



AS MERKO EHITUS

GROUP

2022 6 months and II quarter consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Financial year:	01.01.2022 – 31.12.2022
Reporting period:	01.01.2022 – 30.06.2022
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt, Kristina Siimar
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

TABLE OF CONTENTS

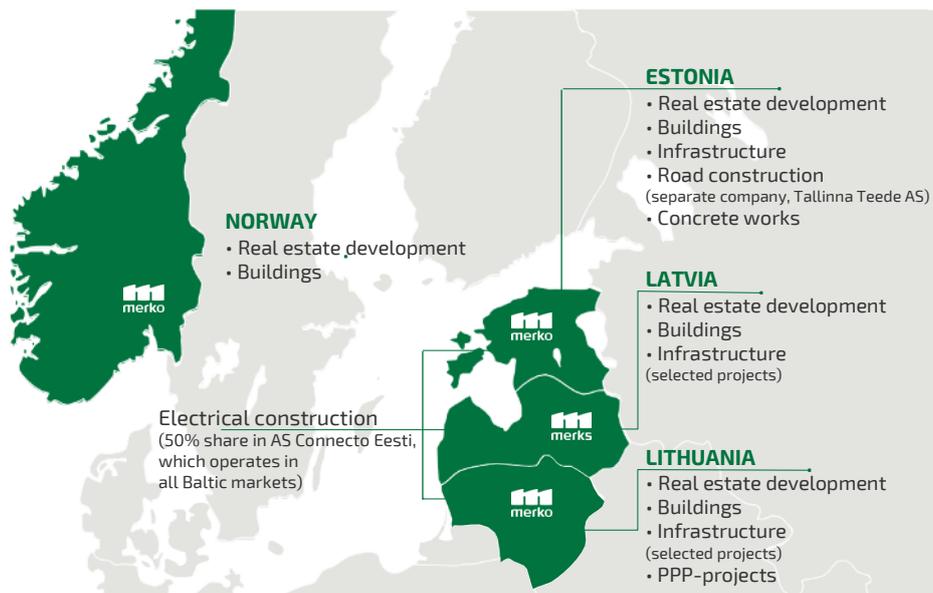
BRIEF OVERVIEW OF THE GROUP.....	3
MANAGEMENT REPORT	5
MANAGEMENT BOARD'S DECLARATION	19
INTERIM FINANCIAL STATEMENTS	20
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	20
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	21
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	22
CONSOLIDATED CASH FLOW STATEMENT	23
NOTES	24
NOTE 1 ACCOUNTING POLICIES USED.....	24
NOTE 2 OPERATING SEGMENTS	24
NOTE 3 COST OF GOODS SOLD	28
NOTE 4 EARNINGS AND DIVIDENDS PER SHARE	28
NOTE 5 CASH AND CASH EQUIVALENTS.....	29
NOTE 6 TRADE AND OTHER RECEIVABLES.....	29
NOTE 7 INVENTORIES	30
NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES.....	30
NOTE 9 INVESTMENT PROPERTY	30
NOTE 10 PROPERTY, PLANT AND EQUIPMENT	31
NOTE 11 INTANGIBLE ASSETS	31
NOTE 12 BORROWINGS	32
NOTE 13 PAYABLES AND PREPAYMENTS	33
NOTE 14 SHORT-TERM PROVISIONS	33
NOTE 15 OTHER LONG-TERM PAYABLES.....	33
NOTE 16 RELATED PARTY TRANSACTIONS	34
NOTE 17 CONTINGENT LIABILITIES.....	39
DEFINITION OF RATIOS.....	40

BRIEF OVERVIEW OF THE GROUP

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

We create a better living environment and build the future.

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



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

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

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

SHARES

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

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

2021 KEY FIGURES

Revenue **339.4 million** euros

Net profit **29.1 million** euros

670 employees





STRATEGY

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



MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

Merko Ehitus revenue was EUR 88 million in Q2 2022, and EUR 156 million in H1 2022, while the respective figures for net profit were EUR 4.2 million and EUR 7.2 million. This year, Merko has delivered 214 apartments to buyers and a number of development projects will be completed in the second half of the year.

According to the management of Merko Ehitus, the results met expectations, considering the current market situation and the adaptation of all participants in the construction sector to the rapid rise in construction prices. Net profit in the second quarter was also influenced by a EUR 0.3 million donation to Ukrainian support projects and income tax expense that is EUR 0.3 million higher than a year ago.

The influence of inflation and rising input prices in the group's sector of construction service continues to be high, yet the implementation of all the construction projects in progress has continued according to plan. The situation is complicated in all construction sectors, yet most critical in road construction where the rise in input prices has been the highest and new investment plans have been put on hold. We share the concern of sector leaders as to the sustainability of the sector.

In H1, the group companies entered into new construction contracts worth EUR 193 million and the secured order book balance stood at EUR 323 million as of the end of June. According to the management, the group's secured order book is currently strong, yet there is little business real estate and new infrastructure construction orders on the market as a whole. Considering the energy crisis and green transition policy, it is somewhat surprising that only a few major renewable energy and high energy efficient building designs have come on to the market. The faster customers adapt to the higher input prices and supply chain problems that construction companies are facing, the faster the planned projects will reach construction. It is necessary to find solutions for sharing the risks with project owners and continue to invest regardless of faster inflation.

In the first six months of this year, Merko delivered 214 new apartments and one commercial unit to buyers and a number of apartment developments in progress are expected to be completed on schedule in H2. Merko new sales of apartments have continued even after the price rise caused by rising input prices, which shows that the market is gradually adapting to the new prices. The supply of new apartments on the market as a whole has decreased. Residential construction is for Merko a business area with a long perspective and we have continued investing into new development projects, although at a more moderate pace.

During H1, the group launched construction of 186 new apartments and four commercial units in Riga. As of the end of the quarter, over 1700 apartments were under construction in the three Baltic states, over half of which have preliminary sale contracts concluded and will be completed in 2022 and 2023. The largest apartment developments were Uus-Veerenni, Noblessneri and Lahekalda in Tallinn, Erminurme in Tartu, Viesturdarzs, Mežpilsēta and Magnolijas in Riga, and Vilneles Skverai in Vilnius.

In the second quarter of 2022, the largest objects in operation in Estonia were the third development phase of the Mustamäe medical campus of the North-Estonia Medical Centre, the Tallinn School of Music and Ballet, St John's School, Pelgulinna State gymnasium and the Arter quarter, and also the construction of infrastructure segments of the Republic of Estonia's southeast land border and reconstruction of Rannamõisa tee. In Latvia, the Orkla wafer and biscuit production plant, GUSTAVS business centre, Elemental Skanste office buildings, NATO facilities in Ādaži and the Kauguri city park and youth house were in progress; and in Lithuania, infrastructure for a number of wind farms, and a car service centre in Vilnius.

2022 6M
REVENUE
156 MILLION EUROS

PROFIT
BEFORE TAX
8.4 MILLION EUROS

OVERVIEW OF THE II QUARTER AND 6 MONTHS RESULTS

PROFITABILITY

2022 6 months' pre-tax profit was EUR 8.4 million and Q2 2022 was EUR 4.9 million (6M 2021: EUR 10.5 million and Q2 2021 was EUR 6.7 million), which brought the pre-tax profit margin to 5.4% (6M 2021: 7.2%).

Net profit attributable to shareholders for 6 months 2022 was EUR 7.2 million (6M 2021: EUR 9.8 million) and for Q2 2022 net profit attributable to shareholders was EUR 4.2 million (Q2 2021: EUR 6.4 million). 6 months net profit margin was 4.6% (6M 2021: 6.7%).

REVENUE

Q2 2022 revenue was EUR 87.8 million (Q2 2021: EUR 85.8 million) and 6 months' revenue was EUR 156.2 million (6M 2021: EUR 145.9 million). 6 months' revenue increased by 7.2% compared to same period last year. The share of revenue earned outside Estonia in 6 months 2022 was 53.8% (6M 2021: 38.0%).

SECURED ORDER BOOK

As of 30 June 2022, the group's secured order book was EUR 322.9 million (30 June 2021: EUR 249.8 million). In 6 months 2022, group companies signed contracts in the amount of EUR 193.3 million (6M 2021: EUR 135.1 million). In Q2 2022, new contracts were signed in the amount of EUR 22.1 million (Q2 2021: EUR 37.8 million).

REAL ESTATE DEVELOPMENT

In 6 months 2022, the group sold a total of 214 apartments; in 6 months 2021, the group sold 145 apartments. The group earned a revenue of EUR 27.1 million from sale of own developed apartments in 6 months 2022 and EUR 25.8 million in 6 months 2021. In Q2 of 2022 a total of 88 apartments were sold, compared to 55 apartments in Q2 2021, and earned a revenue of EUR 11.6 million from sale of own developed apartments (Q2 2021: EUR 11.0 million).

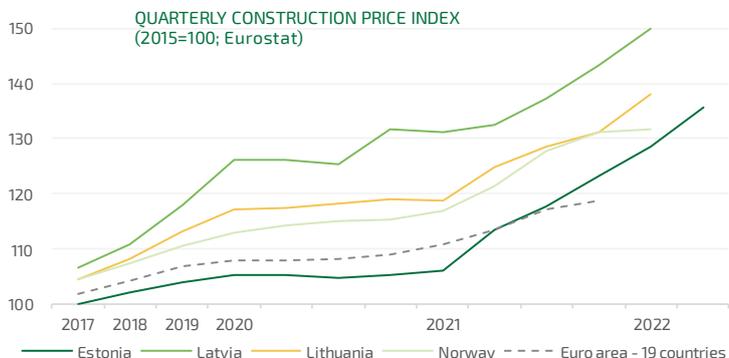
CASH POSITION

At the end of the reporting period, the group had EUR 16.8 million in cash and cash equivalents, and equity of EUR 156.7 million (41.5% of total assets). Comparable figures as of 30 June 2021 were EUR 21.7 million and EUR 145.3 million (52.5% of total assets), respectively. As of 30 June 2022, the group's net debt was EUR 73.2 million (30 June 2021: EUR 16.1 million).

OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

CONSTRUCTION SERVICES

Russia's invasion of Ukraine on 24 February and the continuing war have also caused a continued rise of construction prices in conjunction with higher energy prices. The last quarter of the 'old reality' can be considered to be Q1 2021. Since then, prices have risen sharply for five straight quarters, at a pace of 5-6% per quarter. Although the magnitude of the impact of materials or workforce can vary by quarter, they have produced a consistent rise in input prices. In conclusion, the pressure on the construction services market and price level in Q2 2022 continued in the form of dearth of subcontracting labour, rising energy prices and an overall increase in uncertainty. The small and open economies of the Baltic states, and the public sectors' characteristic laissez-faire policies do not portend a stabilization or decline of prices before the autumn.

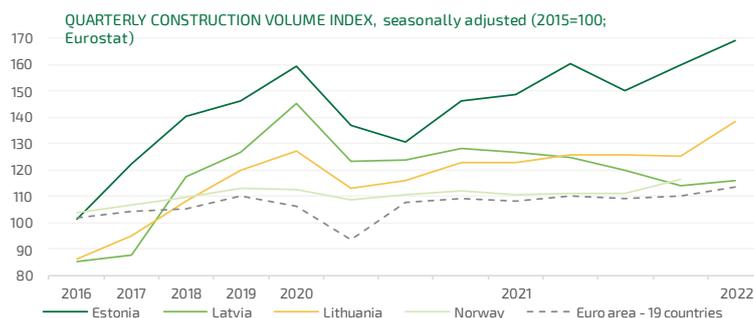


While since Q3 of 2020, we have mainly seen a stable recovery from the sharp decline in the construction volumes of the first wave of Covid-19, it is unlikely that there is a basis for further growth.

Rapidly increasing input prices, the general rise in uncertainty, and disruptions in logistics chains due to the war have impacted the growth of construction volumes. While statistics for Q2 2022 had not been released as of this overview, the low number of public procurements that have reached the contract stage signal that construction volumes in the Baltic region could stabilize in the second quarter, followed by a decline in Q3 and Q4. Latvia has not even recovered from its pandemic-era contraction and construction volumes there have gradually regressed to the levels last seen in the first half of 2018. Latvia's anomalous result was probably caused by the housing market with its more modest growth in prices, which has not led to demand for construction of housing in an extent comparable to Estonia or Lithuania.

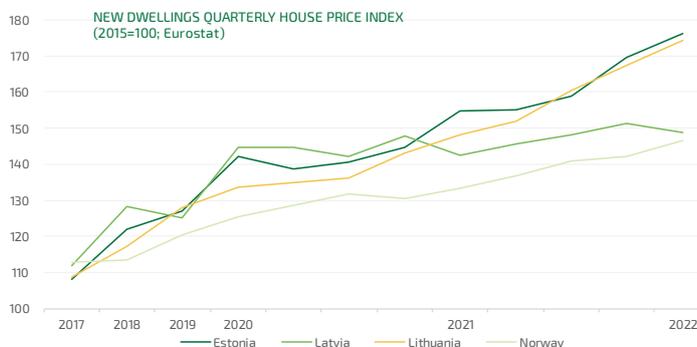
To a large degree, the next developments on the construction market depend on the behaviour of government sector customers,

streamlining the proceedings on spatial planning and licences for renewable energy projects and the penetration of green transition support into the real economy. Support for construction of renewable energy generation infrastructure and energy efficient buildings would allow construction companies that have hitherto been specializing in ordinary public procurements to find profitable contracts in these fields, instead of waiting for the state budget to adapt to the irreversible increase in construction prices and for sites proposed for the third or fourth tendering round to reach the contract stage. Considering the problems with lengthening of planning and building permit proceedings, which have been covered in the media, and the high natural inertia of the real estate and construction sector, it is odd that the public sector is passive about adding positive incentives for the energy independence and energy efficiency fields, especially if it is desired to avoid the green transition goals declared in the EU from winding up as mere wishful thinking. But even introducing such incentives could hardly avoid a decline in the construction sector due to the particularly complicated situation in road construction, which is essentially operating without new procurements, where intervention aimed at green transition would mean that the specific fleets of machinery in road construction would be underused.



DEVELOPMENT OF APARTMENTS

Compared to the construction market, the shock caused by the invasion of Ukraine on the apartment market proved short-lived. Prices of new apartments adapted to the higher level, mirroring the growth in construction prices. The deficit on the Estonian and Lithuanian (or more accurately, Tallinn and Vilnius) new apartment market has kept prices high, and not even pessimists predict a retreat. In Latvia (i.e., Riga) prices have remained stable, without much of a rise, from 2020 and due to the high construction price, there is no possibility for them to fall. An additional factor that prevents prices from declining is the significantly higher energy efficiency of new apartments compared to Soviet-era template buildings, even after renovation of the latter. Instead, we see that the hyper-increase in energy prices puts pressure on the unrenovated apartment aftermarket. It will take another half year at least for the 6-month Euribor rate, which went into positive territory in June, to show up in apartment market statistics. The demand created by war refugees on the housing rental market persists, and thus it is hard to see reasons for prices to fall in the short term. A correction and its timing depends more on the government's measures or lack thereof in bringing to heel the influence of energy prices.



BUSINESS ACTIVITIES

The group business reporting is divided into two business segments:

- construction service;
- real estate development.

CONSTRUCTION SERVICE

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

million EUR

	6M 2022	6M 2021	VARIANCE	Q2 2022	Q2 2021	VARIANCE	12M 2021
Revenue	114.9	105.5	+9.0%	67.2	66.5	+1.0%	243.4
% of total revenue	73.6%	72.3%		76.5%	77.5%		71.7%
Operating profit	2.0	2.8	-29.2%	1.9	2.8	-29.9%	11.8
Operating profit margin	1.7%	2.6%		2.9%	4.1%		4.9%

In the 6 months of 2022, the revenue of the construction service segment was EUR 114.9 million (6M 2021: EUR 105.5 million). The sales revenue of construction service has increased by 9.0% compared to the same period last year. The construction service segment revenue for 6 months 2022 made up 73.6% of the group's total revenue (6M 2021: 72.3%). In this segment, the group earned an operating profit of EUR 2.0 million for 6 months (6M 2021: EUR 2.8 million). The operating profit margin was 1.7% (6M 2021: 2.6%). Construction volumes in the first half-year are lower than in the second half due to seasonal factors. Due to fixed costs, the profitability of the sector during this period is lower; and the increase in input prices – which customers are loath to cover in full – also exerted an influence.

Larger projects in progress in the second quarter in construction service segment in Estonia included the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre, Tallinn School of Music and Ballet, St John's School, Pelgulinna State gymnasium and construction works of Arter quarter as well as construction works of the Republic of Estonia's southeast land border and reconstruction of Rannamõisa tee. In Latvia, larger ongoing projects in the second quarter included the construction works of the Orkla wafer and biscuits production plant, GUSTAVS business center, Elemental Skanste office buildings as well as the city park and youth house in Kauguri and NATO base in Ādaži. In Lithuania, larger projects were construction of wind farm balance of plants in Šilalė and Akmenė districts and car service building in Vilnius were underway. In Norway, the group worked on the reconstruction of smaller scale contracts.

REAL ESTATE DEVELOPMENT

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

million EUR

	6M 2022	6M 2021	VARIANCE	Q2 2022	Q2 2021	VARIANCE	12M 2021
Revenue	41.3	40.4	+2.2%	20.6	19.3	+7.0%	96.0
incl. revenue from sale of apartments	27.1	25.8		11.6	11.0		72.7
incl. construction service from public-private-partnerships	-	6.5		-	3.9		6.9
incl. construction service to joint venture projects	13.2	1.4		8.6	1.2		7.6
incl. revenue from immovable properties	-	4.2		-	1.6		5.2
% of total revenue	26.4%	27.7%		23.5%	22.5%		28.3%
Operating profit	8.1	9.1	-11.9%	4.0	4.8	-17.6%	22.7
Operating profit margin	19.5%	22.6%		19.2%	24.9%		23.6%

In 6 months 2022, the group sold a total of 214 apartments and 1 commercial premise; in 6 months 2021, 145 apartments and 6 commercial premises. The group earned a revenue of EUR 27.1 million (VAT not included) from sale of developed apartments in

6 months 2022 and EUR 25.8 million (VAT not included) in 6 months 2021. In the revenue and operating profit of the real estate development segment also are reflected the sales of commercial premises and parking spaces of the real estate development projects and the result of public-private-partnership contracts, based on which the group companies provide construction service and property management services.

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

In 6 months of 2022, real estate development segment revenues increased by 2.2% compared to the same period last year and formed 26.4% of the group's total revenue (6 months of 2021: 27.7%).

The segment's operating profit for the 6 months of 2022 amounted to EUR 8.1 million (6 months of 2021: EUR 9.1 million) and the operating profit margin was 19.5% (6 months of 2021: 22.6%). The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, including the land acquisition price.

In 6 months of 2022, the group launched the construction of a total of 186 new apartments in the Baltic states (6 months of 2021: 813 apartments). In the 6 months, the group invested a total of EUR 57.1 million (6 months of 2021: EUR 27.0 million) in the ongoing development projects.

After the reporting date, the group has started the construction of 46 apartments in the fourth stage of the Erminurme residential development project in Tartu.

Revenue from apartment sales ended up lower than in the same period last year, despite the greater number of apartments delivered to the market, and above all this was due to the fact that a large number of the apartments delivered to buyers in the first half-year are in Lithuania, where apartment prices fall short of Estonian prices. Demand on the new apartment market continues to be strong, and apartment properties are on schedule in terms of reaching readiness for delivery and final contract of sale.

One of the group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As of 30 June 2022, the group's inventories included land plots with development potential, where the construction works have not started, in the amount of EUR 91.3 million (30.06.2021: EUR 63.4 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	30.06.2022	30.06.2021	31.12.2021
Estonia	27.7	21.6	25.9
Latvia	27.0	25.0	25.0
Lithuania	35.0	15.2	13.6
Norway	1.6	1.6	1.6
Total	91,3	63,4	66,1

In 6 months of 2022, the group has obtained new land plots for real estate development purposes at acquisition cost of EUR 24.9 million (6 months of 2021: in the amount of EUR 7.7 million).

SECURED ORDER BOOK

As of 30 June 2022, the group's secured order book amounted to EUR 322.9 million, compared to EUR 249.8 million as of 30 June 2021, having increased by 29.3% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 6 months of 2022, EUR 193.3 million worth of new contracts were signed, which is increased by 43.0% compared to the same period of the previous year (6 months of 2021: EUR 135.1 million). The value of new contracts signed in the second quarter of 2022 amounted to EUR 22.1 million; in the second quarter of 2021 the value of new contracts signed amounted to EUR 37.8 million

As of 30 June 2022, the private sector orders accounted for approximately 78% of the total balance in the group's secured order book (30.06.2021: approximately 46%). Both the public and private sectors are re-evaluating the soundness and profitability of investments in an environment of rapidly changing input prices, with private sector's greater flexibility and relative simplicity of decision-making in the investment area reflected in the increased share of private sector contracts.

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

CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 16.8 million (30.06.2021: EUR 21.7 million). As the group's cash position continues to be strong, the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As of the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 49.0 million, of which EUR 32.2 million was unused (30.06.2021: EUR 44.1 million of which was almost entirely unused). In addition to the overdraft facilities, the company has a working capital loan facility with a limit of EUR 10.0 million from AS Riverito, of which EUR 5.0 million was unused at the end of current period (30.06.2021: no loan agreement).

The 6-month cash flow from operating activity was negative at EUR 41.6 million (6 months of 2021: negative EUR 15.5 million), cash flow from investing activity was negative at EUR 3.3 million (6 months of 2021: negative EUR 0.8 million) and the cash flow from financing activity was positive at EUR 16.7 million (6 months of 2021: negative EUR 9.4 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 10.0 million (6 months of 2021: positive effect of EUR 12.2 million), from the change in trade and other payables related to operating activities of EUR 32.3 million (6 months of 2021: positive effect of EUR 24.3 million). The negative effects to cash flow from operating activities came from the changes in receivables and liabilities related to construction contracts of EUR 0.3 million (6 months 2021: negative effect of EUR 10.7 million), from the change in the provisions of EUR 2.8 million (6 months of 2021: negative effect of EUR 3.1 million), from the changes in trade and other receivables related to operating activities of EUR 12.6 million (6 months of 2021: negative effect of EUR 24.4 million) and from the change in inventories of EUR 65.2 million (6 months of 2021: negative effect of EUR 10.3 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments, while the negative cash flow is due to the increase in the volume of inventories related to the construction of apartments, then the positive cash flow is due to the decrease in inventories in the sale of the apartments. Interest was paid EUR 0.6 million (6 months of 2021: EUR 0.3 million) and corporate income tax was paid at EUR 1.6 million (6 months of 2021: EUR 2.8 million).

To support cash flows from operating activities, including increased volumes in apartment development, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (23.9% as of 30.06.2022; 13.6% as of 30.06.2021; 16.2% as of 31.12.2021).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 0.6 million, which is mainly related to the renewal of equipment in the field of construction (6 months of 2021 EUR 0.9 million) and from the acquisition of a subsidiary in the amount of EUR 0.7 million and the acquisition of a joint venture in the amount of EUR 2.2 million (6 months of 2021: there were no acquisitions of subsidiaries and joint ventures). The positive effect came from the sale of non-current assets in the amount of EUR 0.3 million (6 months of 2021: EUR 0.1 million).

In cash flows from financing, the larger negative factors were dividend payment of EUR 17.7 million (6 months of 2021: EUR 17.7 million), the buy-out of minority interests in the amount of EUR 1.9 million (6 months of 2021: there was no buyout of minority share), repayments of lease liabilities in the amount of EUR 0.5 million (6 months of 2021: net negative cash flow of EUR 0.4 million) and the change in loans related to net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 0.7 million (6 months of 2021: positive cash flow in the net amount of EUR 9.2 million). Positive cash flow from financing activity resulted from the net change in loans received and repaid in connection with development projects in the amount of EUR 15.6 million (6 months of 2021: net negative cash flow of EUR 0.5 million), which resulted from the increase in loans taken for residential development projects and from the change in loans related to other activities in the amount of EUR 21.8 million (6 months of 2021: net positive cash flow of EUR 0.0 million).

The Q2 2022 cash flow from operating activity was negative at EUR 30.9 million (Q2 2021: negative EUR 20.0 million), cash flow from investing activity was negative at EUR 0.2 million (Q2 2021: negative EUR 0.4 million) and the cash flow from financing activity was positive at EUR 18.1 million (Q2 2021: positive EUR 12.6 million).

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		6M 2022	6M 2021	6M 2020	Q2 2022	Q2 2021	Q2 2020	12M 2021
Revenue	million EUR	156.2	145.9	129.7	87.8	85.8	73.9	339.4
Gross profit	million EUR	17.3	17.2	16.5	9.4	10.3	11.0	46.8
Gross profit margin	%	11.1	11.8	12.7	10.7	12.0	14.9	13.8
Operating profit	million EUR	8.6	10.9	9.1	4.9	7.0	6.9	32.2
Operating profit margin	%	5.5	7.5	7.0	5.6	8.2	9.4	9.5
Pre-tax profit	million EUR	8.4	10.5	8.8	4.9	6.7	6.7	32.1
Pre-tax profit margin	%	5.4	7.2	6.8	5.5	7.9	9.1	9.5
Net profit	million EUR	7.2	9.6	8.0	4.1	6.3	6.1	29.0
attributable to equity holders of the parent	million EUR	7.2	9.8	8.2	4.2	6.4	6.2	29.1
attributable to non-controlling interest	million EUR	(0.0)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Net profit margin	%	4.6	6.7	6.3	4.8	7.5	8.3	8.6
Other income statement indicators		6M 2022	6M 2021	6M 2020	Q2 2022	Q2 2021	Q2 2020	12M 2021
EBITDA	million EUR	10.0	12.2	10.5	5.6	7.6	7.7	34.8
EBITDA margin	%	6.4	8.4	8.1	6.4	8.9	10.4	10.3
General expense ratio	%	6.2	5.2	5.6	5.5	4.5	4.8	5.2
Labour cost ratio	%	13.3	12.1	12.0	11.4	10.6	10.3	11.3
Revenue per employee	thousand EUR	237	219	195	133	129	111	521

OTHER SIGNIFICANT INDICATORS		30.06.2022	30.06.2021	30.06.2020	31.12.2021
Return on equity	%	16.5	16.4	15.3	18.8
Return on assets	%	7.9	9.2	6.9	10.0
Return on invested capital	%	14.1	14.5	11.3	16.9
Assets	million EUR	377.3	276.7	274.9	324.4
Equity	million EUR	156.5	149.4	142.4	167.0
Equity attributable to equity holders of the parent	million EUR	156.7	145.3	138.4	167.2
Equity ratio	%	41.5	52.5	50.3	51.6
Debt ratio	%	23.9	13.6	21.1	16.2
Current ratio	times	1.8	2.4	2.3	2.4
Quick ratio	times	0.5	0.9	0.7	0.9
Accounts receivable turnover	days	33	29	43	31
Accounts payable turnover	days	52	34	47	39
Average number of employees	people	658	667	667	651
Secured order book	million EUR	322.9	249.8	236.7	257.3

Ratio definitions are provided on page 39 of the report.

RISK MANAGEMENT

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

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

Legal risk

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

As of 30 June 2022, no provision has been formed to cover potential claims and legal costs (30.06.2021: no provision has been formed).

Below is presented an overview of the key legal disputes and proceedings, which have taken place or ended during 2022 or are ongoing as of 30 June 2022 and which concern group entities is presented:

Estonia

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

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

Latvia

Latvian Competition Council administrative proceeding

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

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

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

The Latvian Competition Council asked the court for an extension for submitting its arguments against the opinions of the plaintiffs and the Latvian administrative court respectively established 15 December 2021 as the new term for replying. The submission of the Latvian Competition Council was made available to the applicants on 28 April 2022. The next court session is scheduled for 12 October 2022.

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

Considering the as yet unestablished terms for the court proceedings and the impossibility of evaluating the result, the Group has not formed any provisions.

SIA Ostas Celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas Celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas Celtnieks" according to its share in the consortium. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. The court took the evidence from both parties to the proceedings and advised the parties to enter into a suitable arrangement for both parties. No agreement was reached, SIA "Ostas Celtnieks" filed a counterclaim against SIA Merks for lost profits, which prolongs the process. SIA Merks submitted an application to transfer the court proceedings from Liepāja Circuit Court to Riga Economic Court. The court hearing was held on 28 July 2022, at the time of writing the report, its outcome and subsequent hearings had not been announced. The impact of this claim has not been taken into account in the group's reporting.

Salaspils County Council

After the balance sheet date, 29 July 2022. SIA Merks filed a lawsuit against Salaspils County Government in the Court of Economic Affairs in order to find a solution to the disagreements arising from the interpretation of the Salaspils Kindergarten construction contract. At the time of writing the report, the court has not yet announced the initiation of the lawsuit. The amount of the claim filed in the lawsuit has not been determined, the impact of the claim has not been reflected in the report by the group.

Impact of the war in Ukraine

Russia's invasion of Ukraine on 24 February unleashed a long and complex chain of events. From broken supply chains to the additional rise in energy prices due to Russia's manipulation of the gas supply as a countermeasure, the direct and indirect effects of the war can be found in every sphere that affects the construction and real estate market. Due to the large amount of such influences and the hybrid nature of the activities of all the parties, direct and indirect effects cannot be measured monetarily. On one hand, besides the one-time expense on finding alternative supply chains, sanctions also factor in the general rise in input prices, since before the war, the use of Russian and Belarusian materials and workforce was mainly due to the fact that they cost less. On the other hand, the additional demand generated by refugees on the housing market has kept the apartment market strong and buoyed prices despite the increase in uncertainty. Russia's weaponization of energy prices to hurt countries that support Ukraine has led to a short-term rise in all input prices, but this is already generating additional demand on the renewable energy infrastructure market, the market for infrastructure that boosts security of supply, and the market for energy efficient buildings. It is complicated to evaluate such disparate influences, and as yet impossible to aggregate into one single impact assessment.

EMPLOYEES AND LABOUR COSTS

As of 30 June 2022, Merko Ehitus group employed 678 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 40 (-5.6%). The number of employees decreased in Estonia, Latvia and Norway and increased in Lithuania.

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

The group defines labour cost as salary (incl. fixed salary, additional pay, holiday pay, and performance pay), taxes based on salary, fringe benefits and taxes on fringe benefits. In 6 months 2022, the labour cost was EUR 20.7 million (6 months 2021: EUR 17.7 million), which increased by 17.4% compared to the same period previous year. The labour cost ratio increased by 1.2 pp from 12.1% to 13.3% in comparable periods.

During 6 months of 2022, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 5.0 million in labour taxes in Estonia, being one of the largest labour tax payer in the construction sector (6 months 2021: EUR 4.0 million).

ETHICAL BUSINESS PRACTICES

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

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

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

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	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

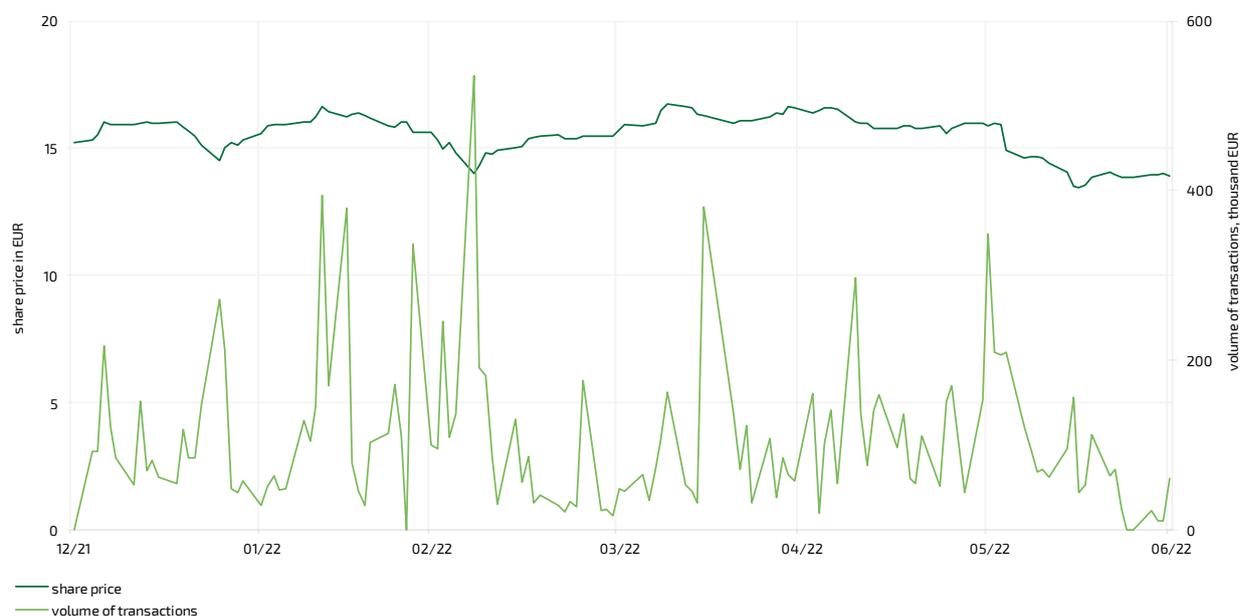
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As of 30 June 2022, the company has 17,700,000 shares. The number of shares has not changed during 2022.

A total of 25,376 transactions were conducted with the shares of Merko Ehitus in 6 months of 2022, with 0.86 million shares (4.8% of total shares) traded, generating a turnover of EUR 13.3 million (comparable figures in 6 months 2021 were accordingly: 26,825 transactions with 1.41 million shares traded (8.0% of total shares), generating a turnover of EUR 19.8 million). The lowest value-per-share transaction was recorded at the price of EUR 13.40 and the highest at EUR 16.96 per share (6 months of 2021: EUR 9.48 and EUR 17.14, accordingly). On 30 June 2022, the closing price of the share was EUR 13.92 (30.06.2021: EUR 15.10). As of 30 June 2022, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 246.4 million, down by 7.8% compared to the end of the equivalent period of the prior year (30.06.2021: EUR 267.3 million).

	30.06.2022	30.06.2021	30.06.2020	31.12.2021
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.41	0.55	0.46	1.65
Equity per share, euros	9.11	8.45	7.37	8.76
P/B ratio	1.53	1.79	1.15	1.74
P/E ratio	9.27	10.87	7.51	9.24
Market value, million EUR	246.4	267.3	150.1	269.4

Ratio definitions are provided on page 39 of the report.

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2022



STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS OF 30.06.2022

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.01%	12,742,686	71.99%
100,001 – 1,000,000	6	0.05%	1,253,756	7.08%
10,001 – 100,000	53	0.49%	1,107,793	6.26%
1,001-10,000	531	4.91%	1,492,977	8.43%
101-1,000	2,593	23.96%	889,331	5.03%
1-100	7,638	70.58%	213,457	1.21%
Total	10,822	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS OF 30.06.2022 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 30.06.2022	% OF TOTAL 31.03.2022	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	399,500	2.26%	2.13%	22,065
Firebird Republics Fund Ltd	313,953	1.77%	1.77%	-
Firebird Aurora Fund Ltd	174,894	0.99%	0.99%	-
SEB Life and Pension Baltic SE Estonian Branch	148,787	0.84%	0.84%	-
Clearstream Banking AG	112,901	0.64%	0.64%	(786)
Firebird Fund L.P.	103,721	0.59%	0.59%	-
Siseinfo OÜ	100,000	0,56%	0.73%	(30,000)
Seitse Samuraid OÜ	80,000	0,45%	0.56%	(20,000)
Alforme OÜ	50,000	0,28%	0.28%	-
Total largest shareholders	14,226,442	80.38%	80.54%	(28,721)
Total other shareholders	3,473,558	19.62%	19.46%	28,721
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX BALTIC BENCHMARK PRICE INDEX IN 2022



DIVIDENDS AND DIVIDEND POLICY

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

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

On 4 May 2022, the shareholders of AS Merko Ehitus approved the Supervisory Board's proposal to the shareholders to pay out the total amount of EUR 17.7 million (EUR 1.00 per share) as dividends from net profit brought forward, which is equivalent to a 61% dividend rate and a 6.6% dividend yield for the year 2021 (using the share price as of 31 December 2021). Comparable figures in 2021 were accordingly: EUR 17.7 million (EUR 1.00 per share) as dividends, which is equivalent to a 77% dividend rate and a 10.6% dividend yield for the year 2020 (using the share price as at 31 December 2020).

The income tax rate (14/86) of regularly paid (net) dividends in the amount of EUR 5.6 million was applied to dividends paid out in 2022. From the dividends paid to natural person shareholders and to which 14/86 income tax rate was applied, group withheld an additional 7% income tax.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

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

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

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

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

As of 30 June 2022, the management structure is as follows:



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

GROUP'S LEGAL STRUCTURE

As of 30 June 2022, in addition to AS Merko Ehitus, the group comprises 33 companies (30.06.2021: 32). The group's legal structure is predominantly based on economic and legal rationality and does not in all cases conform one-to-one to the group's management structure. The detailed list of group companies is provided in Note 16 of the interim financial statements.

Changes in the legal structure of the group

On 21 October 2021, AS Merko Infra and OÜ Merko Kaevandused, both belonging to AS Merko Ehitus group, signed a merger agreement where the acquiring company is OÜ Merko Kaevandused. As a result of the merger, the company being acquired wound up without liquidation proceedings and OÜ Merko Kaevandused became the legal successor of AS Merko Infra. The merger date was 1st of January 2022, after which all transactions of the acquired company are deemed to be made on the account of OÜ Merko Kaevandused. The Commercial Register made the final entry in its registers on 28 April 2022.

On 15 December 2021, a subsidiary of AS Merko Ehitus group, SIA Merks Mājas, signed an agreement to obtain a 25% holding in the subsidiary SIA Zakusala Estates from the minority shareholder ZE-Holding AS at the purchase price of EUR 1.9 million. After the acquisition of the additional shareholding, SIA Zakusala Estates became a 100% subsidiary of SIA Merks Mājas. The purchase price was paid on 25 January 2022.

On 25 February 2022, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus group, signed a contract with Aardekapp OÜ to acquire additional 15% holding (82,500 shares) in AS Connecto Eesti. The agreement is a continuation of the share acquisition agreements entered into on 2 June 2021. After the acquisition of an additional shareholding, the Merko group owns 50% of AS Connecto Eesti and the company will become a joint venture between AS Merko Ehitus Eesti and Aardekapp OÜ. The transfer of shares and completion of the transactions took place on 28 February 2022 (Note 16).

On 16 March 2022, a subsidiary of AS Merko Ehitus group, OÜ Merko Kaevandused, acquired a 100% holding in OÜ Metsara-Metspere Kinnisvara, with a share capital of EUR 409 thousand and for a purchase price of EUR 695 thousand. Acquisition of the subsidiary is recognised in the group as an acquisition of land and is recorded under property, plant and equipment (Notes 10, 16).

GENERAL MEETING OF SHAREHOLDERS

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

The annual general meeting of shareholders was held on 4 May 2022. The general meeting resolved to approve the annual report and the profit allocation proposal for 2021. The dividends in the sum of EUR 17.7 million (EUR 1 per share) was paid out to the shareholders on 17 June 2022.

The general meeting confirmed four-member Supervisory Board until 06.05.2023 and elected Kristina Siimar as a member of the Supervisory Board, for a term of office from 06 May 2022 to 6 May 2025 (inclusive), i.e. for three years. In addition, the principles of remuneration of the members of the Management Board of AS Merko Ehitus were approved. („AS Merko Ehitus juhatus liikmete tasustamise põhimõtted ja kontrolli protseduur”).

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

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

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

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

Annual and extraordinary general meeting of shareholders shall be chaired by an independent person. In 2022, the general meeting was chaired by attorney-at-law Vesse Võhma who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board and Supervisory Board about the company's activities.

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

The annual general meeting of shareholders of AS Merko Ehitus held in 2022 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Urmas Somelar (Head of Group Finance) and Janno Hermanson (Auditor).

SUPERVISORY BOARD

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

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

By the resolution of the general meeting of 04.05.2022, Kristina Siimar was elected a member of the Supervisory Board with a term of office of up to 6 May 2025 (inclusive). According to the same resolution, the Supervisory Board AS Merko Ehitus has four-member at least until 06.05.2023 (the term of authority of the former members of the Supervisory Board).

As of 30 June 2022, the Supervisory Board of AS Merko Ehitus had four members, of whom, in accordance with the requirements of the Corporate Governance Recommendations, Kristina Siimar and Indrek Neivelt were independent members.

MANAGEMENT BOARD

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

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

The Supervisory Board of AS Merko Ehitus extended the powers of a Member of the Management Board of the company, Mr. Tõnu Toomik until 6 June 2025 (inclusive). The Management Board of AS Merko Ehitus will continue with two members: Mr. Andres Trink (Chairman) and Mr. Tõnu Toomik.

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.

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as of 30 June 2022:

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

Changes in the management of group subsidiaries

According to a decision of the Management Board of AS Merko Ehitus from 29 April 2022, the powers of the Member of the Supervisory Board of AS Merko Ehitus Eesti, Mr. Martin Rebane, have been extended until 29 April 2025. 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 16 May 2022, SIA Merks – part of AS Merko Ehitus group – as sole shareholder of its subsidiary SIA Merks Mājas, decided to appoint Mr. Mikus Freimanis as a new member of the Management Board of the company. The authority of a member of the Management Board of Mr. Mikus Freimanis is open-ended. The Management Board of SIA Merks Mājas will continue with two members: Mr. Andris Bišmeistars (Chairman) and Mr. Mikus Freimanis.

MANAGEMENT BOARD'S DECLARATION

Members of the Management Board of AS Merko Ehitus declare and confirm that the consolidated unaudited interim report for the 6 months of 2022, which consists of the management report and the interim financial statements, prepared according to the current International Financial Reporting Standards as adopted by the European Union, provides, to the best of their knowledge, a true and fair view of the development of business operations, assets, liabilities, financial position, results of the operations, cash flows, and profit or loss of AS Merko Ehitus and the consolidated undertakings as a whole, includes a description of the principal risks and uncertainties, and reflects transactions with related parties. The parent company and the companies, which are part of the consolidation group, are going concerns.

Andres Trink	Chairman of the Management Board	04.08.2022
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Tõnu Toomik	Member of the Management Board	04.08.2022
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INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2022 6 months	2021 6 months	2022 II quarter	2021 II quarter	2021 12 months
Revenue	2	156,198	145,860	87,772	85,753	339,375
Cost of goods sold	3	(138,917)	(128,622)	(78,363)	(75 489)	(292,563)
Gross profit		17,281	17,238	9,409	10 264	46,812
Marketing expenses		(2,169)	(1,830)	(1,054)	(883)	(3,611)
General and administrative expenses		(7,522)	(5,706)	(3,799)	(2,991)	(13,925)
Other operating income		1,422	1,314	736	639	3,508
Other operating expenses		(455)	(93)	(394)	(39)	(582)
Operating profit		8,557	10,923	4,898	6,990	32,202
Finance income/costs		(193)	(441)	(33)	(257)	(75)
incl. finance income/costs from associates and joint ventures		328	3	330	(4)	799
interest expense		(374)	(316)	(212)	(170)	(681)
foreign exchange gain (loss)		(67)	(39)	(119)	(39)	(8)
other financial income (expenses)		(80)	(89)	(32)	(44)	(185)
Profit before tax		8,364	10,482	4,865	6,733	32,127
Corporate income tax expense		(1,176)	(856)	(755)	(427)	(3,104)
Net profit for financial year		7,188	9,626	4,110	6,306	29,023
incl. net profit attributable to equity holders of the parent		7,202	9,763	4,196	6,395	29,140
net profit attributable to non-controlling interest		(14)	(137)	(86)	(89)	(117)
Other comprehensive income, which can subsequently be classified in the income statement						
Currency translation differences of foreign entities		(12)	16	(28)	(7)	33
Comprehensive income for the period		7,176	9,642	4,082	6,299	29,056
incl. net profit attributable to equity holders of the parent		7,189	9,779	4,169	6,387	29,163
net profit attributable to non-controlling interest		(13)	(137)	(87)	(88)	(107)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.41	0.55	0.24	0.36	1.65

The notes set out on pages 24-38 are an integral part of these interim financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	30.06.2022	30.06.2021	31.12.2021
ASSETS				
Current assets				
Cash and cash equivalents	5	16,773	21,713	44,930
Trade and other receivables	6	68,317	62,902	55,484
Prepaid corporate income tax		36	315	114
Inventories	7	228,240	136,605	160,593
		313,366	221,535	261,121
Non-current assets				
Investments in associates and joint ventures		9,707	2,357	7,703
Other long-term loans and receivables	8	23,616	22,797	24,079
Deferred income tax assets		1,115	842	622
Investment property	9	11,536	13,872	13,828
Property, plant and equipment	10	17,347	14,611	16,350
Intangible assets	11	635	733	669
		63,956	55,212	63,251
TOTAL ASSETS		377,322	276,747	324,372
LIABILITIES				
Current liabilities				
Borrowings	12	48,854	9,279	11,636
Payables and prepayments	13	117,702	77,814	90,054
Income tax liability		2,275	731	681
Short-term provisions	14	6,879	5,720	7,976
		175,710	93,544	110,347
Non-current liabilities				
Long-term borrowings	12	41,153	28,493	41,001
Deferred income tax liability		1,649	1,739	3,112
Other long-term payables	15	2,322	3,586	2,900
		45,124	33,818	47,013
TOTAL LIABILITIES		220,834	127,362	157,360
EQUITY				
Non-controlling interests		(240)	4,078	(227)
Equity attributable to equity holders of the parent				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	793	793
Currency translation differences		(804)	(798)	(791)
Retained earnings		148,810	137,383	159,308
		156,728	145,307	167,239
TOTAL EQUITY		156,488	149,385	167,012
TOTAL LIABILITIES AND EQUITY		377,322	276,747	324,372

The notes set out on pages 24-38 are an integral part of these interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
Balance as at 31.12.2020	7,929	793	(814)	145,320	153,228	4,207	157,435
Profit (loss) for the reporting period	-	-	-	9,763	9,763	(137)	9,626
Other comprehensive income	-	-	16	-	16	0	16
Total comprehensive income (loss) for the reporting period	-	-	16	9,763	9,779	(137)	9,642
Transactions with owners							
Non-controlling interests of purchased subsidiary	-	-	-	-	-	1	1
Contribution to subsidiary's share capital	-	-	-	-	-	7	7
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	-	-	-	(17,700)	(17,700)	8	(17,692)
Balance as at 30.06.2021	7,929	793	(798)	137,383	145 307	4,078	149,385
Balance as at 31.12.2021	7,929	793	(791)	159,308	167,239	(227)	167,012
Profit (loss) for the reporting period	-	-	-	7,202	7,202	(14)	7,188
Other comprehensive income	-	-	(13)	-	(13)	1	(12)
Total comprehensive income (loss) for the reporting period	-	-	(13)	7,202	7,189	(13)	7,176
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	-	-	-	(17,700)	(17,700)	-	(17,700)
Balance as at 30.06.2022	7,929	793	(804)	148,810	156,728	(240)	156,488

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

The notes set out on pages 24-38 are an integral part of these interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2022 6 months	2021 6 months	2021 12 months
Cash flows from operating activities				
Operating profit		8,557	10,923	32,202
Adjustments:				
Depreciation and impairment		1,404	1,262	2,593
(Profit)/loss from sale of non-current assets		(161)	(60)	(111)
(Profit)/loss from sale of a business unit		-	-	(500)
Change in receivables and liabilities related to construction contracts		(336)	(10,672)	(7,164)
Interest income from operating activities		(1,105)	(1,004)	(2,116)
Change in provisions		(2,824)	(3,055)	1,981
Change in trade and other receivables related to operating activities		(12,615)	(24,405)	(21,079)
Change in inventories		(65,235)	(10,250)	(34,148)
Change in trade and other payables related to operating activities		32,310	24,275	30,916
Interest received		683	660	1,355
Interest paid		(601)	(327)	(764)
Other finance income (costs)		(79)	(106)	(204)
Corporate income tax paid		(1,567)	(2,782)	(3,161)
Total cash flows from operating activities		(41,569)	(15 541)	(200)
Cash flows from investing activities				
Acquisition of subsidiaries		(695)	(1)	(1)
Acquisition of associate		(2,236)	-	(4,550)
Purchase of investment property		-	(1)	(7)
Purchase of property, plant and equipment (excl. leased assets)		(555)	(755)	(2,403)
Proceeds from sale of property, plant and equipment		288	65	146
Purchase of intangible assets		(86)	(125)	(233)
Proceeds from sale intangible assets		-	-	19
Sale of business unit		-	-	500
Interest received		1	10	12
Total cash flows from investing activities		(3,283)	(807)	(6,517)
Cash flows from financing activities				
Proceeds from borrowings		54,868	10,501	27,882
Repayments of borrowings		(18,129)	(1,809)	(5,119)
Repayments of lease liabilities		(488)	(426)	(951)
Contributions to the subsidiary's share capital from non-controlling shareholder		-	9	9
Buyout of non-controlling interest		(1,886)	-	-
Dividends paid		(17,661)	(17,686)	(17,686)
Total cash flows from financing activities		16,704	(9,411)	4,135
Net increase/decrease in cash and cash equivalents		(28,148)	(25,759)	(2,582)
Cash and cash equivalents at the beginning of the period	5	44,930	47,480	47,480
Effect of exchange rate changes		(9)	(8)	32
Cash and cash equivalents at the end of the period	5	16,773	21,713	44,930

The notes set out on pages 24-38 are an integral part of these interim financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 6 months 2022 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 2021 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. 2021 audited annual report and 2021 6 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 6 months 2022 presents a true and fair view of the group's economic results based on the principle of going concern. The influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 2 OPERATING SEGMENTS

in thousand euros

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

Reporting of the group's operations are segmented as:

- construction service,
- real estate development.

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

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

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

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

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

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

2022 II quarter	Construction service	Real estate development	Total segments
Revenue	67,425	33,974	101,399
Inter-segment revenue	(248)	(13,379)	(13,627)
Revenue from clients	67,177	20,595	87,772
incl. timing of revenue recognition at a point in time	473	11,608	12,081
timing of revenue recognition over time	66,704	8,987	75,691
Operating profit (loss)	1,928	3,953	5,881
Profit (loss) before tax	2,213	3,702	5,915
incl. interest income from operating activities	21	543	564
depreciation	(579)	(133)	(712)
recognition of provisions	(2,707)	150	(2,557)
profit from joint ventures	342	(12)	330
other finance income (costs)	(15)	(237)	(252)
incl. interest expenses	(15)	(99)	(114)
Assets' change in II quarter	7,004	42,226	49,230
incl. joint ventures	342	(12)	330

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

2021 12 months	Construction service	Real estate development	Total segments
Revenue	247,694	130,176	377,870
Inter-segment revenue	(4,271)	(34,224)	(38,495)
Revenue from clients	243,423	95,952	339,375
incl. timing of revenue recognition at a point in time	1,846	80,536	82,382
timing of revenue recognition over time	241,577	15,416	256,993
Operating profit (loss)	11,819	22,673	34,492
Profit (loss) before tax	12,477	22,149	34,626
incl. interest income from operating activities	97	2,019	2,116
depreciation	(2,064)	(529)	(2,593)
recognition of provisions	(5,806)	(2,241)	(8,047)
reversal of provisions	513	101	614
profit (loss) from associate and joint venture	827	(28)	799
other finance income (costs)	(41)	(467)	(508)
incl. interest expenses	(34)	(346)	(380)
Assets 31.12.2021	65,923	203,775	269,698
incl. associate and joint venture	5,377	2,326	7,703

In addition to the segment assets, as at 30.06.2022 the group holds assets in the amount of EUR 32,139 thousand (30.06.2021: EUR 29,347 thousand; 31.12.2021: EUR 54,674 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

	2022 6 months	2021 6 months	2022 II quarter	2021 II quarter	2021 12 months
Pre-tax profit from reporting segments	9,946	11,589	5,915	7,351	34,626
Other operating profit (loss)	(1,461)	(996)	(983)	(558)	(2,291)
incl. recognition of provisions	-	-	-	-	(17)
finance income (costs)	(121)	(111)	(67)	(60)	(208)
incl. interest expenses	(91)	(65)	(56)	(33)	(131)
Total profit before tax	8,364	10,482	4,865	6,733	32,127

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

During the 6 months of 2022, AS Merko Ehitus group supported Ukraine through its business activities. The largest amount of EUR 214 thousand was donated through the non-profit association Slava Ukraini, reflected in the Other operating profit (loss) line.

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2022 6 months		2021 6 months		2022 II quarter		2021 II quarter		2021 12 months	
Estonia	72,141	44%	90,503	62%	42,197	48%	52,563	61%	212,405	62%
Latvia	36,980	25%	22,087	15%	19,773	23%	13,447	16%	52,825	16%
Lithuania	41,359	25%	28,772	20%	23,933	27%	17,934	21%	63,905	19%
Norway	5,718	6%	4,498	3%	1,869	2%	1,809	2%	10,240	3%
Total	156,198	100%	145,860	100%	87,772	100%	85,753	100%	339,375	100%

CONTRACT ASSETS AND LIABILITIES

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Accrued income from construction services (Note 6)	15,034	18,019	15,050
Prepayments for construction services (Note 13)	(6,729)	(6,502)	(7,024)
Advance payments received for construction contract works (Notes 13, 15)	(8,697)	(9,948)	(12,963)
Recognised provision for onerous construction contracts (Note 14)	(211)	(324)	(582)

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

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Estonia	27,028	17,866	24,175
Latvia	10,929	13,187	13,202
Lithuania	1,138	383	1,039
Norway	130	137	134
Total	39,225	31,573	38,550

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2022 6 months	2021 6 months	2022 II quarter	2021 II quarter	2021 12 months
Construction services and properties purchased for resale	76,423	77,709	44,150	45,756	181,370
Materials	28,688	24,481	16,382	15,007	49,647
Labour costs	13,781	12,341	6,573	6,227	26,313
Construction mechanisms and transport	4,247	4,446	2,560	2,962	10,027
Design	3,873	2,128	1,982	1,244	5,022
Real estate management costs	364	168	180	78	385
Depreciation	960	847	490	432	1,731
Provisions	4,282	1,779	2,557	1,323	7,565
Other expenses	6,299	4,723	3,489	2,460	10,503
Total cost of goods sold	138,917	128,622	78,363	75,489	292,563

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.

	2022 6 months	2021 6 months	2022 II quarter	2021 II quarter	2021 12 months
Net profit (loss) attributable to shareholders (in thousand EUR)	7,202	9,763	4,196	6,395	29,140
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700	17,700	17,700
Earnings (loss) per share (in euros)	0.41	0.55	0.24	0.36	1.65

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

Dividends payable are recognised after the approval of profit allocation by the shareholders. In accordance with the profit allocation decision, in 2022 the parent company AS Merko Ehitus paid dividends of EUR 17,700 thousand, i.e. EUR 1.00 per share (in 2021 were paid EUR 17,700 thousand). The income tax expense related to the payment of dividends, 1,576 thousand euros, of which 1,519 thousand euros was recognised as deferred tax expense in the group in 2021, will be paid in third quarter. The group withheld an additional 7% income tax, 39 thousand euros, on the part of the dividends paid to private shareholders taxable at 14/86 income tax rate.

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

As at 30.06.2022 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 36 thousand euros (30.06.2021: EUR 79 thousand euros; 31.12.2021: EUR 1,519 thousand euros).

As of 30.06.2022, the parent company AS Merko Ehitus has no previously taxed dividends and income received from abroad on which income tax has been withheld (30.06.2021: EUR 0; 31.12.2021: EUR 0).

As at 30.06.2022, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 118,816 thousand (30.06.2021: EUR 109,268; 31.12.2021: EUR 126,814 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 0 (30.06.2021: EUR 0; 31.12.2021: EUR 0), the corresponding income tax on dividends would amount to EUR 29,190 thousand (30.06.2021: EUR 27,317 thousand; 31.12.2021: EUR 31,703 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration. Above that amount, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out as net dividends). The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Bank accounts	16,773	21,713	44,930
Total cash and cash equivalents	16,773	21,713	44,930

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Trade receivables			
Accounts receivable	36,888	34,111	35,444
Allowance for doubtful receivables	(3,112)	(3,474)	(3,347)
	33,776	30,637	32,097
Tax prepayments excluding corporate income tax			
Value added tax	4,619	1,445	1,021
Other taxes	10	29	50
	4,629	1,474	1,071
Accrued income form construction services	15,034	18,019	15,050
Other short-term receivables			
Short-term loans	3,000	7,122	1,115
Interest receivables	43	34	-
Dividends receivables	560	-	-
Other short-term receivables	109	397	195
	3,712	7,553	1,310
Prepayments for services			
Prepayments for construction services	10,638	4,879	5,547
Prepaid insurance	314	142	158
Other prepaid expenses	214	198	251
	11,166	5,219	5,956
Total trade and other receivables	68,317	62,902	55,484
incl. short-term loan receivables from related parties (Note 16)	3,000	-	1,115
other short-term receivables and prepayments to related parties (Note 16)	7,366	1,353	3,573

NOTE 7 INVENTORIES

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Materials	824	373	347
Work-in-progress	117,910	63,752	82,953
Finished goods	11,912	8,115	6,819
Goods for resale			
Registered immovables purchased for resale/development	91,304	63,423	66,160
Other goods purchased for resale	222	164	149
	91,526	63,587	66,309
Prepayments for inventories			
Prepayments for real estate properties	-	-	4,109
Prepayments for other inventories	6,068	778	56
Total inventories	228,240	136,605	160,593

NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Long-term loans	-	1,115	-
Long-term bank deposit	5	2	5
Long-term receivables from customers of construction services	23,611	21,680	24,074
Total other long-term loans and receivables	23,616	22,797	24,079
incl. long-term loan receivables from related parties (Note 16)	-	1,115	-

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Land	10,172	12,408	12,414
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(14)	(14)	(14)
	15	15	15
Buildings at carrying amount			
Cost	2,631	2,631	2,631
Accumulated depreciation	(1,282)	(1,182)	(1,232)
	1,349	1,449	1,399
Total investment property	11,536	13,872	13,828

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Land	1,266	712	712
Buildings at carrying amount*			
Cost	8,293	7,378	8,184
Accumulated depreciation	(3,074)	(2,860)	(3,048)
	5,219	4,518	5,136
Machinery and equipment at carrying amount*			
Cost	18,634	14,808	17,920
Accumulated depreciation	(9,993)	(9,316)	(9,636)
	8,641	5,492	8,284
Other fixtures at carrying amount			
Cost	4,784	4,351	4,523
Accumulated depreciation	(3,134)	(3,258)	(3,049)
	1,650	1,093	1,474
Prepayments for property, plant and equipment	571	2,796	744
Total property, plant and equipment	17,347	14,611	16,350

* As of 30 June 2022 the balance of buildings at carrying amount includes leased assets in a sum of EUR 733 thousand (30.06.2021: 107 thousand; 31.12.2021: EUR 543 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 3,308 thousand (30.06.2021: EUR 2,624 thousand; 31.12.2021: EUR 2,881 thousand).

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Goodwill			
Cost	70	72	73
	70	72	73
Software at carrying amount			
Cost	1,402	2,104	1,401
Accumulated depreciation	(992)	(1,552)	(877)
	410	552	524
Prepayments for intangible assets	155	109	72
Total intangible assets	635	733	669

NOTE 12 BORROWINGS

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Lease liabilities*			
Lease liabilities balance	4,151	2,725	3,519
incl. current portion	1,063	789	868
non-current portion 2...5 years	3,088	1,936	2,651
Bank loans			
Loan balance	74,822	28,942	43,062
incl. current portion	42,757	8,441	10,712
non-current portion 2...5 years	32,065	20,501	32,350
Loan from parent company			
Loan balance	5,000	-	-
incl. current portion (Note 16)	5,000	-	-
Loans from entities under common control			
Loan balance	6,000	6,000	6,000
incl. non-current portion 2...5 years (Note 16)	6,000	6,000	6,000
Loans from other related parties			
Loan balance	34	105	-
incl. current portion	34	49	-
non-current portion 2...5 years	-	56	-
Loans from other entities			
Loan balance	-	-	56
incl. current portion	-	-	56
Total loans			
Loans balance	85,856	35,047	49,118
incl. current portion	47,791	8,490	10,768
non-current portion 2...5 years	38,065	26,557	38,350
Total borrowings			
incl. current portion	48,854	9,279	11,636
non-current portion 2...5 years	41,153	28,493	41,001

* As of 30 June 2022 the lease liabilities include a balance of EUR 280 thousand to related parties (30.06.2021: EUR 56 thousand; 31.12.2021: EUR 31 thousand) (Note 16).

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Trade payables	59,396	35,506	29,413
Payables to employees	10,282	9,319	11,640
Tax liabilities, except for corporate income tax			
Value added tax	1,255	1,009	3,119
Personal income tax	545	849	546
Social security tax	1,362	1,177	1,270
Unemployment insurance tax	47	45	58
Contributions to mandatory funded pension	33	31	39
Other taxes	201	171	124
	3,443	3,282	5,156
Prepayments for construction services	6,729	6,502	7,024
Other liabilities			
Interest liabilities	25	11	20
Other liabilities	472	983	2,338
	497	994	2,358
Prepayments received *	37,355	22,211	34,463
Total payables and prepayments	117,702	77,814	90,054
incl. payables to related parties (Note 16)	2,548	79	2,503

* As of 30 June 2022, the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 8,679 thousand (30.06.2021: EUR 8,564 thousand; 31.12.2021: EUR 12,435 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 28,658 thousand (30.06.2021: EUR 13,647 thousand; 31.12.2021: EUR 22,028 thousand) (Note 2).

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Provision for warranty obligation for construction	3,846	3,432	3,771
Provision for costs of projects sold and work-in-progress projects	2,822	1,951	3,537
Provision for onerous construction contracts	211	324	582
Other provisions	-	13	86
Total short-term provisions	6,879	5,720	7,976

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Trade payables	2,068	1,864	2,110
Prepayments received *	-	1,384	528
Interest liabilities	-	1	-
Other long-term liabilities	254	337	262
Other long-term payables total	2,322	3,586	2,900
incl. other long-term payables to related parties (Note 16)	254	338	262

* As of 30 June 2022, 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 0 (30.06.2021: EUR 1,384 thousand; 31.12.2021: EUR 528 thousand) (Note 2).

NOTE 16 RELATED PARTY TRANSACTIONS

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 30.06.2022; 30.06.2021 and 31.12.2021, AS Riverito owned 71.99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr. Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	30.06.2022	30.06.2021	31.12.2021		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
AS Merko Infra	-	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	100	Estonia, Tallinn	Mining
OÜ Metsara-Metspere Kinnisvara	100	-	-	Estonia, Tallinn	Mining
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektai	100	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu Mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	100	-	100	Latvia, Riga	Real estate
SIA Merks Mājas	100	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	-	100	-	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	-	100	Latvia, Riga	Real estate
SIA Zakusala Estates	100	-	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	-	100	-	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	-	75	-	Latvia, Riga	Real estate
PS Merks-Ostas Celtnieks	65	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	100	Finland, Helsinki	Construction
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding
Merko Bygg AS (ex-Peritus Entreprenør AS)	56	56	56	Norway, Sofiemyr	Construction
Løkenskogen Bolig AS	62	56	62	Norway, Sofiemyr	Real estate
Associate					
AS Connecto Eesti	-	-	35	Estonia, Tallinn	Construction
Joint ventures					
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate
AS Connecto Eesti	50	-	-	Estonia, Tallinn	Construction

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

PURCHASE OF SUBSIDIARY

in thousand euros

OÜ Metsara-Metspere Kinnisvara

Acquired ownership interest	100%	
Acquisition date	16.03.2022	
	Book value	Fair value
Cash	0	0
Property, plant and equipment	409	695
Liabilities	0	0
Net assets	409	695

Fair value of net assets	695
Acquisition cost	695
Subsidiary's cash and cash equivalent on acquisition	0
Paid on acquisition	(695)
Cash flow from acquisition of subsidiary	(695)

Net profit from the beginning of the year	-
Net profit following the acquisition	-

ACQUISITION OF JOINT VENTURE

in thousand euros

	AS Connecto Eesti
Additional share %	15%
Acquisition date	28.02.2022

	Fair value
Cash	1,049
Receivables	1,103
Inventories	432
Non-current assets	460
Borrowings	(156)
Other liabilities	(1,821)
Fair value of net assets	1,067
Acquisition cost	2,236
Goodwill	1,169

Paid for share of joint venture in cash	(2,236)
Outflow of cash – investing activities	(2,236)

Joint ventures are accounted for under the equity method. A holding in a jointly controlled entity is initially recognised at cost and subsequently adjusted for the post-acquisition changes that have occurred in the group's share of the net assets under common control.

The investment into the joint venture includes a goodwill of EUR 1,169 thousand as determined upon acquisition, which is largely related to the company's ability to jointly win recurring long-term contracts in procurements under the Connecto trademark as well as its readiness to participate in large-scale projects both in Estonia and abroad.

GOODS AND SERVICES

in thousand euros

	2022 6 months	2021 6 months	2021 12 months
Provided services and goods sold			
Parent company	7	6	13
Associate and joint venture	12,019	1,009	6,307
Entities under common control	13,947	7,386	15,729
Members of the management	-	127	399
Total services provided and goods sold	25,973	8,528	22,448
Interest income			
Joint venture	51	34	68

	2022 6 months	2021 6 months	2021 12 months
Purchased services and goods			
Parent company	45	45	90
Associate and joint venture	75	-	145
Entities under common control	35	30	64
Members of the management	-	1	1
Total purchased services and goods	155	76	300
Interest expense			
Parent company	14	-	-
Entities under common control	64	64	130
Other related parties	-	7	1
Total interest expense	78	71	131

BALANCES WITH RELATED PARTIES

in thousand euros

	30.06.2022	30.06.2021	31.12.2021
Receivables from related parties			
Loans granted (Notes 6,8)			
Joint ventures	3,000	1,115	1,115
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Associate and joint venture	4,209	270	1,924
Entities under common control	3,153	1,079	1,616
Members of the management	-	-	29
Total receivables and prepayments	7,366	1,353	3,573
Total receivables from related parties	10,366	2,468	4,688
Payables to related parties			
Lease liabilities (Note 12)			
Entities under common control	280	56	31
Short-term loans received (Note 12)			
Parent company	5,000	-	-
Other related parties	34	49	-
Total Short-term loans received	5,034	49	-
Payables and prepayments (Note 13)			
Parent company	18	9	9
Associate and joint venture	11	14	8
Entities under common control	2,455	56	2,446
Members of the management	64	-	40
Total payables and prepayments	2,548	79	2,503

	30.06.2022	30.06.2021	31.12.2021
Long-term loans received (Note 12)			
Entities under common control	6,000	6,000	6,000
Other related parties	-	56	-
Total long-term loans received	6,000	6,056	6,000
Other long-term payables (Note 15)			
Other related parties	254	338	262
Total payables to related parties	14,116	6,578	8,796

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 6 months of 2022 was EUR 1,887 thousand (6 months of 2021: EUR 972; 12 months of 2021: EUR 2,937 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 6 months of 2022, the Management Board members of major subsidiaries received EUR 4 thousand in compensation (6 months of 2021: EUR 68 thousand; 12 months of 2021: EUR 141 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as of 30.06.2022:

		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	-	-
Kristina Siimar	Member of the Supervisory Board	-	-
		12,774,321	72.17%

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

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

Shares held by members of the Management Board of AS Merko Ehitus as of 30.06.2022:

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

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	30.06.2022	30.06.2021	31.12.2021
Performance period's warranty to the customer	24,569	26,910	28,573
Tender warranty	12,150	640	31
Guarantee for warranty period	23,658	22,148	19,639
Prepayment guarantee	10,845	13,187	15,026
Payment guarantee	0	817	0
Contracts of surety	500	1,689	1,466
Total contingent liabilities	71,722	65,391	64,735

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

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

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

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

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

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

DEFINITION OF RATIOS

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