu, transferred as per the division plan. The division came into force with the entry in the Commercial Register made on 20 June 2019.

On 28 December 2018, AS Merko Ehitus launched a process for restructuring its fully owned subsidiary in Lithuania, UAB Merko Bustas. In accordance with the restructuring plan, UAB Merko Bustas's 100% subsidiary UAB Rinktinės projektai was merged with the parent company. The restructuring was completed and the final merger entry was made in the Commercial Register on 27 November 2019.

On 14 January 2019, UAB Merko Statyba, fully owned subsidiary of AS Merko Ehitus, established a company UAB VPSP 2 in Lithuania, through which the public-private partnership (PPP) project for the design and construction works of the new Kaunas district Police headquarters of the Police Department under the Ministry of the Interior of the Republic of Lithuania is being carried out in Kaunas.

On 1 April 2019, UAB Merko Bustas, fully owned subsidiary of AS Merko Ehitus in Lithuania established a fully owned subsidiary UAB MB Projektas.

On 5 April 2019, AS Merko Ehitus management board decided to start liquidation procedures of a fully owned subsidiary OÜ Kiviaia Kinnisvara. The liquidation of the company is scheduled to be completed in the first quarter of 2020.

On 10 April 2019, UAB Merko Statyba, fully owned subsidiary of AS Merko Ehitus in Lithuania, established a 100% subsidiary UAB VPSP Projektas.

On 10 May 2019, AS Merko Ehitus supervisory board decided to start liquidation procedures of 100% owned subsidiary SIA Merko Investments. The liquidation of the company was completed and deleted from the Commercial Register on 2 September 2019.

On 17 September 2019, the supervisory board of AS Merko Infra, part of AS Merko Ehitus group, decided to start liquidation procedures of AS Merko Infra branch in Latvia. The liquidation was completed and the branch deleted from the Commercial Register on 2 December 2019.

On 18 December 2019, AS Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, established a 100% subsidiary OÜ Merko Kaevandused.

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

GENERAL MEETING OF SHAREHOLDERS

The Company's highest governing body is the General Meeting of Shareholders, the authorities of which are regulated by legislation and the articles of association of the Company.

The annual general meeting of shareholders was held on 8 May 2019. The general meeting resolved to approve the annual report and the profit allocation proposal for 2018. The dividends in the sum of EUR 17.7 million (EUR 1 per share) were paid out to the shareholders on 1 July 2019.

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

Annual and extraordinary general meeting of shareholders shall be chaired by an independent person. In 2019, the annual general meeting was chaired by attorney-at-law Vesse Võhma who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board and Supervisory Board about the company's activities.

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

The annual general meeting of shareholders of AS Merko Ehitus held in 2019 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Priit Roosimägi (Head of Group Finance Unit) and Janno Hermanson (Auditor).

SUPERVISORY BOARD

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

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

As at 31 December 2019, the Supervisory Board of AS Merko Ehitus had three members, of whom, in accordance with the requirements of the Good Governance Code, Indrek Neivelt was an independent member.

MANAGEMENT BOARD

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

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

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

The Supervisory Board of AS Merko Ehitus decided to extend the powers of a Member of the Management Board of the company, Mr. Tõnu Toomik, starting from 6 June 2019 for the next three years. The Management Board of AS Merko Ehitus will continue with two members: Mr. Andres Trink (Chairman) and Mr. Tõnu Toomik

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 31 December 2019:

COMPANY	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti	Andres Trink (Chairman), Teet Roopalu, Tõnu Toomik, Martin Rebane	Keit Paal (Chairman), Jaan Mäe, Alar Lagus, Veljo Viitmann
Tallinna Teede AS	Tõnu Toomik (Chairman), Keit Paal, Alar Lagus, Veljo Viitmann	Jüri Läll (Chairman), Jüri Helila
OÜ Merko Investments	-	Andres Trink, Priit Roosimägi
SIA Merks	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi, Janis Šperbergs	Oskars Ozoliņš (Chairman), Andris Bišmeistars
UAB Merko Bustas	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Saulius Putrimas (Manager)

Changes in the management of group subsidiaries

The Management Board of AS Merko Ehitus appointed Mr. Martin Rebane as a Member of the Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, starting from 30 April 2019. The Supervisory Board of AS Merko Ehitus Eesti will continue with four members: Mr. Andres Trink (Chairman), Mr. Tõnu Toomik, Mr. Teet Roopalu and Mr. Martin Rebane. According to the articles of association of AS Merko Ehitus Eesti, a Member of the Supervisory Board is appointed for three years.

The Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, extended the powers of the Chairman of the Management Board, Mr. Keit Paal, until 31 December 2019, and appointed Mr. Ivo Volkov as the new Chairman of the Management Board starting from 1 January 2020. The powers of Mr. Ivo Volkov as the Chairman of AS Merko Ehitus Management Board are in place from 1 January 2020 until 31 December 2022. Mr. Jaan Mäe, Mr. Alar Lagus and Mr. Veljo Viitmann remain as members of the Management Board of AS Merko Ehitus Eesti.

Mr. Teet Roopalu, Member of the Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, notified the Management Board of AS Merko Ehitus of his resignation from the position of the Member of the Supervisory Board starting from 1 January 2020. As per the decision of the Management Board of AS Merko Ehitus, the Supervisory Board of AS Merko Ehitus Eesti will continue with three members: Mr. Andres Trink (The Chairman), Mr. Tõnu Toomik and Mr. Martin Rebane.

On 23 January 2020, the Management Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to make the following changes in the Supervisory Board of subsidiary Tallinna Teede AS: to remove Mr. Keit Paal as a member; to appoint Mr. Ivo Volkov as a member for a three years' period starting from 23 January 2020, and to extend the powers of the member Mr. Tõnu Toomik for three years starting from 23 January 2020. The Supervisory Board of Tallinna Teede AS will continue with four members: Mr. Tõnu Toomik (The Chairman), Mr. Ivo Volkov, Mr. Veljo Viitmann and Mr. Alar Lagus.

On 30 January 2020, the Supervisory Board of Tallinna Teede AS – the subsidiary of AS Merko Ehitus Eesti, part of AS Merko Ehitus group – decided to extend the powers of the Chairman of the Management Board, Mr. Jüri Läll, from 31 January 2020 until 30 January 2023. The Management Board of Tallinna Teede AS will continue in the current two-member panel: Mr. Jüri Läll (The Chairman) and Mr. Jüri Helila.

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

MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

The Management Board of AS Merko Ehitus declares and confirms that the interim financial statements provide, to the best of the knowledge of the Management Board, a true and fair view of the development, results and financial position of the company and the consolidated undertakings as a whole, include a description of the principal risks and uncertainties, and reflect transactions with related parties.

Andres Trink

Chairman of the Management Board



13.02.2020

Tõnu Toomik

Member of the Management Board

13.02.2020

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2019 12 months	2018 12 months	2019 IV quarter	2018 IV quarter
Revenue	2	326,779	418,011	99,159	119,243
Cost of goods sold	3	(291,958)	(384,962)	(85,235)	(107,978)
Gross profit		34,821	33,049	13,924	11,265
Marketing expenses		(4,260)	(3,285)	(1,634)	(803)
General and administrative expenses		(12,988)	(12,304)	(4,147)	(3,721)
Other operating income		2,983	3,527	1,243	1,050
Other operating expenses		(1,318)	(1,115)	(96)	(838)
Operating profit		19,238	19,872	9,290	6,953
Finance income/costs		1,085	(97)	722	176
incl. finance income/costs from sale of subsidiary and liquidation		-	(62)	-	(3)
finance income/costs from joint venture		1,766	653	921	379
interest expense		(656)	(652)	(185)	(200)
foreign exchange gain (loss)		-	5	-	6
other financial income (expenses)		(25)	(41)	(14)	(6)
Profit before tax		20,323	19,775	10,012	7,129
Corporate income tax expense		(3,833)	(375)	(850)	(206)
Net profit for financial year		16,490	19,400	9,162	6,923
incl. net profit attributable to equity holders of the parent		16,270	19,343	9,267	7,031
net profit attributable to non-controlling interest		220	57	(105)	(108)
Other comprehensive income, which can subsequently be classified in the income statement					
Currency translation differences of foreign entities		13	(6)	23	(37)
Comprehensive income for the period		16,503	19,394	9,185	6,886
incl. net profit attributable to equity holders of the parent		16,281	19,324	9,279	6,981
net profit attributable to non-controlling interest		222	70	(94)	(95)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.92	1.09	0.52	0.40

The notes set out on pages 26-39 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.12.2019	31.12.2018
ASSETS			
Current assets			
Cash and cash equivalents	5	24,749	39,978
Trade and other receivables	6	50,413	76,183
Prepaid corporate income tax		104	224
Inventories	7	166,226	117,992
		241,492	234,377
Non-current assets			
Investments in joint venture		2,498	732
Other long-term loans and receivables	8	11,094	10,391
Investment property	9	14,047	13,771
Property, plant and equipment	10	11,919	9,715
Intangible assets	11	777	671
		40,335	35,280
TOTAL ASSETS		281,827	269,657
LIABILITIES			
Current liabilities			
Borrowings	12	20,725	19,900
Payables and prepayments	13	69,585	77,016
Income tax liability		812	381
Short-term provisions	14	7,976	8,100
		99,098	105,397
Non-current liabilities			
Long-term borrowings	12	43,001	24,266
Deferred income tax liability		1,682	1,481
Other long-term payables	15	3,491	2,179
		48,174	27,926
TOTAL LIABILITIES		147,272	133,323
EQUITY			
Non-controlling interests		4,217	4,577
Equity attributable to equity holders of the parent			
Share capital		7,929	7,929
Statutory reserve capital		793	793
Currency translation differences		(710)	(721)
Retained earnings		122,326	123,756
		130,338	131,757
TOTAL EQUITY		134,555	136,334
TOTAL LIABILITIES AND EQUITY		281,827	269,657

The notes set out on pages 26-39 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
Balance as at 31.12.2017	7,929	793	(702)	122,150	130,170	4,567	134,737
Profit (loss) for the reporting period	-	-	-	19,343	19,343	58	19,401
Other comprehensive income	-	-	(19)	-	(19)	13	(6)
Total comprehensive income (loss) for the reporting period	-	-	(19)	19,343	19,324	71	19,395
Transactions with owners							
Non-controlling interest of purchased subsidiary	-	-	-	(37)	(37)	36	(1)
Option over shares relating to non-controlling interests (Note 16)	-	-	-	-	-	19	19
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	(116)	(17,816)
Total transactions with owners	-	-	-	(17,737)	(17,737)	(61)	(17,798)
Balance as at 31.12.2018	7,929	793	(721)	123,756	131,757	4,577	136,334
Balance as at 31.12.2018	7,929	793	(721)	123,756	131,757	4,577	136,334
Profit (loss) for the reporting period	-	-	-	16,270	16,270	220	16,490
Other comprehensive income	-	-	11	-	11	2	13
Total comprehensive income (loss) for the reporting period	-	-	11	16,270	16,281	222	16,503
Transactions with owners							
Option over shares relating to non-controlling interests	-	-	-	-	-	(510)	(510)
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	(72)	(17,772)
Total transactions with owners	-	-	-	(17,700)	(17,700)	(582)	(18,282)
Balance as at 31.12.2019	7,929	793	(710)	122,326	130,338	4,217	134,555

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

The notes set out on pages 26-39 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2019 12 months	2018 12 months
Cash flows from operating activities			
Operating profit		19,238	19,872
Adjustments:			
Depreciation and impairment		2,707	2,073
(Profit)/loss from sale of non-current assets		(309)	(473)
Change in receivables and liabilities related to construction contracts		(10,697)	11,153
Interest income from operating activities		(2,190)	(2,351)
Change in provisions		282	4,732
Change in trade and other receivables related to operating activities		26,854	(1,256)
Change in inventories		(48,118)	571
Change in trade and other payables related to operating activities		1,811	(1,759)
Interest received		2,265	2,450
Interest paid		(1,039)	(799)
Other finance income (costs)		(129)	(44)
Corporate income tax paid		(3,093)	(383)
Total cash flows from operating activities		(12,418)	33,786
Cash flows from investing activities			
Disposal of subsidiary		-	385
Liquidation of subsidiary		-	(3)
Purchase of investment property		(410)	(92)
Purchase of property, plant and equipment (excl. leased assets)		(2,199)	(712)
Proceeds from sale of property, plant and equipment		508	664
Purchase of intangible assets		(273)	(281)
Interest received		2	3
Total cash flows from investing activities		(2,372)	(36)
Cash flows from financing activities			
Proceeds from borrowings		46,527	30,139
Repayments of borrowings		(28,211)	(44,670)
Repayments of lease liabilities		(1,006)	(605)
Non-controlling interest buyout		-	(1)
Dividends paid		(17,772)	(17,816)
Total cash flows from financing activities		(462)	(32,953)
Net increase/decrease in cash and cash equivalents		(15,252)	797
Cash and cash equivalents at the beginning of the period	5	39,978	39,210
Effect of exchange rate changes		23	(29)
Cash and cash equivalents at the end of the period	5	24,749	39,978

The notes set out on pages 26-39 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 12 months 2019 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 2018 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. 2018 audited annual report and 2018 12 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 12 months 2019 present a true and fair view of the group's economic results based on the principle of going concern. While the influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 1.1 CHANGES IN THE PRESENTATION OF INFORMATION

In previous reporting periods of AS Merko Ehitus group, financial information was presented in segment reporting under the "Estonian construction service", "other home markets construction service" and "real estate development" segments. Due to the fact that the volumes of construction service on the home markets have become more evenly distributed, as of this year the AS Merko Ehitus management board views construction services as a whole in a single segment.

Starting from 1 January 2019, business segments are presented as two segments, based on the segment reporting structure laid out in Note 2: construction service and real estate development.

The comparative data for previous periods has been adjusted accordingly to new presentation in 2019 12 months consolidated interim report, including the fact that the recognition of the real estate development segment has not changed and the comparative data of this segment have not been adjusted.

NOTE 1.2 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND AMENDMENTS TO PUBLISHED STANDARDS

The following new or revised standards and interpretations became obligatory for the group starting from 1 January 2019:

IFRS 16, Leases (effective for annual periods beginning on 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The group implemented the standard from 1 January 2019, applying the modified retrospective approach, as a result of which the impact of the implementation of the standard was recognised as of the date of initial implementation (1 January 2019) and the comparative data from 2018 were not restated.

The group uses simplifications for short-term leases and rent of low value assets. Cancellable vehicle leasing contracts with a leasing period up to 12 months are not recognised as assets and all new vehicle leasing contracts are signed under the financial lease terms. As at 31 December 2018, the balance of vehicles acquired under the financial lease terms was 1,734 thousand euros.

Leased assets ("right of use assets") are reflected in the statement of financial position in the same line item together with similar owned assets (tangible non-current assets) using acquisition cost less depreciation method. The depreciation period is usually the same as the lease period. Implementing the amendments, the amount of non-current assets in the group's balance sheet increased by 1,009 thousand euros as of 01.01.2019 and the amount of liabilities increased by 1,009 thousand euros (Notes 10, 12). In accordance with the principles of the IAS 17 standard previously in force, lease payments were recognized under cost of goods sold, marketing expenses or general and administrative expenses, which were taken into account for obtaining EBITDA. As a result of adoption of the IFRS 16, EBITDA rose by EUR 329 thousand during 12 months of 2019, because lease payments are recognized as depreciation and interest expense on lease liabilities.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (effective for annual periods beginning on 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The group assesses the impact of the amendments on its financial statements immaterial as of the preparation of this report and in the light of existing investments.

The other new or revised standards or interpretations, which are not yet effective, are not expected to have a material impact on the group.

NOTE 2 OPERATING SEGMENTS

in thousand euros

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

Reporting of the group's operations are segmented as:

- construction service,
- real estate development.

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

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

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

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

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

2018 12 months	Construction service	Real estate development	Total segments
Revenue	347,100	85,343	432,443
Inter-segment revenue	(37)	(14,395)	(14,432)
Revenue from clients	347,063	70,948	418,011
incl. timing of revenue recognition at a point in time	2,226	52,846	55,072
timing of revenue recognition over time	344,837	18,102	362,939
Operating profit (loss)	10,719	11,319	22,038
Profit (loss) before tax	10,397	11,658	22,055
incl. interest income from operating activities	289	2,061	2,350
depreciation	(1,718)	(290)	(2,008)
impairment of assets	(66)	-	(66)
impairment of inventories	-	(300)	(300)
recognition of provisions	(5,144)	(480)	(5,624)
reversal of provisions	350	20	370
profit from joint venture	-	653	653
other finance income (costs)	(27)	(223)	(250)
incl. interest expenses	(28)	(206)	(234)
Assets 31.12.2018	71,773	161,151	232,924
incl. joint venture	-	732	732

2019 IV quarter	Construction service	Real estate development	Total segments
Revenue	52,700	54,524	107,224
Inter-segment revenue	(23)	(8,042)	(8,065)
Revenue from clients	52,677	46,482	99,159
incl. timing of revenue recognition at a point in time	575	45,580	46,155
timing of revenue recognition over time	52,102	902	53,004
Operating profit (loss)	4,230	5,936	10,166
Profit (loss) before tax	4,159	6,781	10,940
incl. interest income from operating activities	8	896	904
depreciation	(755)	(173)	(928)
recognition of provisions	(378)	(953)	(1,331)
reversal of provisions	257	-	257
profit from joint venture	-	921	921
other finance income (costs)	(7)	(66)	(73)
incl. interest expenses	(7)	(58)	(65)
Assets' change in IV quarter	(21,394)	(19,198)	(40,592)
incl. joint venture	-	921	921

2018 IV quarter	Construction service	Real estate development	Total segments
Revenue	96,571	27,056	123,627
Inter-segment revenue	(11)	(4,373)	(4,384)
Revenue from clients	96,560	22,683	119,243
incl. timing of revenue recognition at a point in time	306	18,520	18,826
timing of revenue recognition over time	96,254	4,163	100,417
Operating profit (loss)	3,221	4,488	7,709
Profit (loss) before tax	3,085	4,789	7,874
incl. interest income from operating activities	70	499	569
depreciation	(804)	(138)	(942)
impairment of assets	(66)	-	(66)
impairment of inventories	-	(300)	(300)
recognition of provisions	(1,027)	364	(663)
profit from joint venture	-	379	379
other finance income (costs)	(18)	(65)	(83)
incl. interest expenses	(19)	(61)	(80)
Assets' change in IV quarter	(36,452)	214	(36,238)
incl. joint venture	-	379	379

In addition to the segment assets, as at 31.12.2019 the group holds assets in the amount of EUR 31,810 thousand (31.12.2018: EUR 36,733 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

	2019 12 months	2018 12 months	2019 IV quarter	2018 IV quarter
Pre-tax profit from reporting segments	22,660	22,055	10,940	7,874
Other operating profit (loss)	(2,153)	(2,166)	(875)	(756)
incl. recognition of provisions	(9)	(7)	(9)	(7)
finance income (costs)	(184)	(114)	(53)	11
incl. interest income	-	1	-	-
interest expenses	(178)	(146)	(51)	(37)
Total profit before tax	20,323	19,775	10,012	7,129

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

	2019 12 months		2018 12 months		2019 IV quarter		2018 IV quarter	
Estonia	168,825	52%	202,627	48%	62,260	63%	57,741	48%
Latvia	92,772	28%	157,496	38%	18,073	18%	41,680	35%
Lithuania	46,202	14%	46,765	11%	16,747	17%	16,280	14%
Norway	18,980	6%	11,123	3%	2,079	2%	3,542	3%
Total	326,779	100%	418,011	100%	99,159	100%	119,243	100%

CONTRACT ASSETS AND LIABILITIES

in thousands of euros

	31.12.2019	31.12.2018
Accrued income from construction services (Note 6)	11,689	9,847
Prepayments for construction services (Note 13)	(8,058)	(16,912)
Advance payments received for construction contract works (Note 13)	(5,637)	(3,363)
Recognised provision for onerous construction contracts (Note 14)	(1,295)	(248)

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

in thousand euros

	31.12.2019	31.12.2018
Estonia	15,289	11,970
Latvia	13,333	12,782
Lithuania	476	13
Norway	143	124
Total	29,241	24,889

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2019 12 months	2018 12 months	2019 IV quarter	2018 IV quarter
Construction services and properties purchased for resale	185,121	262,190	61,817	76,736
Materials	49,121	60,096	9,329	13,977
Labour costs	26,323	23,666	6,812	7,110
Construction mechanisms and transport	8,911	10,214	2,164	2,453
Design	4,394	8,345	1,476	2,385
Real estate management costs	401	190	106	(74)
Depreciation	1,835	1,554	701	488
Impairment of inventories	175	300	-	300
Provisions	4,939	5,242	803	651
Other expenses	10,738	13,165	2,027	3,952
Total cost of goods sold	291,958	384,962	85,235	107,978

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.

	2019 12 months	2018 12 months	2019 IV quarter	2018 IV quarter
Net profit (loss) attributable to shareholders (<i>in thousand EUR</i>)	16,270	19,343	9,267	7,031
Weighted average number of ordinary shares (<i>thousand pcs</i>)	17,700	17,700	17,700	17,700
Earnings (loss) per share (<i>in euros</i>)	0.92	1.09	0.52	0.40

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

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation decision, dividends were paid by parent company AS Merko Ehitus in 2019 in the amount of EUR 17,700 thousand, i.e. EUR 1.00 per share (Q2 2018: 17,000 thousand, i.e. EUR 1.00 per share). The group incurred income tax expenses in 2019 in connection with dividend payments in an amount of 2,749 thousand euros (the group did not incur income tax expenses in 2018 in connection with dividend payments, as these were covered by dividends paid prior to AS Merko Ehitus by its foreign subsidiaries).

As at 31.12.2019, the parent company AS Merko Ehitus has previously taxed dividends and income received from abroad in a sum of EUR 1 thousand (31.12.2018: EUR 2,879 thousand), on which income tax has been withheld.

As at 31.12.2019, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 97,533 thousand (31.12.2018: EUR 99,004 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 0 thousand (31.12.2018: EUR 720 thousand), the corresponding income tax on dividends would amount to EUR 24,083 thousand (31.12.2018: EUR 24,031 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration, including the fact that the income tax on regularly payable dividends is applied to dividends taxed in Estonia starting only from 2018, and therefore in 2020 the sum of dividends that shall be taxed using the 14% rate is one third of the total sum of dividends that have been taxed in Estonia during 2018 and 2019. Above that sum, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out as net dividends). The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.12.2019	31.12.2018
Cash on hand	6	-
Bank accounts	24,743	39,915
Overnight deposits	-	63
Total cash and cash equivalents	24,749	39,978

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.12.2019	31.12.2018
Trade receivables		
Accounts receivable	34,148	42,835
Allowance for doubtful receivables	(856)	(81)
	33,292	42,754
Tax prepayments excluding corporate income tax		
Value added tax	695	944
Other taxes	3	2
	698	946
Accrued income form construction services	11,689	9,847
Other short-term receivables		
Short-term loans	1,700	14,590
Interest receivables	3	112
Other short-term receivables	172	271
	1,875	14,973
Prepayments for services		
Prepayments for construction services	2,441	7,064
Prepaid insurance	117	195
Other prepaid expenses	301	404
	2,859	7,663
Total trade and other receivables	50,413	76,183
incl. short-term loan receivables from related parties (Note 16)	1,650	9,000
other short-term receivables and prepayments to related parties (Note 16)	89	1,521

During the reporting year accounts receivables in overdue have been written down in the amount of EUR 795 thousand (during 12 months of 2018: EUR 292 thousand).

NOTE 7 INVENTORIES

in thousand euros

	31.12.2019	31.12.2018
Materials	236	797
Work-in-progress	65,550	43,081
Finished goods	28,252	15,991
Goods for resale		
Registered immovables purchased for resale	70,193	54,532
Other goods purchased for resale	133	705
	70,326	55,237
Prepayments for inventories		
Prepayments for real estate properties	-	1,300
Prepayments for other inventories	1,862	1,586
	1,862	2,886
Total inventories	166,226	117,992

As of 31.12.2019, the acquisition cost of Inventories has been adjusted by costs related to the sales activities of real estate objects previously accounted for as part of Work-in-progress and Finished goods, which according to the definition of IAS 2 "Inventories" are recognised as accounting period costs. Resulting from the adjustment, the balance of Inventories decreased by EUR 524 thousand and the Cost of goods sold by EUR 217 thousand, while the Marketing expenses increased by EUR 741 thousand.

NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	31.12.2019	31.12.2018
Long-term receivables from customers of construction services	11,094	10,391
Total other long-term loans and receivables	11,094	10,391

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.12.2019	31.12.2018
Land	12,400	11,991
Right of superficies at carrying amount		
Cost	29	29
Accumulated depreciation	(13)	(12)
	16	17
Buildings at carrying amount		
Cost	2,631	2,631
Accumulated depreciation	(1,000)	(868)
	1,631	1,763
Total investment property	14,047	13,771

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.12.2019	31.12.2018
Land	712	743
Buildings at carrying amount*		
Cost	6,558	5,765
Accumulated depreciation	(2,629)	(2,180)
	3,929	3,585
Machinery and equipment at carrying amount*		
Cost	14,371	14,473
Accumulated depreciation	(8,671)	(9,764)
	5,700	4,709
Other fixtures at carrying amount		
Cost	4,018	5,474
Accumulated depreciation	(2,942)	(4,906)
	1,076	568
Prepayments for property, plant and equipment	502	110
Total property, plant and equipment	11,919	9,715

* As of 31 December 2019 the balance of buildings at carrying amount includes leased assets "right of use assets" in a sum of EUR 526 thousand. The balance of machinery and equipment at carrying amount includes leased assets "right of use assets" in a sum of EUR 177 thousand and leased assets acquired under finance lease terms in a sum of EUR 2,269 thousand (Note 1.2).

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.12.2019	31.12.2018
Goodwill		
Cost	73	73
	73	73
Software at carrying amount		
Cost	2,024	1,716
Accumulated depreciation	(1,320)	(1,157)
	704	559
Prepayments for intangible assets	-	39
Total intangible assets	777	671

NOTE 12 BORROWINGS

in thousand euros

	31.12.2019	31.12.2018
Lease liabilities*		
Lease liabilities balance	2,891	1,647
incl. current portion	806	524
non-current portion 2...5 years	2,085	1,123
Bank loans		
Loan balance	54,835	30,694
incl. current portion	18,919	12,551
non-current portion 2...5 years	35,916	18,143
Loans from entities under common control		
Loan balance	6,000	6,000
incl. current portion (Note 16)	1,000	1,000
non-current portion 2...5 years (Note 16)	5,000	5,000
Loans from other entities		
Loan balance	-	5,825
incl. current portion	-	5,825
Total loans		
Loans balance	60,835	42,519
incl. current portion	19,919	19,376
non-current portion 2...5 years	40,916	23,143
Total borrowings	63,726	44,166
incl. current portion	20,725	19,900
non-current portion 2...5 years	43,001	24,266

* As of 31 December 2019 the balance of lease payables consists of "right of use assets" in current portion in a sum of EUR 318 thousand, finance lease payables in current portion in a sum of EUR 488 thousand and "right of use assets" in non-current portion 2...5 years in a sum of EUR 390 thousand and finance lease payables in non-current portion 2...5 years in a sum of EUR 1,695 thousand (Note 1.2). Lease liabilities include a balance of EUR 124 thousand to related parties (Note 16).

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.12.2019	31.12.2018
Trade payables	30,681	38,327
Payables to employees	10,647	10,067
Tax liabilities, except for corporate income tax		
Value added tax	4,270	1,102
Personal income tax	485	648
Social security tax	1,146	1,166
Unemployment insurance tax	48	57
Contributions to mandatory funded pension	33	42
Other taxes	205	229
	6,187	3,244
Prepayments for construction services	8,058	16,912
Other liabilities		
Interest liabilities	5	6
Other liabilities	218	345
	223	351
Prepayments received *	13,789	8,115
Total payables and prepayments	69,585	77,016
incl. payables to related parties (Note 16)	12	293

* As of 31 December 2019 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 5,637 thousand (31.12.2018: EUR 3,363 thousand) and of prepayments received connection with residential properties (apartment buyers) in a sum of EUR 8,152 thousand (31.12.2018: EUR 4,752 thousand) (Note 2).

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.12.2019	31.12.2018
Provision for warranty obligation for construction	3,507	3,373
Provision for costs of projects sold and work-in-progress projects	2,894	4,330
Provision for onerous construction contracts	1,295	248
Provision for legal costs and claims filed	202	120
Other provisions	78	29
Total short-term provisions	7,976	8,100

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.12.2019	31.12.2018
Trade payables	2,476	1,675
Other long-term liabilities	1,015	504
Other long-term payables total	3,491	2,179
incl. other long-term payables to related parties (Note 16)	1,015	504

NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.12.2019 and 31.12.2018, 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
	31.12.2019	31.12.2018		
Subsidiaries				
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	Estonia, Tallinn	Road construction
AS Merko Infra	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	-	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	-	Estonia, Tallinn	Mining
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
UAB Statinių priežiūra ir administravimas	100	100	Lithuania, Vilnius	Real estate
UAB Timana	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	-	Lithuania, Vilnius	Real estate
UAB VPSP Projektas	100	-	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikšte	100	100	Lithuania, Vilnius	Real estate
UAB Rinktinės projektai	-	100	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	-	Lithuania, Vilnius	Real estate
OÜ Kiviaia Kinnisvara	100	100	Estonia, Tallinn	Real estate
SIA Merko Investments	-	100	Latvia, Riga	Holding
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	Latvia, Riga	Real estate
SIA Industriālais Parks	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	Latvia, Riga	Real estate
PS Merks-Ostas celnieks	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	Finland, Helsinki	Construction
Hartian Oy	-	100	Finland, Helsinki	Real estate
Merko Investments AS	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	Norway, Sofiemyr	Construction
Joint venture				
Kodusadam OÜ	50	50	Estonia, Tallinn	Real estate

Additional information of the changes in reported period is provided in chapter Corporate Governance in Management report on page 18.

GOODS AND SERVICES

in thousand euros

	2019 12 months	2018 12 months
Provided services and goods sold		
Parent company	15	15
Joint venture	2,770	16,505
Entities under common control	847	91
Members of the management	2,441	43
Other related parties	-	28
Total services provided and goods sold	6,073	16,682
Interest income		
Joint venture	377	559
Purchased services and goods		
Parent company	90	90
Entities under common control	137	57
Total purchased services and goods	227	147
Interest expense		
Entities under common control	145	145
Total interest expense	145	145

BALANCES WITH RELATED PARTIES

in thousand euros

	31.12.2019	31.12.2018
Receivables from related parties		
Loans granted (Notes 6, 8)		
Joint ventures	1,650	9,000
Receivables and prepayments (Note 6)		
Parent company	4	4
Joint venture	64	1,385
Entities under common control	9	88
Members of the management	12	44
Total receivables and prepayments	89	1,521
Total receivables from related parties	1,739	10,521
Payables to related parties		
Lease liabilities (Note 12)		
Entities under common control	124	-
Short-term loans received (Note 12)		
Entities under common control	1,000	1,000
Payables and prepayments (Note 13)		
Parent company	9	9
Joint venture	-	14
Entities under common control	3	1
Members of the management	-	269
Total payables and prepayments	12	293
Long-term loans received (Note 12)		
Entities under common control	5,000	5,000
Other long-term payables (Note 15)		
Other related parties	1,015	504
Total payables to related parties	7,151	6,797

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 12 months of 2019 was EUR 3,212 thousand (12 months of 2018: EUR 2,643 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 12 months of 2019, the Management Board members of major subsidiaries did not receive benefits (12 months of 2018: EUR 34 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

Track record and photographs of the members of the Supervisory Board can be found on AS Merko Ehitus website at group.merko.ee/en/corporate-governance-2/supervisory-council/.

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31.12.2019:

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

* Toomas Annus holds the majority of the votes represented by shares in AS Riverito directly and through holding companies (176,351 shares out of a total of 270,000 shares). With that the votes held by AS Riverito in AS Merko Ehitus (12,742,686 shares) are deemed to belong to Toomas Annus.

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31.12.2019:

		NO OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	600	0.00%
Tõnu Toomik (AS Riverito) *	Member of the Management Board	-	-
		600	0.00%

* In AS Riverito, Tõnu Toomik holds votes represented by 34,054 shares (total of 270,000 shares).

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	31.12.2019	31.12.2018
Performance period's warranty to the customer	24,896	34,511
Tender warranty	916	655
Guarantee for warranty period	20,827	17,666
Prepayment guarantee	6,835	12,098
Payment guarantee	-	30,500
Contracts of surety	7,782	7,734
Letter of credit	-	428
Total contingent liabilities	61,256	103,592

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

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

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

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

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

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

Letter of credit – a letter of credit is the obligation of the buyer (i.e. the bank opening the letter of credit) to pay the seller (i.e. the receiver of the letter of credit) the amount of the letter of credit, if the seller fulfils and presents documentation to the bank regarding the fulfilment of the conditions fixed with the letter of credit.

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of AS Merko Ehitus has prepared the consolidated interim financial statements for the 12 months of 2019, which are set out on pages 5-39.

The Management Board confirms that to the best of its knowledge:

- The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as adopted by the European Union;
- the financial statements give a true and fair view of the Group's financial position and the results of its operations and cash flows;
- the parent company and the group companies are going concerns.

Andres Trink Chairman of the Management Board



13.02.2020

Tõnu Toomik Member of the Management Board



13.02.2020

DEFINITION OF RATIOS

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