



AS MERKO EHITUS

GROUP

2023 9 months and III quarter consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2023 – 30.09.2023
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Management Board:	Andres Trink, Tõnu Toomik, Urmas Somelar
Auditor:	AS PricewaterhouseCoopers

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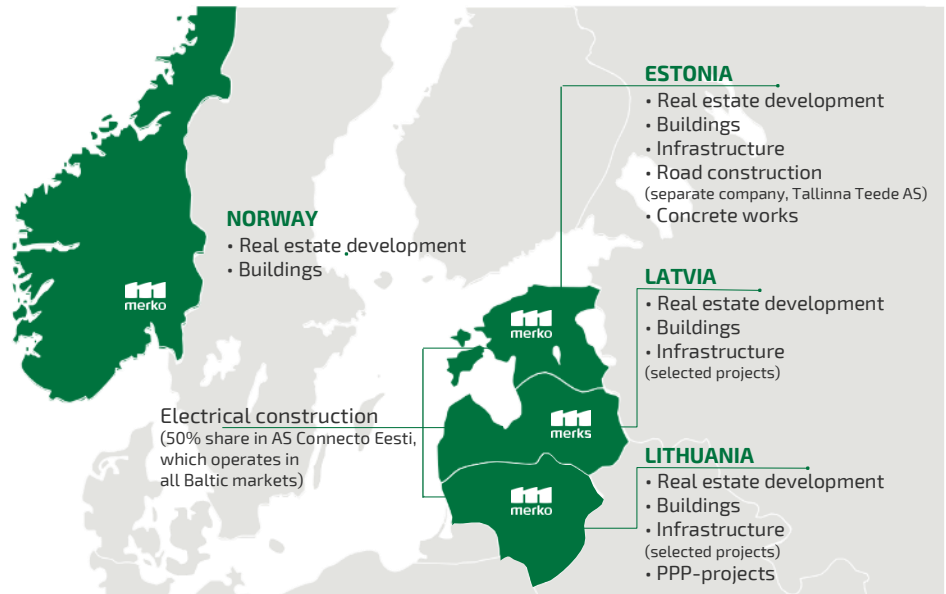
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BRIEF OVERVIEW OF THE GROUP

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

We create a better living environment and build the future.

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



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

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

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

SHARES

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

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

2022 KEY FIGURES

Revenue **409.6 million** euros Net profit **34.6 million** euros **661** employees





STRATEGY

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



MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

Q3 2023 revenue for Merko Ehitus was EUR 122 million and for the nine months was EUR 340 million. Net profit in Q3 was EUR 12.7 million and net profit for the nine months increased to EUR 32.1 million. Merko delivered 665 apartments and 22 commercial units to customers in the first nine months of 2023.

According to the management of Merko Ehitus, the Q3 and nine-month results were supported by delivery of presold apartments to customers in newly completed apartment developments. The Merko group has inventory of apartments that are under construction and presold is significantly smaller than in the past few years due to the recession and the slump in the real estate market and this will exert a negative impact on the group's results in coming years. The poor macroeconomic picture and general uncertainty did not improve in Q3 and investments into new development projects are still being curtailed. The outlook in this regard is also very weak, the economic outlook has deteriorated and the recovery has been deferred to the more distant future due to central bank interest rate policy, continuing inflation, unstable energy and tax policies and, above all, the geopolitical situation. Over nine months of 2023 the group has invested a total of EUR 73 million into ongoing development projects and acquisitions of new properties.

In the first nine months of 2023, the group companies signed new construction contracts worth EUR 379 million, which was 31% more than in the comparison period, and the balance of secured order-book grew by approximately 30% to EUR 449 million. The group's secured order-book continued growth in Q3 and is currently strong, which does partially counterbalance the impacts of the slumping apartment market on the group's construction volumes. Yet profitability of construction service is under constant strain and the risks are high, since in the medium to long term, cautious positions are predominant in markets and supply chains, and there is an extreme amount of uncertainty about the impacts of governments' economic and foreign policy measures. Therefore, the group's companies will have to devote great attention to managing the risks.

In the first nine months of the year, Merko delivered 665 apartments and 22 business premises. As of the end of Q3, the group's companies had 825 apartments on its balance sheet. About 40% of the apartments in the construction phase were covered by preliminary sale contracts. The largest apartment developments were Uus-Veerenni, Noblessner and Lahekalda in Tallinn, Erminurme in Tartu, Viesturdarzs, Mežpilseta and Magnolijas in Riga, and Vilneles Skverai in Vilnius.

In Q3 of 2023, the largest sites under construction in Estonia were the Rae and Pelgulinna state gymnasiums, Hampton by Hilton and Hyatt hotel buildings, Arter Quarter, the logistics centre for Tallinn Kaubamaja Group, the infrastructure along the south-eastern border of the Republic of Estonia, the renovation of Vana-Kalamaja Street, a tram line between Old City Harbour and Rail Baltica Ülemiste passenger terminal, and the first phase of Ülemiste terminal. In Latvia, the Elemental Business Centre office buildings were in progress. Projects in Lithuania were wind farm infrastructure works in Kelme and Pagėgiai regions, and various buildings and infrastructure for NATO training centres.

2023 9M
REVENUE
340 MILLION EUROS

PROFIT
BEFORE TAX
33.8 MILLION EUROS

OVERVIEW OF THE III QUARTER AND 9 MONTHS RESULTS

PROFITABILITY

2023 9 months' pre-tax profit was EUR 33.8 million and Q3 2023 was EUR 13.6 million (9M 2022: EUR 18.7 million and Q3 2022 was EUR 10.3 million), which brought the pre-tax profit margin to 10.0% (9M 2022: 7.0%).

Net profit attributable to shareholders for 9 months 2023 was EUR 32.1 million (9M 2022: EUR 17.0 million) and for Q3 2023 net profit attributable to shareholders was EUR 12.7 million (Q3 2022: EUR 9.8 million). 9 months net profit margin was 9.5% (9M 2022: 6.4%).

REVENUE

Q3 2023 revenue was EUR 122.5 million (Q3 2022: EUR 110.0 million) and 9 months' revenue was EUR 339.8 million (9M 2022: EUR 266.2 million). 9 months' revenue increased by 27.7% compared to same period last year. The share of revenue earned outside Estonia in 9 months 2023 was 34.5% (9M 2022: 53.4%).

SECURED ORDER BOOK

As of 30 September 2023, the group's secured order book was EUR 448.6 million (30 September 2022: EUR 341.0 million). In 9 months 2023, group companies signed contracts in the amount of EUR 379.4 million (9M 2022: EUR 290.4 million). In Q3 2023, new contracts were signed in the amount of EUR 124.7 million (Q3 2022: EUR 97.1 million).

REAL ESTATE DEVELOPMENT

In 9 months 2023, the group sold a total of 665 apartments; in 9 months 2022, the group sold 456 apartments. The group earned a revenue of EUR 106.1 million from sale of own developed apartments in 9 months 2023 and EUR 56.9 million in 9 months 2022. In Q3 of 2023 a total of 153 apartments were sold, compared to 242 apartments in Q3 2022, and earned a revenue of EUR 25.5 million from sale of own developed apartments (Q3 2022: EUR 29.8 million).

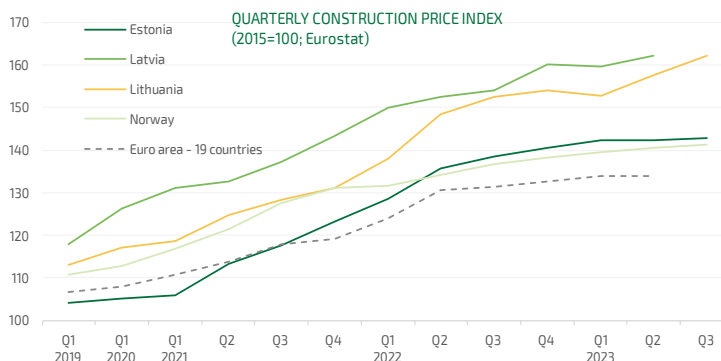
CASH POSITION

At the end of the reporting period, the group had EUR 31.3 million in cash and cash equivalents, and equity of EUR 198.4 million (49.7% of total assets). Comparable figures as of 30 September 2022 were EUR 22.2 million and EUR 166.6 million (40.9% of total assets), respectively. As of 30 September 2023, the group's net debt was EUR 28.4 million (30 September 2022: EUR 88.3 million).

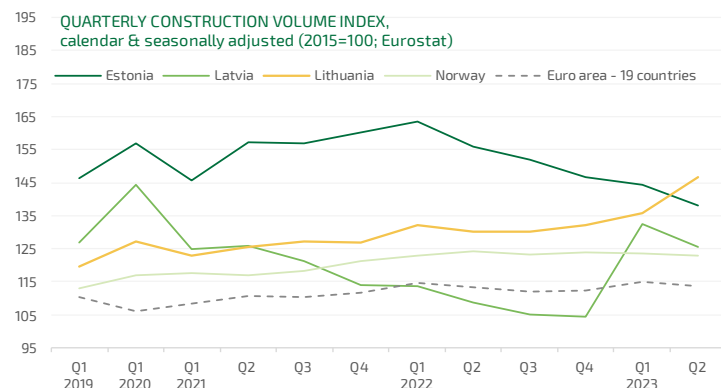
OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

CONSTRUCTION SERVICES

Construction prices are stabilizing at new levels. In line with our earlier assessments, these new levels shall display for some time lateral movements within statistical error margins, without a decisive change. In the longer term, we expect that pressures driving prices up will remain prevalent. While financial markets consider the rise in interest rates to have peaked, interest expenses are expected to remain higher, and this will push up the cost of construction machinery suppliers and material producers. The wage pressure that followed soaring inflation will also persist and the combined effect of various tax hikes and end of government relief measures with the broad-based rise in input cost will not allow construction prices to remain at current levels. Nor can we overlook the likely transformation of the effects from already launched Green Deal and expanding carbon trading into a new tidal wave of construction prices in 2026. The rise in efficiency stemming from advances in materials science and construction technology will likely not be able to offset the rise in workforce expenses and operating costs.



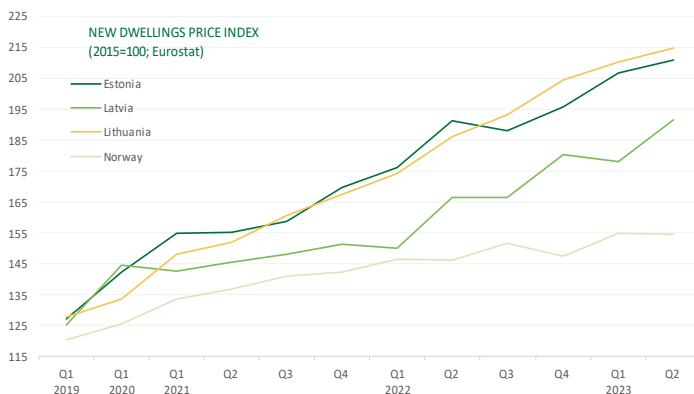
In our previous interim report, we were excessively positive in terms of potential for growth in construction volumes. In Estonia, construction volumes fell for the fifth quarter in a row in Q2, mainly stemming from continuing decline in residential and road construction volumes. Latvia was also not able to fulfil the expectations for continuing growth: the strong growth seen at the beginning of the year in renewable energy, military projects and Rail Baltica was not able to stave off a general downward correction in volumes in Q2. Although Q3 euro area statistics had not been published as of this writing, we have become more sceptical about growth in construction volumes. Although the public sector has been active in conducting renewable energy, military projects and Rail Baltica procurements, the actual works have started later and in a smaller volume than expected. We do not expect volumes to keep on significantly declining, but strong growth is unlikely as well, since the continued decline in residential construction volumes are holding back the overall result for the sector.



In terms of general longer-term outlooks, we have also become more sceptical, since the entire euro area has a weak economic outlook in the near future and the impacts from the Gaza war in addition to the Russian aggression against Ukraine will increase fragmentation of the world economy. Ever more obvious escalation between superpowers in dividing the spheres of influence is curtailing investments and trade; military conflicts are forcing the public sector to concentrate on ensuring vital services and defensive capability. The private sector is cautious about investing and there will be no growth in demand for housing development to be seen if the uncertainty continues.

DEVELOPMENT OF APARTMENTS

The decline in volumes of new residential units sold bottomed out in late 2022, but the hoped-for recovery has not taken place and solvent demand for new housing has remained modest. Transactions based on earlier contracts under the law of obligations are keeping the prices of new residential units statistically high, but nor do new transactions indicate any incipient thaw in prices that will go beyond ordinary sales discounts. We believe that the price rise on the new housing market has ended, and until the end of 2024 we will expect stable prices with insignificant statistical fluctuations. The next major factor that will propel housing market prices will likely be the implementation of higher energy performance requirements and impact of the solutions for renovation of existing residential buildings on the prices of such properties. On the new housing market, developers are rather keeping a low profile, and no major projects that outpace demand are being launched; thus, the existing demand-supply balance will be maintained with the low market activity.



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

	9M 2023	9M 2022	VARIANCE	Q3 2023	Q3 2022	VARIANCE	12M 2022
Revenue	208.7	185.8	+12.3%	87.7	70.8	+23.8%	246.9
% of total revenue	61.4%	69.8%		71.6%	64.4%		60.3%
Operating profit	11.6	4.6	+153.0%	6.9	2.6	+164.2%	8.5
Operating profit margin	5.6%	2.5%		7.9%	3.7%		3.4%

In the 9 months of 2023, the revenue of the construction service segment was EUR 208.7 million (9M 2022: EUR 185.8 million). The sales revenue of construction service has increased by 12.3% compared to the same period last year. The construction service segment revenue for 9 months 2023 made up 61.4% of the group's total revenue (9M 2022: 69.8%). In this segment, the group earned an operating profit of EUR 11.6 million for 9 months (9M 2022: EUR 4.6 million). The operating profit margin was 5.6% (9M 2022: 2.5%). The operating profit was mainly affected by expiration of the old fixed-price contracts, the decrease of their share in turnover of the reporting period.

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

REAL ESTATE DEVELOPMENT

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

million EUR

	9M 2023	9M 2022	VARIANCE	Q3 2023	Q3 2022	VARIANCE	12M 2022
Revenue	131.2	80.4	+63.0%	34.8	39.2	-11.3%	162.7
incl. revenue from sale of apartments	106.1	56.9		25.5	29.8		127.0
incl. construction service to joint venture projects	20.0	21.6		6.8	8.4		32.0
% of total revenue	38.6%	30.2%		28.4%	35.6%		39.7%
Operating profit	20.5	15.9	+28.5%	5.7	7.9	-27.5%	30.3
Operating profit margin	15.6%	19.8%		16.5%	20.2%		18.6%

In 9 months 2023, the group sold a total of 665 apartments (incl. 104 apartments in a joint venture) and 22 commercial premises (incl. 8 in a joint venture); in 9 months 2022, 456 apartments and 4 commercial premises. The group earned a revenue of EUR 106.1 million (VAT not included) from sale of developed apartments in 9 months 2023 and EUR 56.9 million (VAT not included) in 9 months 2022. In the revenue and operating profit of the real estate development segment also are reflected the sales of commercial premises and parking spaces of the real estate development projects and the result of public-private-partnership contracts, based on which the group companies provide construction service and property management services.

In the case of development projects in joint venture, the real estate development business segment revenue reflects the construction services provided to the project by the group and the operating profit includes the realised construction profit for the

period. The profit from development gained from sale of those apartments to end-customers is recognised in the group's reporting based on the equity method.

In 9 months of 2023, real estate development segment revenues increased by 63.0% compared to the same period last year and formed 38.6% of the group's total revenue (9 months of 2022: 30.2%).

The segment's operating profit for the 9 months of 2023 amounted to EUR 20.5 million (9 months of 2022: EUR 15.9 million) and the operating profit margin was 15.6% (9 months of 2022: 19.8%). 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 9 months of 2023, the group continued with the construction of the above-ground volumes of stage V of Lahekalda residential development project, but apartments are not accounted as ready-to-sell apartments. The decision to complete the construction will be taken depending on the market situation (9 months of 2022: launched the construction of 278 apartments). In the 9 months, the group invested a total of EUR 64.7 million (9 months of 2022: EUR 93.7 million) in the ongoing development projects.

After the reporting date, the group has started the construction of 47 apartments in the second stage of Mežpilsēta residential project in Riga and made the decision to complete the construction of Lahekalda project stage V.

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 September 2023, the group's inventories included land plots with development potential, where the construction works have not started, in the amount of EUR 89.6 million (30.09.2022: EUR 90.3 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	30.09.2023	30.09.2022	31.12.2022
Estonia	32.5	26.7	27.6
Latvia	24.1	27.0	23.6
Lithuania	31.5	35.0	31.3
Norway	1.5	1.6	1.6
Total	89.6	90.3	84.1

In 9 months of 2023, the group has obtained new land plots for real estate development purposes at acquisition cost of EUR 5.7 million (9 months of 2022: in the amount of EUR 24.9 million).

SECURED ORDER BOOK

As of 30 September 2023, the group's secured order book amounted to EUR 448.6 million, compared to EUR 341.0 million as of 30 September 2022, having increased by 31.5% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 9 months of 2023, EUR 379.4 million worth of new contracts were signed, which is increased by 30.6% compared to the same period of the previous year (9 months of 2022: EUR 290.4 million). The value of new contracts signed in the third quarter of 2023 amounted to EUR 124.7 million; in the third quarter of 2022 the value of new contracts signed amounted to EUR 97.1 million.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE THIRD QUARTER OF 2023

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Construction contract for the construction of foundations for 40 wind turbines, drainage and roads in a windfarm in the Pagėgiai municipality	Lithuania	End of 2025	80.0
Construction contract for the construction of a logistics centre in Maardu	Estonia	Autumn of 2024	20.0

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

- On 5 October 2023, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and Estma HPT OÜ entered into a contract for the construction of the second stage of hotel and office building located at Sadama 4, Tallinn. The contract value is approximately EUR 13.1 million and the construction works is scheduled to be completed in November 2025.
- On 13 October 2023 UAB Merko Statyba, part of AS Merko Ehitus group, and UAB WINDLIT entered into the contract to perform the construction of foundations for 28 wind turbines, electrical cables and roads in a windfarm located in the Kelmė district, Lithuania. The contract value exceeds EUR 45 million and the project is scheduled to be completed in the second quarter of 2025.
- On 31 October 2023, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, signed a contract with the Centre for Defence Investment for the construction of barracks in the Āmari military campus of the Defence Forces in Harju county. The contract value is approximately EUR 25 million and the construction is scheduled to be completed in December 2024.

As of 30 September 2023, the private sector orders accounted for approximately 52% of the total balance in the group's secured order book (30.09.2022: approximately 65%). The private sector is rather taking a wait-and-see approach when making new

investments, assessing the profitability of investments in the environment of higher interest rates and a weaker economy. Planned high-priority investments in the public sector will continue, as the budgetary financing is less affected by the rise in interest rates.

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

CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 31.3 million (30.09.2022: EUR 22.2 million). As the group's cash position continues to be strong, the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As of the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 57.0 million, of which EUR 50.0 million was unused (30.09.2022: EUR 49.0 million, of which EUR 21.1 million was unused).

The 9-month cash flow from operating activity was positive at EUR 63.7 million (9 months of 2022: negative EUR 55.9 million), cash flow from investing activity was positive at EUR 0.8 million (9 months of 2022: negative EUR 3.4 million) and the cash flow from financing activity was negative at EUR 50.8 million (9 months of 2022: positive EUR 36.6 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 32.4 million (9 months of 2022: positive effect of EUR 20.6 million), from the changes in receivables and liabilities related to construction contracts of EUR 21.2 million (9 months of 2022: negative effect of EUR 4.1 million), from the change in trade and other payables related to operating activities of EUR 7.1 million (9 months of 2022: positive effect of EUR 33.3 million), from the change in the provisions of EUR 0.9 million (9 months of 2022: negative effect of EUR 3.2 million) as well from the change in inventories of EUR 15.7 million (9 months of 2022: negative effect of EUR 80.1 million). The cash flows from inventories are mainly affected by the construction and sales cyclicity of developed apartments: the negative cash flow is due to the increase in the volume of inventories related to the construction of apartments, then the positive cash flow is due to the decrease in inventories at the sale of the apartments. The negative effects to cash flow from operating activities came from the changes in trade and other receivables related to operating activities of EUR 7.9 million (9 months of 2022: negative effect of EUR 17.8 million). Interest was paid EUR 2.6 million (9 months of 2022: EUR 1.0 million) and corporate income tax was paid at EUR 2.8 million (9 months of 2022: EUR 2.7 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 (15.0% as of 30.09.2023; 27.1% as of 30.09.2022, 23.7% as of 31.12.2022).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 1.3 million, which is mainly related to the renewal of equipment in the field of construction (9 months of 2022 EUR 0.9 million) and the positive effect came from the sale of non-current assets in the amount of EUR 1.1 million (9 months of 2022: EUR 0.4 million) and EUR 1.2 million from the dividends received from the joint venture (9 months of 2022: no dividends received).

In cash flows from financing, the larger negative factors were dividend payment of EUR 17.7 million (9 months of 2022: EUR 17.7 million), the repayments of lease liabilities in the amount of EUR 1.0 million (9 months of 2022: net negative cash flow of EUR 0.8 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 1.2 million (9 months of 2022: negative cash flow in the net amount of EUR 1.1 million) and from the net change in loans received and repaid in connection with development projects in the amount of EUR 13.2 million (9 months of 2022: net positive cash flow of EUR 22.1 million), which resulted from the repayment of loans taken for residential development projects, as well from the change in loans related to other activities in the amount of EUR 17.8 million (9 months of 2022: net positive cash flow of EUR 35.9 million).

The Q3 2023 cash flow from operating activity was positive at EUR 40.0 million (Q3 2022: negative EUR 14.4 million), cash flow from investing activity was negative at EUR 0.2 million (Q3 2022: negative EUR 0.1 million) and the cash flow from financing activity was negative at EUR 18.3 million (Q3 2022: positive EUR 19.9 million).

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		9M 2023	9M 2022	9M 2021	Q3 2023	Q3 2022	Q3 2021	12M 2022
Revenue	million EUR	339.8	266.2	226.5	122.5	110.0	80.7	409.6
Gross profit	million EUR	43.2	31.1	26.5	17.4	13.8	9.2	53.7
Gross profit margin	%	12.7	11.7	11.7	14.2	12.5	11.4	13.1
Operating profit	million EUR	30.1	18.5	16.9	12.0	9.9	6.0	35.0
Operating profit margin	%	8.8	7.0	7.5	9.8	9.0	7.4	8.6
Pre-tax profit	million EUR	33.8	18.7	16.6	13.6	10.3	6.1	37.1
Pre-tax profit margin	%	10.0	7.0	7.3	11.1	9.4	7.5	9.1
Net profit	million EUR	32.0	16.8	15.2	12.7	9.6	5.5	34.1
attributable to equity holders of the parent	million EUR	32.1	17.0	15.3	12.7	9.8	5.5	34.6
attributable to non-controlling interest	million EUR	(0.1)	(0.3)	(0.1)	0.0	(0.2)	0.0	(0.5)
Net profit margin	%	9.5	6.4	6.7	10.4	8.9	6.8	8.5
Other income statement indicators		9M 2023	9M 2022	9M 2021	Q3 2023	Q3 2022	Q3 2021	12M 2022
EBITDA	million EUR	32.4	20.6	18.8	12.8	10.7	6.6	37.9
EBITDA margin	%	9.5	7.8	8.3	10.5	9.7	8.2	9.3
General expense ratio	%	4.7	5.4	5.2	4.5	4.2	5.2	4.9
Labour cost ratio	%	10.2	11.6	11.8	9.5	9.2	11.3	10.3
Revenue per employee	thousand EUR	521	404	347	188	167	124	623

OTHER SIGNIFICANT INDICATORS		30.09.2023	30.09.2022	30.09.2021	31.12.2022
Return on equity	%	26.2	18.7	16.6	20.4
Return on assets	%	13.0	8.5	9.2	9.2
Return on invested capital	%	20.5	14.6	15.1	15.1
Assets	million EUR	398.9	407.3	296.3	387.4
Equity	million EUR	198.0	166.1	154.9	183.7
Equity attributable to equity holders of the parent	million EUR	198.4	166.6	150.8	184.2
Equity ratio	%	49.7	40.9	50.9	47.5
Debt ratio	%	15.0	27.1	13.6	23.7
Current ratio	times	2.0	1.8	2.2	2.0
Quick ratio	times	0.7	0.5	0.8	0.6
Accounts receivable turnover	days	36	31	29	33
Accounts payable turnover	days	39	56	37	55
Average number of employees	people	652	659	652	657
Secured order book	million EUR	448.6	341.0	314.4	297.2

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 September 2023, a provision has been set up at the group in the amount of EUR 2.1 million for covering potential claims and legal costs (30.09.2022: no provision has been formed).

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

Estonia

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

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

Latvia

Latvian Competition Council administrative proceeding

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

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

The last court session to discuss the content of the appeal claim took place on 26 September 2023. The court is expected to announce its judgement within 2023. Regardless of in whose favour the appeal court judges, there is a high probability that the decision will be appealed again at the cassation level, as there are several principled positions from all parties of the dispute.

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

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

SIA Ostas Celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas Celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas Celtnieks" according to its share in the consortium. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. In July 2022, the court dismissed the claim on the ground that the claim had been submitted by an incorrect person (a formal legal person of the consortium). On 25 October 2022, SIA Merks lodged an appeal which was accepted. In July 2023, SIA Merks received a positive judgment from the regional

court, and it has entered into force. Simultaneously SIA "Ostas Celtnieks" has been declared insolvent, SIA Merks was recognized as a creditor in the insolvency proceeding of SIA "Ostas Celtnieks". The impact of this requirement has not been taken into account in the group's reporting.

Salaspils County Council

On 29 July 2022, SIA Merks filed a lawsuit against the Salaspils County Government in the Court of Economic Affairs in order to find a solution to the disagreements arising from the interpretation of the Salaspils kindergarten construction contract. Salaspils county government filed a counterclaim. At the end of 2022, SIA Merks signed the Delivery-acceptance deed and based on the expert decision, submitted a claim to the court against the Salaspils county government in the amount of EUR 1,635 thousand (EUR 1,304 thousand being the principal claim and EUR 331 thousand late interest). The next court hearing is scheduled for 6 November 2023. The group has not made any provisions as of the date of the report.

SIA Hanza 14

In August 2022, the Arbitration Institute of the Stockholm Chamber of Commerce (Stockholm Arbitration) accepted SIA Hanza 14's application for annulment of the non-entry into force of the construction contract signed on 16 June 2020 and for SIA Merks to fulfil its contractual obligations. The non-entry into force of the construction contract was announced by Merko Ehitus with a [stock exchange announcement](#) on 28 August 2020. SIA Merks received a statement of claim from SIA Hanza 14 to which SIA Merks filed a defence statement to the court. SIA Merks continues to maintain that the contract became null and void as a result of the preconditions set forth in the construction contract not being met. The imperative condition which constituted grounds for rendering the contract null and void provided for the expiry of the contract without legal consequences or obligations for parties, much as if it had not been signed in the first place. Accordingly, the group has not made any provision to cover theoretical claims. The arbitration court is expected to declare its judgement in December 2023.

Impact of the war in Ukraine

More than a year and a half has passed since the start of Russia's war of aggression in Ukraine. Merko Ehitus Group has assessed the direct effects of the war to remain below the threshold of significance. However, in the absence of direct effects, indirect effects continue to occur. Sanctions, inflation triggered by the price increase of energy carriers and logistics chains led to a general increase in input prices by approximately 30-35% in the last 7 quarters. It should be noted that a complete distinction between the effects of the Covid pandemic and the effects of war is not possible. At the same time, the group has been able to transfer this price increase to the buyers of services and products for the most part, and no permanent impact on the group's business activities or pre-tax profit has been observed.

The war continues to have a negative impact on the group's economic environment, both through the permanent uncertainty of customers and the decrease in the pace of apartment sales. The negative effect caused by the market contraction cannot be passed on to anyone. However, it is not correct to present a negative overall economic effect as an effect of the war in Ukraine.

EMPLOYEES AND LABOUR COSTS

As of 30 September 2023, Merko Ehitus group employed 663 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 12 (-1.8%). The number of employees decreased in Latvia and Estonia 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 9 months 2023, the labour cost was EUR 34.6 million (9 months 2022: EUR 30.8 million), which increased by 12.3% compared to the same period previous year, while the labour cost ratio decreased by 1.4 pp from 11.6% to 10.2% in comparable periods.

During 9 months of 2023, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 7.7 million in labour taxes in Estonia, being one of the largest labour tax payer in the construction sector (9 months 2022: EUR 7.0 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

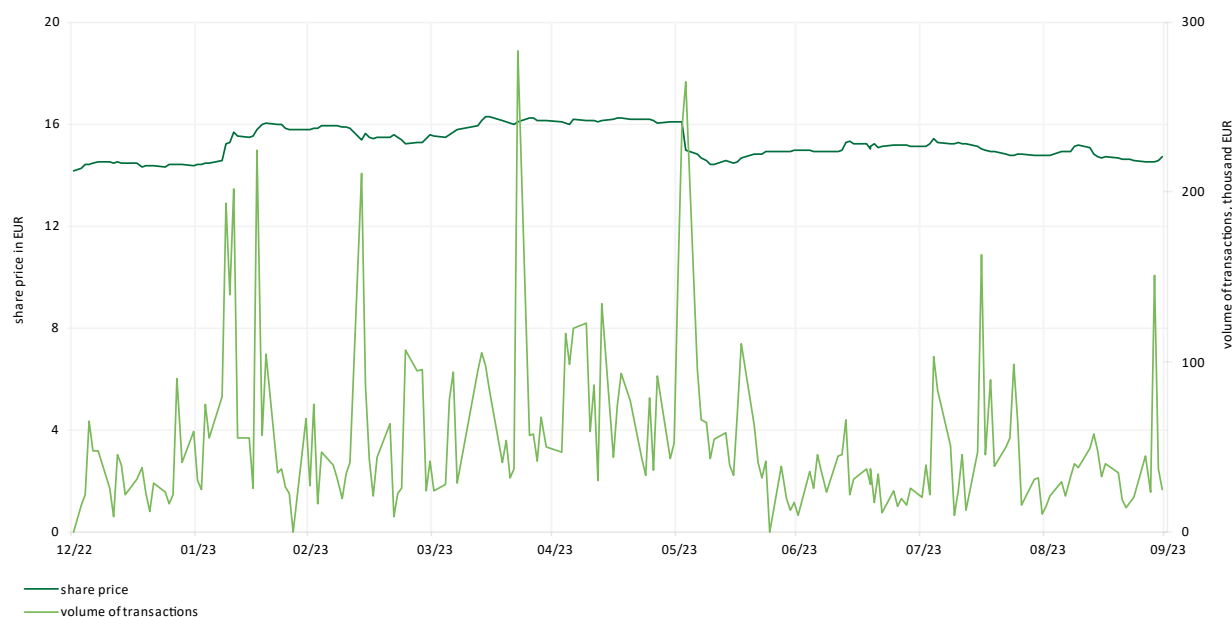
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As of 30 September 2023, the company has 17,700,000 shares. The number of shares has not changed during 2023.

A total of 23,673 transactions were conducted with the shares of Merko Ehitus in 9 months of 2023, with 0.68 million shares (3.9% of total shares) traded, generating a turnover of EUR 10.5 million (comparable figures in 9 months 2022 were accordingly: 35,003 transactions with 1.09 million shares traded (6.2% of total shares), generating a turnover of EUR 16.4 million). The lowest value-per-share transaction was recorded at the price of EUR 14.14 and the highest at EUR 16.36 per share (9 months of 2022: EUR 11.60 and EUR 16.96, accordingly). On 30 September 2023, the closing price of the share was EUR 14.70 (30.09.2022: EUR 12.30). As of 30 September 2023, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 260.2 million, which has increased by 19.5% compared to the end of the equivalent period of the prior year (30.09.2022: EUR 217.7 million).

	30.09.2023	30.09.2022	30.09.2021	31.12.2022
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	1.82	0.96	0.86	1.96
Equity per share, euros	10.72	9.33	8.56	9.57
P/B ratio	1.37	1.32	1.73	1.48
P/E ratio	5.23	7.05	10.40	7.24
Market value, million EUR	260.2	217.7	262.0	250.6

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 2023



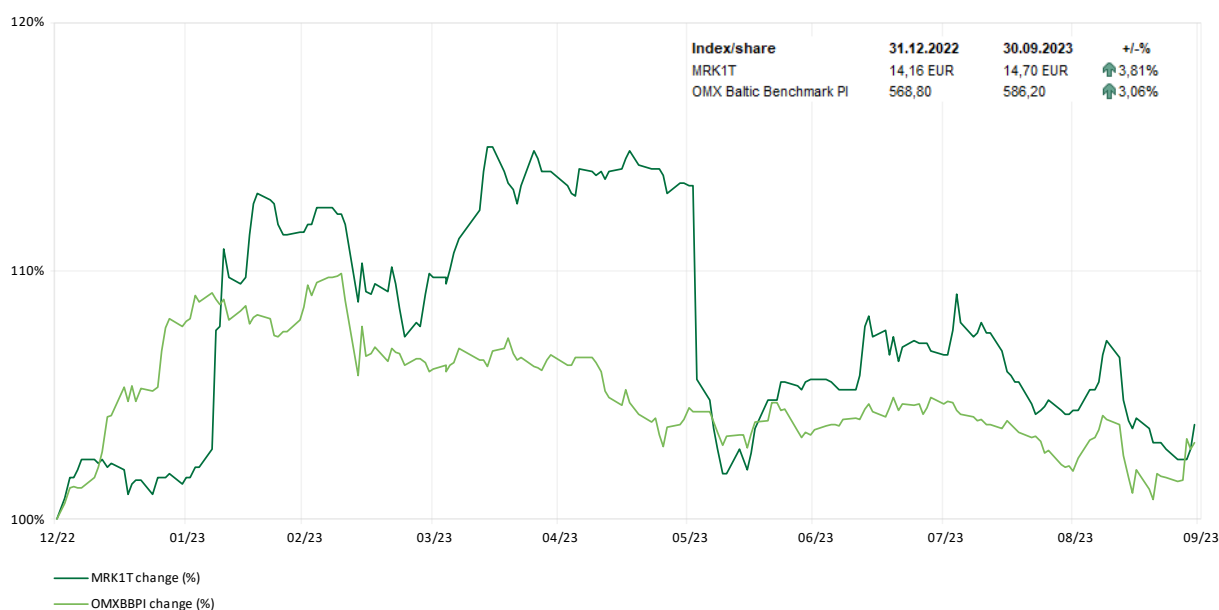
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS OF 30.09.2023

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.01%	12,742,686	71.99%
100,001 – 1,000,000	6	0.05%	1,289,634	7.29%
10,001 – 100,000	47	0.37%	939,534	5.31%
1,001-10,000	551	4.29%	1,493,837	8.44%
101-1,000	2,960	23.06%	983,931	5.56%
1-100	9,268	72.22%	250,378	1.41%
Total	12,833	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS OF 30.09.2023 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 30.09.2023	% OF TOTAL 30.06.2023	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	427,250	2.41%	2.41%	1,000
Firebird Republics Fund Ltd	319,586	1.81%	1.81%	-
Firebird Avrora Fund Ltd	190,117	1.07%	1.05%	3,756
OÜ Alar Invest	136,000	0.77%	0.00%	136,000
Clearstream Banking AG	112,960	0.64%	0.64%	109
Firebird Fund L.P.	103,721	0.59%	0.59%	-
Siseinfo OÜ	100,000	0.56%	0.56%	-
Hans Palla	54,000	0.31%	0.31%	-
Alforme OÜ	50,000	0.28%	0.28%	-
Total largest shareholders	14,236,320	80.43%	79.64%	140,865
Total other shareholders	3,463,680	19.57%	20.36%	(140,865)
Total	17,700,000	100%	100%	-

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



DIVIDENDS AND DIVIDEND POLICY

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

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

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

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

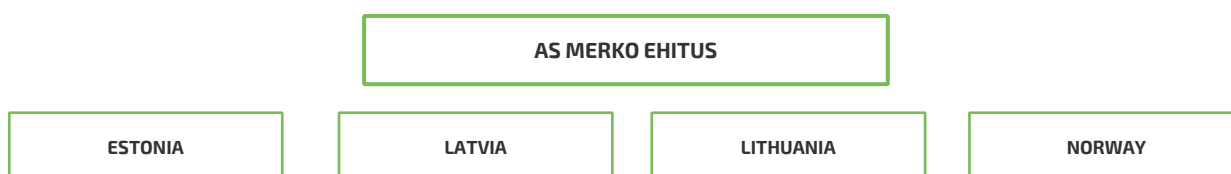
AS Merko Ehitus operates as a holding company for group of companies in Estonia, Latvia, Lithuania and Norway that offer complete solutions in the field of construction and real estate development. The group's largest companies are AS Merko Ehitus Eesti (100%), Tallinna Teede AS (100%), SIA Merks (100%),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

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

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

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

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



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

GROUP'S LEGAL STRUCTURE

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

Changes in the legal structure of the group

On 22 December 2022, AS Merko Ehitus management board decided to start liquidation procedures of 100% owned subsidiaries OY Merko Finland (Finland, construction and development) and PS "Merko Merks" (Latvia, joint offers for construction), due to the lack of activity in those companies. PS "Merko Merks" was liquidated and deleted from the Latvian business register on 10 March 2023. OY Merko Finland liquidated on 29 September 2023.

At the same time, it was decided to establish construction company Merko Būve in Latvia, a subsidiary owned 100% by the group, in order to strengthen specialisation and brand unification. On 13 January 2023, SIA Merko Būve was registered in Latvian Business Register.

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

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

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

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

On 14 July 2023, Merko Investments AS, fully owned subsidiary of AS Merko Ehitus, acquired a 100% stake in Merko Bygg AS through recapitalization, in which the minority shareholders renounced their participation. The corresponding entry was made in the register on 6 October 2023.

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

On 14 August 2023, AS Merko Ehitus established a 100% subsidiary OÜ Merko Kodud in apartment development segment.

TRANSACTIONS AFTER THE BALANCE SHEET DATE

On 5 October 2023 AS Merko Ehitus' 100% subsidiaries AS Merko Ehitus Eesti and OÜ Merko Kodud signed a notarised division agreement, according to which AS Merko Ehitus Eesti transfers the assets and liabilities related to property development activities to OÜ Merko Kodud. The purpose of the division is to align legal structure with structure of the business segments of the AS Merko Ehitus group and harmonize the structure across the home markets of Merko Ehitus. The balance sheet date of the division is 1 January 2024. The division enters into force during 2024 with an entry in the business register.

GENERAL MEETING OF SHAREHOLDERS

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

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

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

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

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

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

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

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

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

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

SUPERVISORY BOARD

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

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

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

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

MANAGEMENT BOARD

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

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

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

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

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

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

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

Changes in the management of group subsidiaries

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

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

The Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Members of the Management Board, Mr. Jaan Mäe and Mr. Veljo Viitmann from 1 January 2024 for three years. The Management Board of AS Merko Ehitus Eesti will continue in a three-member composition: Mr. Ivo Volkov (The Chairman), Mr. Jaan Mäe and Mr. Veljo Viitmann.

MANAGEMENT BOARD'S DECLARATION

Members of the Management Board of AS Merko Ehitus declare and confirm that the consolidated unaudited interim report for the 9 months of 2023, which consists of the management report and the interim financial statements, prepared according to the current International Financial Reporting Standards as adopted by the European Union, provides, to the best of their knowledge, a true and fair view of the development of business operations, assets, liabilities, financial position, results of the operations, cash flows, and profit or loss of AS Merko Ehitus and the consolidated undertakings as a whole, includes a description of the principal risks and uncertainties, and reflects transactions with related parties. The parent company and the companies, which are part of the consolidation group, are going concerns.

Andres Trink	Chairman of the Management Board	02.11.2023
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Tõnu Toomik	Member of the Management Board	02.11.2023
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Urmas Somelar	Member of the Management Board	02.11.2023
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INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2023 9 months	2022 9 months	2023 III quarter	2022 III quarter	2022 12 months
Revenue	2	339,838	266,206	122,491	110,008	409,633
Cost of goods sold	3	(296,642)	(235,123)	(105,114)	(96,206)	(355,975)
Gross profit		43,196	31,083	17,377	13,802	53,658
Marketing expenses		(3,013)	(2,945)	(918)	(776)	(4,077)
General and administrative expenses		(12,896)	(11,411)	(4,635)	(3,889)	(15,860)
Other operating income		3,399	2,426	621	1,004	3,144
Other operating expenses		(614)	(647)	(467)	(192)	(1,834)
Operating profit		30,072	18,506	11,978	9,949	35,031
Finance income/costs		3,765	168	1,639	361	2,067
incl. finance income/costs from joint ventures		6,061	1,093	2,242	765	3,516
interest expense		(2,011)	(670)	(674)	(296)	(1,180)
foreign exchange gain (loss)		(192)	(152)	98	(85)	(138)
other financial income (expenses)		(93)	(103)	(27)	(23)	(131)
Profit before tax		33,837	18,674	13,617	10,310	37,098
Corporate income tax expense		(1,827)	(1,911)	(898)	(735)	(2,995)
Net profit for financial year		32,010	16,763	12,719	9,575	34,103
incl. net profit attributable to equity holders of the parent		32,148	17,023	12,698	9,821	34,640
net profit attributable to non-controlling interest		(138)	(260)	21	(246)	(537)
Other comprehensive income, which can subsequently be classified in the income statement						
Currency translation differences of foreign entities		(16)	11	(88)	23	30
Comprehensive income for the period		31,994	16,774	12,631	9,598	34,133
incl. net profit attributable to equity holders of the parent		32,116	17,020	12,626	9,831	34,648
net profit attributable to non-controlling interest		(122)	(246)	5	(233)	(515)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	1.82	0.96	0.72	0.55	1.96

The notes set out on pages 25-38 are an integral part of these interim financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	30.09.2023	30.09.2022	31.12.2022
ASSETS				
Current assets				
Cash and cash equivalents	5	31,282	22,200	17,665
Trade and other receivables	6	86,895	72,295	77,959
Prepaid corporate income tax		2	5	38
Inventories	7	206,603	243,222	225,661
		324,782	337,722	321,323
Non-current assets				
Investments in joint ventures		17,756	10,472	12,895
Other shares and securities		80	-	-
Other long-term loans and receivables	8	21,104	28,323	22,982
Deferred income tax assets		1,852	1,155	693
Investment property	9	15,534	11,511	11,485
Property, plant and equipment	10	17,238	17,527	17,452
Intangible assets	11	508	592	582
		74,072	69,580	66,089
TOTAL ASSETS		398,854	407,302	387,412
LIABILITIES				
Current liabilities				
Borrowings	12	23,325	60,034	49,687
Payables and prepayments	13	124,285	119,251	96,248
Income tax liability		1,846	1,830	1,241
Short-term provisions	14	10,268	5,584	9,820
		159,724	186,699	156,996
Non-current liabilities				
Long-term borrowings	12	36,377	50,469	42,236
Deferred income tax liability		1,878	1,671	2,355
Other long-term payables	15	2,841	2,377	2,133
		41,096	54,517	46,724
TOTAL LIABILITIES		200,820	241,216	203,720
EQUITY				
Non-controlling interests		(380)	(473)	(495)
Equity attributable to equity holders of the parent				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	793	793
Currency translation differences		(815)	(794)	(783)
Retained earnings		190,507	158,631	176,248
		198,414	166,559	184,187
TOTAL EQUITY		198,034	166,086	183,692
TOTAL LIABILITIES AND EQUITY		398,854	407,302	387,412

The notes set out on pages 25-38 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 31.12.2021	7,929	793	(791)	159,308	167,239	(227)	167,012
Profit (loss) for the reporting period	-	-	-	17,023	17,023	(260)	16,763
Other comprehensive income	-	-	(3)	-	(3)	14	11
Total comprehensive income (loss) for the reporting period	-	-	(3)	17,023	17,020	(246)	16,774
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	-	-	-	(17,700)	(17,700)	-	(17,700)
Balance as of 30.09.2022	7,929	793	(794)	158,631	166,559	(473)	166,086
Balance as at 31.12.2022	7,929	793	(783)	176,248	184,187	(495)	183,692
Profit (loss) for the reporting period	-	-	-	32,148	32,148	(138)	32,010
Other comprehensive income	-	-	(32)	-	(32)	16	(16)
Total comprehensive income (loss) for the reporting period	-	-	(32)	32,148	32,116	(122)	31,994
Increase of share capital by non-monetary contribution and buyout of non-controlling interest (Note 16)	-	-	-	(189)	(189)	237	48
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	-	-	-	(17,889)	(17,889)	237	(17,652)
Balance as at 30.09.2023	7,929	793	(815)	190,507	198,414	(380)	198,034

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

The notes set out on pages 25-38 are an integral part of these interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2023 9 months	2022 9 months	2022 12 months
Cash flows from operating activities				
Operating profit		30,072	18,506	35,031
Adjustments:				
Depreciation and impairment		2,322	2,141	2,880
(Profit)/loss from sale of non-current assets		(838)	(279)	(313)
Change in receivables and liabilities related to construction contracts		21,200	(4,091)	(1,066)
Interest income from operating activities		(1,642)	(1,679)	(2,260)
Change in provisions		899	(3,199)	1,540
Change in trade and other receivables related to operating activities		(7,937)	(17,847)	(22,024)
Change in inventories		15,653	(80,098)	(62,360)
Change in trade and other payables related to operating activities		7,136	33,308	8,911
Interest received		2,505	1,215	2,188
Interest paid		(2,648)	(1,024)	(1,652)
Other finance income (costs)		(219)	(143)	(133)
Corporate income tax paid		(2,831)	(2,734)	(2,529)
Total cash flows from operating activities		63,672	(55,924)	(41,787)
Cash flows from investing activities				
Acquisition of subsidiaries		-	(695)	(695)
Acquisition of joint venture		-	(2,236)	(2,236)
Purchase of investment property		(216)	-	-
Purchase of property, plant and equipment (excl. leased assets)		(1,128)	(763)	(1,117)
Proceeds from sale of property, plant and equipment		1,083	425	343
Purchase of intangible assets		(142)	(99)	(141)
Interest received		24	-	1
Dividends received		1,200	-	560
Total cash flows from investing activities		821	(3,368)	(3,285)
-				
Cash flows from financing activities				
Proceeds from borrowings		46,027	117,561	147,990
Repayments of borrowings		(78,196)	(60,667)	(109,484)
Repayments of lease liabilities		(962)	(792)	(1,108)
Buyout of non-controlling interest		-	(1,886)	(1,886)
Dividends paid		(17,679)	(17,661)	(17,661)
Total cash flows from financing activities		(50,810)	36,555	17,851
Net increase/decrease in cash and cash equivalents		13,683	(22,737)	(27,221)
Cash and cash equivalents at the beginning of the period	5	17,665	44,930	44,930
Effect of exchange rate changes		(66)	7	(44)
Cash and cash equivalents at the end of the period	5	31,282	22,200	17,665

The notes set out on pages 25-38 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 9 months 2023 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2022 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2022 audited annual report and 2022 9 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 9 months 2023 presents a true and fair view of the group's economic results based on the principle of going concern. The influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 2 OPERATING SEGMENTS

in thousand euros

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

Reporting of the group's operations are segmented as:

- construction service,
- real estate development.

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

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

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

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

2023 9 months	Construction service	Real estate development	Total segments
Revenue	209,530	163,757	373,287
Inter-segment revenue	(858)	(32,591)	(33,449)
Revenue from clients	208,672	131,166	339,838
incl. timing of revenue recognition at a point in time	730	109,492	110,222
timing of revenue recognition over time	207,942	21,674	229,616
Operating profit (loss)	11,618	20,500	32,118
Profit (loss) before tax	14,447	22,072	36,519
incl. interest income from operating activities	-	1,642	1,642
depreciation	(1,778)	(544)	(2,322)
impairment of inventories	-	(2,200)	(2,200)
recognition of provisions	(3,437)	(635)	(4,072)
profit from joint ventures	3,155	2,906	6,061
other finance income (costs)	(134)	(1,280)	(1,414)
incl. interest income	17	-	17
interest expenses	(73)	(1,093)	(1,166)
Assets 30.09.2023	107,196	257,498	364,694
incl. joint ventures	11,621	6,135	17,756

2022 9 months	Construction service	Real estate development	Total segments
Revenue	186,548	123,835	310,383
Inter-segment revenue	(789)	(43,388)	(44,177)
Revenue from clients	185,759	80,447	266,206
incl. timing of revenue recognition at a point in time	883	57,573	58,456
timing of revenue recognition over time	184,876	22,874	207,750
Operating profit (loss)	4,592	15,950	20,542
Profit (loss) before tax	5,555	15,380	20,935
incl. interest income from operating activities	21	1,658	1,679
depreciation	(1,710)	(431)	(2,141)
recognition of provisions	(5,701)	(296)	(5,997)
profit (loss) from joint ventures	1,127	(34)	1,093
other finance income (costs)	(73)	(517)	(590)
incl. interest expenses	(36)	(343)	(379)
Assets 30.09.2022	80,170	289,310	369,480
incl. joint ventures	8,179	2,293	10,472

2023 III quarter	Construction service	Real estate development	Total segments
Revenue	88,040	43,923	131,963
Inter-segment revenue	(316)	(9,156)	(9,472)
Revenue from clients	87,724	34,767	122,491
incl. timing of revenue recognition at a point in time	346	27,369	27,715
timing of revenue recognition over time	87,378	7,398	94,776
Operating profit (loss)	6,941	5,729	12,670

2023 III quarter	Construction service	Real estate development	Total segments
Profit (loss) before tax	8,519	6,032	14,551
incl. interest income from operating activities	-	523	523
depreciation	(658)	(196)	(854)
recognition of provisions	(1,603)	393	(1,210)
profit from joint ventures	1,659	583	2,242
other finance income (costs)	(12)	(269)	(281)
incl. interest income	17	-	17
interest expenses	(30)	(317)	(347)
Assets' change in III quarter	19,924	4,947	24,871
incl. joint ventures	1,658	584	2,242

2022 III quarter	Construction service	Real estate development	Total segments
Revenue	71,192	57,024	128,216
Inter-segment revenue	(360)	(17,848)	(18,208)
Revenue from clients	70,832	39,176	110,008
incl. timing of revenue recognition at a point in time	258	30,341	30,599
timing of revenue recognition over time	70,574	8,835	79,409
Operating profit (loss)	2,626	7,898	10,524
Profit (loss) before tax	3,338	7,651	10,989
incl. interest income from operating activities	-	574	574
depreciation	(588)	(150)	(738)
recognition of provisions	(1,544)	(171)	(1,715)
profit from joint ventures	774	(9)	765
other finance income (costs)	(50)	(224)	(274)
incl. interest expenses	(13)	(167)	(180)
Assets' change in III quarter	3,221	21,076	24,297
incl. joint ventures	773	(8)	765

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

In addition to the segment assets, as at 30.09.2023 the group holds assets in the amount of EUR 34,160 thousand (30.09.2022: EUR 37,822 thousand; 31.12.2022: EUR 30,146 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	2023 9 months	2022 9 months	2023 III quarter	2022 III quarter	2022 12 months
Pre-tax profit from reporting segments	36,519	20,935	14,551	10,989	41,290
Other operating profit (loss)	(2,046)	(2,036)	(691)	(575)	(3,801)
incl. recognition of provisions	-	-	-	-	(925)
finance income (costs)	(636)	(225)	(243)	(104)	(391)
incl. interest expenses	(581)	(185)	(225)	(94)	(341)
Total profit before tax	33,837	18,674	13,617	10,310	37,098

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

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2023 9 months		2022 9 months		2023 III quarter		2022 III quarter		2022 12 months	
Estonia	222,651	65%	124,131	47%	71,868	78%	51,990	47%	204,480	50%
Latvia	48,081	14%	62,667	24%	10,657	11%	25,687	23%	113,163	27%
Lithuania	63,835	19%	72,782	27%	37,472	10%	31,423	29%	84,564	21%
Norway	5,271	2%	6,626	2%	2,494	1%	908	1%	7,426	2%
Total	339,838	100%	266,206	100%	122,491	100%	110,008	100%	409,633	100%

CONTRACT ASSETS AND LIABILITIES

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Accrued income from construction services (Note 6)	9,829	18,569	15,378
Prepayments for construction services (Note 13)	(21,945)	(6,492)	(6,298)
Advance payments received for construction contract works (Notes 13, 15)	(30,038)	(7,257)	(5,184)
Recognised provision for onerous construction contracts (Note 14)	(10)	(101)	(8)

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

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Estonia	38,975	27,843	30,314
Latvia	10,862	10,848	10,786
Lithuania	1,238	1,285	1,199
Norway	41	126	115
Total	51,116	40,102	42,414

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2023 9 months	2022 9 months	2023 III quarter	2022 III quarter	2022 12 months
Construction services and properties purchased for resale	202,230	136,311	76,469	59,888	215,323
Materials	40,699	48,191	12,229	19,503	63,665
Labour costs	23,224	20,488	7,573	6,707	28,652
Construction mechanisms and transport	7,245	6,950	2,531	2,703	9,199
Design	5,220	5,704	1,453	1,831	8,561
Real estate management costs	802	565	302	201	827
Depreciation	1,653	1,468	624	508	1,973
Impairment of inventories	2,200	-	-	-	3,408
Provisions	3,500	5,997	638	1,715	11,291
Other expenses	9,869	9,449	3,295	3,150	13,076
Total cost of goods sold	296,642	235,123	105,114	96,206	355,975

NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2023 9 months	2022 9 months	2023 III quarter	2022 III quarter	2022 12 months
Net profit (loss) attributable to shareholders (in thousand EUR)	32,148	17,023	12,698	9,821	34,640
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700	17,700	17,700
Earnings (loss) per share (in euros)	1.82	0.96	0.72	0.55	1.96

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

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

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

As at 30.09.2023 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 328 thousand euros (30.09.2022: EUR 54 thousand euros; 31.12.2022: EUR 742 thousand euros).

As of 30.09.2023, the parent company AS Merko Ehitus has EUR 313 thousand (30.09.2022: EUR 0; 31.12.2022: EUR 1660 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 30.09.2023, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 151,943 thousand (30.09.2022: EUR 126,270 thousand; 31.12.2022: EUR 140,704 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 78 thousand (30.09.2022: EUR 0; 31.12.2022: EUR 415 thousand), the corresponding income tax on dividends would amount to EUR 37,749 thousand (30.09.2022: EUR 31,567 thousand; 31.12.2022: EUR 34,761 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration. Above that amount, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out as net dividends). The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Bank accounts	28,826	22,200	17,665
Overnight deposits	2,456	-	-
Total cash and cash equivalents	31,282	22,200	17,665

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Trade receivables			
Accounts receivable	69,497	41,078	52,746
Allowance for doubtful receivables	(109)	(3,167)	(3,285)
	69,388	37,911	49,461
Tax prepayments excluding corporate income tax			
Value added tax	888	3,289	795
Other taxes	64	40	3
	952	3,329	798
Accrued income from construction services	9,829	18,569	15,378
Other short-term receivables			
Short-term loans	2,000	-	5,000
Interest receivables	176	111	-
Dividends receivables	-	560	-
Other short-term receivables	117	35	124
	2,293	706	5,124
Prepayments for services			
Prepayments for construction services	3,296	11,232	6,386
Prepaid insurance	1,003	357	642
Other prepaid expenses	134	191	170
	4,433	11,780	7,198
Total trade and other receivables	86,895	72,295	77,959
incl. short-term loan receivables from related parties (Note 16)	2,000	-	5,000
other short-term receivables and prepayments to related parties (Note 16)	12,749	9,898	8,049

NOTE 7 INVENTORIES

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Materials	505	842	503
Work-in-progress	69,918	136,614	92,049
Finished goods	42,850	8,876	43,414
Goods for resale			
Registered immovables purchased for resale/development	89,578	90,296	84,133
Other goods purchased for resale	3,078	5,241	4,249
	92,656	95,537	88,382
Prepayments for inventories			
Prepayments for real estate properties	-	-	517
Prepayments for other inventories	674	1,353	796
Total inventories	206,603	243,222	225,661

NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Long-term loans	-	5,000	-
Long-term bank deposit	-	5	-
Long-term receivables from customers of construction services	21,104	23,318	22,982
Total other long-term loans and receivables	21,104	28,323	22,982
incl. long-term loan receivables from related parties (Note 16)	-	5,000	-

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Land	10,172	10,172	10,172
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(15)	(14)	(15)
	14	15	14
Buildings at carrying amount			
Cost	6,606	2,631	2,455
Accumulated depreciation	(1,258)	(1,307)	(1,156)
	5,348	1,324	1,299
Total investment property	15,534	11,511	11,485

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Land	1,266	1,266	1,266
Buildings at carrying amount*			
Cost	8,322	8,293	8,251
Accumulated depreciation	(3,494)	(3,171)	(3,211)
	4,828	5,122	5,040
Machinery and equipment at carrying amount*			
Cost	18,404	19,012	19,177
Accumulated depreciation	(9,379)	(10,117)	(10,521)
	9,025	8,895	8,656
Other fixtures at carrying amount			
Cost	4,551	4,831	4,814
Accumulated depreciation	(3,047)	(3,201)	(3,230)
	1,504	1,630	1,584
Prepayments for property, plant and equipment	615	614	906
Total property, plant and equipment	17,238	17,527	17,452

* As of 30 September 2023, the balance of buildings at carrying amount includes leased assets in a sum of EUR 606 thousand (30.09.2022: 690 thousand; 31.12.2022: EUR 662 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 3,494 thousand (30.09.2022: EUR 3,657 thousand; 31.12.2022: EUR 3,459 thousand).

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Goodwill			
Cost	65	69	69
Impairment	(64)	-	-
	1	69	69
Software at carrying amount			
Cost	1,356	1,403	1,500
Accumulated depreciation	(1,097)	(1,047)	(1,099)
	259	356	401
Prepayments for intangible assets	248	167	112
Total intangible assets	508	592	582

NOTE 12 BORROWINGS

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Lease liabilities*			
Lease liabilities balance	4,254	4,492	4,302
incl. current portion	1,147	1,159	1,198
non-current portion 2...5 years	3,107	3,333	3,104
Bank loans			
Loan balance	49,391	91,989	73,560
incl. current portion	16,121	50,853	40,428
non-current portion 2...5 years	33,270	41,136	33,132
Loan from parent company			
Loan balance (Note 16)	-	8,000	8,000
incl. current portion	-	8,000	8,000
Loans from entities under common control			
Loan balance (Note 16)	6,000	6,000	6,000
incl. current portion	6,000	-	-
non-current portion 2...5 years	-	6,000	6,000
Loans from other related parties			
Loan balance (Note 16)	-	22	61
incl. current portion	-	22	61
Loans from other entities			
Loan balance	57	-	-
incl. current portion	57	-	-
Total loans			
Loans balance	55,448	106,011	87,621
incl. current portion	22,178	58,875	48,489
non-current portion 2...5 years	33,270	47,136	39,132
Total borrowings	59,702	110,503	91,923
incl. current portion	23,325	60,034	49,687
non-current portion 2...5 years	36,377	50,469	42,236

* As of 30 September 2023, the lease liabilities include a balance of EUR 230 thousand to related parties (30.09.2022: EUR 267 thousand; 31.12.2022: EUR 254 thousand) (Note 16).

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Trade payables	47,798	62,959	46,020
Payables to employees	12,200	11,142	11,638
Tax liabilities, except for corporate income tax			
Value added tax	4,398	3,040	6,587
Personal income tax	479	446	615
Social security tax	1,295	1,099	1,680
Unemployment insurance tax	53	48	65
Contributions to mandatory funded pension	27	28	33
Other taxes	123	120	143
	6,375	4,781	9,123
Prepayments for construction services	21,945	6,492	6,298
Other liabilities			
Interest liabilities	134	59	113
Other liabilities	508	458	961
	642	517	1,074
Prepayments received *	35,325	33,360	22,095
Total payables and prepayments	124,285	119,251	96,248
incl. payables to related parties (Note 16)	1,260	2,592	2,519

* As of 30 September 2023, the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 30,038 thousand (30.09.2022: EUR 7,257 thousand; 31.12.2022: EUR 5,184 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 5,287 thousand (30.09.2022: EUR 26,103 thousand; 31.12.2022: EUR 16,911 thousand) (Note 2).

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Provision for warranty obligation for construction	4,936	3,792	4,425
Provision for costs of projects sold and work-in-progress projects	3,250	1,691	4,086
Provision for onerous construction contracts	10	101	8
Provision for legal costs and claims filed	2,072	-	1,200
Other provisions	-	-	101
Total short-term provisions	10,268	5,584	9,820

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Trade payables	2,841	2,130	2,133
Other long-term liabilities	-	247	-
Other long-term payables total	2,841	2,377	2,133
incl. other long-term payables to related parties (Note 16)	-	247	-

NOTE 16 RELATED PARTY TRANSACTIONS

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 30.09.2023, 30.09.2022 and 31.12.2022, AS Riverito owned 71.99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr. Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	30.09.2023	30.09.2022	31.12.2022		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	100	Estonia, Tallinn	Mining
OÜ Metsara-Metspere Kinnisvara	100	100	100	Estonia, Tallinn	Mining
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
OÜ Merko Kodud	100	-	-	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektai	100	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu Mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN 2 Projektas	100	-	-	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	100	100	Lithuania, Vilnius	Real estate
UAB MB 4 Projektas	100	-	-	Lithuania, Vilnius	Real estate
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA Merko Management Latvia (ex-SIA SK Viesturdarzs)	-	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	100	100	100	Latvia, Riga	Real estate
SIA Merks Mājas	-	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	-	100	100	Latvia, Riga	Real estate
SIA Zakusala Estates	-	100	100	Latvia, Riga	Real estate
PS Merko-Merks	-	100	100	Latvia, Riga	Construction
PS Merks-Ostas Celnieks	65	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	100	Latvia, Riga	Construction
SIA Merks Mājas	100	-	-	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	-	-	Latvia, Riga	Real estate
SIA Zakusala Estates	100	-	-	Latvia, Riga	Real estate
SIA Merko Būve	100	-	100	Latvia, Riga	Construction
SIA Merko Management Latvia (ex- SIA SK Viesturdarzs)	100	-	-	Latvia, Riga	Real estate
Merko Finland Oy	-	100	100	Finland, Helsinki	Construction
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding

	Ownership and voting rights %			Location	Area of operation
	30.09.2023	30.09.2022	31.12.2022		
Merko Bygg AS	100	56	56	Norway, Sofiemyr	Construction
Løkenskogen Bolig AS	62	62	62	Norway, Sofiemyr	Real estate
Joint ventures					
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate
AS Connecto Eesti	50	50	50	Estonia, Tallinn	Construction

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

GOODS AND SERVICES

in thousand euros

	2023 9 months	2022 9 months	2022 12 months
Provided services and goods sold			
Parent company	6	10	15
Joint ventures	21,692	20,150	30,116
Entities under common control	67,705	26,215	44,941
Members of the management	109	-	186
Total services provided and goods sold	89,512	46,375	75,258
Interest income			
Joint ventures	189	119	196
Purchased services and goods			
Parent company	49	76	104
Joint ventures	88	122	203
Entities under common control	55	53	73
Total purchased services and goods	192	251	380
Interest expense			
Parent company	30	42	73
Entities under common control	262	108	153
Other related parties	1	1	1
Total interest expense	293	151	227

BALANCES WITH RELATED PARTIES

in thousand euros

	30.09.2023	30.09.2022	31.12.2022
Receivables from related parties			
Loans granted (Notes 6,8)			
Joint venture	2,000	5,000	5,000
Receivables and prepayments (Note 6)			
Parent company	-	4	5
Joint ventures	2,815	3,848	3,239
Entities under common control	9,934	6,046	4,805
Total receivables and prepayments	12,749	9,898	8,049
Total receivables from related parties	14,749	14,898	13,049

	30.09.2023	30.09.2022	31.12.2022
Payables to related parties			
Lease liabilities (Note 12)			
Entities under common control	230	267	254
Short-term loans received (Note 12)			
Parent company	-	8,000	8,000
Entities under common control	6,000	-	-
Other related parties	-	22	61
Total Short-term loans received	6,000	8,022	8,061
Payables and prepayments (Note 13)			
Parent company	-	39	-
Joint ventures	1	32	35
Entities under common control	1,259	2,458	2,444
Members of the management	-	63	40
Total payables and prepayments	1,260	2,592	2,519
Long-term loans received (Note 12)			
Entities under common control	-	6,000	6,000
Other long-term payables (Note 15)			
Other related parties	-	247	-
Total payables to related parties	7,490	17,128	16,834

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The cost of remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus incl. basic salaries and performance pay, as well as taxes and changes in reserves for the 9 months of 2023 were EUR 1,058 thousand (9 months of 2022: EUR 924 thousand; 12 months of 2022: EUR 1,363 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been concluded with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 9 months of 2023, the Management Board members of AS Merko Ehitus did not receive benefits (9 months of 2022: EUR 0; 12 months of 2022: EUR 0).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as of 30.09.2023:

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

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

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

Shares held by members of the Management Board of AS Merko Ehitus as of 30.09.2023:

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

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	30.09.2023	30.09.2022	31.12.2022
Performance period's warranty to the customer	32,310	19,513	28,235
Tender warranty	17	11,957	10
Guarantee for warranty period	25,014	22,973	22,796
Prepayment guarantee	27,135	9,851	4,504
Contracts of surety	500	500	500
Total contingent liabilities	84,976	64,794	56,045

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

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

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

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

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

DEFINITION OF RATIOS

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