



AS MERKO EHITUS

GROUP

2020 12 months and IV quarter consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2020 – 31.12.2020
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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BRIEF OVERVIEW OF THE GROUP

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



BUSINESS SEGMENTS

ESTONIA

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

LATVIA

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

LITHUANIA

General construction
Residential real estate development and investments

NORWAY

General construction

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

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

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

SHARES

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

The main shareholder is AS Riverito (72%)

2020 KEY FIGURES

Revenue **315.9 million** euros

Net profit **23.0 million** euros

666 employees



VISION

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

VALUES

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

STRATEGY

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

MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

Merko Ehitus posted revenue of approximately EUR 106 million for the fourth quarter of 2020, while total revenue for the whole year was EUR 316 million. The group's fourth quarter 2020 net profit was EUR 10 million and its annual net profit grew over 40%, amounting to EUR 23 million. In coordination with the supervisory board, the group's management board proposes to pay shareholders one euro per share in dividends.

The management is satisfied with the results of 2020 and thanks all the group's employees for their good work, especially considering the restrictions due to the pandemic. The group earned more than half of the profit outside Estonia and primarily from apartment development. The sale of many apartment developments that had previously been launched was realized in 2020, and as a result a total of 900 new homes were sold. A large share of the apartments currently in development will be ready for sales in 2022. Due to the influences of the pandemic, the management is not expecting growth on the Baltic construction market in the year ahead.

A major part of the group's profit came from the area of real estate development, where 2020 revenue grew by 84% year-over-year and the number of apartments almost doubled (895 apartments in 2020 and 482 in 2019). The largest apartment development projects were Uus-Veerenni, Lahekalda and Pikaliiva in Tallinn, Gaiļezers and Viesturdārzs in Riga and Vilneles Slenis and Rinktinės Urban in Vilnius.

During 2020, the group's companies entered into new contracts worth EUR 277 million – EUR 29.1 million of which was in Q4. The largest contracts were the construction of a commercial building in Tiskre, Estonia, and the establishment of a NATO base in Ādaži, Latvia. The group's secured order book balance as of the end of the year was EUR 225 million.

The largest projects in progress in Q4 were the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre, the Tallinn School of Music and Ballet, Tallinn Arte Gymnasium, a data centre in Harju County, the renovations of the Nordic Hotel Forum and the Tallink City Hotel, and the design and construction of infrastructure of the Republic of Estonia's southeast land border. In Latvia, construction of the Orkla waffle and biscuit factory in Ādaži, the construction of a kindergarten in Salaspils, and the reconstruction of the Riga Technical University's Civil Engineering Faculty building were in progress. In Lithuania, the largest works in progress were the Neringa Hotel in Vilnius, wind park infrastructure facilities in the Telšiai district and, in the Kaunas district, a police headquarters building and NATO barracks.

2020 12M
REVENUE
316 MILLION EUROS

PROFIT
BEFORE TAX
24.5 MILLION EUROS

OVERVIEW OF THE IV QUARTER AND 12 MONTHS RESULTS

PROFITABILITY

2020 12 months' profit before tax was EUR 24.5 million and Q4 2020 was EUR 10.6 million (12M 2019: EUR 20.3 million and Q4 2019 was EUR 10.0 million), which brought the profit before tax margin to 7.7% (12M 2019: 6.2%).

Net profit attributable to equity holders of the parent in 12 months 2020 was EUR 23.0 million (12M 2019: EUR 16.3 million) and Q4 2020 net profit attributable to equity holders of the parent was EUR 9.9 million (Q4 2019: EUR 9.3 million). 12 months net profit margin was 7.3% (12M 2019: 5.0%).

REVENUE

Q4 2020 revenue was EUR 106.4 million (Q4 2019: EUR 99.2 million) and 12 months' revenue was EUR 315.9 million (12M 2019: EUR 326.8 million). 12 months' revenue decreased by 3.3% compared to same period last year. The share of revenue earned outside Estonia in 12 months 2020 was 43.9% (12M 2019: 48.3%).

SECURED ORDER BOOK

As at 31 December 2020, the group's secured order book was EUR 225.1 million (31 December 2019: EUR 141.4 million). In 12 months 2020, group companies signed new contracts in the amount of EUR 277.2 million (12M 2019: EUR 169.6 million). In Q4 2020, new contracts were signed in the amount of EUR 29.1 million (Q4 2019: EUR 42.0 million).

REAL ESTATE DEVELOPMENT

In 12 months 2020, the group sold a total of 895 apartments (incl. 3 apartments in a joint venture); in 12 months 2019, the group sold 482 apartments (incl. 47 apartments in a joint venture). The group earned a revenue of EUR 116.6 million from sale of own developed apartments in 12 months 2020 and EUR 63.8 million in 12 months 2019. In Q4 of 2020 a total of 361 apartments (all own developed apartments) were sold, compared to 276 apartments (incl. 11 apartments in a joint venture) in Q4 2019, and earned a revenue of EUR 49.6 million from sale of own developed apartments (Q4 2019: EUR 43.6 million).

CASH POSITION

At the end of the reporting period, the group had EUR 47.5 million in cash and cash equivalents, and equity of EUR 153.2 million (59.6% of total assets). Comparable figures as at 31 December 2019 were EUR 24.7 million and EUR 130.3 million (46.2% of total assets), respectively. As at 31 December 2020, the group's net debt was EUR -18.4 million (negative) (31 December 2019: EUR 39.0 million).

PROPOSAL FOR DISTRIBUTION OF PROFITS

In coordination with the Supervisory Board, the Management Board proposes to distribute to shareholders EUR 17.7 million in dividends (1 euro per share) from retained earnings in 2021. This is equivalent to a 77% dividend rate for 2020.

OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

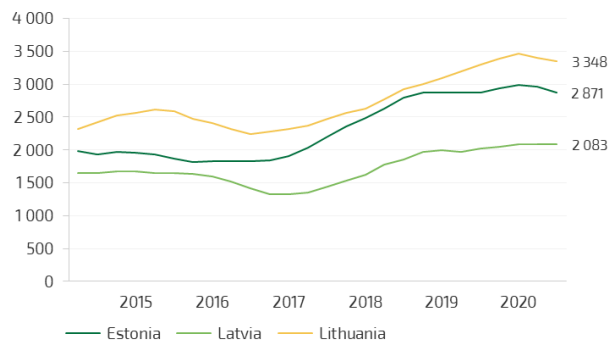
CONSTRUCTION SERVICES

Although the construction volume in 2020 in the Baltics decreased, the developments so far (data available until the third quarter), considering the overall pandemic situation, can be deemed very moderate. Latvian market has shown the best resilience – the volumes have not decreased at all, while in Estonia and Lithuania only 3...4% decrease from the very top (first quarter) can be seen on a running four quarter basis. Considering the high levels reached during the past couple of years, such developments would be expected even without the global epidemic problem.

In the short term, the Baltic construction markets have thus held very well. The question is what the long term effects will be in a situation where the uncertainty remains high, and therefore the willingness of the private sector to make investments, including to order construction works, is low. In 2021, the construction sector depends on the activeness of the public sector. Public investments can save jobs and with that increase people's confidence, which has taken a hit. This, in turn, would support overall economic activities, i.e. would help companies also in other sectors to cope with the current difficult times, which would mean a strengthening of the overall economy as a whole. Still, public investments might not ensure sufficient demand for all construction companies, especially for those, which are specialised on buildings, interior works, etc. For those companies it will be more difficult to find support from infrastructure investments, which the public sector investments largely tend to be. Therefore, it is difficult to forecast that the construction sector could return to growth in 2021.

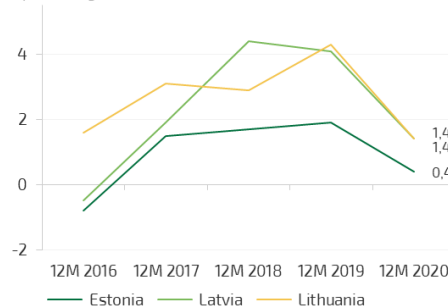
Although the increase in construction prices has stopped, no correction has occurred. There are probably some differences by construction sub-sections, but as a whole construction has not become cheaper. This does also set some limits for demand recovery. For already some time before the pandemic it was evident that some private sector investment plans were put on hold as at these price levels their potential profitability for the investors was below expectations. As the forecasting has become even more difficult, the uncertainty among construction service clients remains.

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



Source: national statistical offices

12 MONTHS' CHANGE IN CONSTRUCTION PRICE INDEX
percentages



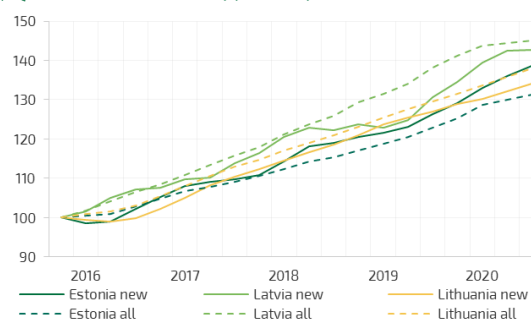
Source: national statistical offices

DEVELOPMENT OF APARTMENTS

In spring, at the peak of the so-called first wave of the spread of COVID-19 virus, the sales of new apartments in all three Baltic markets decreased for a short period of time to 10-20% of the regular levels. Contracts were signed for those sales for which presale agreements had been signed before. The shortage of transactions was also partly due to physical restrictions, which, for example, had a significant impact on the work of notaries. However, after the first shock had subsided, the sales activity of apartments returned rapidly. During the second half of the year, the number of transactions had regained pre-pandemic levels, and by the end of the year, the monthly figures started already to challenge the previous record highs.

At the same time, the prices of apartments have not decreased. In Latvia, where the prices during the past 5 years have grown the most, compared to Estonia and Lithuania, the growth in prices did diminish, but in the other two markets the growth continued. Real estate developers might have put some new projects on hold during spring, while the situation cleared up, but existing apartments were not put on fire sale. There was no need for that – the market is mostly dominated by developers with sufficient capitalization, while the banks have also acted very constructively both towards the developers and buyers. There has been no excess nervousness on the market from the possibility of banks recalling development loans prematurely, while the issuing of home loans has also continued in a good pace and sensible terms after diminished volumes in spring. Therefore, the buyers have also not had to back off from the presale agreements signed previously.

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



Source: Eurostat

The question of what the coming overall pandemic developments will be remains. Morbidity is still relatively high both in Europe and globally. Unlike the first shock in spring, the society has, in general, learned to live with the virus, although the governmental restrictions remain a pressing topic. There is a significant chance that the virus related developments will continue to have a considerable influence on social activities for a prolonged period. In that case the developments on the new apartment markets might also not continue quite as strongly as so far. Still, it can be expected that the market as a whole will come through these uncertain times, just as it recovered quickly after the low point in spring. One should prepare for the fact that the transactional activity could also decrease in short term. However, based on gained experience, the developers are surely better prepared for such eventualities than they were a year ago.

BUSINESS ACTIVITIES

The group business reporting is divided into two business segments:

- construction service;
- real estate development.

CONSTRUCTION SERVICE

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

million EUR

	12M 2020	12M 2019	VARIANCE	Q4 2020	Q4 2019	VARIANCE
Revenue	186.8	256.7	-27.2%	52.7	52.7	0.0%
% of total revenue	59.1%	78.6%		49.5%	53.1%	
Operating profit	4.6	13.3	-65.6%	1.4	4.2	-66.2%
Operating profit margin	2.4%	5.2%		2.7%	8.0%	

In the 12 months of 2020, the revenue of the construction service segment was EUR 186.8 million (12M 2019: EUR 256.7 million). The sales revenue of construction service has decreased by 27.2% compared to the same period last year. The construction service segment revenue for 12 months 2020 made up 59.1% of the group's total revenue (12M 2019: 78.6%). In this segment, the group earned an operating profit of EUR 4.6 million for 12 months (12M 2019: EUR 13.3 million). The operating profit margin was 2.4% (12M 2019: 5.2%).

In the fourth quarter, the group's sales revenue from construction service remained at the same level as a year ago (EUR 52.7 million). The 12-month decrease in sales revenue compared to the previous year was due to lower levels in the first half of the year. The COVID-19 pandemic or measures taken to prevent its spread did not play a significant role in this – rather, it was the result of the group's conscious decision to be selective in concluding new construction contracts for the last few years. The construction market was very active before the pandemic, which also led to increasing risks for main contractors in construction contracts. Towards the end of the year, the volumes of construction work have increased, which is also reflected in the increased order book (see below). However, being selective in signing construction contracts will continue to be the group's direction. The performance of some construction projects in 2020 was lower than expected. These are one-off effects concerning specific projects, including individual clients with impaired solvency.

The group continues to be prepared for possible negative developments, which may be related to further developments of the pandemic and national restrictions to prevent the spread of the virus. During the past year, the group companies as well as the construction sector and society as a whole have gained experience of how to act in these difficult times. The group companies have mapped the main risks, reviewed how the work is organized and readied plans to continue to act with determination even in the constraints of restrictions. Therefore the group can be expected to be able to keep the work processes running and the activities on construction sites continuing successfully, regardless of the seriousness of the situation. As the private sector demand has decreased due to the pandemic, in the short-term, overall increase in construction volumes on the market cannot be foreseen. The public sector has played an important part in the construction services segment already before the pandemic, and its share might increase further.

Larger projects in progress in the fourth quarter in construction service segment in Estonia included the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre, Tallinn School of Music and Ballet, data centre in Harju County, Tallinn Arte Gymnasium, construction works of water supply and sewerage piping in Kohila Parish, construction works of the Republic of Estonia's southeast land border as well as the renovation of Nordic Hotel Forum and Tallink City Hotel. In Latvia, larger ongoing projects in the fourth quarter included the construction works of reconstruction of Riga Technical University Civil Engineering Faculty building as well as the constructions of the Orkla wafer and biscuits production plant in Ādaži and kindergarten in Salaspils. In Lithuania, larger projects were Hotel Neringa in Vilnius, construction of wind farm balance of plant in Telšiai district, and, in Kaunas, the district Police headquarters building and NATO barracks. In Norway, the group worked on the reconstruction of smaller scale contracts.

REAL ESTATE DEVELOPMENT

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

million EUR

	12M 2020	12M 2019	VARIANCE	Q4 2020	Q4 2019	VARIANCE
Revenue	129.1	70.1	+84.2%	53.7	46.5	+15.6%
incl. sale of apartments	116.6	63.8		49.6	43.6	
construction service to joint venture projects	1.6	2.1		0.6	0.2	
sale of immovable properties	1.0	0.4		0.3	-	
% of total revenue	40.9%	21.4%		50.5%	46.9%	
Operating profit	23.7	8.1	+192.2%	10.9	5.9	+83.5%
Operating profit margin	18.4%	11.6%		20.3%	12.8%	

In 12 months 2020, the group sold a total of 895 apartments (incl. 3 apartments in a joint venture) and 9 commercial premises (incl. 2 commercial premises in a joint venture); in 12 months 2019, 482 apartments (incl. 47 apartments in a joint venture) and 24 commercial premises (incl. 14 commercial premises in a joint venture). The group earned a revenue of EUR 116.6 million (VAT not included) from sale of own developed apartments in 12 months 2020 and EUR 63.8 million (VAT not included) in 12 months 2019.

In the case of projects developed in joint ventures, the real estate development business segment revenue reflects the construction services provided to the project by the group and the operating profit includes the realised construction profit for the period. The profit from development gained from sale of those apartments to end-customers is recognised in the group's reporting based on the equity method. In the revenue and operating profit of the real estate development segment also the sale of commercial premises and parking spaces of the real estate development projects are reflected, as well as the result of public-private-partnership contracts, based on which the group companies provide construction service and property management services.

In 12 months of 2020, real estate development segment revenues increased by 84,2% compared to the same period last year and formed 40.9% of the group's total revenue (12 months of 2019: 21.4%). Compared to the same quarter of the previous year, 457 own developed apartments more were handed over to customers, which resulted in a significant increase in revenue. Although the increase has been noteworthy, such developments have been as expected – for the past couple of years, the group has increased investments to apartment development considerably. Starting from the end of 2019 these have started to be realised in sales, which are reflected also in revenue and profit figures.

The segment's operating profit for the 12 months of 2020 amounted to EUR 23.7 million (12 months of 2019: EUR 8.1 million) and the operating profit margin was 18.4% (12 months of 2019: 11.6%). The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, including the land acquisition price. In 2020, the results have been influenced especially by the increased sale of own developed apartments.

At the end of the period, group's inventory comprised 144 apartments where a preliminary agreement had been signed (as at 31 December 2019: 347 such apartments): 36 completed apartments (28 in Estonia, 3 in Latvia and 5 in Lithuania) and 108 apartments under construction (50 in Estonia and 58 in Lithuania). The sale of these apartments had not yet been finalised and they had not been delivered to customers, either because the development site was still under construction or the site was completed at the end of the reporting period and the sales transactions had not all been finalised yet.

As at 31 December 2020, the group had a total of 728 apartments for active sale (as at 31 December 2019: 723 apartments) for which there were no pre-sale agreements and of which 105 had been completed (42 in Estonia, 58 in Latvia and 5 in Lithuania) and 623 were under construction (238 in Estonia, 167 in Latvia and 218 in Lithuania).

In 12 months of 2020, the group launched the construction of a total of 698 new apartments in the Baltic states (12 months of 2019: 368 apartments). In the 12 months, the group invested a total of EUR 52.6 million (12 months of 2019: EUR 87.4 million) in the ongoing development projects.

After the reporting date, the group has started the construction of the Nõmme 328 residential development project with 38 apartments and 6 commercial spaces and through the joint venture, the construction of 60 apartments and 6 commercial spaces in the first stage of the Noblessner seafront quarter residential development project in Tallinn. In addition, the construction of the first stage of the Mežpilsēta residential development project with 117 apartments was started in Riga, and the construction of the second stage of the Erminurme residential development project with 37 apartments was started in Tartu.

In the fourth quarter, the sale of apartments progressed at a very good pace. In the completed development projects, the previously concluded presale agreements were transformed into final agreements. Despite the uncertainty caused by the COVID-19 pandemic, withdrawals from pre-contracts were minimal throughout the year. Sales activity decreased significantly from

March to May, but thereafter the recovery was rapid. By the end of the year, demand in all three Baltic markets was already at a level that started to exceed the pre-pandemic period. The functioning of the market has also been supported by the banks' thankworthy general readiness to continue offering loan financing to home buyers.

One of the group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As at 31 December 2020, the group's inventories included land plots with development potential, where the construction works have not started, in the amount of EUR 60.7 million (31.12.2019: EUR 70.2 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	31.12.2020	31.12.2019
Estonia	24.9	29.3
Latvia	25.4	26.9
Lithuania	10.4	14.0
Total	60.7	70.2

In the 12 months of 2020, the group has not purchased new land plots for real estate development purposes (12 months of 2019: EUR 18.6 million).

SECURED ORDER BOOK

As at 31 December 2020, the group's secured order book amounted to EUR 225.1 million, compared to EUR 141.4 million as at 31 December 2019, having increased by 59.2% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 12 months of 2020, EUR 277.2 million worth of new contracts were signed, which is increased by 63,4% compared to the same period of the previous year (12 months of 2019: EUR 169.6 million). The value of new contracts signed in the fourth quarter of 2020 amounted to EUR 29.1 million; in the fourth quarter of 2019 the value of new contracts signed amounted to EUR 42.0 million.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FOURTH QUARTER OF 2020

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Construction contract to design and construction of a building and infrastructure facilities at the NATO base in Ādaži, Latvia	Latvia	June of 2022	6.1
Construction contract for the construction of a commercial and service building in Harku Parish, Tiskre	Estonia	Summer of 2021	4.4

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

- On 5 January 2021, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and OÜ Astlanda Ehitus entered into a contract for conducting concrete works of Tehnopol office building and parking house in Tallinn. The contract value is approximately EUR 3.85 million and works are scheduled to be completed in November 2021.
- On 22 January 2021, UAB Merko Statyba, part of AS Merko Ehitus group, and UAB Tokvila entered into a contract to perform construction works of a car service building in Vilnius. The contract value is approximately EUR 7.5 million and works are scheduled to be completed in February 2022.
- On 8 February 2021, UAB Merko statyba, part of AS Merko Ehitus group, and UAB Continental Automotive Lithuania entered into a contract to perform construction works of a production building in Kaunas district, Lithuania. The contract value is over EUR 10 million, plus value added tax. The project is scheduled to be completed in first half of 2022.
- On 8 February 2021, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and OÜ Tiigiveski Arendus, part of AS Kapitel group, entered into a contract to perform below grade construction works of Liivalaia business and residential complex at Liivalaia St. 34 and 36, Tallinn. The contract value is approximately EUR 14 million and the construction works will take approximately 19 months.

As at 31 December 2020, the public sector orders accounted for approximately 66% of the total balance in the group's secured order book (31.12.2019: approximately 64%). The share of public sector in the secured order book has increased considerably already from the beginning of 2019, i.e. well before the spread of COVID-19, and the level of private sector procurements has decreased. The private sector demand in the Baltics has decreased as there has been ample supply of new commercial real estate on the market in the last few years and thus competition between developers has increased while construction prices have risen. Some of the development projects have been placed on hold. The pandemic has reduced demand from the private sector even further.

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

CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 47.5 million (31.12.2019: EUR 24.7 million). As the group's cash position continues to be strong, the group has not utilised its credit lines of existing overdrafts and loan agreements within reporting period. As at the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 44.1 million, of which not withdrawn at the end of current period (31.12.2019: EUR 37.6 million of which EUR 30.0 was unused). In addition to the overdraft facilities, the company has a working capital loan facility with a limit of EUR 3.5 million (31.12.2019: EUR 3.5 million) from AS Riverito, which was not withdrawn at the end of current period (31.12.2019: not withdrawn).

The 12-month cash flow from operating activity was positive at EUR 62.5 million (12 months of 2019: negative EUR 12.4 million), cash flow from investing activity was negative at EUR 4.2 million (12 months of 2019: negative EUR 2.4 million) and the cash flow from financing activity was negative at EUR 35.5 million (12 months of 2019: negative EUR 0.5 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 28.2 million (12 months of 2019: positive effect of EUR 21.9 million), from the changes in receivables and liabilities related to construction contracts of EUR 2.8 million (12 months 2019: negative effect of EUR 10.7 million), from the changes in trade and other receivables related to operating activities of EUR 7.0 million (12 months of 2019: positive effect of EUR 26.9 million) and from the change in inventories of EUR 40.2 million (12 months of 2019: negative effect of EUR 48.1 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments. While in 2019 the negative cash flow was a result of increase in the volume of inventories due to the construction of apartments, in 2020 the cash flow was positive as the volume of inventories decreased when the apartments were sold. The negative effects to cash flow from operating activities came from change in the provisions of EUR 1.1 million (12 months of 2019: positive effect of EUR 0.3 million), change in trade and other payables related to operating activities of EUR 11.9 million (12 months of 2019: positive effect of EUR 1.8 million), which was mainly related to the decrease in advance payments of apartment buyers and the payment of the last instalment of the development area acquired in Lithuania in 2019, from the interest paid EUR 1.1 million (12 months of 2019: EUR 1.0 million) and from the corporate income tax of EUR 1.1 million (12 months of 2019: EUR 3.1 million).

To support cash flows from operating activities, including raising the volumes in apartment development, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level and decreased in 2020 (11.3% as at 31.12.2020; 22.6% as at 31.12.2019).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 4.5 million, which is mainly related to the renewal of equipment in the field of road construction, (12 months of 2019 EUR 2.5 million) and positive effect from the sale of non-current assets in the amount of EUR 0.3 million (12 months of 2019: EUR 0.5 million).

In cash flows from financing, the larger negative factors were the net change in loans received and repaid in connection with development projects in the amount of EUR 28.0 million (12 months of 2019: net positive cash flow of EUR 25.6 million) which resulted from the repayment of loans taken for residential development projects (the apartments were finished and sold), repayments of lease liabilities in the amount of EUR 0.9 million (12 months of 2019: net negative cash flow of EUR 1.0 million) and negative change in loans related to construction projects and other activities in the net amount of EUR 7.5 million (12 months of 2019: net negative cash flow of EUR 6.8 million). Positive cash flow from financing activity were gained from 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 1.1 million (12 months of 2019: negative cash flow in the net amount of EUR 0.5 million).

The Q4 2020 cash flow from operating activity was positive at EUR 45.5 million (Q4 2019: positive EUR 33.0 million), cash flow from investing activity was negative at EUR 1.8 million (Q4 2019: negative EUR 0.8 million) and the cash flow from financing activity was negative at EUR 21.6 million (Q4 2019: negative EUR 20.9 million).

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		12M 2020	12M 2019	12M 2018	Q4 2020	Q4 2019	Q4 2018
Revenue	million EUR	315.9	326.8	418.0	106.4	99.2	119.2
Gross profit	million EUR	43.7	34.8	33.0	18.5	13.9	11.3
Gross profit margin	%	13.8	10.7	7.9	17.4	14.0	9.4
Operating profit	million EUR	25.5	19.2	19.9	11.2	9.3	7.0
Operating profit margin	%	8.1	5.9	4.8	10.5	9.4	5.8
Profit before tax (PBT)	million EUR	24.5	20.3	19.8	10.6	10.0	7.1
PBT margin	%	7.7	6.2	4.7	9.9	10.1	6.0
Net profit	million EUR	22.5	16.5	19.4	9.9	9.2	6.9
attributable to equity holders of the parent	million EUR	23.0	16.3	19.3	9.9	9.3	7.0
attributable to non-controlling interest	million EUR	(0.5)	0.2	0.1	(0.0)	(0.1)	(0.1)
Net profit margin	%	7.3	5.0	4.6	9.3	9.3	5.9
Other income statement indicators		12M 2020	12M 2019	12M 2018	Q4 2020	Q4 2019	Q4 2018
EBITDA	million EUR	28.2	21.9	21.9	11.8	10.2	7.6
EBITDA margin	%	8.9	6.7	5.2	11.1	10.3	6.3
General expense ratio	%	5.6	5.3	3.7	5.9	5.8	3.8
Labour cost ratio	%	11.5	11.4	8.2	11.8	10.2	8.6
Revenue per employee	thousand EUR	478	461	563	161	140	161

OTHER SIGNIFICANT INDICATORS		31.12.2020	31.12.2019	31.12.2018
Return on equity	%	16.2	12.9	15.3
Return on assets	%	8.4	5.6	6.9
Return on invested capital	%	13.1	11.1	11.5
Assets	million EUR	256.9	281.8	269.7
Equity	million EUR	157.4	134.6	136.3
Equity attributable to equity holders of the parent	million EUR	153.2	130.3	131.8
Equity ratio	%	59.6	46.2	48.9
Debt ratio	%	11.3	22.6	16.4
Current ratio	times	2.7	2.4	2.2
Quick ratio	times	1.0	0.8	1.1
Accounts receivable turnover	days	35	45	40
Accounts payable turnover	days	37	53	41
Average number of employees	people	661	709	743
Secured order book	million EUR	225.1	141.4	229.0

Ratio definitions are provided on page 37 of the report.

RISK MANAGEMENT

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

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

Legal risk

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

As at 31 December 2020, a provision has been set up at the group in the amount of EUR 0.2 million (31.12.2019: EUR 0.2 million) for covering potential claims and legal costs.

Below an overview of the key legal disputes and proceedings, which have taken place or ended during 2020 or are ongoing as of 31 December 2020 and which concern group entities is presented:

Estonia

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

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

Latvia

Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The court hearing, which was scheduled for 3 December 2020, was cancelled due to the COVID-19 pandemic and a new hearing date has not yet been set. The possible effect of the potential positive outcome of this claim has not been taken into account in the group's financial reporting.

Starptautiskā lidosta "Rīga"

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

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

On 8 June 2018, Riga International Airport paid partly the claim submitted on September 21, 2017, therefore SIA Merks reduced the claim to EUR 248 thousand (EUR 76 thousand being the principal claim and EUR 172 thousand late interest). The parties reached a settlement, which provided that SIA Merks would deliver negotiated works to Riga International Airport by 31 March 2020, after which Riga International Airport would sign the final acceptance act. Due to the COVID-19 pandemic related restrictions the work processes have been delayed and, at the end of 2020, the parties have submitted a new agreement to the court, which is expected to be approved in the first half of 2021. No additional provisions are recognised in relation to the potential outcome of this claim.

Latvian Competition Council administrative proceeding

In August, 2019, the Latvian Competition Council (*Konkurences padome*) instituted administrative proceeding, the purpose of which, to the group's knowledge, is to ascertain whether there have been infringements of competition law in Latvia by construction companies. SIA Merks is among the construction companies involved in the proceeding. As of this report, the management has no information about the future of the proceeding. To the knowledge of the group's Management Board, the

Competition Council has extended the deadline for the proceeding until 1 August 2021. No provisions are recognised in relation to the effect of this proceeding.

SIA Ostas Celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas Celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas Celtnieks" according to its share in the contract. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. The court took the evidence of both parties to the proceedings and the next meeting will take place on 13 April 2021. The impact of this claim has not been taken into account in the group's reporting.

Lithuania

UAB Axis Power

On 3 September 2018, UAB Axis Power (sub-contractor) filed an action against UAB Merko Statyba (main contractor), part of AS Merko Ehitus group, in a total amount of EUR 846 thousand as compensation for carrying out concrete works, which were more complicated than foreseen at the signing of the contract. By the decision of 18 August 2019 the court appointed court expertise, the expected term of which was up to 6 months. The expertise ordered by UAB Merko Statyba has been submitted to the court, the expertise of the other party was submitted to the court on 15 October 2020. Next hearing will take place on 15 February 2021.

The group finds the claim unsubstantiated and has not recognised provisions in relation to this claim.

EMPLOYEES AND LABOUR COSTS

As of 31 December 2020, Merko Ehitus group employed 666 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 28 (-4.0%). The number of employees has decreased in Estonia and Latvia and increased in Lithuania and Norway.

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

The group defines labour cost as salary (incl. fixed salary, additional pay, holiday pay, and performance pay), taxes based on salary, fringe benefits and taxes on fringe benefits. In 12 months 2020, the labour cost was EUR 36.4 million (12 months 2019: EUR 37.4 million), which decreased by 2.6% compared to the same period previous year. The labour cost ratio increased by 0.1 pp from 11.4% to 11.5% in comparable periods.

During 12 months of 2020, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 7.3 million in labour taxes in Estonia, being one of the largest labour tax payer in the construction sector (12 months 2019: EUR 7.9 million).

ETHICAL BUSINESS PRACTICES

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

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

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

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

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

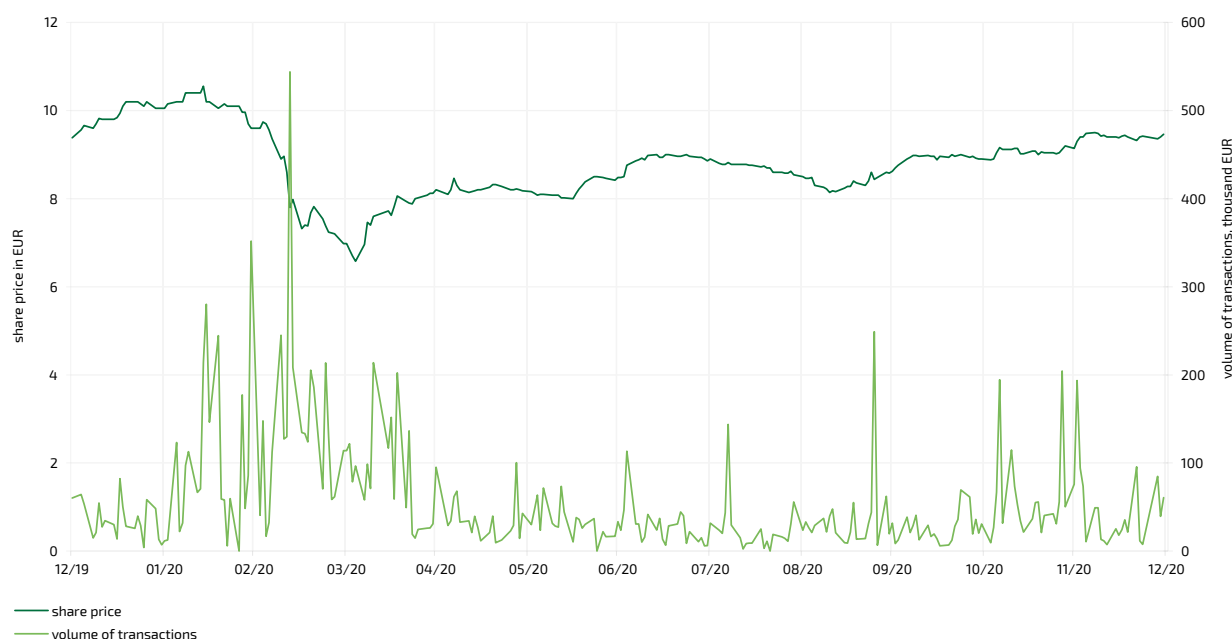
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As at 31 December 2020, the company has 17,700,000 shares. The number of shares has not changed during 2020.

A total of 22,033 transactions were conducted with the shares of Merko Ehitus in 12 months of 2020, with 1.62 million shares (9.2% of total shares) traded, generating a turnover of EUR 14.0 million (comparable figures in 12 months 2019 were accordingly: 8,558 transactions with 2.23 million shares traded (12.6% of total shares), generating a turnover of EUR 21.3 million). The lowest transaction was carried out with a price of EUR 6.56 and the highest with EUR 10.60 per share (12 months of 2019: EUR 8.74 and EUR 10.30, accordingly). On 31 December 2020, the closing price of the share was EUR 9.46 (31.12.2019: EUR 9.38). As at 31 December 2020, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 167.4 million, up 0.9% compared to the end of the equivalent period of the prior year (31.12.2019: EUR 166.0 million).

	31.12.2020	31.12.2019	31.12.2018
Number of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	1.30	0.92	1.09
Equity per share, euros	8.01	7.13	7.16
P/B ratio	1.18	1.32	1.28
P/E ratio	7.28	10.20	8.42
Market value, million EUR	167.4	166.0	162.8

Ratio definitions are provided on page 37 of the report.

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



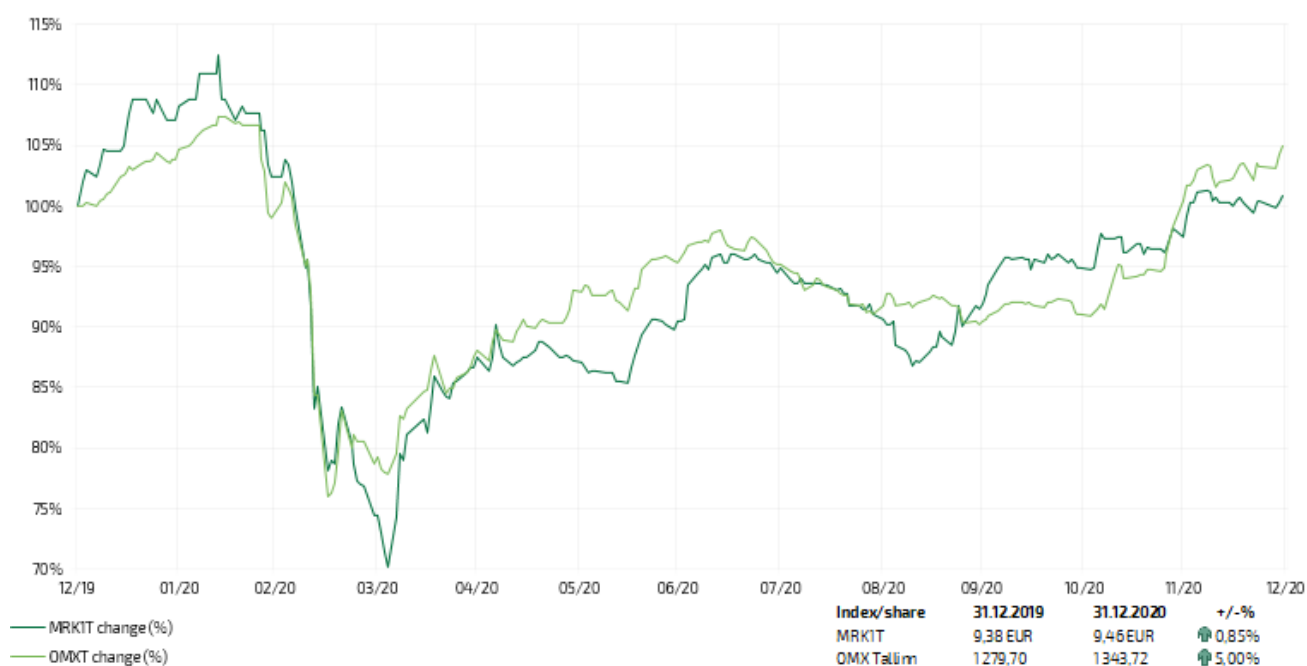
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.12.2020

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.02%	12,742,686	71.99%
100,001 – 1,000,000	8	0.14%	1,475,020	8.33%
10,001 – 100,000	47	0.83%	1,113,273	6.29%
1,001-10,000	506	8.94%	1,465,675	8.28%
101-1,000	2 168	38.32%	795,129	4.49%
1-100	2 928	51.75%	108,217	0.62%
Total	5,658	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.12.2020 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.12.2020	% OF TOTAL 30.09.2020	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	330,000	1.87%	1.87%	-
Firebird Republics Fund Ltd	323,300	1.83%	1.85%	(3,348)
Firebird Avrora Fund Ltd	178,067	1.01%	1.02%	(2,883)
Skandinaviska Enskilda Banken AB, Swedish customers	153,333	0.87%	0.88%	(1,667)
SEB Life and Pension Baltic SE Estonian Branch	148,787	0.84%	0.84%	-
Siseinfo OÜ	125,871	0.71%	0.68%	5,871
Clearstream Banking AG	111,941	0.63%	0.63%	204
Firebird Fund L.P.	103,721	0.58%	0.60%	(3,069)
Seitse Samuraid OÜ	100,000	0.56%	0.59%	(5,000)
Total largest shareholders	14,317,706	80.89%	80.95%	(9,892)
Total other shareholders	3,382,294	19.11%	19.05%	9,892
Total	17,700,000	100%	100%	-

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



DIVIDENDS AND DIVIDEND POLICY

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

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

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

In cooperation with the Supervisory Board, the Management Board proposes to pay the shareholders EUR 17.7 million as dividends from net profits brought forward (EUR 1.00 per share) in 2021, which is equivalent to a 77% dividend rate and a 10.6% dividend yield for the year 2020 (using the share price as at 31 December 2020). While in 2018 and 2020, no income tax cost for the group arose in Estonia in connection with the payment of dividends, in 2019 it did arise in connection with EUR 10.3 million worth of paid dividends. Pursuant to that, in 2021, the group shall recognise income tax cost on regularly payable dividends of EUR 3.4 million, based on a sum, which corresponds to one third of the EUR 10.3 million, using the corresponding tax rate of 14/86 on (net) dividends. As per the Estonian Income Tax Act, the group shall withhold an additional 7% income tax from the dividends taxed with the 14/86 rate that are paid to shareholders who are natural persons.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

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

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

The overview of the Management Board and Supervisory Board have been presented on page 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 31 December 2020, the management structure is as follows:



GROUP'S LEGAL STRUCTURE

As at 31 December 2020, the group comprises 31 companies (31.12.2019: 33). The group's legal structure is predominantly based on regulatory requirements and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Note 16 of the interim financial statements.

Changes in the legal structure of the group

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

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

On 6 November 2020, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas. Under the restructuring plan, UAB Merko Bustas's 100% owned subsidiary UAB Jurininku Aikštele was merged into its parent. It is planned to complete the restructuring and make the respective entry into the Commercial Register during the first quarter of 2021.

In connection with the change in the structure of the AS Merko Ehitus group, a contract for the sale of shares of Tallinna Teede AS was concluded on 15 December 2020 between AS Merko Ehitus and AS Merko Ehitus Eesti, where under the latter transferred its 100% stock holding to AS Merko Ehitus on 1 January 2021.

As an intra-group transaction in Lithuania, on 31 December 2020, UAB Merko Bustas, a 100% subsidiary of AS Merko Ehitus, acquired from a sister company UAB Merko Statyba a 100% holding in the real estate development subsidiary UAB Statinių Priežiūra ir Administravimas.

GENERAL MEETING OF SHAREHOLDERS

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

The annual general meeting of shareholders was held on 6 May 2020. In order to minimize the number of participants in the physical meeting during the novel coronavirus caused COVID-19 pandemic situation, the management board enabled shareholders to vote on the draft resolutions prepared in respect to the items on the agenda of the general meeting using electronic means prior to the general meeting. The general meeting resolved to approve the annual report and the profit allocation proposal for 2019. It was decided not to pay dividends to shareholders for 2019.

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

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

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

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

SUPERVISORY BOARD

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

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

As at 31 December 2020, the Supervisory Board of AS Merko Ehitus had three members, of whom, in accordance with the requirements of the Corporate Governance Recommendations, Indrek Neivelt was an independent member.

MANAGEMENT BOARD

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

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

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

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

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 31 December 2020:

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

Changes in the management of group subsidiaries

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

On 10 July 2020, the Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Member of the Management Board, Mr. Alar Lagus, until 31 December 2020. The Management Board of AS Merko Ehitus Eesti continued with four members: Mr. Ivo Volkov (The Chairman), Mr. Jaan Mäe, Mr. Alar Lagus and Mr. Veljo Viitmann.

On 12 November 2020, 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 2021 for three years. The contract of the current Member of the Management Board of the company, Mr. Alar Lagus ended on 31 December 2020. The Management Board of AS Merko Ehitus Eesti continues with three members: Mr. Ivo Volkov (The Chairman), Mr. Jaan Mäe and Mr. Veljo Viitmann.

On 21 December 2020, the Management Board of AS Merko Ehitus decided to extend the powers of the Members of the Supervisory Board of AS Merko Ehitus Eesti, Mr. Andres Trink and Mr. Tõnu Toomik, from 1 January 2021 until 31 December 2023. The Supervisory Board of AS Merko Ehitus Eesti continues with three members: Mr. Andres Trink (The Chairman), Mr. Tõnu Toomik and Mr. Martin Rebane.

MANAGEMENT BOARD'S DECLARATION

Members of the Management Board of AS Merko Ehitus declare and confirm that the consolidated unaudited interim report for the 12 months of 2020, which consists of the management report and the interim financial statements, prepared according to the current International Financial Reporting Standards as adopted by the European Union, provides, to the best of their knowledge, a true and fair view of the development of business operations, assets, liabilities, financial position, results of the operations, cash flows, and profit or loss of AS Merko Ehitus and the consolidated undertakings as a whole, includes a description of the principal risks and uncertainties, and reflects transactions with related parties. The parent company and the companies, which are part of the consolidation group, are going concerns.

Andres Trink	Chairman of the Management Board	11.02.2021
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Tõnu Toomik	Member of the Management Board	11.02.2021
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INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2020 12 months	2019 12 months	2020 IV quarter	2019 IV quarter
Revenue	2	315,918	326,779	106,438	99,159
Cost of goods sold	3	(272,169)	(291,958)	(87,901)	(85,235)
Gross profit		43,749	34,821	18,537	13,924
Marketing expenses		(4,212)	(4,260)	(1,055)	(1,634)
General and administrative expenses		(13,412)	(12,988)	(5,264)	(4,147)
Other operating income		2,320	2,983	606	1,243
Other operating expenses		(2,979)	(1,318)	(1,663)	(96)
Operating profit		25,466	19,238	11,161	9,290
Finance income/costs		(1,009)	1,085	(577)	722
incl. finance income/costs from joint venture		(144)	1,766	(348)	921
interest expense		(719)	(656)	(189)	(185)
foreign exchange gain (loss)		(7)	-	5	-
other financial income (expenses)		(139)	(25)	(45)	(14)
Profit before tax		24,457	20,323	10,584	10,012
Corporate income tax expense		(1,954)	(3,833)	(727)	(850)
Net profit for financial year		22,503	16,490	9,857	9,162
incl. net profit attributable to equity holders of the parent		22,994	16,270	9,923	9,267
net profit attributable to non-controlling interest		(491)	220	(66)	(105)
Other comprehensive income, which can subsequently be classified in the income statement					
Currency translation differences of foreign entities		(115)	13	2	23
Comprehensive income for the period		22,388	16,503	9,859	9,185
incl. net profit attributable to equity holders of the parent		22,890	16,281	9,951	9,279
net profit attributable to non-controlling interest		(502)	222	(92)	(94)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	1.30	0.92	0.56	0.52

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.12.2020	31.12.2019
ASSETS			
Current assets			
Cash and cash equivalents	5	47,480	24,749
Trade and other receivables	6	32,657	50,413
Prepaid corporate income tax		306	104
Inventories	7	126,332	166,226
		206,775	241,492
Non-current assets			
Investments in joint venture		2,354	2,498
Other long-term loans and receivables	8	17,979	11,094
Deferred income tax assets		653	-
Investment property	9	13,922	14,047
Property, plant and equipment	10	14,521	11,919
Intangible assets	11	711	777
		50,140	40,335
TOTAL ASSETS		256,915	281,827
LIABILITIES			
Current liabilities			
Borrowings	12	13,649	20,725
Payables and prepayments	13	55,846	69,585
Income tax liability		1,202	812
Short-term provisions	14	6,347	7,976
		77,044	99,098
Non-current liabilities			
Long-term borrowings	12	15,409	43,001
Deferred income tax liability		3,001	1,682
Other long-term payables	15	4,026	3,491
		22,436	48,174
TOTAL LIABILITIES		99,480	147,272
EQUITY			
Non-controlling interests		4,207	4,217
Equity attributable to equity holders of the parent			
Share capital		7,929	7,929
Statutory reserve capital		793	793
Currency translation differences		(814)	(710)
Retained earnings		145,320	122,326
		153,228	130,338
TOTAL EQUITY		157,435	134,555
TOTAL LIABILITIES AND EQUITY		256,915	281,827

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
Balance as at 31.12.2018	7,929	793	(721)	123,756	131,757	4,577	136,334
Balance as at 01.01.2019	7,929	793	(721)	123,756	131,757	4,577	136,334
Adjustment on the adoption of IFRS 16	-	-	-	-	-	-	-
Balance as at 01.01.2019 restated	7,929	793	(721)	123,756	131,757	4,577	136,334
Profit (loss) for the reporting period	-	-	-	16,270	16,270	220	16,490
Other comprehensive income	-	-	11	-	11	2	13
Total comprehensive income (loss) for the reporting period	-	-	11	16,270	16,281	222	16,503
Transactions with owners							
Option over shares relating to non-controlling interests	-	-	-	-	-	(510)	(510)
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	(72)	(17,772)
Total transactions with owners	-	-	-	(17,700)	(17,700)	(582)	(18,282)
Balance as at 31.12.2019	7,929	793	(710)	122,326	130,338	4,217	134,555
Balance as at 31.12.2019	7,929	793	(710)	122,326	130,338	4,217	134,555
Profit (loss) for the reporting period	-	-	-	22,994	22,994	(491)	22,503
Other comprehensive income	-	-	(104)	-	(104)	(11)	(115)
Total comprehensive income (loss) for the reporting period	-	-	(104)	22,994	22,890	(502)	22,388
Transactions with owners							
Option over shares relating to non-controlling interests	-	-	-	-	-	625	625
Dividends (Note 4)	-	-	-	-	-	(133)	(133)
Total transactions with owners	-	-	-	-	-	492	492
Balance as at 31.12.2020	7,929	793	(814)	145,320	153,228	4,207	157,435

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

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

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2020 12 months	2019 12 months
Cash flows from operating activities			
Operating profit		25,466	19,238
Adjustments:			
Depreciation and impairment		2,751	2,707
(Profit)/loss from sale of non-current assets		(250)	(309)
Change in receivables and liabilities related to construction contracts		2,794	(10,697)
Interest income from operating activities		(1,499)	(2,190)
Change in provisions		(1,072)	282
Change in trade and other receivables related to operating activities		7,017	26,854
Change in inventories		40,231	(48,118)
Change in trade and other payables related to operating activities		(11,937)	1,811
Interest received		1 349	2,265
Interest paid		(1,068)	(1,039)
Other finance income (costs)		(139)	(129)
Corporate income tax paid		(1,132)	(3,093)
Total cash flows from operating activities		62,511	(12,418)
Cash flows from investing activities			
Purchase of investment property		(7)	(410)
Purchase of property, plant and equipment (excl. leased assets)		(4,321)	(2,199)
Proceeds from sale of property, plant and equipment		289	508
Purchase of intangible assets		(143)	(273)
Interest received		1	2
Total cash flows from investing activities		(4,181)	(2,372)
Cash flows from financing activities			
Proceeds from borrowings		20,433	46,527
Repayments of borrowings		(54,911)	(28,211)
Repayments of lease liabilities		(922)	(1,006)
Dividends paid		(133)	(17,772)
Total cash flows from financing activities		(35,533)	(462)
Net increase/decrease in cash and cash equivalents		22,797	(15,252)
Cash and cash equivalents at the beginning of the period	5	24,749	39,978
Effect of exchange rate changes		(66)	23
Cash and cash equivalents at the end of the period	5	47,480	24,749

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

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 12 months 2020 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2019 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2019 audited annual report and 2019 12 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 12 months 2020 present a true and fair view of the group's economic results based on the principle of going concern. The influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 1.1 CHANGES IN THE ACCOUNTING PRINCIPLE

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

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

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

AS Merko Ehitus group has assessed the impact of the IFRS Interpretation Committee agenda decision and has reached a conclusion of the amount not being material, therefore no correction into previous reporting periods is made and the total impact of deferred tax amount is recognized in financial statements for the year 2020 (Note 4).

POTENTIAL IMPACT OF THE IAS 12 RECOGNITION ON THE FINANCIAL STATEMENTS

in thousand euros

	31.12.2020	31.12.2019	31.12.2018
Effect of deferred tax adjustment on retained earnings	(1,368)	2,500	(2,500)
Effect of deferred tax adjustment on liabilities in the balance sheet	1,368	-	2,500
Total impact on retained earnings as at 31.12.2020	(1,368)	-	-

NOTE 2 OPERATING SEGMENTS

in thousand euros

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

Reporting of the group's operations are segmented as:

- construction service,
- real estate development.

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

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

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

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

2020 12 months	Construction service	Real estate development	Total segments
Revenue	188,735	147,891	336,626
Inter-segment revenue	(1,888)	(18,820)	(20,708)
Revenue from clients	186,847	129,071	315,918
incl. timing of revenue recognition at a point in time	1,381	119,915	121,296
timing of revenue recognition over time	185,466	9,156	194,622
Operating profit (loss)	4,561	23,710	28,271
Profit (loss) before tax	4,385	23,122	27,507
incl. interest income from operating activities	23	1,476	1,499
depreciation	(2,245)	(506)	(2,751)
impairment of inventories	(382)	(222)	(604)
recognition of provisions	(1,806)	(1,430)	(3,236)
reversal of provisions	79	-	79
profit (loss) from joint venture	-	(144)	(144)
other finance income (costs)	(27)	(353)	(380)
incl. interest expenses	(29)	(288)	(317)
Assets 31.12.2020	52,239	163,083	215,322
incl. joint venture	-	2,354	2,354
2019 12 months	Construction service	Real estate development	Total segments
Revenue	256,749	99,863	356,612
Inter-segment revenue	(47)	(29,786)	(29,833)
Revenue from clients	256,702	70,077	326,779
incl. timing of revenue recognition at a point in time	2,155	66,384	68,539
timing of revenue recognition over time	254,547	3,693	258,240
Operating profit (loss)	13,276	8,115	21,391
Profit (loss) before tax	13,053	9,607	22,660
incl. interest income from operating activities	47	2,143	2,190
depreciation	(2,264)	(443)	(2,707)
impairment of inventories	(175)	-	(175)
recognition of provisions	(3,934)	(1,533)	(5,467)
reversal of provisions	257	-	257
profit from joint venture	-	1,766	1,766
other finance income (costs)	(13)	(256)	(269)
incl. interest expenses	(17)	(239)	(256)
Assets 31. 12.2019	54,944	195,073	250,017
incl. joint venture	-	2,498	2,498

2020 IV quarter	Construction service	Real estate development	Total segments
Revenue	54,047	57,935	111,982
Inter-segment revenue	(1,344)	(4,200)	(5,544)
Revenue from clients	52,703	53,735	106,438
incl. timing of revenue recognition at a point in time	363	50,609	50,972
timing of revenue recognition over time	52,340	3,126	55,466
Operating profit (loss)	1,427	10,893	12,320
Profit (loss) before tax	1,404	10,392	11,796
incl. interest income from operating activities	5	409	414
depreciation	(479)	(169)	(648)
impairment of inventories	(382)	(222)	(604)
recognition of provisions	(410)	(1,115)	(1,525)
reversal of provisions	76	-	76
Profit (loss) from joint venture	-	(348)	(348)
other finance income (costs)	(10)	(144)	(154)
incl. interest expenses	(12)	(119)	(131)
Assets' change in IV quarter	(3,334)	(26,107)	(29,441)
incl. joint venture	-	(348)	(348)
2019 IV quarter	Construction service	Real estate development	Total segments
Revenue	52,700	54,524	107,224
Inter-segment revenue	(23)	(8,042)	(8,065)
Revenue from clients	52,677	46,482	99,159
incl. timing of revenue recognition at a point in time	575	45,580	46,155
timing of revenue recognition over time	52,102	902	53,004
Operating profit (loss)	4,230	5,936	10,166
Profit (loss) before tax	4,159	6,781	10,940
incl. interest income from operating activities	8	896	904
depreciation	(755)	(173)	(928)
recognition of provisions	(378)	(953)	(1,331)
reversal of provisions	257	-	257
profit from joint venture	-	921	921
other finance income (costs)	(7)	(66)	(73)
incl. interest expenses	(7)	(58)	(65)
Assets' change in IV quarter	(21,394)	(19,198)	(40,592)
incl. joint venture	-	921	921

In addition to the segment assets, as at 31.12.2020 the group holds assets in the amount of EUR 41,593 thousand (31.12.2019: EUR 31,810 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	2020 12 months	2019 12 months	2020 IV quarter	2019 IV quarter
Pre-tax profit from reporting segments	27,507	22,660	11,796	10,940
Other operating profit (loss)	(2,805)	(2,153)	(1,160)	(875)
incl. recognition of provisions	(9)	(9)	(9)	(9)
finance income (costs)	(245)	(184)	(52)	(53)
incl. interest expenses	(176)	(178)	(38)	(51)
Total profit before tax	24,457	20,323	10,584	10,012

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

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2020 12 months		2019 12 months		2020 IV quarter		2019 IV quarter	
Estonia	177,344	56%	168,825	52%	67,671	64%	62,260	63%
Latvia	49,735	16%	92,772	28%	9,652	9%	18,073	18%
Lithuania	77,173	24%	46,202	14%	25,597	24%	16,747	17%
Norway	11,666	4%	18,980	6%	3,518	3%	2,079	2%
Total	315,918	100%	326,779	100%	106,438	100%	99,159	100%

CONTRACT ASSETS AND LIABILITIES

in thousand euros

	31.12.2020	31.12.2019
Accrued income from construction services (Note 6)	7,741	11,689
Prepayments for construction services (Note 13)	(6,926)	(8,058)
Advance payments received for construction contract works (Notes 13, 15)	(8,576)	(5,637)
Recognised provision for onerous construction contracts (Note 14)	(312)	(1,295)

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

in thousand euros

	31.12.2020	31.12.2019
Estonia	17,896	15,289
Latvia	13,096	13,333
Lithuania	383	476
Norway	133	143
Total	31,508	29,241

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2020 12 months	2019 12 months	2020 IV quarter	2019 IV quarter
Construction services and properties purchased for resale	174,208	185,121	64,821	61,817
Materials	42,526	49,121	7,509	9,329
Labour costs	24,509	26,323	7,887	6,812
Construction mechanisms and transport	11,687	8,911	2,134	2,164
Design	5,103	4,394	1,245	1,476
Real estate management costs	323	401	84	106
Depreciation	1,815	1,835	412	701
Impairment of inventories	604	175	604	-
Provisions	3,100	4,939	1,392	803
Other expenses	8,294	10,738	1,813	2,027
Total cost of goods sold	272,169	291,958	87,901	85,235

NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2020 12 months	2019 12 months	2020 IV quarter	2019 IV quarter
Net profit (loss) attributable to shareholders (in thousand EUR)	22,994	16,270	9,923	9,267
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700	17,700
Earnings (loss) per share (in euros)	1.30	0.92	0.56	0.52

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

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

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 (Note 1.1).

As at 31.12.2020 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 1,368 thousand euros (31.12.2019: 0 thousand euros).

As at 31.12.2020, the parent company AS Merko Ehitus has previously taxed dividends and income received from abroad in a sum of EUR 3,507 thousand (31.12.2019: EUR 1 thousand), on which income tax has been withheld.

As at 31.12.2020, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 116,547 thousand (31.12.2019: EUR 97,533 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 877 thousand (31.12.2019: EUR 0 thousand), the corresponding income tax on dividends would amount to EUR 27,959 thousand (31.12.2019: EUR 24,083 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration. Above that sum, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out as net dividends). The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.12.2020	31.12.2019
Cash on hand	-	6
Bank accounts	47,480	24,743
Total cash and cash equivalents	47,480	24,749

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.12.2020	31.12.2019
Trade receivables		
Accounts receivable	25,391	34,148
Allowance for doubtful receivables	(3,525)	(856)
	21,866	33,292
Tax prepayments excluding corporate income tax		
Value added tax	585	695
Other taxes	35	3
	620	698
Accrued income from construction services	7,741	11,689
Other short-term receivables		

	31.12.2020	31.12.2019
Short-term loans	371	1,700
Interest receivables	1	3
Other short-term receivables	118	172
	490	1,875
Prepayments for services		
Prepayments for construction services	1,570	2,441
Prepaid insurance	137	117
Other prepaid expenses	233	301
	1,940	2,859
Total trade and other receivables	32,657	50,413
incl. short-term loan receivables from related parties (Note 16)	-	1,650
other short-term receivables and prepayments to related parties (Note 16)	369	89

During the reporting year accounts receivables in overdue have been written down in the amount of EUR 2,683 thousand (during 12 months of 2019: EUR 795 thousand).

NOTE 7 INVENTORIES

in thousand euros

	31.12.2020	31.12.2019
Materials	351	236
Work-in-progress	38,626	65,550
Finished goods	25,210	28,252
Goods for resale		
Registered immovables purchased for resale/development	60,667	70,193
Other goods purchased for resale	87	133
	60,754	70,326
Prepayments for inventories		
Prepayments for other inventories	1,391	1,862
Total inventories	126,332	166,226

NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	31.12.2020	31.12.2019
Long-term loans	1,115	-
Long-term bank deposit	2	-
Long-term receivables from customers of construction services	16,862	11,094
Total other long-term loans and receivables	17,979	11,094
incl. long-term loan receivables from related parties (Note 16)	1,115	-

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.12.2020	31.12.2019
Land	12,407	12,400
Right of superficies at carrying amount		
Cost	29	29
Accumulated depreciation	(13)	(13)
	16	16
Buildings at carrying amount		
Cost	2,631	2,631
Accumulated depreciation	(1,132)	(1,000)
	1,499	1,631
Total investment property	13,922	14,047

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.12.2020	31.12.2019
Land	712	712
Buildings at carrying amount*		
Cost	6,040	6,558
Accumulated depreciation	(2,689)	(2,629)
	3,351	3,929
Machinery and equipment at carrying amount*		
Cost	14,377	14,371
Accumulated depreciation	(8,760)	(8,671)
	5,617	5,700
Other fixtures at carrying amount		
Cost	4,027	4,018
Accumulated depreciation	(3,145)	(2,942)
	882	1,076
Prepayments for property, plant and equipment	3,959	502
Total property, plant and equipment	14,521	11,919

* As of 31 December 2020 the balance of buildings at carrying amount includes leased assets in a sum of EUR 186 thousand (31.12.2019: EUR 526 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 2,487 thousand (31.12.2019: EUR 2,456 thousand).

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.12.2020	31.12.2019
Goodwill		
Cost	69	73
	69	73
Software at carrying amount		
Cost	2,122	2,024
Accumulated depreciation	(1,495)	(1,320)
	627	704
Prepayments for intangible assets	15	-
Total intangible assets	711	777

NOTE 12 BORROWINGS

in thousand euros

	31.12.2020	31.12.2019
Lease liabilities*		
Lease liabilities balance	2,703	2,891
incl. current portion	790	806
non-current portion 2...5 years	1,913	2,085
Bank loans		
Loan balance	20,299	54,835
incl. current portion	6,859	18,919
non-current portion 2...5 years	13,440	35,916
Loans from entities under common control		
Loan balance	6,000	6,000
incl. current portion (Note 16)	6,000	1,000
non-current portion 2...5 years (Note 16)	-	5,000
Loans from other entities		
Loan balance	56	-
incl. non-current portion 2...5 years (Note 16)	56	-
Total loans		
Loans balance	26,355	60,835
incl. current portion	12,859	19,919
non-current portion 2...5 years	13,496	40,916
Total borrowings	29,058	63,726
incl. current portion	13,649	20,725
non-current portion 2...5 years	15,409	43,001

* As of 31 December 2020 the lease liabilities include a balance of EUR 82 thousand to related parties (31.12.2019: EUR 124 thousand) (Note 16).

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.12.2020	31.12.2019
Trade payables	20,948	30,681
Payables to employees	11,788	10,647
Tax liabilities, except for corporate income tax		
Value added tax	3,199	4,270
Personal income tax	470	485
Social security tax	1,180	1,146
Unemployment insurance tax	50	48
Contributions to mandatory funded pension	36	33
Other taxes	98	205
	5,033	6,187
Prepayments for construction services	6,926	8,058
Other liabilities		
Interest liabilities	1	5
Other liabilities	592	218
	593	223
Prepayments received *	10,558	13,789
Total payables and prepayments	55,846	69,585
incl. payables to related parties (Note 16)	3	12

* As of 31 December 2020 the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 6,997 thousand (31.12.2019: EUR 5,637 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 3,561 thousand (31.12.2019: EUR 8,152 thousand) (Note 2).

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.12.2020	31.12.2019
Provision for warranty obligation for construction	3,448	3,507
Provision for costs of projects sold and work-in-progress projects	2,319	2,894
Provision for onerous construction contracts	312	1,295
Provision for legal costs and claims filed	202	202
Other provisions	66	78
Total short-term provisions	6,347	7,976

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.12.2020	31.12.2019
Trade payables	2,120	2,476
Prepayments received *	1,579	-
Other long-term liabilities	327	1,015
Other long-term payables total	4,026	3,491
incl. other long-term payables to related parties (Note 16)	327	1,015

* As of 31 December 2020 the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 1,579 thousand (31.12.2019: EUR 0 thousand) (Note 2).

NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.12.2020 and 31.12.2019, AS Riverito owned 71.99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr. Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %		Location	Area of operation
	31.12.2020	31.12.2019		
Subsidiaries				
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	Estonia, Tallinn	Road construction
AS Merko Infra	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	Estonia, Tallinn	Mining
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
UAB Statinių Prižiūra ir Administravimas	-	100	Lithuania, Vilnius	Real estate
UAB Timana	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektas	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	Estonia, Tallinn	Real estate
UAB Balsiu Mokyklos SPV	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku Aikštele	-	100	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Prižiūra ir Administravimas	100	-	Lithuania, Vilnius	Real estate
OÜ Kiviaia Kinnisvara	-	100	Estonia, Tallinn	Real estate
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	Latvia, Riga	Real estate
PS Merks-Ostas Celnieks	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	Finland, Helsinki	Construction
Merko Investments AS	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	Norway, Sofiemyr	Construction
Joint venture				
Kodusadam OÜ	50	50	Estonia, Tallinn	Real estate

Additional information on the changes during the reported period is provided in chapter Corporate Governance in Management report on pages 17-18.

GOODS AND SERVICES

in thousand euros

	2020 12 months	2019 12 months
Provided services and goods sold		
Parent company	13	15
Joint venture	1,494	2,770
Entities under common control	844	847
Members of the management	838	2,441
Total services provided and goods sold	3,189	6,073
Interest income		
Joint venture	74	377
Purchased services and goods		
Parent company	90	90
Entities under common control	68	137
Members of the management	3	-
Total purchased services and goods	161	227
Interest expense		
Entities under common control	142	145
Total interest expense	142	145

BALANCES WITH RELATED PARTIES

in thousand euros

	31.12.2020	31.12.2019
Receivables from related parties		
Loans granted (Notes 6,8)		
Joint ventures	1,115	1,650
Receivables and prepayments (Note 6)		
Parent company	4	4
Joint venture	25	64
Entities under common control	340	9
Members of the management	-	12
Total receivables and prepayments	369	89
Total receivables from related parties	1,484	1,739
Payables to related parties		
Lease liabilities (Note 12)		
Entities under common control	82	124
Short-term loans received (Note 12)		
Entities under common control	6,000	1,000
Payables and prepayments (Note 13)		
Parent company	-	9
Entities under common control	3	3
Total payables and prepayments	3	12
Long-term loans received (Note 12)		
Entities under common control	-	5,000
Other related parties	56	-
Other long-term payables (Note 15)		
Other related parties	327	1,015
Total payables to related parties	6,468	7,151

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 12 months of 2020 was EUR 3,857 thousand (12 months of 2019: EUR 3,212 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 12 months of 2020, the Management Board members of major subsidiaries received EUR 157 thousand in compensation (12 months of 2019: EUR 0 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31.12.2020:

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

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

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31.12.2020:

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

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	31.12.2020	31.12.2019
Performance period's warranty to the customer	24,901	24,896
Tender warranty	669	916
Guarantee for warranty period	22,253	19,964
Prepayment guarantee	11,589	6,835
Payment guarantee	516	-
Contracts of surety	1,834	7,783
Total contingent liabilities	61,762	60,394

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

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

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

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

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

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

DEFINITION OF RATIOS

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