AS Merko Ehitus

Consolidated annual report 2023

AS MERKO EHITUS
GROUP

CONSOLIDATED ANNUAL REPORT
01.01.2023 – 31.12.2023

Business name: AS Merko Ehitus
Main activities: holding companies, general contracting of construction, real estate development
Commercial register no: 11520257
Legal form: public limited company
State: Republic of Estonia

Supervisory Board: Toomas Annus, Indrek Neivelt, Kristina Siimar
Management Board: Andres Trink, Tõnu Toomik, Urmas Somelar
Auditor: AS PricewaterhouseCoopers

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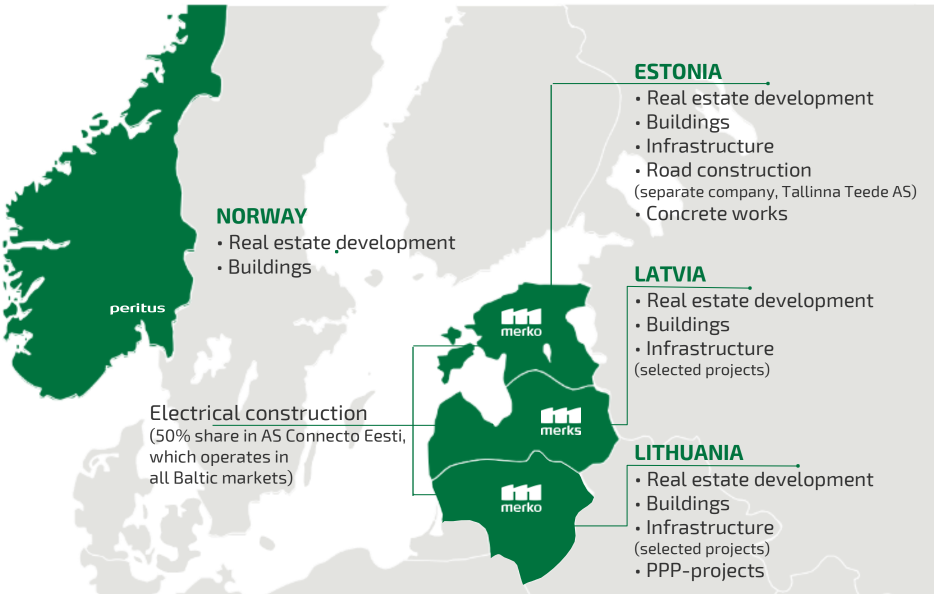
MAIN FACTS

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

We create a better living environment and build the future.

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



NORWAY
- Real estate development
- Buildings

ESTONIA
- Real estate development
- Buildings
- Infrastructure
- Road construction
(separate company, Tallinna Teede AS)
- Concrete works

LATVIA
- Real estate development
- Buildings
- Infrastructure
(selected projects)

LITHUANIA
- Real estate development
- Buildings
- Infrastructure
(selected projects)
- PPP-projects

Electrical construction
(50% share in AS Connecto Eesti, which operates in all Baltic markets)

We are the largest listed construction company and residential developer in the Baltics.

COMPETITIVE ADVANTAGES

- Broad range of construction services and products, comprehensive solutions offered to clients
- Inventory of residential development projects and a strong brand
- Strong quality management system
- Experienced project managers and engineers
- Longstanding experience on the subcontractors' and suppliers' market
- Innovative technological approaches and construction solutions
- Strong financial capability

2023 new contracts signed
501M

2023 revenue
466M

2023 EBITDA
48M

2023 net profit
46M

Dec 31, 2023 employees
635

~11,000 high-quality homes has Merko built while operating in Estonia, Latvia and Lithuania.

VALUE OFFERING

As a general contractor of construction, we manage the entire construction process and are responsible for the completion of the construction work. We also offer design and construction services as a whole.

- Complete solution according to the client's needs: preparation, design, construction, furnishing and warranty service. We combine the experience and resources of sub- contractors and our skilled workers as needed.
- Full service of real estate development from the acquisition of the property and the procedure of detailed planning to the preparation of construction and the execution of construction works. We provide complete solutions designed to meet client's needs, both in private cooperation as well as in public-private partnership.
- The quality management, environmental management and occupational health and safety management of the group companies are certified according to ISO 9001, ISO 14001 and ISO 45001 standards.

As an apartment developer, we manage the entire process from development to warranty service.

- We focus on creating large and modern living environments.
- To ensure the best quality, we manage the entire development process, from the acquisition of the property, preparation of a detailed plan and organization of an architectural competition to design, construction, sale of apartments and commercial premises, and after-sales service.

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear shareholders,

IVO VOLKOV
AS MERKO EHITUS
CHAIRMAN OF THE
MANAGEMENT BOARD

Like past years and, surely, years to come, 2023 was anything but dull for Merko. The changing market and economic conditions are constantly forcing us to think on our feet. Fortunately, there is no question that our people are up to the challenge. Indeed, we have successfully implemented the decisions we have needed to make. The results for 2023 attest to this, as can be seen from the figures in this report.

Our performance in the year ended was made possible by fact that several important factors coincided. We had the capacity to launch major construction sites, and we also capitalized on the success of our real estate developments of the past few years. In 2023, we delivered about 1000 new homes and commercial units to our customers. Building a contemporary living environment and high-quality homes remains a priority for us. Since the real estate market will remain unstable in the near future and the pace of apartment sales is low, we are steering our developments at a pace and volume that corresponds to the new market situation.

In the near future, we will again focus more on construction service. Our portfolio of work is in about as good condition as can be in today's turbulent world, counterbalancing the negative impact on our construction volumes and sales from the apartment market slump. In 2023, the group companies entered into EUR 501 million in new construction contracts, and as of the end of the year, the balance of secured order-book stood at EUR 477 million, an increase of about 60% compared to 2022.

In terms of giving back to society, we are continuing to contribute to healthy life years by developing places for physical activity. We support culture and art, make cities and towns richer through public art and parkland, and support those in need. We are also helping train a new generation of professionals and are proud of the fact that Merko is Estonia's most attractive employer in the eyes of university students in engineering specialities.

Merko's success hinges on its people. We take our hats off to you, just as we salute Merko apartment buyers, construction service customers, partners and shareholders who has put their trust in us. The project we have completed in collaboration between many professionals have won acclaim in Estonia, Latvia and Lithuania. Among other honours, Merko's Merks Viesturdarzs apartment development won the title of the Best Building of the Year in Latvia in the new homes category. Vilnelės Skverai was declared Lithuania's best residential project at the Sustainable Development 23 competition. Attesting to our good work, Estonian apartment buyers considered Merko the best-known and most prestigious real estate developer for another straight year.

Thanks to our hallmarks – good decisions and quality work – we are in good financial health and our outlook for the future is positive. We plan to focus on our strengths, manage risks and operate using the best available knowledge. We take a measured approach and constantly re-assess the situation as we go, designing a better living environment and building the future.

Ivo Volkov
AS Merko Ehitus Chairman of the Management Board

PURPOSE

We create a better living environment. We build the future.

BUSINESS

We construct buildings and infrastructure and develop real estate. We operate in Estonia, Latvia, Lithuania and Norway.

PRINCIPLES

We operate as one Merko.
We see opportunities, act upon them and have a long-term view.
Our focus is on profitable growth.

MERKO VALUES

- I am competent
- I keep my word
- I care and take responsibility
- I initiate and make it happen
- I look for new ideas

MERKO ESSENCE

Employee
Caring and development-oriented employer

Customer and partner
Preferred choice for those who value quality

Society
Creating future and valuing heritage

Investor
Attractive
long term investment

STRATEGY

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

FINANCIAL OBJECTIVES

The Management Board and Supervisory Board of AS Merko Ehitus have approved the group's strategic development directions and long-term financial objectives, which are:

Average return on equity at least
10%

Dividend rate
50-70%
of annual profit

Equity ratio at least
40%

Given the competitive situation of the construction and real estate markets in the Baltics and the increased uncertainty of the economic environment, the strategy and financial objectives are aimed at maintaining high capitalisation and the return on invested capital.

In 2023, the group fulfilled the financial objectives set for both return on equity and equity ratio as a proportion of assets:

Return on equity
23.4%

Equity ratio
50%

The amount of dividends paid for the completed financial year and thus the dividend rate will be decided by the general meeting of shareholders

FULFILMENT OF LONG-TERM FINANCIAL OBJECTIVES 2019-2023

	2023	2022	2021	2020	2019	AVERAGE
Return on equity, ROE (on yearly basis)	23.4%	20.4%	18.8%	16.2%	12.9%	18.4%
Dividend rate	*	51%	61%	77%	-	47%
Equity ratio 31.12.	49.9%	47.5%	51.6%	59.6%	46.2%	51.0%

**The dividend rate for 2023 depends on the decision of the general meeting of shareholders to pay dividends.*

SIGNIFICANT PROJECTS COMPLETED IN 2023

PROJECTS IN THE EDUCATIONAL SPHERE

Over the years, Merko has built tens of school buildings. 2023 saw many new distinguished and innovative entries added to our portfolio in this sector.

In Tallinn, the Pelgulinna state gymnasium was completed, serving 1,080 students. One of the largest wooden buildings in Estonia, it won the title of best timber building in 2023. One of the most striking details is the glue-laminated timber latticework on the façade. In addition to the load-bearing elements, wood is lavishly on display in the interior finishing – in the classrooms, the atrium with its checkerboard pattern and the wooden terraced lounging areas. St. John's School in Nõmme district of Tallinn gained a new wing last year – the new home to upper secondary school students. The old and new parts of the building have a similar architectural design and are connected by a walkway. In the Uus-Veerenni project also developed and built by Merko in Tallinn, we built a park to complement our high-quality homes, and also completed a preschool building in the immediate vicinity. It has nine pods and is attended by 150 children.

In Latvia, the Liepāja preschool for 144 children was completed – the first new preschool in that city since the country regained independence. The heart of the two-storey building is a playroom on the ground floor, rising through two floors. It can be used as an assembly hall. Owing to the skylights and large windows, the building has ample natural light and the interior finishing gives preference to natural and environmentally friendly materials. The nursery school's grounds feature various play areas, bike parking and car parking spaces.

PUBLIC PARKS

Not only do we build attractive-looking buildings, we also beautify cities and towns with parks and public squares. In Tallinn, Merko's Uus-Veerenni quarter got itself a park measuring 8,500 square metres, offering year-round activities for people of all ages. Play features for children, sculptures, outdoor seating and reading corner/outdoor library. The landscape architecture in Tallinn city centre's newest park puts a premium on biodiversity and re-use and is for both the neighbourhood residents and visitors.

Besides the permanent park, we also established a temporary one on plots waiting for the next phase of development. Until construction starts on the new buildings, sports aficionados will be able to use this area to play volleyball and basketball and use the outdoor workout equipment. Green thumbs will find planter boxes, while pets will enjoy spacious green spaces and a number of relaxation areas and pavilions for recreational use. We also established a similar temporary park in the middle of Tallinn's Lahekalda development, boasting recreational and sports possibilities for children and grown-ups. Besides the outdoor gym equipment, there's an illuminated allée lined with swing sets for local residents.

PROJECTS IN THE ENERGY SECTOR

We've also built various energy plants in Estonia, Latvia and Lithuania. In Lithuania, Merko is now the leading wind farm developer. The first turbine foundations were installed by subsidiary UAB Merko Statyba in 2015 for GE Wind Energy GmbH. As of this time, we have installed foundations for more than 100 turbines that generate sustainable power, help to ensure energy security and reduce the need for imported fossil fuels.

In 2023, Merko launched construction of three new energy infrastructure projects: transformer substations in Kelme and wind farms in Kelme and in Pagėgiai County. Altogether, we installed foundations for more than 84 wind turbines, creating additional infrastructure for other wind farms.

PROJECTS IN THE NATIONAL DEFENCE SECTOR

Merko has made a substantial contribution to national defence through the construction of various buildings and infrastructure. In recent years, the focus has lain on strengthening infrastructure along Estonia's south-eastern border with Russia. Merko and partner GRK have been designing and building a 60-km section of the land border in that area. In 2022, the first phase was completed: 23.5 km of border in Võru County, which starts from the three-country point between Estonia, Latvia and Russia and runs to the southern shore of Lake Vanigõjärv in Tserebi Village 3.5 km to the north of Luhamaa border checkpoint. As a result of the second phase, a 34.7-km section of border infrastructure will be completed in 2025. This one starts on the southern shore of Lake Vanigõjärv in Tserebi and ends in the village of Võmmorski. In January 2023, a technology park spanning four hectares was completed at Taara military base in Võru, allowing Estonian Defence Forces units serving on the base to house 500 vehicles in a

fortified bunker and perform maintenance such as automatic vehicle washing. In addition, four new universal hangars for hosting NATO troops were built at Tapa.
In Lithuania, the main emphasis was on building NATO infrastructure meant for ensuring readiness of forces and presence of NATO partners. In 2023, the biggest projects in history were underway in Lithuania – a training centre in Vilnius and one in Pabradė. The training centre's infrastructure will be built to meet the forces' needs ad includes living quarters, a multipurpose building, classrooms, offices, dining rooms, a gym, parking areas, new roads and helipads. It is Lithuania's largest training centres, allowing thousands of soldiers to train together and test their readiness.

PROJECTS WITH INTERNATIONAL SUSTAINABILITY CERTIFICATES

Merko contributes to sustainability both as a company and through the development of its branded developments. We also build sites up to international sustainability certificate standards.

In 2023, two office buildings with BREEAM certificates were built in Riga: Gustavs business centre and Elemental Business Centre. Gustavs is a six-storey building with two underground parking levels, an atrium with skylight and a wooden structure, roof decks, conference halls, a restaurant area, electric car charging, bicycle storage and dressing rooms. The building earned a BREEAM Excellent certificate. The two interconnected office buildings at Elemental Business Centre have 21,300 m^2 of class A rental space, a 400-place bicycle park and 500 spaces for cars, including 200 on the underground level. The energy-efficient buildings were designed to meet BREEAM Excellent standard and after construction is completed will vie for the Outstanding level of BREEAM, becoming the first office building in Latvia to get such a high standard. The energy piles used in building construction cover up to 72% of the building's heating and cooling needs, significantly saving on tenants' utility costs.

In 2023, there were two BREEAM certificate projects in progress in Estonia: the Tallinn Kaubamaja Group logistics centre in Maardu and Arter in the city centre of Tallinn. Both are vying for the Excellent level of the BREEAM standard. Certification, which is subject to additional, stricter requirements, such as how work on the job site is organized. As the main contractor, Merko Ehitus Eesti prepares reports on quantities of water and energy consumed (including power, gas and fuel), waste (quantity, handler, handling site and handling method), and material transport (type of materials arriving on the job site, place of use, contractor, quantity, method of transport and transport distance). Separately, the BREEAM certification process devotes attention to sustainable use of wood. All of the wood and wood products used in the Arter project (sawn timber, plywood, parquet and integrated furniture etc.) are either FSC or PEFC certified, which substantiates that the timber was legally felled and processed.

MAJOR RESIDENTIAL ENVIRONMENTS BUILT BY MERKO

The group's strategic business direction is residential real estate development, in which we are now among the strongest brands in the Baltics. We are focusing on creating new and contemporary living environments. To ensure the best possible quality, we manage the entire development process from planning, design and construction to sales and warranty service. For more than 30 years, we have built quality homes for close to 11,000 families. Hundreds of new apartments are under construction and in development in Tallinn and its vicinity, Tartu, Riga and Vilnius.

NOBLESSNER

The Noblessner residential environment, which has been hailed as the best urban space development, is a collaboration between Merko and BLRT Group. The complex next to the Seaplane Harbour in Tallinn, by the sea, is full of historical industrial buildings with grand period architecture, a promenade, marina and a new development with high quality homes and storefronts. By the end of 2022, we had built 198 new homes and 17 commercial units on Staapli Street in Noblessner. 2023 brought the addition of yet another 307 homes and several dozen commercial spaces in the Vesilennuki and Allveelaeva projects.

In the first half of 2023, five apartment buildings were built next to the marina in the Vesilennuki project, boasting 159 new homes and 14 commercial units, with a day-care services, home furnishings store, café and hair stylist. The energy class B buildings with sea views and spacious balconies were designed by KOKO Architects with interior architecture by KAOS Architects. Parking is on a below-ground level and the landscaped courtyards have playgrounds and recreational areas. Late 2023 saw the completion of 148 apartments and more than half of the 11 commercial units in the Allveelaeva 4 residential-commercial building. The building, which also has underground parking space, was designed by the architectural practice of Pluss, and interior architectural designs were in collaboration with EEOO Studio. In the middle of the building is an atmospheric interior courtyard; spacious roof decks connect to the units on the upper floors.

LAHEKALDA

Located on a naturally scenic promontory between the Kadriorg and Pirita districts in Tallinn, Lahekalda will become home to more than 1,000 families in the next ten or so years. By 2023, eight buildings with 386 apartments were ready and the next two buildings, with 108 apartments, were under construction. The landscaped play and recreational areas offer a nice outlet for residents. In 2023, we opened an outdoor workout equipment area and an allée lined with swings. In the future, the neighbourhood will also feature a preschool, grocery store, and park.

UUS-VEERENNI

Uus-Veerenni, located in Tallinn's city centre, will become home to 1,400 families when the entire project is completed. In the first four phases, we have built 26 buildings with 367 apartments and 8 commercial spaces. 2023 saw the addition of 12 apartment buildings with 137 apartments and 8 storefronts at Veerenni 36b and Pille 11. Parking spaces are in the underground parking garage, while there are play areas in the landscaped interior courtyard between the buildings. In 2022, construction on both Tiiu Street and the Uus-Veerenni park area were completed. The latter is a combination of sustainable design, art, fitness activity and play features, and an outdoor library that will all make community life richer.

METSATUKA

In 2023, two apartment buildings with three above-ground structures were completed with a total 130 apartments were built next to Pääsküla bog and forests in the Nõmme district of Tallinn. The southern parts of the four-storey buildings have three storeys and most apartments have balconies with glass barriers. The most luxurious of the apartments in the development have saunas and a roof deck and thanks to the apartments adjoining three external walls, wide-ranging views of the surroundings. Around the buildings are landscaped courtyards with play equipment and benches. Parking spaces are on the below-ground parking level and a parking lot.

ERMINURME

The homes in Erminurme are located next to the Estonian National Museum, which has been hailed as Europe's biggest and most modern museum. To accentuate the area's military history value of the area, Merko established a 7,000 square metre park for public use among the caponiers of the former military airbase. Cosy Erminurme features 12 apartment buildings of two or three storeys each, with more than 220 new homes. The buildings' architecture is integrated well with the neighbourhood's ambience and harmony between buildings of different types is emphasized. In 2023, three energy class A buildings with 46 apartments were built in the course of the fourth phase of the development.

MERKS VIESTURDĀRZS

Merks Viesturdārzs residential development is located next to Viesturdārzs, the oldest park in Riga, in an area considered by many to be the city's most attractive quarter. This is the largest apartment development in the quiet area of central Riga, and has garnered many awards and held in high regard among apartment buyers and professionals in the field. Three buildings with 263 apartments and eight commercial units were built during the first two phases. In the third phase, added in 2023, three energy class A buildings of five to seven storeys were built, with a total 90 apartments and four commercial units. Parking spaces and storage areas are on the underground levels and every apartment has a balcony or patio.

MERKS MAGNOLIJAS

The Merks Magnolijas development is located in Riga's Pārdaugava district, known for its low-rise buildings and well-tended yards. In the first phase, two three-storey energy class A buildings with 96 apartments were built at the addresses Skrines 6 and 8. The yards have outdoor parking areas, a children's playground and benches and sports courts. A fence around the courtyard and security cameras provide privacy and safety. All the apartments have a spacious balcony or patio. This was the first project for Merks Mājas in Latvia to have solar panels and hot water collectors on the roofs to keep utilities costs as low as possible for residents.

MEŽPILSĒTA

This residential development is located in one of Riga's greenest areas, Mežciems, between Dreiliņupīte stream and forest. The district has become a preferred place to live for young families. In the course of the first development phase in 2022, three five-storey buildings with 117 apartments were built. In 2023, construction of a six-storey energy class A building with a total 47 apartments started. In proximity to the buildings are parking spaces, a children's playground and outdoor seating areas. Each apartment comes with a storage room in the basement.

VILNELES SKVERAI

Merko continued developing Vilnelės Skverai residential project near Vilnius's Old Town. Consisting of 26 buildings, it will eventually be home to more than 1,000 households. Three buildings with 450 apartments and eight commercial units were built during the first two phases. The phase now under construction will add eight 6-7 storey buildings with 303 apartments. All the apartments have a balcony or patio. The below-ground parking garage has spaces for 355 cars and EVs, as well as bike parking and storage rooms. The apartment buildings are clustered around a common yard with pleasant green areas, playgrounds and seating. The new residential development also has storefronts that provide residents with essential services.

A SUSTAINABLE ENVIRONMENT

The construction companies in Merko Group are creating a multifaceted living environment through their activities – consisting of urban space and landscapes. We plan what we do to minimize adverse impact on environmental quality.

CO2 FOOTPRINT

The subsidiaries of Merko Ehitus Group have been calculating their carbon dioxide footprint for several years now. The Estonian business unit started measuring its footprint in 2021. Starting in 2022, the Latvian and Lithuanian business units are also monitoring their footprint. The measurements are based on the principles of the GHG Protocol Corporate Standard, the metric in most widespread international use, and the ESG guidelines. Similarly to the best practices for reporting CO2 footprint, measurements are divided into three scopes, where Merko focuses above all on evaluating scope 1 (fuels used in company vehicles) and scope 2 (energy purchased for the corporate offices) – emissions from the company's direct operations. The carbon footprint from power and fuels on construction sites – under scope 3 – is also calculated, but due to problematic availability of data, scope 3 emissions are not yet measurable on a larger scale in this time period.

Calculated on the basis of existing data, the directly influenced GHG emissions (scope 1 and 2) in 2023 for Merko Ehitus Group was 1,325 tonnes of CO2 equivalent, which is 2% less than in 2022. By country, the group's Estonian business unit, being the largest, also had the largest footprint (897 tonnes of CO2 equivalent), followed by Lithuania (297) and Latvia (131). The vast majority (78%) of the footprint was made up of fuels for machinery and equipment (petrol, diesel) and heat and electricity made up 22%. The footprint related to consumption of fuels remains at more or less the same level as the past year, but the footprint for heat and power shrank 9%. The main reason was lower power consumption as a whole and among other things, the transition of the Merko Estonia office building to green energy in Q4 of 2023.

Starting in 2025, Merko will be subject to ESG reporting obligations for 2024, and we launched preparations for this in 2023. Among other things, we evaluated the environmental and carbon footprint process and it was confirmed that most of Merko's carbon footprint stemmed from the supply chain which is categorized under scope 3. As a result, it will become particularly important to distinguish the company's direct and indirect environmental impact. Although the cumulative carbon footprint of the construction sector is remarkably high in the global picture, most of that footprint stems from the environmental impact of construction material production including greenhouse gases given off by mining. The carbon footprint of construction activity itself – above all through energy consumption – is low in this context. Since the choice of the structures and construction materials for a project are determined in the planning phase, the environmental impact is hard to influence by the construction company and reducing it requires major coordination between customers, engineers and architects and builders in the planning phase. The calculation of the more detailed scope 3 CO2 footprint related to the construction sector also requires additional data from market participants, the prerequisite of which is broader adoption of electronic product/material certificates and uniform carbon reporting requirements for all parties in the supply chain.

Merko engages consistently in cooperation with different customers to find environmentally cleaner alternatives, a good example of which is the introduction of green energy on the Arter construction project in 2023, which saved an estimated 496.5 tonnes of CO2 equivalent of carbon emissions. In Estonia, Merko took part in various public events in 2023 as trendsetter in environmentally responsible construction and organized seminars on the topic of circular economy and re-use of construction materials (e.g. the Circular Economy Day, Circular Economy trade fair, Baltic Environmental Forum's seminar on environmental conservation in public procurements, and an Estonian Association for Environmental Management seminar). We have explored ways of re-using materials from today's construction sector and restrictions on activities if it is not possible to prove conformity of recovered materials on the basis of current legislation. We have also tried to spread the word that environmental conservation is an unavoidable trend in the construction sector as well, but it cannot come at the expense of safety and very clear agreements – currently lacking – are necessary in the circular economy.

SOCIAL RESPONSIBILITY

We take responsibility for decisions and activity with an impact on employees, clients, partners and local communities, the environment and society as a whole. In giving back to society, we focus on four areas: sport and physical fitness, art and heritage, the urban space, and education and charity.

SPORT AND FITNESS

In this field, Merko focuses on creating new opportunities for Estonians to engage in healthful outdoor activity pursuits to hopefully increase healthy-years life expectancy. Merko's largest sponsorship project is the Estonian Health Trails project (Eesti Terviserajad), which it launched in 2005 with Swedbank and Eesti Energia and which is aimed at providing free of charge, year-round outdoor fitness opportunities closer to home and thereby popularizing healthy lifestyles.

There are 125 trails in natural areas all over Estonia. Visitors totalled about 8.4 million in 2023. The statistics are gathered using motion detectors along 71 of the biggest trails. The ones that saw the most use in 2023 were in the greater Tallinn area and larger towns: Pae Park (560,000 visitors), Harku (525,000), Nõmme (482,000), Pirita (458,000) and Keila (393,000). Kuressaare drew 370,000 visitors, Narva Äkkeküla trails 244,000, Järve in Tallinn, 237,000 and Rapla, 227,000.

Estonia has a total of 1,100 km of year-round trails maintained by a 200-strong maintenance team as volunteers or under contracts with local governments. Trail map signboards and markings aid in navigating the trails. Stretching and aerobics equipment, low-elevation ropes courses and balance beams, bicycle paths and pumptracks widen the possibilities. Some of the trails even have bike repair points and drinking water taps. By the end of 2023, weather sensors had been installed on 23 trails, and 18 had a trailcam to let skiers scout out conditions before heading to the track.

In 2023, the focus for Estonian Health Trails was on improving the multifunctionality and upgrading ease of use of the existing trails. Using support from the foundation, low-height ropes courses and balance courses for children were built along trails in Rakvere, Maardu, Tabasalu, Kõrvemaa, Äkkeküla, Lüllemäe, Rakke, Palivere, Sõmeru, Saku, Kuusalu and Lüllemäe. In cooperation with the Estonian Orienteering Federation, mobile orientation courses were installed in Abja-Paluoja, Holstre-Polli, Iisaku, Insikurmu, Karksi-Nuia, Kääriku, Loksa, Mammaste, Padise, Saku, Rapla, Vooremäe, Viljandi Lake, Kuremaa, Rohuneeme, Pirgu, Haanja, Rõuge, Vastseliina and Võru-Kubija. In 2023, a new dressing facility was built by Sõmeru trail and construction of similar buildings by Keila and Palivere trails started. In addition, construction of such facilities will start by Tähtvere, Kadrina, Paluküla and Äkkeküla in 2024, which will enhance the value of the trails for users and maintenance crews. In 2023, Maardu and Kuusalu trails were added. An extension of the illuminated Mähe section of the Pirita trail was completed, along with earth-moving works for the extension of the Karulaugu trail.

Ever since it was founded, the three co-founders supporters of Estonian Health Trails have invested 6 million euros into development and the total investment now stands at 60 million euros, including investments by state and local government and EU funding.

Inspired by Estonian Health Trails, a trail was built on Zaķusala Island in the Daugava River in Riga and Merks Mājas continued supporting the project in 2023. The free Green Trail cross-country track is open to the public, for skiers of all abilities, novices to professional athletes. In other seasons, the trail is open to other seasonal activities. In 2023, Merks continued sponsoring a rising Latvian cross country skier Patrīcija Eiduka to allow her to support her professional development. Eiduka is the only Latvian skier who competed at the 2018 Winter Olympics in Pyeongchang; she was 18. She has also represented Latvia successfully at the youth Winter Olympics in Lillehammer in 2016, the 2017 world championships in Lahti and the 2018 junior world championships, where she came 10th in the sprint event. Merks also continued to support the local javelin throwing community in Talsi, helping children attend training camps abroad.

Eight beach volleyball courts were established in Riga's Skanste district where we have built more than 1,000 new homes. The facility hosted the U-20 European volleyball championships in summer 2023. We contributed to the creation of the beach volleyball courts brand. In Lithuania in 2023, we continued supporting the Lithuanian Ice Hockey Federation.

CULTURE AND ART HERITAGE

The steeple elevator at St. Nicholas' Church, an affiliate of the Art Museum of Estonia, was built in 2023 with Merko support. The elevator offers lovely views of Tallinn, and is accessible for museum-goers with special needs. The three-storey glass lift takes visitors to a height of 50 metres up the tower, where they will enjoy a unique panoramic view of the city and bay. In addition, the second floor of the Small Chapel has a new exhibition space – a gallery. As a longstanding partner for the Art Museum of Estonia, we were in the role of both consultant on the work and financing source. The project won recognition as the Tourism Achievement of Tallinn in 2023. Last year, we also supported a Kumu Art Museum of Estonia exhibition showcasing the Italian Transavantgarde and Estonian Calm Expressionism. The exhibition gives Estonian art audiences a representative overview of the work of the Italian movement from the late 1970s, juxtaposed with the works of Raoul Kurvitz and Urmas Muru, who were innovators on the Estonian art scene in the late 1980s.

In 2023, we contributed to the cultural field by supporting the book Vältimatu Väliruum (Indispensable Outdoor Space). It focuses on Estonian urban space designed around and between buildings. The bilingual Estonian and English work explores the principles that inform modern design of public spaces that enhance the user experience. The book won an annual prize of the Estonian Landscape Architects Association in 2023.

2023 would have been the 90th birthday of one of the most beloved Latvian poets and most outstanding and acclaimed writers of the second half of the 20th century, Imants Ziedonis. We supported renovations of the Ziedonis museum in Murjāņi, Latvia.

EDUCATION AND NEXT GENERATION

Since 2007, we have been supporting students and young teachers at Tallinn University of Technology to help to train the new generation and offer better civil engineering instruction to future masters. Merko's young researcher/lecturer scholarship for 2023 goes to a doctoral student in civil engineering and architecture at TalTech, Helena Kuivjõgi, who is also a member of the nearly zero-energy buildings research group. Alongside her research for raising awareness in the construction sector, she teaches at the university level and promotes engineering studies by mentoring upper secondary school students. The engineering scholarship went to two building design and construction management students, Mihkel Hõlpus and Rauno Lemberg.

In Estonia, we continued to hold a children's day event that started in 2017, where children of Merko employees accompany their mothers and fathers to work and learn about the fascinating world of construction. We visited construction projects, explored 3D building models, crafted and performed scientific experiments intended to spark and deepen interest in STEM subjects and help grow the next generation of civil engineers. In 2023, for the fourth year, we held an event devoted to "future players", where both Merko's young construction engineers and longer-tenured staff shared with interns their experience on the way to becoming engineers. The event also includes tours of construction sites, and opportunities to share experiences and network in the journey toward the profession of civil engineer.

Our Latvian colleagues contributed to the annual career development campaign aimed to showcase to youths and students the diversity of fields related to construction and what working in the sector is really Like. The campaign allowed students to learn about the work of outstanding construction specialists and construction sites and Merks employees went on tours of the company's construction sites and gave guest lectures. Lithuanian colleagues took part in the Junior Achievement's Lithuanian "Job Shadow" programme, in which four Vilnius secondary school students familiarized themselves with Merko's work in the course of one day, plus students of a lyceum had the opportunity in cooperation with Junior Achievement and Vilnius's Gediminas Technical University engineers to visit a Merko construction site.

In Latvia, Merks Mājas held the campaign "It all Starts from the Home" for the second year in a row in cooperation with the Teenage Resource Centre, aimed at drawing attention to ways of improving relationships between parents and teenagers. In 2023, a teenage mental health topic was activated in two cities in the region – Liepāja and Jelgava. In both cities, more than 80 people, including specialists in the field, took part in live events.

URBAN SPACE

Besides construction projects and new contemporary environments for living that add a new dimension to the city's streets, Merko also enriched the public space with various artworks.

Uus-Veerenni, located in Tallinn's city centre, will become home to 1,400 families when the entire project is completed. We built a park and preschool there and in 2023, we added to the local urban space with a group of sculptures called "Lelud" (Playthings). Walking down the sculpture-lined path, one can admire animal heads sculpted by Jass Kaselaan mounted on person-height concrete forms. Located right behind the preschool building, the sculptures add character to the space and bring additional cheer to life in Uus-Veerenni. In 2023, we installed a steel sculpture in front of Merko Ehitus Eesti's office building, called "Õitseb" (Flowering), depicting bouquets of flowers with delicate blossoms of concrete mixers at the ends of the strong stems projecting from the leaves. The material chosen by sculptor Heigo Jelle is rugged galvanized and painted steel.

Merko is developing the Noblessner area in collaboration with BLRT and in 2023, the sculpture entitled "Lessneri vint" (Lessner's Propeller) was installed on the wharf, with financial support from several BLRT group companies and partners. Merko designed and built the foundation for the sculpture's location. The work symbolizes a period of more than 100 years (1912–2018), when Noblessner was home to a shipyard and the propeller is named after one of the founders, Arthur Lessner, who in 1912 established a submarine building facility in Tallinn with business partner Emanuel Nobel. The sculpture, having a diameter of around 7.5 metres and a weight of 33 tonnes, is a genuine bronze ship's screw made by Alstom Power Elblag. It was produced at Turku Repair Shipyard in Naantali, Finland. There is nothing else like it in other cities in Estonia and the region.

OTHER PROJECTS

In spring 2023, we contributed to the development of the Green Tiger construction roadmap prepared in cooperation with Estonian business leaders and experts, which sets the goal of reducing CO2 emissions from construction and real estate sector by 85% by the year 2040 and gives recommendations for achieving it. In addition, we supported the Carolin Illenzeer Foundation, which is dedicated to supporting the children of Defence Forces members who were killed or several injured in the line of duty.

Our Latvian companies supported Ukraine by sending staple goods needed in winter, generator, and vehicles for transporting the wounded. In Latvia, we made contribution at the charity marathon "Dod pieci!", which in 2023 focused on creating a motivated, secure, physically and mentally healthy future for children with behavioural problems. Twenty employees of Merks Mājas and 10 family members took part in the 24-hour-long relay race. In Lithuania, we continued supporting the Balsiai community, helping to repair the athletic facility at Balsiai community centre, supporting training and teaching activity by teachers at Balsiai school and the local football school Geležinis Vilkas.

RECOGNITION IN 2023

EMPLOYEE RECOGNITIONS

- SIA Merks and Merks Mājas team members won several awards at Latvia's 2022 construction engineer awards ceremony. Mihails Peščinskis won the award for project manager of the year, Raimonda Vutkēviča took second in the young specialist category and Krišs Krūmiņš, third in the same category.
- The Central Employers' Confederation competition Best Intern 2023 selected Kiara Rumask as the best higher education level intern. She completed her internship at Merko's Lahekalda construction site.

RECOGNITION OF OBJECTS

- The architecture prize handed out by the Cultural Endowment of Estonia went to the Tallinn Pelgulinna state gymnasium. It also won the grand prize and popular favourite at the best timber building competition held by the Estonian Forest and Wood Industries Association.
- The Estonian Landscape Architects Association awarded its annual prize to the Uus-Veerenni residential development's public park, which was developed and built by Merko.
- The second phase of Merks Viesturdārzs residential project developed by Merks Mājas in Latvia won a number of awards in 2023:
  - First place in the category of New Homes at the Best Building of the Year in Latvia 2022, and honourable mention in the category of "Latvian Value" as a project that used the greatest share of construction materials produced in Latvia. The Merks Mežpilsēta apartment development project was selected in the top three new Latvian residential buildings at the Best Building of the Year in Latvia 2022 competition.
  - Second place at the sustainability competition in the category Residential Buildings, in which Merks Mājas Duntes Ziles and Mežpilsēta were accorded recognition as well.
  - Third place at the annual Latvian construction awards competition in the category of New Residential Buildings.
- The Orkla Biscuit Production factory built by Merks won first place at the Best Building of the Year in Latvia 2022 in both the category of BIM Project and New Public Building – Factory Building and also landed second place at the annual Latvian Construction Awards competition in the category of Manufacturing Buildings.
- The Elemental Business Centre took second place at the Best Building of the Year in Latvia 2022 in the category of BIM Project and the park and youth centre in Kauguri placed third in the category of Landscape Construction.
- Vilneles Skverai was declared Lithuania's best residential project at the Sustainable Development 23 competition organized by the Lithuanian Real Estate Development Association. The jury consisted of representatives from the Lithuanian architects union, Lithuanian builders' union, banks, the Vilnius Gediminas Technical University, the Lithuanian Ministry of the Environment, Lithuanian Real Estate Development Association and media outlets.
- The Tokvila car repair centre building in Vilnius won a gold medal at the annual competition held by the Lithuanian Confederation of Industrialists, Lithuanian Product of the Year.

COMPANY RECOGNITIONS

- The Estonian Chamber of Commerce and Industry named AS Merko Ehitus the most competitive company in the country. This award was the 17th in a row for Merko.
- The attractiveness of 264 Estonian organizations was assessed in the annual job expectations and employer reputation survey conducted by the employer branding agency Instar. In the rankings of responses from university students in technology specialities, Merko placed first, landing the title of Estonia's most attractive employer.

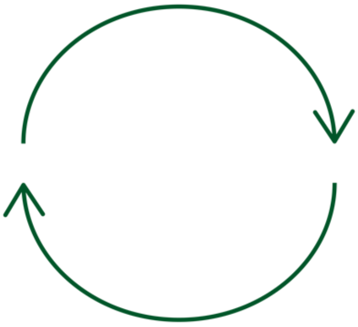
MOST RENOWNED REAL ESTATE DEVELOPER IN ESTONIA

- The annual survey of real estate brands conducted by Kantar Emor revealed that Estonia's best-known real estate developer in 2023 was once again Merko, which is also still in the vanguard of Estonia's most reputable real estate developers. Merko's advantages were overwhelmingly listed as its reliability and trustworthiness, good quality and location of its developments as well as its high level of professionalism. Merko won the same title in 2019, 2020, 2021 and 2022.

MANAGEMENT REPORT

BUSINESS MODEL: CONSTRUCTION SERVICES TO CUSTOMERS

In the framework of general contracting of construction, Merko offers strategic advisory services and high-quality full-scale solutions throughout the whole process pursuant to the customer's needs: preparation, design, construction, fittings and warranty-period service. If the customer so chooses, we also offer commercial real estate development service, covering preparation for construction along with performance of the construction works. For the best outcome, Merko should be engaged already at the outset of the construction project planning period, and cooperation should take place in the framework of the design and construction agreement.



1

SUITABLE PLOT AND DETAIL PLAN

Detailed plan for the customer's property.
Industrial, business and residential properties in the portfolio.
Finding and acquisition of necessary property.

2

CONCEPT

Mapping customer needs.
Advisory services and concept development.
Readiness to take part in PPP projects.

3

OFFER AND PRICE ESTIMATE

A well-thought-out and realistic offer is the responsibility of the tender department, which involves the necessary other departments, e.g. design, construction, concrete and electricity department, road works company.

4

ENGINEERING AND DESIGN

BIM (Building Information Modeling) general contracting.
In-house design department which involves the necessary specialists (electricity, heating, ventilation, water and sewerage).

5

GENERAL CONTRACTING OF CONSTRUCTION

Site office and team based physically on the site every day, team includes at least project manager, site manager and engineer.
Back-office support (occupational safety, quality oversight, budgeting staff, designers, financial experts, lawyers, etc.).
Specialists: electricity, heating, ventilation, water and sewerage fields and concrete department with its own workers.
Use of BIM system.
Long-term, reliable partners and suppliers.

6

FITTINGS

Interior designs and furnishings pursuant to customer's needs and standards.

7

WARRANTY-PERIOD SERVICE

The construction-period site team is responsible for warranty problems and ensures continuity and quality.

BUSINESS MODEL: PROPERTY DEVELOPMENTS

Merko has become the leading residential development company in the Baltics. To ensure the best quality, we manage all phases of the development project: planning, design development, construction, sales, and service during the warranty period. As a developer of apartments, Merko focuses on developing an integral residential environment with apartment buildings planned for a specific potential customer target group and suitable for its surroundings, boasting distinguished architecture, functional floor plans, high-quality interior finishing materials and high energy efficiency.

1

THE OPTIMUM PLOT

Appropriate residential-zoned plots in the portfolio of immovable property.
Finding new properties, analysis and acquisition.

2

PLANNING THE AREA

Analysis of the area, including of the nearby urban space.
Developing a concept suitable for the location and target group.
Terms of reference for the competition
Planning competition, involving experienced planners.
Proceedings on the detailed plan.
Invitational architecture competition opens to prominent architects and architecture practices.

3

CONCEPT OF DEVELOPMENT

Application of Merko's 30 years of experience and customer feedback.
Common areas and integral living environment – green space around the building, (interior) courtyard, multifaceted landscaping.
Convenient parking solutions.
Well-designed apartment floor plans, interior architect on board.
Interior finishing packages suitable for the nature of the project, developed in collaboration with interior architect.
Storage room for each apartment.

4

ENGINEERING AND DESIGN

BIM general contracting.
Professional reliable partners in the field of design, supported by the group's own design development department.
Involvement of necessary specialists (electricity, heating, ventilation, water supply and sewerage)
Use of contemporary solutions (energy efficiency, automation).
Soundproofing, healthy indoor climate, insolation that meets the standards, passive cooling, etc.

5

GENERAL CONTRACTING OF CONSTRUCTION

Site office and team based physically on the site every day, team includes at least project manager, site manager and engineer.
Back-office support (occupational safety, quality oversight, budgeting staff, designers, financial experts, lawyers, etc.)
Specialists: electricity, heating, ventilation, water and sewerage fields and concrete department with its own workers.
Use of BIM system.
Long-term, reliable partners and suppliers.

6

SALES AND MARKETING

Merko itself organises sales and marketing.
Professional sales managers are involved throughout the development process who know the product as a whole.
Quality, realistic sale and marketing materials.

7

WARRANTY-PERIOD SERVICE

A warranty specialist is the main contact in all matters related to the warranty.
Apartment buyer satisfaction surveys
Analysis and implementation of warranty period feedback when launching new development projects.

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		**2023**	**2022**	**2021**
Revenue	million EUR	466.3	409.6	339.4
Gross profit	million EUR	65.0	53.7	46.8
Gross margin	%	13.9	13.1	13.8
Operating profit	million EUR	44.5	35.0	32.2
Operating profit margin	%	9.5	8.6	9.5
Profit before tax	million EUR	52.0	37.1	32.1
EBT margin	%	11.1	9.1	9.5
Net profit	million EUR	45.9	34.1	29.0
attributable to equity holders of the parent	million EUR	46.0	34.6	29.1
attributable to non-controlling interest	million EUR	(0.1)	(0.5)	(0.1)
Net margin	%	9.9	8.5	8.6

Other income statement indicators		**2023**	**2022**	**2021**
EBITDA	million EUR	48.1	37.9	34.8
EBITDA margin	%	10.3	9.3	10.3
General expense ratio	%	5.1	4.9	5.2
Labour cost ratio	%	10.8	10.3	11.3
Revenue per employee	thousand EUR	718	623	521

Other significant indicators		**31.12.2023**	**31.12.2022**	**31.12.2021**
Return on equity	%	23.4	20.4	18.8
Return on assets	%	11.8	9.2	10.0
Return on invested capital	%	20.6	15.1	16.9
Assets	million EUR	425.3	387.4	324.4
Equity	million EUR	211.9	183.7	167.0
Equity attributable to equity holders of the parent	million EUR	212.1	184.2	167.2
Equity ratio	%	49.9	47.5	51.6
Debt ratio	%	12.9	23.7	16.2
Current ratio	times	2.0	2.0	2.4
Quick ratio	times	0.9	0.6	0.9
Accounts receivable turnover	days	38	33	31
Accounts payable turnover	days	40	55	39
Number of employees as at 31.12	people	635	661	670
Average number of employees (total group)	people	649	657	651
Order book	million EUR	477.5	297.2	257.3

Calculation of ratios is provided on page 103 of the report.

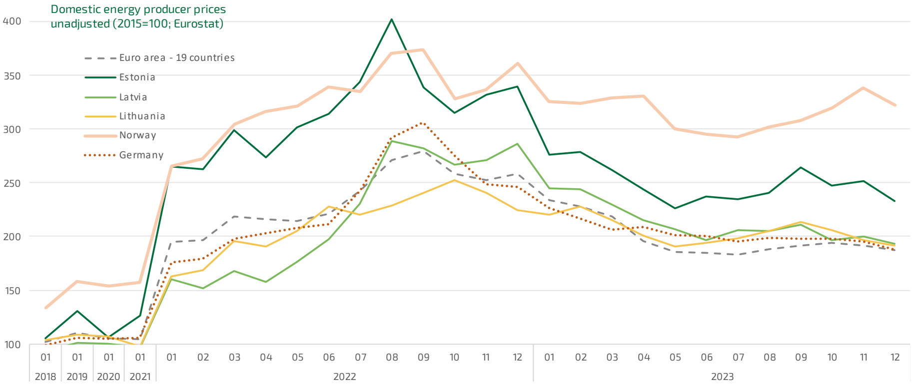
ECONOMIC ENVIRONMENT IN 2023

GENERAL ECONOMIC ENVIRONMENT

	2023				2022			
	EU27	**Estonia**	**Latvia**	**Lithuania**	**EU27**	**Estonia**	**Latvia**	**Lithuania**
GDP annual change in current prices	+0.4%	-3.0%	-0.3%	-0.3%	+3.4%	-0.5%	+3.0%	+2.4%
Construction price index annual change	n.a.	+5.3%	n.a.	+7.2%	+12.4%	+18.2%	+13.4%	+18.0%
Unemployment rate (end of period)	5.8%	6.3%	6.6%	6.6%	6.1%	5.3%	6.6%	6.8%

Source: Eurostat; n.a=not published

2023 will be remembered as a year of record interest rate growth. Although central banks started the cycle of hiking benchmark rates in July 2022, the influence of rising interest rates showed up in the real economy in full in 2023, dramatically paring back the borrowing capacity and purchasing power of consumers and smaller businesses and rapidly easing inflationary pressure as well. Expectations arose at year's end that interest rates would fall again just as rapidly, but now, at the time of this writing, these appear unfounded.



A second keyword was continued general economic jitters, even though matters improved significantly in this regard in Latvia and in Lithuania, consumer confidence climbed into positive territory by the end of 2023. The Baltic region was perceived by foreign investors as a high-risk area and buyouts of foreign owners by local investors became a prevalent trend. On the positive side, 2023 was notable for stabilization of prices, although a return to pre-pandemic and pre-Ukraine-war levels did not occur. In the second part of the year, in response to higher benchmark interest rates, inflation began to fall, although confounding central banks' expectations, not far enough to augur lowering of interest rates in the first half of 2024.

As might be expected, the influence of higher interest rates and the corresponding growth in interest rates acted as a brake on the open economies of the Baltic states. With Estonian export heavily orientated to Scandinavia, the country suffered from the lower demand in the region, while Lithuania – which exports to larger Western and Central European countries with more inertia – experienced a smaller drop in foreign demand. As a whole, the GDP for the Eurozone (EU 20 states) grew 0,3% in 2023 (2022 GDP growth: 3.5%). Estonia's own GDP has dropped for eight straight quarters, and the other Baltic states also reached a decline in 2023. According to flash estimates, GDP growth in the Eurozone was over 3% only in Malta (+5.6%) and of the other EU member states, in Iceland (+4.1%). Overall, GDP declined in 11 countries, with the biggest fall being in Ireland (-3.2%), followed by Estonia (-3.0%) and Luxembourg (-1.1%), according to Eurostat.

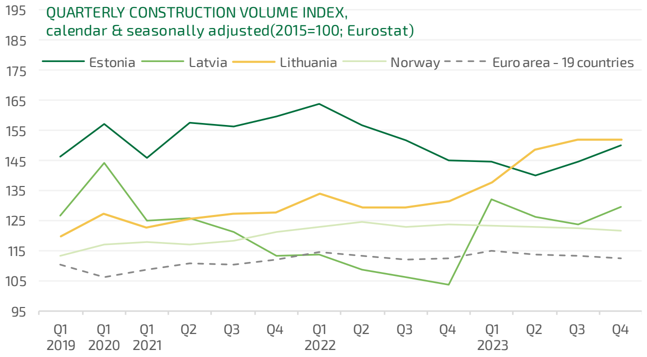
The abrupt shift toward budgetary balance and need to collect new taxes seen in Estonia following the parliamentary elections in spring was a hallmark of the entire year, increasing uncertainty about the future for both individuals and businesses alike. Latvia did not hold elections, but the multiparty ruling coalition was unstable and unable to bring change into the economy, culminating in a change of government in September 2023. Lithuania will have most of its elections in 2024 and accordingly, the situation in 2023 tended to be stable or even favourable, since politicians usually do not risk announcing tax hikes or initiatives that increase economic restrictions in the 12 months before elections.

In spite of the slowdown in the economy, unemployment remained surprisingly low. Going by what various analysts have said, this may have stemmed from business community's realizing the true value of retaining workforce – pandemic-era layoffs taught them that it is hard to re-hire qualified workforce when the economy ultimately recovers. In fact, unemployment fell throughout the Eurozone, ending the year at 5.8% (December 2022: 6.6%, 2020: much higher at 8.1%). In the Baltics, unemployment rose only in Estonia, reaching 6.3% in December 2023, which was still lower than the 6.6% in Latvia and Lithuania. Growth of workforce costs in the industry, construction and service sectors continues, staying in the double digits in all three Baltics according to the latest released data. Low unemployment and strong wage growth are also the reasons cited by central banks for keeping interest rates higher for a longer period in order to keep inflation under control.

Labour cost index annual change (%)	**Q1 2022**	**Q2 2022**	**Q3 2022**	**Q4 2022**	**Q1 2023**	**Q2 2023**	**Q3 2023**
Euro area	3.7	5.4	3.6	6.0	4.9	4.6	5.2
Estonia	8.8	10.0	8.7	10.3	11.1	12.5	11.5
Latvia	12.3	7.5	6.0	7.1	6.4	11.9	11.9
Lithuania	12.0	12.9	13.6	15.3	13.8	12.9	11.5

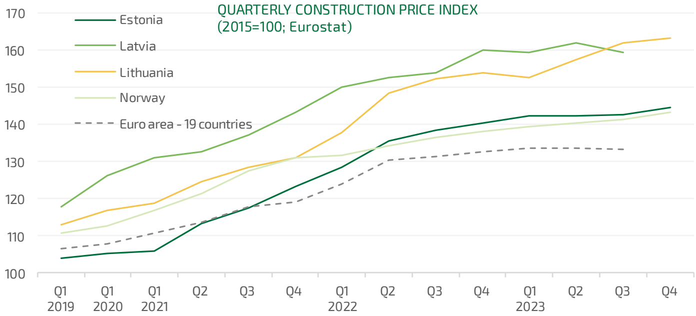
Source: Eurostat; dataset lc_lci_r2_q

CONSTRUCTION MARKET



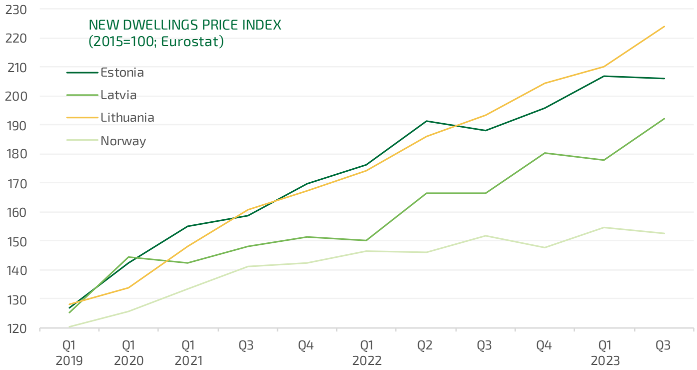
Despite large-scale Rail Baltica procurements, 2023 was a lighter year in Estonia in this department, since not much work on newly launched projects was done during the year and the slump in road and residential construction outstripped the defence and railway contracts brought in to replace them. Market volume in Latvia and Lithuania grew, though it should be noted that strong growth in Latvia was largely due to low volumes in the comparison period and volumes are still short of the pre-pandemic level. The rise in construction volumes in the next few quarters will continue to be scant, in the order of a few percentage points. In the Baltics as a whole, the demand is seen in the form of renewable energy, military projects and Rail Baltica, but the slump in residential and commercial construction caused by the weakness of the real estate market will continue to pull down the total volumes. While we do not expect a drop in overall volumes, without growth in road construction and real estate volumes, there will not be any basis to hope for lasting growth in the sector as a whole. At the end of the reporting year and in the first half of 2024, the rise in some segments will offset the decliners.

Construction prices remained relatively stable in 2023, and growth mainly came due to workforce costs. Some prices of construction materials, which used to be an engine driving construction prices upward, saw a correction to lower levels. In the longer term, we believe the upward pressure on prices will remain greater. The expectation of falling interest rate costs in the near future will not ease production prices of construction machinery and materials. Nor is there a reason to expect workforce costs to drop. The EU's market protection mechanism introduced as part of the green transformation has convinced construction materials producers that price rises resulting from the carbon trading should be spread out over a longer period; prices are being hiked already now. Logistics prices for goods rerouted around the Cape of Good Hope due to the ongoing hostilities in the Middle East are also up.



Merko Group succeeded in increasing construction volumes in spite of declining demand in the residential and business real estate segments. Reflecting this, the private sector's share dropped and the public sector's share saw strong growth due to contracts awarded in the defence sector. In a weak economy, increase in the public sector's share of the portfolio of contracts is only to be welcomed, since government strategy for cushioning the economic blow necessarily must include a significantly greater number.

APARTMENT DEVELOPMENT



The hoped-for recovery of the real estate market after the shock waves caused in the region following the Russian invasion of Ukraine did not materialize in 2023. Transaction volume continues to be low, above all due to the lingering jitters. Lithuania has stood out from the other Baltic states. There, consumer confidence has staged a strong recovery, as reflected by the fact that prices have continued to rise in Lithuania while Estonian and Latvian prices have stabilized. We reiterate our assessment that the period of rising prices for new residential projects is now over. Up to the end of 2024, we can expect stable prices with insignificant statistical fluctuations. On the new housing market, developers tend to be keeping a low profile, carefully titrating the entry of new additional supply onto the market and avoiding taking excessive risks.

In the Baltics, real household income has shrunk and housing prices have continued to rise, putting new developments out of reach for many people. According to Swedbank's Housing Affordability Index, apartments became less affordable yet again in 2023, approaching the level last seen prior to the financial crisis, below the long-term normal. In Tallinn, the index has dropped to the 90-point mark (Q4 2022: 110), and in Vilnius to 86 (Q4 2022: 107). The only Baltic capital where apartments are still affordable is Riga at 140 (Q4 2022: 164). A normal score is considered to be 100, which means that the average household can cover the costs of obtaining an average (55 m²) home.

OUTLOOK FOR 2024

Merko Group does not compile its own macroeconomic forecasts and relies on opinion that factors in the macroeconomic forecasts from Swedbank, SEB and Luminor.

The economic forecasts consulted at the time of the writing of our annual report called for gradual growth in Latvia and Lithuania and continuing recession in Estonia, with the Baltics ranging from 0.5% contraction to 2.0% growth. Lithuania appears to be in the strongest position, while the forecasts for Latvia have the most variation. Banks are also calling for inflation to ease, with the CPI expected to grow 1.4 to 2.0% in Latvia and Lithuania while prices will rise a bit more in Estonia – 3.7%. The Estonian economy also stands out in terms of forecasted unemployment: unemployment should remain steady in the southern two Baltics, around 6.5-6.8%, while Estonia will see a jump, up to the range of 8.1-8.7%.

The war in Gaza over the last five months has destabilized an already delicate international balance. Although at the time of this writing, the military action in Gaza seems likely to wind down in 2024, many risks for escalation of the Middle East conflicts remain elevated. We should expect further disruptions in trade and for logistics chains to remain vulnerable. As to when the war started by Russia will end, no one can say; forecasts are largely predicated on the assumption that the war in Ukraine will not escalate. The availability and price of energy sources are no longer the key question of any forecasts, however as Europe has managed to escape a situation where it is held captive to deliveries of Russian energy. It is a trend that has been supported by lower Chinese demand for fuels due to the slowdown in the world’s second-largest economy.

While analysts are expecting inflation to taper and interest rates to fall in 2024, all shy away from forecasting significant growth in investment into the Baltic region. The aggressive and unpredictable neighbour to the east curtails the flow of foreign investment into the Baltic region and in the long term is bound to reduce demand for assets such as business real estate. Work on national defence infrastructure and renewable energy projects continues. Most of the state sector’s budgetary capacity and available EU funds is being directed to these areas.

Continued uncertainty, investments into defence infrastructure and renewable energy are likely the keywords that will best describe 2024. Many regionally important economic sectors will be hard hit – above all, that means forestry and timber, but real estate as well. The influence of the newly launched green transformation measures defies precise quantification for now. Pessimists expect availability of bank credit to decrease in the so-called polluting sectors and additional overhead expenses for business while optimists count on EU structural funding for renewable energy projects and development of energy storage technologies.

CONSTRUCTION SERVICES

In 2024, the construction sector will likely remain sluggish or display only marginal growth in construction volumes. The primary factors here are the weakness of the real estate sector and the decrease in road construction, which could be but will not necessarily be compensated for by renewable energy, defence infrastructure and Rail Baltica contracts. No problems with supply of workforce are anticipated but upward pressure on wages will remain to counter the inflationary episode of 2022-2023. There is demand for building wind turbines, and that sector is expected to remain strong and solvent. The public sector will probably make up an even larger share of the construction service customers, driven by military projects and segments of Rail Baltica that are expected to reach the construction stage. The defence infrastructure segment is an undisputed priority; and accordingly, budgetary resources are certain to be found.

The risks will remain very similar to those of the past year – the negative impacts of the war on private sector contracts, potential supply chain problems from beyond Europe’s borders. Yet – a positive - there is new reason to hope for a return to stability of energy prices and stabilization of construction input prices. Strong capitalization and adequate liquidity remain important in the main contractor segment, which will allow temporary setbacks to be absorbed better. Both for risk mitigation and making use of opportunities that rise unexpectedly, flexibility and agility must be retained so we can adapt our activities to match the new conditions and emerging opportunities.

In light of the strong financial health of the Merko Ehitus Group, we still possess all of the prerequisites to have a successful 2024. We will undoubtedly continue to be more selective about longer-term projects and keep a close eye on developments in the economy, regulatory environment and broader political situation. Maintaining the profitability of our operations is key.

APARTMENT DEVELOPMENT

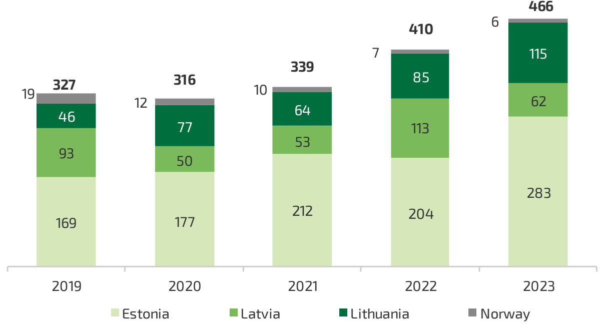
We anticipate that activity on the new homes market will remain low all year, especially in Tallinn and Riga. The likelihood of foreign investors returning has fallen further and they are not expected on the apartment market in the near future. Activity among local investors buying rental properties remains low. Rental prices have fallen and keep returns lower than investor goals. Nor are property values, which might offset lower rental income, expected to grow. The new development market will stay sluggish, since lower net incomes have priced out a large number of potential young first-time home buyers. Vilnius will likely see somewhat higher activity levels, as significantly higher consumer confidence and a more positive view of the future lets local buyers to take on the financial burdens of a new apartment with fewer concerns.

Merko Ehitus’s long-term view of apartment development activity remains unchanged. Both now and in the future, the group will develop integral living environments, focusing on larger urban districts, offering time-honoured quality and cutting-edge designs. In the shorter term, the group makes investment decisions based on the activity level as it actually shapes up on the market, and it is likely that in 2024, development projects will be launched only at a pace that stays even with the pace of sales. On a market with low activity and low confidence among potential buyers, it is not wise to build a large supply of apartments to completion as there is a considerable risk that maintenance costs will pile up. In the longer term, in spite its sound financial position, Merko will slow down the tempo of preparations for development projects, since the chance of a market recovery is low and additional requirements for development as may come into force due to amendments (such as shelters or taking into account the life cycle footprint), and these could lead to the need for redesign.

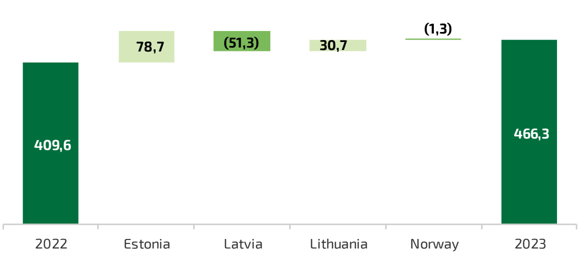
OPERATING RESULT

REVENUE AND PROFIT

DISTRIBUTION OF GROUP REVENUE BY GEOGRAPHICAL LOCATION
in million euros

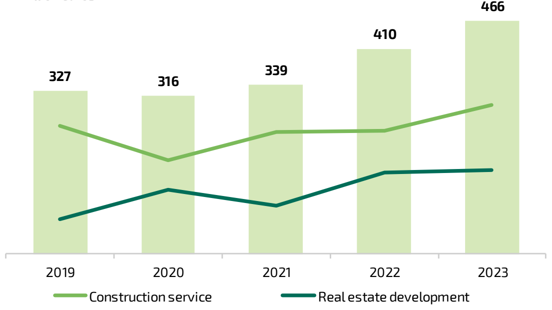


CHANGES IN GROUP REVENUE
in million euros

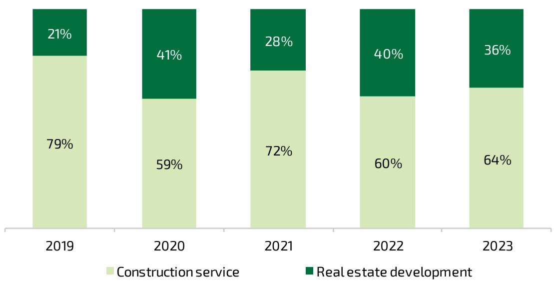


In 2023, the revenue of Merko Ehitus group was EUR 466.3 million, (2022: EUR 409.6 million). 60.7% of the period's revenue was generated in Estonia, 24.7% in Lithuania, 13.3% in Latvia and 1.3% in Norway (2022: 49.9% in Estonia, 27.6% in Latvia, 20.7% in Lithuania and 1.8% in Norway). Compared to 2022, the group's revenue increased by EUR 57 million or 13.8%, including a 38.5% increase in Estonia and 36.3% in Lithuania, and the revenue decreased by 45.4% in Latvia and 18.1% in Norway. The group's sales revenue increased in the construction service business area, as a result of several major construction contracts, in real estate development business area remained at the same level comparable to 2022.

DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
in million euros



DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
in percents

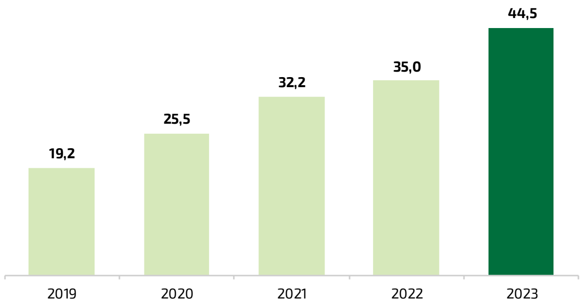


In the structure of sales revenue, real estate development accounted for 36% of the group's total sales revenue (2022: 40%). The real estate development sales revenue stayed at the same level in 2023 even, while construction service volumes increased. In 2023, the group realised pre-sale sales (preliminary sale agreements signed under law of obligations) in previous years as business volumes for apartment developments and was successful in signing new contracts for construction services. The construction service continues to be selective, focusing on the appropriate risk-return ratio for the group in new projects. Bids below cost price are avoided, as there is no need to increase the portfolio of construction contracts with higher-risk projects.

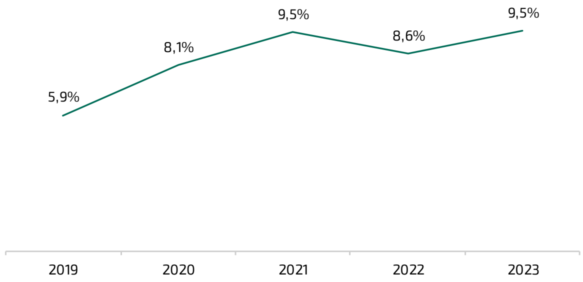
By country, Estonian sales continued to account for the largest share of revenue – 61% (2022: 50%). The group finds it strategically important for the business operations to be diversified both geographically and in terms of business segments. Thus, the group continues to strengthen and implement its competitive advantages outside Estonia and is closely monitoring the development and opportunities throughout the Baltics.

In 2023, the group's operating profit totalled EUR 44.5 million (2022: EUR 35.0 million). The operating profit margin in 2023 (9.5%) increased by 0.9 pp compared to last year (2022: 8.6%). The operating profit was mainly affected by expiration of the old fixed-price contracts and the increased share of indexed contracts in the portfolio, which shares cost Increase and savings with the customer.

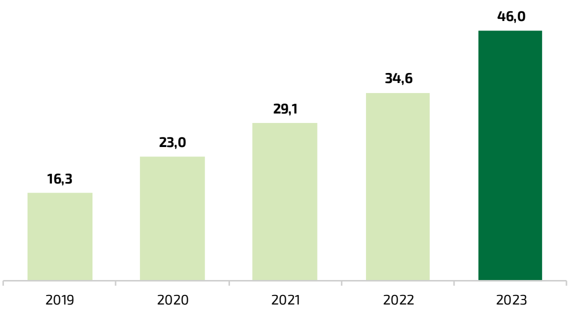
GROUP OPERATING PROFIT
in million euros

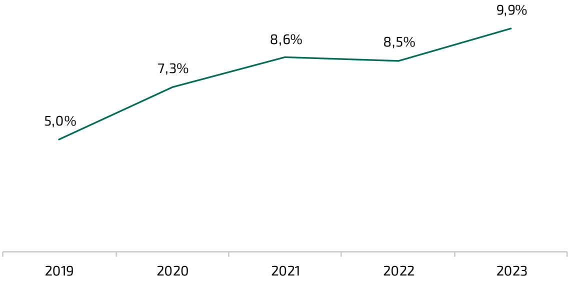


GROUP OPERATING PROFIT MARGIN
percentages



In 2023, the group's pre-tax profit totalled EUR 52.0 million and the net profit attributable to owners of the parent company was EUR 46.0 million, compared to the pre-tax profit of EUR 37.1 million and net profit attributable to owners of the parent company of EUR 34.6 million in 2022. The group's profit before tax margin was 11.1% (2022: 9.1%) and net margin was 9.9% (2022: 8.5%).


GROUP NET PROFIT
in million euros


GROUP NET PROFIT MARGIN
percentages

BUSINESS ACTIVITIES

The group operates in Estonian, Latvian, Lithuanian and Norwegian market through its subsidiaries.
See additionally the detailed management structure on page 33.

Depending on the country, the group provides construction and real estate development services in the following operating areas:

- **GENERAL CONSTRUCTION:** construction of various buildings, including commercial and office buildings, retail and entertainment centres, hotels and spas, as well as public buildings, dwellings and specific industrial buildings. In the context of main contracting, we provide high quality complete solutions to meet the client's needs.
- **CIVIL ENGINEERING:** design and construction of infrastructure facilities. The field includes port, waste handling and road infrastructure (bridges, tunnels, overpasses, roads), various environment protection facilities, drinking water and waste-water treatment facilities, water and sewerage mains built using both open and no-dig methods, and various other engineering and technical sites.
- **ELECTRICAL CONSTRUCTION:** The electrical construction business area moved, as a result of the transformation, to AS Connecto Eesti which became a joint venture of Merko, and the provision of electrical construction services continues in AS Connecto Eesti (read Note 19).
- **ROAD CONSTRUCTION:** various road maintenance services in Estonia: road construction, maintenance repair of roads, supervision of excavation works and the condition of roads, provision of repair services for machinery.
- **CONCRETE WORKS:** solutions for buildings and infrastructure constructed of prefabricated or concrete panels by group companies and out-of-house customer.
- **REAL ESTATE DEVELOPMENT:** development of apartment projects, long-term real estate investments and real estate projects for business purposes.

One of the keys to Merko's success is the wide scale of its operations – if a certain business segment has more or less work, it is possible to re-assign staff and manage risks. Another competitive advantage is the professional team of project managers and engineers and experience in implementing complex projects using contemporary engineering solutions. Merko' strength is also in completing simultaneously various complex and long-term projects, while providing high quality construction services to customers with different requests.

Based on the high share of real estate development in sales revenue in recent years, as well as the clearly distinct profitability of the segments, the issue of keeping a high focus on the development and profitability of the activities of both segments is becoming increasingly acute. According to the current economic accounting rules, the elimination of turnover and profit between segments at the group level shows construction unfairly as less profitable and puts the motivation and focus of the employees of the construction service segment under attack. Real estate development is more capital intensive and more exposed to interest risks. Accordingly, there has also been an increase in the need to discuss further differentiation and separation of these segments, following the example of major construction and real estate development companies in Scandinavia.

Merko group's investments in 2023 are presented in detail in Notes 22-24 to the financial statements.
The legal structure of the Merko group is presented in detail in Notes 18 and 19 to the financial statements.

CONSTRUCTION SERVICE

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

million EUR

	2023	2022	CHANGE
Revenue	298.2	246.9	+20.7%
% of total revenue	63.9%	60.3%	
Operating profit	20.5	8.5	+141.3%
Operating profit margin	6.9%	3.4%	

In 2023, the revenue of the construction service segment was EUR 298.2 million (2022: EUR 246.9 million). Compared to the previous year, sales revenue in the business area increased by 20.7%. However, the group will continue to remain selective regarding its construction contracts and will not set the main objective of growth in sales revenue. The construction service segment revenue for 2023 made up 63.9% of the group's total revenue, having increased by 3.6 pp compared to the year before (2022: 60.3%).

In 2023, the group earned an operating profit of EUR 20.5 million in this segment (2022: EUR 8.5 million). The operating profit margin was 6.9%, which is 3.5 pp higher than the comparable ratio in 2022 (3.4%). The operating was mainly influenced by expiration of the old fixed-price contracts and the increased share of indexed contracts, which more fairly shares cost increases and also cost savings with the customers.

Private sector demand, which traditionally responds to external events more rapidly and flexibly, has now been contracting at a faster rate in response to growing economic uncertainty. The public sector's priorities have also changed, there has been a significant increase in the procurement of defence-related objects, but due to the rigidity inherent in the sector, procurement processes have been delayed and, accordingly, the introduction of contra-cyclical orders to the market is slow and meagre. Overall, public procurement is prevalent on the market, with a prominent exception for private sector investment in the renewable energy segment.

Among the substantial projects in process that started in 2023 and earlier and will continue in 2024 were, in Estonia, the construction works of the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre and Arter quarter, Pelgulinna and Rae state gymnasiums, construction works of the Republic of Estonia's southeast land border, Defense Forces' buildings in the Tapa campus, tram line connecting Old Harbour and Rail Baltic's Ülemiste passenger terminal as well as reconstructions of Vana-Kalamaja street. In Latvia, 2023 were the larger projects constructions of the GUSTAVS business center, Elemental Business Centre office buildings as well as the NATO base in Ādaži. In Lithuania, larger projects were construction of several wind farm infrastructure works as well as various NATO training centres buildings and infrastructures were underway.

LARGEST PROJECTS COMPLETED IN 2023

PROJECT NAME		LOCATION	COUNTRY
Pelgulinna state gymnasium	new	Kolde pst 67a, Tallinn	Estonia
Kindergarten in Uus-Veerenni residential quarter	new	Tiiu 8, Tallinn	Estonia
Defence Forces' buildings in Tapa campus	new	Loode str 35, Tapa, Lääne-Virumaa	Estonia
Y Block of the North Estonia Medical Centre (NEMC)	rec/new	Sütiste road 19, Tallinn	Estonia
Gymnasium building of St John's School	new	Kivimäe 25, Tallinn	Estonia
Reconstructions of Vana-Kalamaja street	rec	Vana-Kalamaja, Tallinn	Estonia
Elemental Business Centre office buildings	new	Skanstes street 25, Riga	Latvia
GUSTAVS Business Center	new	Gustava Zemgala St. 73, Riga	Latvia
Kindergarten building in Liepāja	new	Liedaga St. 6, Liepaja	Latvia
Wind farm infrastructure facilities	new	Laukuva village, Šilalė	Lithuania
Wind farm foundations	new	Villages Birikai, Gintaučiai and Mediniai, Telšiai	Lithuania
Wind farm foundation	new	Village Tilvikų and Beržėnų, Kelmė	Lithuania

REAL ESTATE DEVELOPMENT

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

million EUR

	2023	**2022**	**CHANGE**
Revenue	168.1	162.7	+3.3%
incl. revenue from sale of apartments	137.5	127.0	
incl. construction service to joint venture projects	24.7	32.0	
% of total revenue	36.1%	39.7%	
Operating profit	26.7	30.3	-11.9%
Operating profit margin	15.9%	18.6%	

A total of 948 apartments (incl. 213 apartments in a joint venture) were sold in 2023 at the total value of EUR 137.5 million (excl. VAT), compared to 923 apartments (incl. 46 apartment in a joint venture) and EUR 127.0 million in 2022. In addition, the group sold 27 commercial areas (incl. 13 in a joint venture), in 2022 9 commercial areas (incl. 2 in a joint venture). Of the 948 apartments sold 602 were located in Estonia, 116 in Latvia, 230 in Lithuania. 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 and the result of projects under development of joint venture are reflected, as well as the result of public-private-partnership contracts, based on which the group companies provide property management services for earlier constructed buildings.

In 2023, the share of revenue from the real estate development segment formed 36.1% of the group's total revenue (2022: 39.7%), having decreased over the year by 3.6 pp. Compared to the previous year, 142 apartments fewer were handed over to customers in our own developments. The Group had fewer apartments for final sale agreements by 2023 than in 2022. This result does not reflect the actual state of the market, as the growth of sales revenue is previously concluded preliminary sale agreements signed under law of obligations, which in 2023 (when buildings are completed) reached the final signing under property law.

In 2023, operating profit of the real estate development segment amounted to EUR 26.7 million (2022: EUR 30.3 million) and the operating profit margin was 15.9% (2022: 18.6%), which decreased by 2.7 pp compared to the same period previous year. The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, incl. the land acquisition price. Profitability also depends on the distribution of sales revenue in the development business segment between sub-activities (sale of apartments, construction services for joint projects, sale of immovable properties). In case of construction services for joint projects, the profit from construction is recognised in the course of construction and the profit from development is realised at a later stage, upon sale of apartments to the final customer, based on the equity method.

Managing a substantial portfolio of immovables requires careful and detailed planning of the whole process: the development of apartment buildings starts by planning, designing and construction, and ends with the sale of completed production and warranty service. The underlying idea of our development activities is to value land through detailed planning and building development, to find customers for the property and sell the property as developed real estate.

Merko manages all development phases of new housing – planning, designing, building and sales. Homes developed and built by Merko are characterised by integrated living environments, energy efficiency, good sound insulation from indoor and outdoor noise as well as healthy interior climate. Effective ventilation in apartments, as well as stairwells, elevators and car parks help to minimize the risk of airborne diseases.

The objective of the group is always to create homes that architecturally fit the specific region, have an attractive living environment, functional design solutions, quality interior design materials, optimal construction cost and energy efficiency. A home that is being offered for customers must be of high quality and maintain its value in years to come.

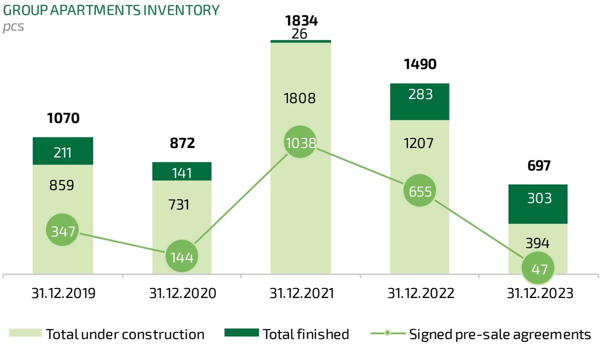
In real estate development joint projects, Merko brings its knowledge and experience of real estate development and construction to the partnership and the other party provides the plot and/or investment. The relationships between the parties are regulated by a stakeholders' contract that specifies the liability, rights and responsibility of each partner.

APARTMENTS SOLD / APARTMENT REVENUE

pcs / in million euros

GROUP APARTMENTS INVENTORY

pcs



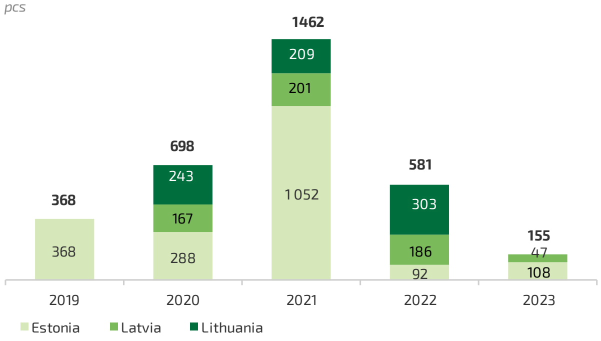
At the end of the period, Merko Ehitus group's inventory of apartments amounted to 697 units, of which 303 were completed and 394 in construction. 47 apartments were covered with preliminary agreements, incl. 25 completed apartments and 22 apartments under construction. The sale of these apartments had not yet been finalised and the apartments had not been delivered to customers, as the development sites are still under construction or the sites were completed at the end of the reporting period and the sales transactions have not all been finalised yet.

As at 31 December 2023, Merko Ehitus group had a total of 650 apartments for active sale (as at 31 December 2022: 835 apartments), for which there are no pre-sale agreements and of which 278 have been completed and 372 are under construction. The number of apartments on sale as at 31 December 2023 has decreased by 185 apartments compared to 31 December 2022.

In 2023, the group invested a total of EUR 80.2 million (2022: EUR 130.1 million) in new development projects launched in 2023 as well as projects already in progress from previous year.

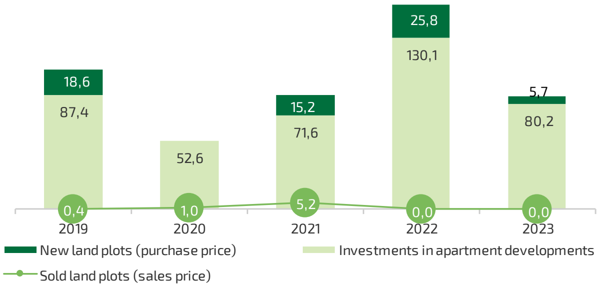
APARTMENTS LAUNCHED BY GEOGRAPHICAL LOCATION

pcs



INVESTMENTS IN APARTMENT DEVELOPMENT PROJECTS AND LAND PLOT ACQUISITIONS AND DISPOSALS

in million euros



The group's long-term aim is to continue investing in residential real estate projects. The actual annual volumes depend, more broadly, on global developments and, more narrowly, on the situation of the apartment markets in the Baltic states as well as very directly on the pace of construction permit issuance.

One of the group's objectives is to keep the land plot portfolio at a level that ensures stable inventory of property development projects, considering the market conditions. As at 31 December 2023, the group's inventories included land plots with development potential, where the construction works had not started, of EUR 89.4 million (31.12.2022: EUR 84.1 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY AS AT 31.12.

million EUR

	31.12.2023	31.12.2022
Estonia	32.5	27.6
Latvia	23.9	23.6
Lithuania	31.5	31.3
Norway	1.5	1.6
Total	**89.4**	**84.1**

In 2023, the group purchased new land plots at an acquisition cost of EUR 5.7 million (in 2022, new land plots were acquired at a cost of EUR 25.8 million).

THE APARTMENT DEVELOPMENTS COMPLETED IN 2023

PROJECT		LOCATION	NUMBER OF APARTMENTS
Lastekodu 31, Odra 6 (Odra homes)	new	Tallinn, Estonia	113 apartments
Erminurme 14, 18, 20 (Erminurme 4th stage)	new	Tartu, Estonia	46 apartments
Teelise 6 and 8/10 (Metsatuka homes)	new	Tallinn, Estonia	130 apartments
Veerenni 36b, Pille 11 (Veerenni 5th stage)	new	Tallinn, Estonia	137 apartments
Vesilennuki 16, 18, 20, 22, 24 (Noblessner)	new	Tallinn, Estonia	159 apartments
Skrines 6,8 (Merks Magnolijas)	new	Riga, Latvia	96 apartments
Rūpniecības 33 (Merks Viesturdārzs 3rd stage)	new	Riga, Latvia	90 apartments
Manufakturu 7 (Vilneles Skvera 2nd stage)	new	Vilnius, Lithuania	209 apartments

SECURED ORDER BOOK

As at 31 December 2023, the group's secured order book (excluding own property developments) amounted to EUR 477.5 million as compared to EUR 297.2 million as at 31 December 2022. The secured order book excludes the group's proprietary residential development projects and work related to developing real estate investments.

In 2023, new construction contracts worth EUR 500.8 million were signed (excludes property developments), compared to EUR 317.9 million in the prior year.

SECURED ORDER BOOK

in million euros

LARGEST CONSTRUCTION CONTRACTS SIGNED IN 2023

in millions of euros (as announced during 2023 on Nasdaq Baltic stock exchange)

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION DATE	COST
Design and construction contract for the construction of new infrastructures of the NATO training complex in Pabrade	Lithuania	In early 2026	110.0
Construction contract for the construction of foundations for 40 wind turbines, drainage and roads in a windfarm in the Pagėgiai municipality	Lithuania	End of 2025	80.0
Construction contract to perform the construction of foundations for 28 wind turbines, electrical cables and roads in a windfarm located in the Kelmė district	Lithuania	Q2 of 2025	45.0
Construction contract to perform the construction of foundations for wind turbines, electrical cables and roads in a wind farm in Kelmė district	Lithuania	Q2 of 2025	30.0
Design and construction contract for the construction of new infrastructures of the construction of the first stage of Rail Baltica Ülemiste joint terminal. In carrying out the works, AS Merko Ehitus Eesti is the leading partner with a 50:50 ratio	Estonia	September of 2026	44.8
Construction contract for the construction of barracks in the Ämari military campus of the Defence Forces in Harju County	Estonia	December of 2024	25.0
Construction contract for the construction of a logistics centre in Maardu	Estonia	Autumn of 2024	20.0
Construction contract for the additional works of Arter Quarter	Estonia	Spring of 2025	20.0

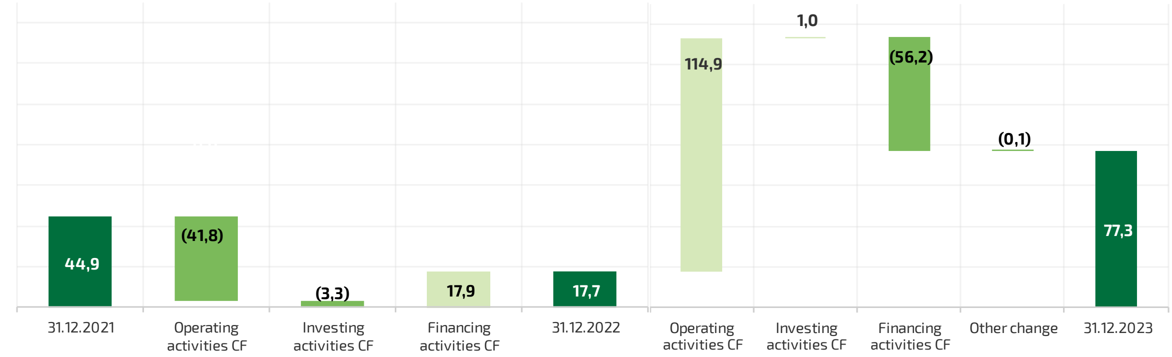
In 2023, the volume of concluded contracts in the private sectors accounting for 56% of the balance of the group's secured order book (31.12.2022: approximately 61%).

CASH FLOWS

The change in short-term investments and cash equivalents in 2023 of Merko Ehitus group was positive by EUR 59.7 million and as at 31 December 2023 the group had cash and cash equivalents in the amount of EUR 77.3 million (31.12.2022: EUR 17.7 million).

The operating cash flows of 2023 were positive by EUR 114.9 million (2022: negative by EUR 41.8 million), cash flow from investing activity was positive by EUR 1.0 million (2022: negative by EUR 3.3 million) and the cash flow from financing activity was negative by EUR 56.2 million (2022: positive by EUR 17.9 million).

CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The cash flow from operating activities had positive effect from EBITDA of EUR 48.1 million (2022: positive effect of EUR 37.9 million), from operating activities came from changes in receivables and liabilities related to construction contracts of EUR 35.4 million (2022: negative effect of EUR 1.1 million), from the changes in trade and other receivables related to operating activities of EUR 0.8 million (2022: negative effect of EUR 22.0 million), from the change in trade and other payables related to operating activities of EUR 9.4 million (2022: positive effect of EUR 8.9 million) and from the change in the provisions of EUR 3.9 million (2022: positive effect of EUR 1.5 million) and change in inventories of EUR 25.7 million (2022: negative effect of EUR 62.4 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments. While the negative cash flow was in 2022 due to the increase in the volume of inventories related to the construction of apartments, in 2023 the positive cash flow in the sale of apartments was due to a decrease in inventories. The negative effects to cash flow came from the paid interest in the amount of EUR 3.5 million (2022: EUR 1.7 million) and corporate income tax was paid in the amount of EUR 3.6 million (2022: EUR 2.5 million).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 1.4 million, which is mainly related to the renewal of equipment in the field of construction (2022: EUR 1.3 million) and the positive effect came from the sale of non-current assets in the amount of EUR 1.2 million (2022: EUR 0.3 million) and EUR 1.2 million from the dividends received from the joint venture (2022: EUR 0.6 million).

To support cash flows from operating activities the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (12.9% of total assets as at 31.12.2023; 23.7% as at 31.12.2022).

In cash flows from financing, the larger negative factors were dividend payment of EUR 17.7 million (2022: EUR 17.7 million), the repayments of lease liabilities in the amount of EUR 1.3 million (2022: net negative cash flow of EUR 1.1 million), 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 1.6 million (2022: negative cash flow in the net amount of EUR 0.4 million) and from the net change in loans received and repaid in connection with development projects in the amount of EUR 13.2 million (2022: net positive cash flow of EUR 14.1 million), which resulted from the repayment of loans taken for residential development projects, as well from the change in loans related to other activities in the amount of EUR 22.4 million (2022: net positive cash flow of EUR 24.8 million).

RISK MANAGEMENT

Day-to-day risk management is part of the strategic management of the Group. All major risks must be identified and managed optimally so that the company achieves its strategic and financial objectives. We consider it important to assess the risks of a group on an aggregated basis and not on the basis of the impact factors of a single risk. Constant attention to risk management makes it possible to exclude or minimise potential economic losses.

The main risks we consider are business, market, financial and operational risks, which in turn include interest rate, currency, credit, liquidity, capitalisation and legal risks. Based on the group's long-term average consolidated turnover, profits, capitalisation and market position, we have set the materiality limit at EUR 3 million. In the last 5 years, none of the above risks has had an impact beyond the materiality threshold. It must not be seen as a guarantee that there will be no future risk events beyond the materiality limit. Therefore, risk management is an ongoing process integrated into day-to-day activities to minimise the likelihood of risk materialisation.

The management board of each of the subsidiaries of the group develops, implements and maintains in good order the processes embedded into the activities of the respective company, to steer and manage the risks affecting the activities and results of the group. Each group entity and business unit shall ensure that the risks are managed on an ongoing basis in the light of the objectives assigned to it. Taking risks is a normal part of doing business, but one must be convinced that if the risk materialises, the purposeful and sustainable operations arising from the strategy of the company and business unit can continue. Risk management shall be coordinated by the management board of the group. The group assesses prudently the risks affecting both current business and investments.

Risk management, in a generalised manner, consists of the following steps and activities which, if applied in associated manner, enable the risks to be manageable:

- awareness and understanding of the risks involved in business activities;
- risk mapping and measurement;
- the development and implementation of risk management measures (prevention, mitigation, transfer, etc.);
- analysis of occurrences of risk realisation and repeating the previous steps.

When a risk with an impact exceeding the significance limit appears or materializes, an analysis of the risk and its causes is started immediately, and the holding company of the group is informed of the potential or materialized risk. According to the nature, impact and manageability of the risk, the management of the group decides on the urgency of action, measures to be taken and allocation of resources to manage the risk.

Business risk

Under business risks, we mean the inherent risks of working in our core business markets – the general construction and residential real estate development, which are the basis for profitable operations.

A more comprehensive description of business risks and their management can be found on the group's website https://group.merko.ee/en/investors/risk-management/business-risk/ , where the current business risk management policy is presented.

Market risk

Under market risk, we mean the impact from the changes in different markets, where group companies do not participate daily professionally, on the financial position of the group. In particular, international money and capital markets are such markets that have an impact on the financial position of the group.

A more comprehensive description of market risks and their management can be found on the group's website https://group.merko.ee/en/investors/risk-management/market-risk/, where the current market risk management policy is presented.

Financial risk

Under financial risks, we mean the risks inherent in the management of the financial situation of the group and of each company within the group, as well as third-party solvency risks.

A more comprehensive description of financial risks and their management can be found on the group's website https://group.merko.ee/en/investors/risk-management/financial-risk/, where the current financial risk management policy is presented.

Operational risk

By operational risks, we mean risks caused due to insufficient or non-functioning processes, people, equipment, systems or external events (attacks, disruptions in supply chains, tightening regulations).

A more comprehensive description of operational risks and their management can be found on the group's website https://group.merko.ee/en/investors/risk-management/operational-risk/, where the current operational risk management policy is presented.

ETHICAL BUSINESS PRACTICES

Merko's core values include doing ethical business, as this helps to achieve profitable growth, maintain the trust of stakeholders, and support fair competition and equal treatment. AS Merko Ehitus group does not tolerate corruption in any form. All employees of the group must proceed from ethical principles in everything that they do. In order to facilitate this, the group has enacted a Code of Business Ethics, which all Merko group employees are obliged to read and adhere to. The topic of business ethics has been thoroughly covered on the group's website https://group.merko.ee/en/corporate-responsibility/.

All employees, partners and customers can report clear or potential unethical conduct via various anonymous channels, of which an overview is on the website: https://group.merko.ee/en/corporate-responsibility/reporting-channels/. The reporting and information analysis system implemented in AS Merko Ehitus ensures security, confidentiality and, if so desired, anonymity at every stage of the process. Each reported misconduct will be investigated by an independent cooperation partner – AS Merko Ehitus's contractual partner Ernst & Young – and will lead to appropriate action. In 2023, the group received 1 hint for which no internal investigation was initiated (2022: no hints received).

In addition, key persons at Merko Ehitus are obliged to file a declaration of personal interests that covers data on holdings in companies, positions held on management bodies of companies and other legal persons, membership of professional organisations, information on valid registrations of economic activities and other data that might indicate a possible conflict of interest. In 2023 or 2022, no conflict of interest cases of key persons were identified by the group.

SAFETY CULTURE

Merko's strategic goal in the field of safety is to reduce accidents to zero. Being aware of risks is the foundation of operations at the group companies. We strive toward ensuring a completely safe workplace and preventing on-the-job accidents. The occupational health and safety management system at the group's construction companies has ISO 45001 certification.

Employees are equipped with the work equipment and PPG that they need. They undergo occupational health and safety instruction and training. Persons in charge and rank and file employees who deal more frequently with this topic in their work regularly attend training.

Since 2021, Merko Ehitus Eesti has held safety seminars to familiarize their job site crew with the proactive influence of safety planning. Our goal is to take joint action in order to prevent accidents. That is why a safety seminar was held for all Merko Ehitus Eesti employees. The focus topic was on the nature of a risk situation and the importance of a "see something, say something" approach for developing the company's safety culture. We then conducted a survey for gauging the level of safety culture. It turned up the following majority opinions: 1) reporting incidents give a good overview of events occurring on the job site, helps raise awareness of risks and reduce the number of on-the-job accidents on our sites; 2) reporting incidents show the site crew as aware of the dangers and expert; 3) information about incidents is necessary for managing a company.

As a follow-up to the hazard reporting campaign, a "Report hazards" sign is being added to the line-up of signs and markings in use in site offices and at quarterly management briefings, emphasis is being laid on the need for reporting hazard situations.

HUMAN DEVELOPMENT AND MAKING EMPLOYEES FEEL VALUED

The group's human resources policy supports achievement of Merko's goals, ensuring continuity of the organization and management, maintaining common values and a professional collective. Merko's success hinges on cooperation between top-flight young staff and professionals with a long track record. We provide a supportive workplace that is conducive for growth, and a competitive pay that is commensurate with what the employee contributes. To assess employee satisfaction and garner feedback, we regularly conduct employee reviews and satisfaction surveys. The survey conducted in 2023 had a turnout of 63% of Merko Ehitus Eesti employees and 66% of our Latvian employees.

The goal of Merko's education and development activity is to support all facets of employment development, make teams and crews stronger and share experiences. We support and recognize employees who pursue additional education and professional certification on the side, seeking to raise their skillsets and participating in training course and conferences outside the company. We regularly organize safety and quality seminars, put emphasis on management skills and the development of the employee's personal well-being. To promote healthy lifestyles, we encourage employees to be fit and active, we organize company sports events, compensate expenses on sport and help support health through health insurance and vaccinations.

Our goal being to contribute to the professionalism of the next generation of specialists in the construction sector, we enrich academic scholastic education by sharing practical experiences and know-how. We organize tours of job sites and work shadow days for the young generation. Merko staff lecture at schools, take part in student events, offer internship opportunities and award Merko scholarships.

Merko provides fair remuneration to employees, taking into account their contribution top achieving the company's goals. We recognize employees who achieve and outpace the agreed goals and targets. For a more detailed overview of remuneration at

Merko, see the corresponding report (pages 99-100). Merko makes a point of remembering employees on their special life events and, as a believer in family values, organizes company events meant for employees and their family members. Long-serving employees get additional incentives in the form of additional time off. Employees who attend national defence exercises continue to draw their ordinary salary while they are away.

As an employer, we accord equal treatment to all employees. Merko does not tolerate discrimination in any form. We proceed from the principles of equal treatment in our work with clients, subcontractors, service providers and other partners. These principles can be found in the Merko Group code of business ethics. The topic of business ethics is addressed in detail on the group's website https://group.merko.ee/en/corporate-responsibility/.

ENVIRONMENT AND SOCIAL IMPACTS

The construction companies in Merko Group are creating a multifaceted living environment through their activities – consisting of urban space and landscapes. We plan what we do to minimize adverse impact on environmental quality. The environmental risks of Merko's main activities are evaluated and the necessary measures are planned in a project-based manner. One of the biggest environmental factors for the construction sector is construction waste – where possible, sorting of waste is practised on Merko's job sites and internal oversight is conducted to make sure that all waste generated are handed over to a handler with an environmental permit for the relevant category of waste.

Merko's environmental goals are the conservation-minded use of resources, reducing waste generation and recovery of materials wherever technically feasible. To achieve all of this, awareness of the environment as a whole is promoted among employees and partners and Merko strives to be a leader in the Estonian construction sector in devising principles for circular economy in the field of construction waste – talking at public lectures about best practices and constantly engaging in cooperation with environmental specialists at the state level.

Merko Ehitus Eesti took part in the Green Tiger project, which resulted in the drafting of an Estonian Construction Roadmap up to 2040. The document drafted in spring 2023 gives an overview of what measures are possible and necessary for minimizing environment impacts in the built space. The roadmap gives specific answers to the questions: why, how, when and who should do what to make the Estonian construction sector of the future internationally competitive, capable of providing people a high-quality living environment and be able to fulfil Estonian and EU environmental requirements and 2050 climate neutrality goals.

SHARE AND SHAREHOLDERS

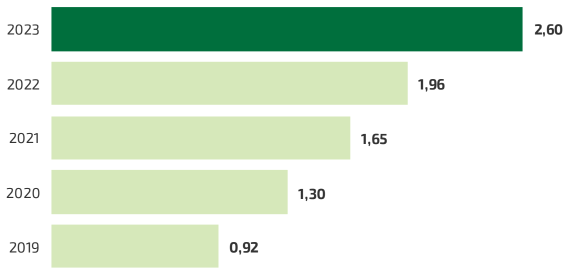
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As at 31 December 2023, the company has 17,700,000 shares. The number of shares did not change during 2023.

In 2023, 28,455 transactions were conducted with the shares of Merko Ehitus in the course of which 0.84 million shares were traded (4.7% of shares outstanding), with the total monetary value of transactions at EUR 12.8 million (comparative data for 2022: 40,602 transactions, in the course of which 1.22 million shares were traded (6.9% of shares outstanding) and the total monetary value of transactions was EUR 18.2 million). The lowest share price was EUR 14.14, and the highest share price was EUR 16.36 (2022: EUR 11.60 and EUR 16.96 respectively). The closing price of the share as at 31 December 2023 was EUR 15.30 (31.12.2022: EUR 14.16). As at 31 December 2023, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 270.8 million, increased by 8.1% compared to the end of the equivalent period in the prior year (31.12.2022: EUR 250.6 million).

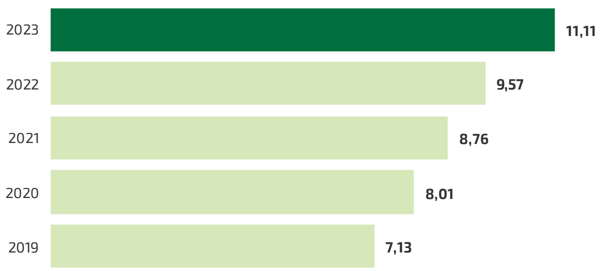
INFORMATION ON SECURITY

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

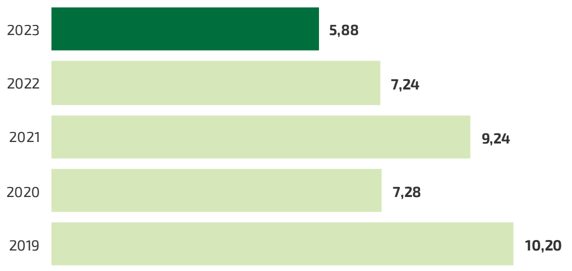
EARNINGS PER SHARE(EPS)
euros



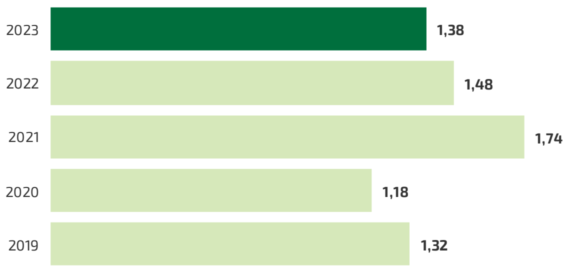
EQUITY PER SHARE
euros



P/E RATIO
times



P/B RATIO
times



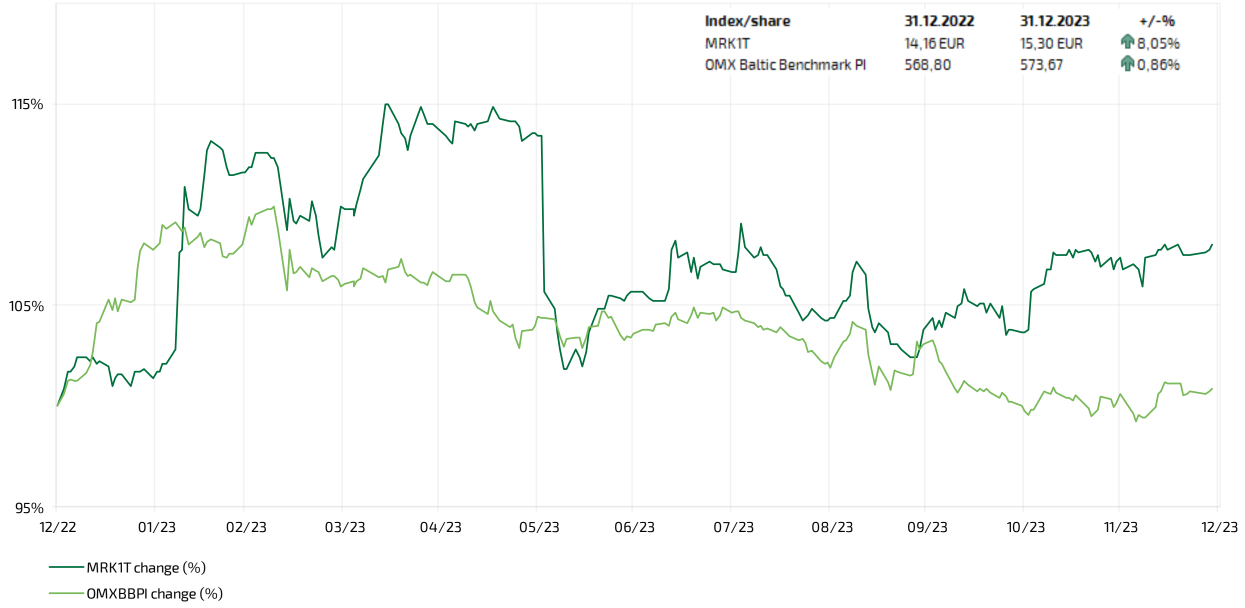
TRADING HISTORY OF SECURITY, IN EUROS

	2023	2022	2021
Highest	16.36	16.96	17.14
Lowest	14.14	11.60	9.48
Average	15.18	14.50	14.41
Closing as at 31.12	15.30	14.16	15.22
Change as at 31.12, %	+8.05	-6.96	+60.89
Traded shares, pcs	840,670	1,218,741	2,061,047
Turnover, million EUR	12.85	18.16	29.78
Market value as at 31.12, million EUR	270.8	250.6	269.4

STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.12.2023

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1 000 001 - …	1	0.01%	12,742,686	71.99%
100 001 – 1 000 000	6	0.05%	1,291,555	7.30%
10 001 – 100 000	44	0.34%	918,896	5.19%
1001-10 000	552	4.29%	1,514,635	8.56%
101-1000	2,940	22.83%	980,252	5.54%
1-100	9,333	72.48%	251,976	1.42%
Total	**12,876**	**100%**	**17,700,000**	**100%**

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



SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.12.2023 AND CHANGE COMPARED TO THE PREVIOUS YEAR

	NUMBER OF SHARES	% OF TOTAL 31.12.2023	% OF TOTAL 31.12.2022	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	428,500	2.42%	2.33%	16,750
Firebird Republics Fund Ltd	319,586	1.81%	1.81%	-
Firebird Avrora Fund Ltd	190,117	1.07%	0.96%	20,856
OÜ Alar Invest	136,000	0.77%	0.00%	136,000
Clearstream Banking AG	113,631	0.64%	0.64%	580
Firebird Fund L.P.	103,721	0.59%	0.59%	-
Siseinfo OÜ	100,000	0.56%	0.56%	-
Hans Palla	61,000	0.34%	0.31%	7,000
Alforme OÜ	50,000	0.28%	0.28%	-
Total largest shareholders	**14,245,241**	**80.47%**	**79.47%**	**181,186**
Total other shareholders	3,454,759	19.53%	20.53%	(181,186)
Total	**17,700,000**	**100%**	**100%**	**-**

DIVIDENDS AND DIVIDEND POLICY

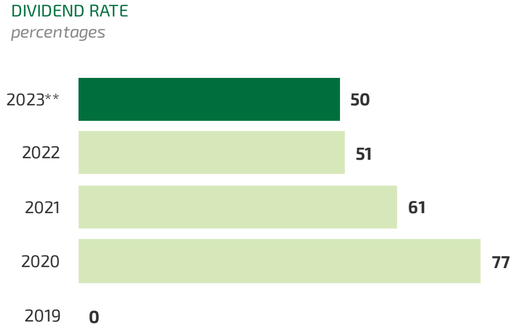
The distribution of dividends to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

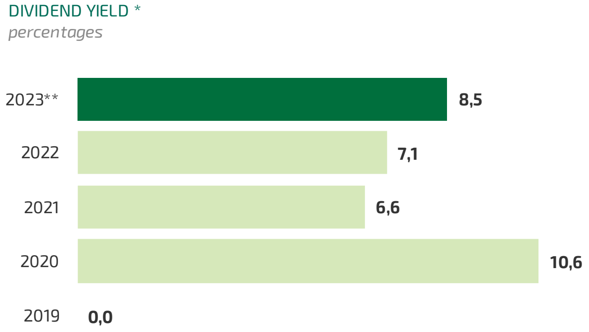
According to AS Merko Ehitus long-term financial objectives, 50-70% of the annual profit are distributed to shareholders as dividends.

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

The Management Board, in coordination with the Supervisory Board, proposes to pay the shareholders EUR 23.0 million as dividends from net profits brought forward (EUR 1.30 per share) in 2024, which is equivalent to a 50% dividend rate and a 8.5% dividend yield for the year 2023 (using the share price as at 31 December 2023).

In the past five years, the shareholders have received dividends from the net profit for the accounting year as follows:





** Using share price as at 31.12.*
*** 2023 figures based on Management Board proposal regarding dividend payment.*

Dividend payments are carried out in the next fiscal year in accordance with the decisions of the general meeting of the shareholders, regarding the previous fiscal year.

CORPORATE GOVERNANCE RECOMMENDATIONS REPORT

CORPORATE GOVERNANCE AND STRUCTURE

Adherence to the principles of Corporate Governance Recommendations is part of the management of AS Merko Ehitus. Generally, this system is regulated by relevant legislation, the company's articles of association and the company's internal policies. Starting from 1 January 2006, issuers of shares listed on the Nasdaq Tallinn Stock Exchange are recommended to adhere to the principles of Corporate Governance Recommendations approved by the Financial Supervisory Authority that covers good practices of enterprise management and treatment of shareholders. AS Merko Ehitus has followed these principles throughout 2023.

AS Merko Ehitus is dedicated to following high standards of corporate governance, for the implementation of which the Management Board and the Supervisory Board are responsible to shareholders. Our objective is to be transparent in our economic activity, in disclosing information and in relations with shareholders.

AS Merko Ehitus operates as a holding company whose companies in Estonia, Latvia, Lithuania and Norway offer complete solutions in the field of construction and real estate development. In the construction sector, the group's largest companies are AS Merko Ehitus Eesti, Tallinna Teede AS, SIA Merks, SIA Merks Mājas, UAB Merko Statyba and UAB Merko Bustas.

The main activity of the holding company is development and implementation of the strategies of Merko Ehitus group's separate business areas primarily through long-term planning of resources. The holding company AS Merko Ehitus has a two-member Management Board: Andres Trink and Tõnu Toomik.

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 group management, we in some cases differentiate the management structure and legal structure. The group's management is carried out on a country basis. The group's country and business area detailed management structure as at 31 December 2023 is the following:

AS MERKO EHITUS

ESTONIA
LATVIA
LITHUANIA
NORWAY

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

The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 18 and 19 of the financial statements.

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 general meeting of shareholders decides, among others, amendments to the articles of association, the appointment and recall of members of the Supervisory Board, appointment of the auditor, approval of the results of the financial year and the payment of dividends. In amending the articles of association, the general meeting of shareholders follows the regulation as per the Estonian Commercial Code. A resolution on amendment of the articles of association shall be adopted if at least two-thirds of the votes represented at a general meeting are in favour. The annual general meeting of shareholders is held at least once a year and shall approve the annual report within six months of the end of the financial year.

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

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

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

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

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

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

Annual and extraordinary general meeting of shareholders shall be chaired by an independent person. On behalf of the company, usually the Chairman of the Management Board and the Chairman of the Supervisory Board shall participate in the General Meeting of AS Merko Ehitus, and if necessary, other members of the Management and Supervisory Boards shall be involved. If necessary, the company's auditor shall participate.

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

The group is not aware of any agreements between its shareholders on the coordination of exercising the shareholders' rights.

SUPERVISORY BOARD

The Supervisory Board shall plan the activities of the group, organise the management of the group 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 Merko Ehitus, the Supervisory Board has 3 to 5 members who shall be elected for the term of three years. By the resolution of the general meeting of 04.05.2023, Toomas Annus and Indrek Neivelt were elected the members of the Supervisory Board with a term of office of up to 6 May 2026 (inclusive). According to the same resolution, the Supervisory Board AS Merko Ehitus has three-member at least until 06.05.2025. The Supervisory Board of AS Merko Ehitus will continue with three members: Toomas Annus (The Chairman), Indrek Neivelt and Kristina Siimar.

Toomas Annus
Chairman of the Supervisory Board

Positions held:

2011-…	AS Merko Ehitus, Chairman of the Supervisory Board
2014-…	AS Kapitel (AS E.L.L. Kinnisvara until 2017), Chairman of the Supervisory Board
2009-2014	AS E.L.L. Kinnisvara, Member of the Management Board
2008-2022	Järvevana OÜ, Member of the Management Board
1999-2009	AS E.L.L. Kinnisvara, Chairman of the Supervisory Board
1997-2008	AS Merko Ehitus, Chairman of the Supervisory Board
1996-…	AS Riverito, Chairman of the Management Board
1991-1996	AS EKE Merko, Chairman of the Management Board
1989-1991	EKE MRK, director of the company

Education:

Tallinn University of Technology, industrial and civil engineering
Tallinn Technical School of Building and Mechanics, industrial and civil engineering

Number of shares controlled: 12,742,686 (AS Riverito)

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

Indrek Neivelt
Member of the Supervisory Board

Positions held:

2008-…	AS Merko Ehitus, Member of the Supervisory Board
2020-…	OÜ Respiray, Chairman of the Management Board
2018-…	AS Pocopay, Member of the Supervisory Board
2016-…	OÜ Poco Holding, Member of the Management Board
2015-2018	AS Pocopay, Member of the Management Board

Has held various executive positions in Hansapank (now Swedbank), incl. Director General of the Group, Chairman of the Management Board and also in Bank Saint Petersburg as the Chairman of the Supervisory Board.
Belongs to Supervisory Boards of various companies.

Education:
Tallinn University of Technology, civil engineering economics and management
Stockholm University, banking and finance, MBA

Number of shares controlled: 31,635 (Trust IN OÜ)

Kristina Siimar
Member of the Supervisory Board

Positions held:

2022-…	AS Merko Ehitus, Member of the Supervisory Board
2022-…	AS Kapitel, Member of the Supervisory Board
2022-…	Kistler Ritso Eesti Sihtasutus (Vabamu), Member of the Supervisory Board
2022-…	OÜ Notorius, Member of the Management Board
2017-2021	Luminor Group, Member of the Management Board and Head of Products & Offerings
2014-2018	AS Kapitel (E.L.L. Kinnisvara AS until 2017), Member of the Supervisory Board
2010-2017	Swedbank Group, various positions

Worked at Hansapank (now Swedbank) as Financial Director and Member of the Management Board of Baltic banking and as a Member of the Supervisory Board of the Estonian Health Insurance Fund.
Belongs to Management Boards of various companies.

Education:
INSEAD University in France (Entrepreneurship: Building new Business Ventures)
Massachusetts Institute of Technology (MIT), Sloan School of Management (Driving Strategic Innovation)
Tallinn University of Technology, MBA

Number of shares controlled: -

According to the requirements of the Corporate Governance Recommendations, Kristina Siimar and Indrek Neivelt were independent members of the Supervisory board.

The meetings of the Supervisory Board generally take place once a month, except in summer months. In 2023, the Supervisory Board held 13 regular meetings. No extraordinary Supervisory Board meetings were held. Participation of members of the Supervisory Board at meetings:

NAME	PARTICIPATION IN MEETINGS	PARTICIPATION %
Toomas Annus	13	100%
Teet Roopalu (until 05.05.2023)	4	31%
Indrek Neivelt	13	100%
Kristina Siimar	12	92%

The Supervisory Board fulfilled all its obligations laid down in legal acts.

The Supervisory Board has set up an audit committee as its work body. The Supervisory Board has not considered it necessary to set up a remuneration committee or appointment committee. Remuneration of the members of the Supervisory Board is approved by the general meeting of shareholders. The valid procedure for remuneration of Supervisory Board members was approved by the general meeting of shareholders held at 31 October 2008.

No termination benefits are paid to the members of the Supervisory Board upon the termination or non-extension of the contract. In the 2023 and 2022 financial years, the members of the Supervisory Board were remunerated as follows (in euros):

NAME	2023	2022
Teet Roopalu	15,978	38,347
Indrek Neivelt	38,347	38,347

NAME	2023	2022
Kristina Siimar	38,347	25,565
TOTAL	**92,672**	**102,259**

Remuneration, less the statutory taxes, to the members of the Supervisory Board is paid on a monthly basis.
As from 1 November 2018, the Chairman of the Supervisory Board has forgone the member's fee at his own request.

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 must act in the most economically purposeful manner, taking into consideration the best interests of all shareholders and ensuring the group's sustainable development in accordance with set objectives and strategy. To ensure that the group's interests are met in the best way possible, the Management and Supervisory Boards shall extensively collaborate. At least once a month, 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 group's business operations, the fulfilment of the group'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.

Andres Trink

Chairman of the Management Board

Appointed: 1 January 2012
Term ended: 31 December 2023

Positions held:

2012-2023	AS Merko Ehitus, Chairman of the Management Board
2012-2023	Chairman of the Supervisory Board of AS Merko Ehitus Eesti, UAB Merko Statyba and UAB Merko Bustas
2016-...	Swedbank Investeerimisfondid AS, Member of the Supervisory Board

Has held various executive positions in the private and public sector. Before being hired at Merko Ehitus, worked for 15 years in the financial sector, including as a Member of the Management Board of Baltic banking at Hansapank (now Swedbank).

Education:

Tallinn University of Technology, automated management systems specialty (summa cum laude)
Estonian Business School, international business administration
Graduate of the INSEAD University (France), executive management programme.

Number of shares controlled: 1,100

Tõnu Toomik

Member of the Management Board

Appointed: 6 June 2013
Term ends: 6 June 2025

Positions held:

2013-...	AS Merko Ehitus, Member of the Management Board
2014-2022	AS Kapitel (AS E.L.L. Kinnisvara until 2017), Member of the Supervisory Board
2011-2013	AS Merko Ehitus, Member of the Supervisory Board
2009-2014	AS E.L.L. Kinnisvara, Chairman of the Supervisory Board
2008-2011	AS Merko Ehitus, Chairman of the Supervisory Board
1999-2009	AS E.L.L. Kinnisvara, Member of the Supervisory Board
1997-1999	AS E.L.L. Kinnisvara, Chairman of the Supervisory Board
1997-2008	AS Merko Ehitus, Chairman of the Management Board
1996-...	AS Riverito, Member of the Management Board
1993-1996	AS EKE Merko, Estonian Regional Director
1993-1993	AS EKE Merko, Project Manager

Member of the Supervisory Board of AS Merko Ehitus Eesti, UAB Merko Statyba and UAB Merko Bustas, Chairman of the Supervisory Board of Tallinna Teede AS.

Education:

Tallinn University of Technology, industrial and civil engineering

Number of shares controlled: -

Urmas Somelar
Member of the Management Board
Appointed: 1 June 2023
Term ends: 31 May 2026

Positions held:

2023-…	AS Merko Ehitus, Member of the Management Board
2021-2023	AS Merko Ehitus, Head of Finance
2018-2021	Arricano Real Estate Plc, Chairman of the Supervisory Board
2017-2018	Versobank AS, Member of the Management Board
2015-2017	Riigi Kinnisvara AS, Chairman of the Management Board
2008-2015	Swedbank group, various positions

Member of the Supervisory Board of AS Merko Ehitus Eesti, Tallinna Teede AS, UAB Merko Statyba and UAB Merko Bustas.

Education:
University of Tartu, Finance and Credit

Number of shares controlled: -

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 strategic business development and finance. Tõnu Toomik is responsible for the management of the portfolio of properties and coordination of construction segment development activities across the whole group. Urmas Somelar is responsible for the financial management, investor relations and compliance.

The Supervisory Board of AS Merko Ehitus appointed current Chairman of the Management Board of group's subsidiary AS Merko Ehitus Eesti Mr. Ivo Volkov as the Chairman of the Management Board of AS Merko Ehitus for the three-year period, starting from 1 January 2024. As of 1 January 2024, the Management Board of AS Merko Ehitus will continue with three members: Mr. Ivo Volkov (Chairman), Mr. Tõnu Toomik and Mr. Urmas Somelar.

Members of the Management Board have entered into three-year contracts of service with the company. The procedure and principles of remuneration of Management Board members are written in the Remuneration report on pages 99-100.

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 intragroup 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 most significant subsidiaries that are wholly owned by AS Merko Ehitus as at 31 December 2023:

COMPANY *	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti *(96,774,275 euros)*	Andres Trink (Chairman), Tõnu Toomik, Martin Rebane, Urmas Somelar	Ivo Volkov (Chairman), Jaan Mäe, Veljo Viitmann
OÜ Merko Investments *(20,323,313 euros)*	-	Andres Trink, Urmas Somelar
SIA Merks *(10,739,309 euros)*	-	Andris Bišmeistars (Chairman), Jānis Zilgme
SIA Merks Mājas *(40,420,629 euros)*	-	Andris Bišmeistars (Chairman) Mikus Freimanis
UAB Merko Statyba *(18,240,931 euros)*	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Chairman), Jaanus Rästas
UAB Merko Bustas *(19,575,674 euros)*	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Manager)

** The figures in brackets indicate the amount of equity held by the parent company's owners in significant subsidiaries as at 31 December 2023.*

Changes in the management of group subsidiaries

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

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

The Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Members of the Management Board, Mr. Jaan Mäe and Mr. Veljo Viitmann from 1 January 2024 for three years. As of 1 January 2024, the Management Board of AS Merko Ehitus Eesti will continue with two members: Mr. Jaan Mäe (Chairman) and Mr. Veljo Viitmann.

AS Merko Ehitus appointed Mr. Ivo Volkov as a Member of the Supervisory Board of AS Merko Ehitus Eesti for the three-year period, starting from 1 January 2024. With the same decision, the powers of the current council member Tõnu Toomik were extended until 31 December 2026. The Supervisory Board of AS Merko Ehitus Eesti will continue with four members: Mr. Ivo Volkov (Chairman), Mr. Tõnu Toomik, Mr. Martin Rebane and Mr. Urmas Somelar.

The structure of the group is disclosed in Note 18 to the financial statements.

AUDIT COMMITTEE

The Supervisory Board of AS Merko Ehitus has formed an audit committee as its work body. The responsibility of the audit committee is advising the Supervisory Board in supervision related issues. The Committee executes supervision over the whole group (incl. subsidiaries): a) arrangement of accounting, b) preparation and approval of the financial budget and reports, c) management of financial risks, d) performance of external audit, e) functioning of an internal control system and f) legality of the activities. Subsidiaries have not formed audit committees.

As at 10 January 2011, the company's Supervisory Board set up a 3-member audit committee. From 5 May 2023, the members of the audit committee of AS Merko Ehitus are: Indrek Neivelt (the Chairman), Kristina Siimar and Viktor Mõisja.

A member of the committee is elected for a term of indefinite period, but at the decision of the Supervisory Board, a member of the committee may be recalled at any given time.

Members of the audit committee are not separately remunerated.

REPORTING AND FINANCIAL AUDIT

Availability of adequate and timely information is the basis for high-quality management decisions. It is important to ensure that reporting is factual, but also forward-looking. This will enable to manage, to the best of one's knowledge, risks and, in competition with other market operators, turn them into opportunities. The group's reporting can be roughly divided into a) financial reporting and b) management reporting.

Financial reporting consists of interim reports of consolidated economic indicators and annual reports of companies that belong to the AS Merko Ehitus group, that are made public through the stock exchange system of Nasdaq Baltic and that are available to all shareholders, potential investors and analysts covering the company.

On the other hand, management reporting is meant for the group's internal use. It is appropriate to differentiate reporting on various operating indicators that focuses on the performance of business segments and different group companies as well as return on equity. The refinement of reporting is a continuous process during which indicators affecting the achievement of agreed objectives are reviewed. Management reporting includes budgets and forecasts that AS Merko Ehitus does not disclose.

Financial audits are conducted based on International Standards on Auditing. The auditor of AS Merko Ehitus is approved by the general meeting of shareholders. The selection process is managed by the Supervisory Board and its findings are presented to the general meeting for approval. By the resolution made by the general meeting in 2023, the financial auditor for annual reports of 2023-2025 is AS PricewaterhouseCoopers (PwC). Auditors authorised to sign the report differ, depending on the country of residence of the group company. Chartered auditor Janno Hermanson is responsible for the consolidated audit report.

AS Merko Ehitus considers it important to ensure independence of the financial auditor and to avoid conflicts of interest. In 2023, PwC provided to AS Merko Ehitus advisory services permitted under Estonian Audit Act. We find that the financial audit conducted in 2023 was in compliance with regulative acts, international standards and expectations. PwC presented the results in two stages: a) as part of an interim audit and b) with regard to the final audit before the independent auditor's report was issued. The auditor's independent report is presented on pages 88-96.

In 2023, the PwC fees for financial audit of AS Merko Ehitus group amounted to EUR 198 thousand (2022: EUR 148 thousand).

CONFLICT OF INTEREST AND HANDLING OF INSIDER INFORMATION

It is important to appropriately handle insider information in order to protect shareholders' interests and ensure honest and fair trading of shares. Significant information about AS Merko Ehitus and its subsidiaries must be available in a timely, consistent and equal manner for all shareholders and potential new shareholders. It is inevitable that persons related to AS Merko Ehitus and its subsidiaries have, because of their job, at certain times and in certain cases more information about the group than investors and the public. To prevent the misuse of such information, we have adopted internal rules in the group's companies on maintaining and publication of insider information and on making transactions on the basis of insider information (hereinafter: insider information rules). Insider information rules include a reporting system under which employees who may develop a conflict of interest when fulfilling their job duties are required to disclose their economic interests and confirm their independence by self-assessment.

The members of the Management and Supervisory Board of AS Merko Ehitus are users of inside information (so-called insiders). They have signed a relevant statement, are aware of inside information rules of AS Merko Ehitus and together with people connected with them are registered in the list of the group's insiders. Moreover, the list of insiders includes the financial unit employees of the parent company who have access to the group's consolidated operating results as well as members of the Management and Supervisory Boards of the more important subsidiaries together with the employees who are responsible for preparing and presenting accounting information.

As at 31 December 2023, the group's insider register lists 100 persons with permanent access (31.12.2022: 97 persons). The group keeps records on insiders in accordance with requirements set forth in the Securities Market Act, the Regulation (EU) No 596/2014 of the European Parliament and of the Council (market abuse regulation) and Nasdaq Tallinn rules and regulations.

To the best of our knowledge, in the financial year 2023 there were no cases of any misuse of insider information or conflicts of interest. No transactions with related parties were made at other than market terms. No transactions between the company and its member of the board, a person close to or connected to the member of the board were carried out in the financial year of 2022, which would be regarded as significant for the company.

No members of the company's Supervisory or Management Board hold shares in an entity that operates in the core business area of AS Merko Ehitus – construction sector.

An overview of transactions with related parties in 2023 is provided in Note 32 of the financial statements.

DISCLOSURE OF INFORMATION

In disclosing information, AS Merko Ehitus shall follow Estonian law, the rules and regulations of Nasdaq Tallinn Stock Exchange and guidelines of the Financial Supervision Authority of Estonia and immediately disclose important information regarding the group's activities to the shareholders after obtaining reasonable assurance as to its correctness and that the disclosure of such information shall not harm the interests of the group and its business partners. The main principles of communication with investors and the general public are stated in the group's disclosure policy.

The group discloses information about its financial condition and strategy in its financial statements, annual report and interim reports pursuant to the schedule that has been set. The disclosure dates of each next financial year will be announced before the end of the previous financial year.

Merko immediately discloses all decisions, issues and events that in the group's view may significantly change the price of the securities issued by the company and that are to be disclosed pursuant to laws and regulations. Stock exchange releases are published in Estonian and English.

Important information shall be disclosed through the stock exchange system and on the group's website. In 2023, AS Merko Ehitus published 32 stock exchange releases through the stock exchange system.

NUMBER OF RELEASES	CONTENT OF RELEASE
14	New construction contracts
2	New development projects
7	Changes in structure and management
5	Operating results
2	General meeting
2	Other releases

We will publish 2024 consolidated interim reports as follows:

DATE	EVENT
09.05.2024	2024 3 months unaudited interim report
08.08.2024	2024 6 months and II quarter unaudited interim report
07.11.2024	2024 9 months and III quarter unaudited interim report

Our objective is to support fair pricing of Merko shares through constant and continued distribution of information to all market participants. Moreover, our objective is to maintain the loyalty of existing shareholders towards the company and to create interest in new shareholders and analysts. To achieve this goal, quarterly and annual reports, stock exchange releases and presentations are prepared and investor meetings are held with shareholders and analysts. We also collect and analyse feedback from investors and analysts to increase the value of information to be disclosed.

The company shall not hold meetings with analysts or presentations for investors immediately before the dates of disclosure of financial reporting (interim reports, annual report). AS Merko Ehitus communicates regularly with its larger shareholders and potential investors and, if requested, holds meetings. The information presented in these meetings is public, i.e. available from the company's reports, website or other public sources. We carefully monitor insider information rules during these meetings.

The investor calendar published on the AS Merko Ehitus website https://group.merko.ee/en/investors/reports-and-investor-calendar/ provides an overview of investor meetings both past and upcoming. Current shareholders can request their participation in planned meetings shown on the investor calendar. Requests should be made in a timely fashion. In addition to the investor meeting date, time and names of participants, Merko's website has a section with the presentations used at the meetings. In 2023, AS Merko Ehitus did not organise investor meetings (2022: 5).

For informing the company's shareholders, an annual general meeting of shareholders is called at least once a year where all shareholders can ask questions from members of the company's Management Board and Supervisory Board.

Information on investor relations of AS Merko Ehitus is available from:

IVO VOLKOV	URMAS SOMELAR	AS MERKO EHITUS
Chairman of the Management Board	Head of Group Finance Unit / Contact Person for Investor Relations	Delta Plaza, 7th Floor
phone +372 650 1250	phone +372 650 1250	Pärnu mnt 141, 11314 Tallinn, Estonia
fax +372 650 1251	fax +372 650 1251	phone +372 650 1250
e-mail ivo.volkov@merko.ee	e-mail urmas.somelar@merko.ee	group.merko.ee

DECLARATION OF CONFORMITY TO CORPORATE GOVERNANCE RECOMMENDATIONS

The Corporate Governance Recommendations (CGR) are based on the principle of comply or explain, according to which a publicly traded company shall explain its standpoints and activities with regard to those CGR provisions, which it does not comply with.

We have assessed the structure and functions of the management of AS Merko Ehitus as per CGR. Above we have described significant components of corporate governance. Having assessed the compliance of the structure and functioning of the company's management system, we find that our organisation and activities are consistent with CGR. Also, our activities comply with the Estonian legislation that regulates several principles provided in the recommendations in more detail. We hereby declare that AS Merko Ehitus has followed all corporate governance recommendations, with the following exceptions:

CORPORATE GOVERNANCE RECOMMENDATIONS[1]	EXPLANATIONS BY MANAGEMENT AND SUPERVISORY BOARDS
1.3.2 Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.	Indrek Neivelt, a member of the supervisory board, participated in the 2023 general meeting instead of the chairman of the supervisory board pursuant to the internal agreement of the supervisory board. The participation of all members of the supervisory board was not deemed necessary as no proposals for additional items on the agenda were tabled by shareholders within the statutory period.
1.3.3 Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.	AS Merko Ehitus did not provide the possibility to observe and attend the regular general meeting in 2023 through means of communication as such need has not been identified so far.

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[1] Corporate Governance Recommendations, Finantsinspektsioon (FSA in Estonia), https://www.fi.ee/failid/HYT_eng.pdf

CORPORATE GOVERNANCE RECOMMENDATIONS[1]	EXPLANATIONS BY MANAGEMENT AND SUPERVISORY BOARDS
3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number dependent members. An independent member is a person, who has no such business, family or other ties with the Issuer, a company controlled by the Issuer, a controlling shareholder of the Issuer, a company belonging to the Issuer's group or a member of a directing body of these companies, that can affect their decisions by the existence of conflict of interests. The independence requirements are presented in the annex of the Corporate Governance Recommendations. ANNEX. Requirements of independence Independent is the member of the Supervisory Board, who: (h) has not been an independent member of the Supervisory Board for more than ten (10) years;	The supervisory board of AS Merko Ehitus consists of four members, of which Kristina Siimar and Indrek Neivelt are independent members. Indrek Neivelt has been a member of the supervisory board since 6 November 2008, i.e. for more than ten years. Still, the management and supervisory boards are convinced that Indrek Neivelt remains independent from the Issuer, any company controlled by the Issuer, the controlling shareholder of the Issuer, any company belonging to the Issuer's group and any member of a management body of these companies, when making decisions as the member of the supervisory board. Indrek Neivelt continues to comply with all other requirements of independence and as a member of the supervisory board acts in the best interests of all the shareholders.
5.2 The Issuer shall publish the disclosure dates of information subject to disclosure throughout a year (including the annual report, interim reports and notice calling a general meeting) at the beginning of the fiscal year in a separate notice, called financial calendar.	AS Merko Ehitus disclosed the financial calendar for 2024 on 15 December 2023. It did not include the date on which the notice calling general meeting is going to be disclosed, as it will be announced later as a result of the decisions of the Management Board and the Supervisory Board.
6.1.1 On meeting of the Supervisory board, where the annual account shall be reviewed the auditor of the Issuer shall participate upon invitation of the Supervisory Board.	The auditor does not usually attend the AS Merko Ehitus Supervisory Board meeting. Auditor presents an overview about the results of the performed audit as a written report to the audit committee, which has been formed by the Supervisory Board as its work body. In case the members of the audit committee find it necessary to receive additional explanations, they may turn to the auditor using means of communication or invite the auditor to the audit committee meeting to provide explanations.

According to subsection 24^2 (4) of the Accounting Act, a large undertaking whose securities granting voting rights have been admitted for trading on a regulated securities market of Estonia or another Contracting State shall describe in the corporate governance report the diversity policies carried out in the company's management board and senior management and the results of the implementation thereof during the accounting year. If no diversity policies have been implemented during the accounting year, the reasons for this should be explained in the corporate governance report.

Merko Ehitus has not deemed it necessary to implement diversity policies as it bases its decisions on onboarding, work assessments and remuneration of its managers and employees on the group's best interests as well as the education, competencies and work results of the managers and employees, and not on their sex and gender, age, ethnicity, or other such characteristics. The group has enacted a code of business ethics, which also includes the principle of equal treatment of employees. In 2023, no such violations were identified in the group, which would have suggested discrimination of employees or violations of human rights. Also, no work-related complaints were submitted to labour dispute committees against the group in 2023.

MANAGEMENT DECLARATION

The Management Board declares and confirms that according to their best knowledge, the year 2023 annual accounts, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, present a correct and fair view of the assets, liabilities, financial position and profit or loss of AS Merko Ehitus and the undertakings involved in the consolidation as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial status of AS Merko Ehitus and the undertakings involved in the consolidation as a whole and contains a description of the main risks and doubts.

Ivo Volkov	Chairman of the Management Board	/ digitally signed /	01.04.2024
Tõnu Toomik	Member of the Management Board	/ digitally signed /	01.04.2024
Urmas Somelar	Member of the Management Board	/ digitally signed /	01.04.2024

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of euros

	Note	2023	2022
Revenue	3	466,304	409,633
Cost of goods sold	4	(401,267)	(355,975)
Gross profit		**65,037**	**53,658**
Marketing expenses	5	(4,312)	(4,077)
General and administrative expenses	6	(19,423)	(15,860)
Other operating income	7	4,171	3,144
Other operating expenses	8	(991)	(1,834)
Operating profit		**44,482**	**35,031**
Finance income	9	297	1
Finance costs	10	(3,017)	(1,450)
Profit from joint ventures	19	10,220	3,516
Profit before tax		**51,982**	**37,098**
Corporate income tax expense	11	(6,081)	(2,995)
Net profit for financial year		**45,901**	**34,103**
incl. net profit attributable to equity holders of the parent		46,048	34,640
net profit attributable to non-controlling interest		(147)	(537)
Other comprehensive income (loss), which can subsequently be classified in the income statement			
Currency translation differences of foreign entities		(41)	30
Comprehensive income for the period		**45,860**	**34,133**
incl. attributable to equity holders of the parent		45,993	34,648
attributable to non-controlling interest		(133)	(515)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	12	2.60	1.96

The notes set out on pages 48-87 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2023	31.12.2022
ASSETS			
Current assets			
Cash and cash equivalents	14	77,330	17,665
Trade and other receivables	15	68,754	77,959
Prepaid corporate income tax		2	38
Inventories	17	195,435	225,661
		341,521	**321,323**
Non-current assets			
Investments in associates and joint ventures	19	21,915	12,895
Other shares and securities		80	-
Other long-term loans and receivables	20	24,490	22,982
Deferred income tax assets	21	3,298	693
Investment property	22	16,823	11,485
Property, plant and equipment	23	16,613	17,452
Intangible assets	24	520	582
		83,739	**66,089**
TOTAL ASSETS		**425,260**	**387,412**
LIABILITIES			
Current liabilities			
Borrowings	26	19,673	49,687
Payables and prepayments	27	133,898	96,248
Income tax liability		4,260	1,241
Short-term provisions	28	10,451	9,820
		168,282	**156,996**
Non-current liabilities			
Long-term borrowings	26	35,142	42,236
Deferred income tax liability	21	4,441	2,355
Other long-term payables	29	5,495	2,133
		45,078	**46,724**
TOTAL LIABILITIES		**213,360**	**203,720**
EQUITY			
Non-controlling interests	18	(155)	(495)
Equity attributable to equity holders of the parent			
Share capital	31	7,929	7,929
Statutory reserve capital		793	793
Currency translation differences		(838)	(783)
Retained earnings		204,171	176,248
		212,055	**184,187**
TOTAL EQUITY		**211,900**	**183,692**
TOTAL LIABILITIES AND EQUITY		**425,260**	**387,412**

The notes set out on pages 48-87 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings	Total		
Balance as at 31.12.2021	**7,929**	**793**	**(791)**	**159,308**	**167,239**	**(227)**	**167,012**
Profit (loss) for the financial year	-	-	-	34,640	34,640	(537)	34,103
Other comprehensive income (loss)	-	-	8	-	8	22	30
Total comprehensive income (loss) for the financial year	-	-	**8**	**34,640**	**34,648**	**(515)**	**34,133**
Transactions with owners							
Option over shares relating to non-controlling interests	-	-	-	-	-	247	247
Dividends (Note 13)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	**-**	**-**	**-**	**(17,700)**	**(17,700)**	**247**	**(17,453)**
Balance as at 31.12.2022	**7,929**	**793**	**(783)**	**176,248**	**184,187**	**(495)**	**183,692**
Balance as at 31.12.2022	**7,929**	**793**	**(783)**	**176,248**	**184,187**	**(495)**	**183,692**
Profit (loss) for the financial year	-	-	-	46,048	46,048	(147)	45,901
Other comprehensive income (loss)	-	-	(55)	-	(55)	14	(41)
Total comprehensive income (loss) for the financial year	-	-	**(55)**	**46,048**	**45,993**	**(133)**	**45,860**
Transactions with owners							
Increase of share capital by non-monetary contribution and buyout of non-controlling interest	-	-	-	(189)	(189)	237	48
Liquidation of non-controlling interest	-	-	-	(236)	(236)	236	-
Dividends (Note 13)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	**-**	**-**	**-**	**(18,125)**	**(18,125)**	**473**	**(17,652)**
Balance as at 31.12.2023	**7,929**	**793**	**(838)**	**204,171**	**212,055**	**(155)**	**211,900**

For share capital see also Note 31.

The notes set out on pages 48-87 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2023	2022
Cash flows from (used in) operating activities			
Operating profit		44,482	35,031
Adjustments:			
Depreciation and impairment	22-24	3,658	2,880
(Profit)/loss from sale of non-current assets	7	(960)	(313)
Change in receivables and liabilities related to construction contracts	3	35,359	(1,066)
Interest income from operating activities	7	(2,146)	(2,260)
Change in provisions	28	3,878	1,540
Change in trade and other receivables related to operating activities		777	(22,024)
Change in inventories	17	25,713	(62,360)
Change in trade and other payables related to operating activities		9,379	8,911
Interest received	7, 9, 15, 20	2,145	2,188
Interest paid	10, 27	(3,524)	(1,652)
Other finance income (costs)	10	(268)	(133)
Corporate income tax paid		(3,550)	(2,529)
Total cash flows from (used in) operating activities		**114,943**	**(41,787)**
Cash flows from investing activities			
Acquisition of subsidiaries	18	-	(695)
Acquisition of associates	19	-	(2,236)
Purchase of investment properties	22	(357)	-
Purchase of property, plant and equipment (excl. leased assets)	23, 26	(1,204)	(1,117)
Proceeds from sale of property, plant and equipment	7, 23	1,232	343
Purchase of intangible assets	24	(194)	(141)
Interest received	9	297	1
Dividends received	19	1,200	560
Total cash flows from investing activities		**974**	**(3,285)**
Cash flows from (used in) financing activities			
Proceeds from borrowings	26	48,160	147,990
Repayments of borrowings	26	(85,364)	(109,484)
Repayments of lease liabilities	26	(1,312)	(1,108)
Buyout of non-controlling interest	18	-	(1,886)
Dividends paid	13	(17,679)	(17,661)
Total cash flows from (used in) financing activities		**(56,195)**	**17,851**
Net increase/decrease in cash and cash equivalents		**59,722**	**(27,221)**
Cash and cash equivalents at the beginning of the period	14	**17,665**	**44,930**
Effect of exchange rate changes		**(57)**	**(44)**
Cash and cash equivalents at the end of the period	14	**77,330**	**17,665**

The notes set out on pages 48-87 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1. GENERAL INFORMATION

The consolidated financial statements of AS Merko Ehitus (hereinafter the parent) and its subsidiaries (hereinafter collectively the group) for the financial year ended 31 December 2023 were signed by the Management Board on 01 April 2024.

Pursuant to the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board and which also includes the consolidated financial statements shall be approved at the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and presented by the Management Board and require preparation of a new annual report.

AS Merko Ehitus is a corporation registered in the Republic of Estonia (Commercial Register No.: 11520257, address: Järvevana tee 9G, Tallinn) and it operates mainly in Estonia, Latvia, Lithuania and Norway. Its main activities are construction and real estate development.

From 22 July 1997, the shares of AS Merko Ehitus are listed on Nasdaq Tallinn Stock Exchange, while the shares listed as of the reporting date have been listed since 11 August 2008 – AS Järvevana (business register code 10068022, previously named AS Merko Ehitus, currently named OÜ Järvevana), the shares of which were listed, was divided on 1 August 2008, during which AS Merko Ehitus (business register code 11520257) was established and the assets and the enterprise of AS Järvevana, with certain exceptions, were transferred to the established company. As at 31 December 2023, the majority shareholder AS Riverito owned 71.99% of the Company's shares through which the ultimate controlling person is Toomas Annus.

Since 1 January 2012, AS Merko Ehitus operates as a holding entity with no independent production activities. and which owns 100% ownership interests in construction entities in Estonia, Latvia, Lithuania and Norway.

1.2. BASES FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Merko Ehitus group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention.

Several financial figures are based on management's estimates, including, for example, assessment of profitability of construction contracts, assessment of the useful lives of items of property, plant and equipment, estimation of allowances for receivables and inventories, recognition of provisions for warranty obligations. Management's estimates have been made to the best of its knowledge, but they may turn out to be inaccurate. The effect of changes in accounting estimates is reported in the financial statements of the period in which the change occurred.

tems included in the financial statements of Merko Ehitus group entities are measured using the currency of their primary economic environment (the functional currency): the euro and the Norwegian krone. The consolidated financial statements are presented in euros. The primary financial statements and notes are presented in thousands of euros, unless otherwise specified.

1.3. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS, AMENDMENTS TO PUBLISHED STANDARDS AND INTERPRETATIONS OF THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC)

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new or revised standards or interpretations became effective for the group from 1 January 2023:

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023).
IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. In the group's opinion, the implementation of the changes in the disclosure of accounting principles has no significant impact on the financial statement.

Amendments to IAS 8: Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023).
The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The group assesses that there is no material impact of application of the amendments to its financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023).
The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The group assesses that there is no material impact of application of the amendments to its financial statements.

There are no other new revised standards or interpretations that are effective for annual periods beginning on or after 1 January 2023 that would be expected to have a material impact to the group.

NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND CHANGES

Certain new or revised standards and interpretations have been issued that are mandatory for the group's annual periods beginning on or after 1 January 2024, and which the group has not early adopted:

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024; not yet adopted by the EU).
The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate. The group assesses that there is no material impact of application of the amendments to its financial statements.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2024; not yet adopted by the EU).
These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The group assesses that there is no material impact of application of the amendments to its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU).
These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The group assesses that there is no material impact of application of the amendments to its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the group.

1.4. CONSOLIDATION

Subsidiaries include all entities under the control of the group.

Subsidiaries are consolidated in the financial statements from the date of acquiring control until the date at which control ceases. The financial figures of the parent company and the subsidiaries have been consolidated on a line-by-line basis in the consolidated annual financial statements. Upon consolidation, intra-group transactions, balances and unrealised profits arising from intra-group transactions have been eliminated. Unrealised losses have also been eliminated, unless a loss is caused by impairment.

Investements are recognised in the non-consolidated statements of the parent company and are recorded at acquisition cost, from which possible accumulated discounts resulting from the decline in asset value have been deducted.

1.5. BUSINESS COMBINATIONS

The group uses the acquisition method of accounting to account for business combinations.

TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

1.6. JOINT VENTURES

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to common control. Joint ventures are accounted for under the equity method. A holding in a jointly controlled entity is initially recognised at cost and subsequently adjusted for the post-acquisition changes that have occurred in the group's share of the net assets under common control. The income statement of the group includes the group's share in the profits or losses of the entity under common control. Unrealised gains and losses from transactions between the group and its joint ventures are eliminated.

1.7. JOINTLY CONTROLLED OPERATIONS

Jointly controlled operations are joint operations with third parties, whereby the assets and other resources of venturers are used without the establishment of a new entity or another unit or creation of a separate financial structure. If all following terms are met, then it is a joint arrangement/ jointly controlled operations:

- Consensual decisions on important activities;
- The contract contains arbitration rules in case the parties cannot reach an agreement on important activities;
- Parties of the joint arrangement share the profit/loss;
- Subcontractor agreements are signed and the responsibility over the work of the subcontractors is shared by both parties or one party represents both;
- Both parties pay the subcontractors;
- Both parties grant the guarantee/warranty for the duty of performance;
- Both parties perform the warranty repairs;
- Customer pays for the service to a separate bank account, proceeds (income) are shared between parties according to the agreement.

Each venturer uses its own property, plant and equipment and carries its own inventories in the statement of financial position. The venturer also incurs its own expenses and liabilities and raises its own funds which represent its own obligations. In respect of its interest in jointly controlled operations, a venturer recognises in its financial statements:

- the assets that it controls and the liabilities that it incurs;
- the expenses that it incurs and its share of revenue that it earns from the sale of goods or services of the jointly controlled operation.

1.8. FOREIGN CURRENCY

Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank prevailing at the dates of the transactions. Monetary financial assets and liabilities denominated in foreign currencies at the statement date are translated into euros based on the foreign currency exchange rates of the European Central Bank prevailing at the balance sheet date. Exchange rate differences from translation are reported in the income statement of the reporting period.

1.9. FINANCIAL ASSETS

The group classifies its financial assets in those to be measured at amortised cost measurement category. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

1.10. IMPAIRMENT OF ASSETS

FINANCIAL ASSETS AT AMORTISED COST

The group assesses at each balance sheet date whether there is any indication that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or a group of financial assets is impaired includes observable data that is available to the group regarding the following events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- the future outlook of the debtor's business, including the future outlook for the particular economic sector and as well the general economic developments;
- probability that the debtor will enter bankruptcy;
- disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a financial asset or a group of financial assets, although the decrease cannot yet be measured reliably.

NON-FINANCIAL ASSETS

Signs, which could give evidence to decrease in the value of assets are assessed critically on each reporting date. Losses deriving from the decrease of value of assets is recognised in the expenses of that reporting period.

The recoverable value of group's non-current assets is the higher of the following two figures: the fair value (minus sales costs) of the asset or its value in use.

1.11. INVENTORIES

Inventories are initially recorded in the statement of financial position at cost, which consists of the purchase costs, production costs, transportation and other costs incurred in bringing the inventories to their present location and condition.

In case of separately identifiable inventory items, their cost is determined based on expenditure incurred specifically for the acquisition of each asset. If inventory items are not clearly distinguishable from each other, then the weighted average cost method is used.

Inventories are measured in the statement of financial position at the lower of acquisition cost and net realisable value. The net realisable value is the sales price less estimated costs to sell.

Expenditure incurred for real estate development is reported either as work-in-progress or finished goods, depending on the stage of completion in the line Inventories in the statement of financial position. When the development of property is financed with a loan, the borrowing costs incurred during development are included in the cost of the property. Borrowing costs incurred during the period of construction are capitalised until the property is commercially disposable, which cannot be later than when a permit for use is obtained for the property. Interest expenses associated with maintenance or usage of the property are not capitalised.

1.12. INVESTMENT PROPERTY

Investment property is real estate property, which is primarily held for the purpose of earning rental income or for capital appreciation or for both, but not for the production of goods or services, administrative purposes or sale in the ordinary course of business. Investment property is measured using the cost method, i.e. at cost less any accumulated depreciation and any accumulated impairment losses.

Buildings included in investment properties are depreciated on a straight-line basis over the period of 12.5 to 33.3 years. Land is not depreciated.

1.13. PROPERTY, PLANT AND EQUIPMENT

An item of property, plant and equipment is an asset used for production, provision of services or administrative purposes over a period longer than one year.

An item of property, plant and equipment is carried in the statement of financial position at its cost less any accumulated depreciation. Items of property, plant and equipment leased under the lease terms are accounted for similarly to purchased property, plant and equipment. Depreciation is calculated on a straight-line basis over the following useful lives:

- buildings 10-33.3 years;
- machinery and equipment 2-20 years;
- other items of property, plant and equipment 2.5-5 years;
- right of superficies 50 years.

Land is not depreciated.

At each balance sheet date, the validity of applied depreciation rates, the depreciation method and the residual values applicable to assets are assessed.

1.14. INTANGIBLE ASSETS

Intangible assets are carried in the statement of financial position at cost less any accumulated amortisation and any accumulated impairment losses. Goodwill is not amortised.

SOFTWARE AND INFORMATION SYSTEMS

The costs related to the development of information systems and software which are reported as intangible assets, are depreciated under a straight-line method over their estimated useful lives (2-10 years).

1.15. LEASED ASSETS

THE GROUP AS A LESSEE

Lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to use an asset exists if the lessor is unable to substitute an asset, the lessee has the ability to determine how to use the underlying asset and the lessee is entitled to the majority of future economic benefits generated from that right of use.

Only the assets that have a lease term shorter than 12 months can be excluded from the balance sheet and recognised as an operating lease. Such payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Leased assets (the “right-of-use assets”) are generally measured at the cost minus depreciation method.

Lease liability is remeasured on the balance sheet when there is a change in the estimation of lease payments. The lessee recognises the amount of revaluation of lease liability as an adjustment of the underlying right-of-use asset. If the residual value of the underlying asset is approaching zero and additional decrease is revaluation the lease liability is recognised, the remaining amount is recognised in the income statement.

THE GROUP AS THE LESSOR

Assets leased out under operating lease terms are recognised in the balance sheet analogously to property, plant and equipment. They are depreciated over their expected useful lives on a basis consistent with similar assets. Operating lease payments are recognised as income on a straight-line basis over the lease term.

1.16. FINANCIAL LIABILITIES

All financial liabilities of the group belong to the category, which are reflected at "amortised cost".

All financial liabilities (trade payables, borrowings, and other short and long-term borrowings) are initially recognised at their fair value and are subsequently carried at amortised cost, using the effective interest rate method. The amortised cost of current financial liabilities normally equals their nominal value, therefore current financial liabilities are stated in the statement of financial position at their redemption value. To calculate the amortised cost of non-current financial liabilities, they are initially recognised at fair value of the proceeds received (net of transaction costs incurred) and an interest cost is calculated on the liability in subsequent periods using the effective interest rate method.

1.17. INCOME TAX AND DEFERRED INCOME TAX

According to the Income Tax Act of the Republic of Estonia, legal entities are not subject to income tax on profits earned. Corporate income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and payments not related to business operations. From 1 January 2015, the tax rate on dividends payable is 20/80 of the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

Corporate income tax paid on dividends is recognized in the statement of comprehensive income as an income tax expense and in the statement of financial position as a deferred income tax liability to the extent of the planned dividend payment. An income tax liability is due on the 10th day of the month following the payment of dividends. Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future. The group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future. The maximum income tax liability which would accompany the distribution of Company's retained earnings is disclosed in Note 11 to the consolidated financial statements.

Corporate income tax on profits and deferred income tax expense or income of the subsidiaries located in Lithuania and Norway as well as corporate income tax on dividends and deferred income tax cost on dividends of Estonian entities are reported in the consolidated income statement.

Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets are recognised in the group's statement of financial position if their future realisation is probable.

Legal entities in Latvia, Lithuania, Norway and Finland that are part of the group calculate taxable income and corporate income tax in accordance with the legislation of the Republic of Latvia, the Republic of Lithuania, the Kingdom of Norway and the Republic of Finland. The profits in the Republic of Latvia are taxed upon their distribution with a rate of 20/80 (2022: the profits are taxed upon their distribution with a rate of 20/80). The profits of entities located in the Republic of Lithuania are taxed at the rate of 15% (2022: 15%) and in the Kingdom of Norway at the rate of 22% (2022: 22%).

1.18. PROVISIONS

Provisions are constructive or legal obligations, which arise as a result of events occurring before the balance sheet date. Setting up of provisions or increasing existing provisions is recognised as an expense in the income statement of the reporting period.

Pursuant to respective building acts, the construction companies of the group provide 2-year warranties on their buildings. The calculation of warranty provisions is based on management estimates and previous periods' experience with regard to actual warranty expenses.

The expected loss arising from construction contracts must be immediately recognised as an expense. A provision is recognised for onerous construction contracts, which have not yet been completed.

A provision for expenses yet to be incurred and invoices not yet received is formed for sold apartment projects, which is recognised in the income statement as an expense and in the balance sheet as a liability.

1.19. REVENUE

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is income arising in the course of the group's ordinary activities. Revenue is recognized in the amount of transaction price. Transaction price is the amount of consideration to which the group expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The group recognises revenue when it transfers control of a good or service to a customer.

REVENUE FROM CONTRACTS WITH CUSTOMERS – CONSTRUCTION SERVICES

The group provides construction services under fixed price contracts. Revenue from contracts is recognised in the same period as the services are provided and accepted by the customer. For fixed-price contracts, revenue is recognised based on the actual service provided until the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. The proportion of services actually provided is recognised based on the ratio of contract's actual costs and contract's estimated total costs, i.e. based on the stage of completion of the project.

If the customer has ordered construction services together with the installation of specific equipment and this is delivered directly from the factory to the customer's project site, the revenue from the sale of the equipment is recognised during the reporting period as part of the construction contract as a joint performance obligation. The customer does not benefit separately from the construction service and the equipment and is interested in purchasing only the full solution.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the group exceed the payment, a contract asset is recognised (in the annual report as „accrued income from construction services"). If the payments exceed the services rendered, a contract liability is recognised (in the annual report as „prepayments for construction services ").

The contract asset and contract liability arising from the same contract are presented net in the financial statements. If the contract includes variable consideration, revenue is recognised only to the extent that it is highly probable that there will be no significant reversal of such consideration.

The group provides construction services through a PPP (public private partnership) project, which are accounted for in accordance with the principles of the concession agreement (IFRIC 12). Revenue from providing construction services is recognized in the period in which the services are rendered and accepted by the customer. As the construction period and operating of the contractual assets last for a total of more than 10 years, the receivable from the customer is recognized as a long-term receivable, from which interest income is calculated. The receivable for interest income is also recognized as a long-term receivable, as the customer pays for the construction and operating of the contractual asset only during the course of the operating period (Note 20).

CONSTRUCTION OF RESIDENTIAL PROPERTIES

The group develops and sells residential properties. Revenue is recognised when control over the property has been transferred to the customer. The properties have generally no alternative use for the group due to contractual restrictions. However, an enforceable right to payment does not arise until legal title has passed to the customer. Therefore, revenue is recognised at a point in time when the legal title has passed to the customer.

FINANCING COMPONENT

The group only very rarely has contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. The impact of time value of money for the group is immaterial.

Income arising from interest and dividends is recognised when it is probable that future economic benefits associated with the transaction will flow to the entity and the amount of revenue can be measured reliably.

1.20. SEGMENT REPORTING

Operating segments are components of the entity for which it is possible to obtain discrete financial information to make decisions about resources to be allocated to the segment and assess its performance.

NOTE 2 MANAGEMENT ESTIMATES

The preparation of the financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. However, it can be stated that seasonality and cyclicality do not have a significant effect on the group's activities within a year. The areas involving a higher degree of judgement or complexity where assumptions and estimates have an impact on the consolidated financial statements of Merko Ehitus group, are disclosed below. The effect of changes in management's estimates are reported in the income statement of the period of the change.

REVENUE FROM CONSTRUCTION SERVICES

Revenue from contracts with customers related to providing construction services is recognised based on the ratio of contract's actual incurred costs and the contract's estimated costs, which also assumes that the stage of completion of the construction contracts can be reliable assessed as of the reporting period. A precise, systematic calculation and estimation of costs, forecasting and reporting of income and expenses has been introduced for determining the stage of completion. The estimated final result to be derived from each construction project is being constantly monitored, deviations from the budget are analysed and if necessary, the profit estimate is adjusted. As at 31 December 2023, the amount of the provision for onerous contracts was EUR 8 thousand (2022: EUR 8 thousand), which was determined after the evaluation of the stage of completion of construction contracts. The risk analysis showed that a change in the estimated costs of construction projects in the range of +/-5% would result in a change in the net profit between EUR – 10,446/+7,774 thousand (2022: EUR -9,839/+8,075 thousand).

INVENTORY WRITE-DOWN

Inventories are valued separately by individual properties (registered immovable or building). A business plan is prepared for each property based on its nature (intended use and building rights currently effective or being effected) and the project's costs are compared with expected income. If the property's costs exceed the expected revenue to be generated from the realisation of the project (net realisable value), the group shall write down assets in the amount by which the costs exceed income. Due to the volatility of the construction market and low liquidity of the real estate market, determination of the net realisable value of the assets depends largely on management estimates. The sensitivity analysis of inventories showed that had the net realisable value been overestimated by 10% (i.e. income would be 10% lower upon the disposal of assets), the group's write-down of inventories (work-in-progress, finished goods, acquisition of real estate properties for sale/development) would have been EUR 35 thousand higher in 2023 (2022: EUR 35 thousand higher), incl. real estate properties for sale/development in the amount of EUR 29 thousand (2022: EUR 31 thousand) and work-in-progress in the amount of EUR 6 thousand (2022: EUR 4 thousand). In 2023, if the value had been underestimated by 10% (income would be 10% higher upon the disposal of assets), the write-down of inventories for the properties purchased would have been EUR 1,718 thousand lower (2022: EUR 302 thousand). Additional information in Note 17.

VALUATION OF RECEIVABLES

For valuation of receivables, each receivable is analysed separately. For determining the need for a complete or partial write-down of receivables, the debtor's financial position, the collateral provided, the solutions offered to pay off the debt and the previous payment behaviour of the debtor are considered taking also into account the future outlook of the debtor, including its business logic and how that corresponds to the general economic developments as well as to the developments of particular economic sector (Note 15).

PROVISION FOR WARRANTY OBLIGATIONS

For determining the provision for warranty obligations, the historical cost of the group's warranty works is considered (Note 28).

VALUATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

An impairment test is carried out for property, plant and equipment and intangible assets when an event or change in circumstances indicates that impairment may have occurred. Based on management estimates, as at 31 December 2023 and 2022, no impairment tests were performed, as there were no indications of impairment of assets. As at 31 December 2023, the carrying amount of property, plant and equipment was EUR 16,613 thousand (31.12.2022: EUR 17,452 thousand) and the carrying amount of intangible assets was EUR 519 thousand (31.12.2022: EUR 582 thousand) (Notes 23, 24).

VALUATION OF INVESTMENT PROPERTY

Investment properties are recognised at cost, less any accumulated depreciation and any impairment losses. Management estimates that the carrying amount of investment properties as at 31 December 2023 does not significantly differ from their fair value, with the exception of book value of land in the amount of EUR 10,121 thousand, the fair value of which by expert opinion was EUR 25,370 thousand (31 December 2022: the carrying amount of investment properties did not significantly differ from their fair value, with the exception of book value of land in the amount of EUR 10,121 thousand, the fair value of which by expert opinion was EUR 25,370 thousand). Management's estimate regarding the fair value of investment properties is based on the existing market value of the assets. The estimated amount for which the asset can be exchanged in a transaction between independent parties at the date of estimation is considered its market value. External experts were not involved in the estimation of the fair value of investment properties, with the exception of land reclassified from inventories. Market value estimates are mostly based on market transactions, with the exception of real estate that is estimated using discounted cash flow method. As at 31 December 2023, the carrying amount of investment property was EUR 16,823 thousand (31.12.2022: EUR 11,486 thousand) (Note 22).

NOTE 3 OPERATING SEGMENTS

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

Based on internal management information, the group's Management Board monitors activities by the following segments:

- 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 amount of each cost item disclosed in segment reporting is a figure presented to the group's management for decision-making purposes regarding allocation of resources to segments and assessing the performance of the segment. Unallocated expenses and income after the profit of reporting segments are accounted in segment reporting using the same principles as in the financial statements and are not used for evaluation of the results of operating segments by the group's management.

AS Merko Ehitus management board monitors the revenue and the operating profit (loss) as the main financial indicators in the segment reporting. In addition to the cost item of the segment, undistributed marketing and general expenses, other operating income and expenses and financial income and costs have also been assigned to the segment's operating profit in proportion to the segment's revenue.

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.

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.

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

in thousands of euros

2023	**Construction service**	**Real estate development**	**Total segments**
Revenue	299,338	208,332	507,670
Inter-segment revenue	(1,168)	(40,198)	(41,366)
Revenue from clients	**298,170**	**168,134**	**466,304**
incl. clients whose revenue is at least 10% of the group's consolidated revenue:			
client A (Estonian state)	77,025	-	77,025
Client B	46,730	-	46,730
Timing of revenue recognition at a point in time	2,418	141,098	143,516
Timing of revenue recognition over time	295,752	27,036	322,788
Operating profit (-loss)	**20,504**	**26,731**	**47,235**
Segment pre-tax profit (loss)	**26,200**	**29,344**	**55,544**
incl. interest income from operating activities (Note 7)	-	2,146	2,146
depreciation (Notes 4, 5, 6)	(2,805)	(853)	(3,658)
impairment of inventories	-	(2,200)	(2,200)
recognition of provisions (Notes 4, 6, 8, 28)	(5,659)	(1,128)	(6,787)
reversal of provisions (Note 4, 6, 28)	144	156	300
profit from joint ventures (Note 19)	5,771	4,449	10,220
other finance income (costs) (Notes 9, 10)	113	(1,743)	(1,630)
incl. interest income	259	-	259
interest expenses	(101)	(1,531)	(1,632)
Segment assets 31.12.2023	**96,111**	**249,513**	**345,624**
incl. joint ventures (Note 19)	14,238	7,677	21,915

2022	**Construction service**	**Real estate development**	**Total segments**
Revenue	248,052	221,537	469,589
Inter-segment revenue	(1,112)	(58,844)	(59,956)
Revenue from clients	**246,940**	**162,693**	**409,633**
incl. clients whose revenue is at least 10% of the group's consolidated revenue:			
client A (Estonian state)	54,099	-	54,099
Timing of revenue recognition at a point in time	1,118	129,022	130,140
Timing of revenue recognition over time	245,822	33,671	279,493
Operating profit (-loss)	**8,496**	**30,338**	**38,834**
Segment pre-tax profit (loss)	**10,904**	**30,386**	**41,290**
incl. interest income from operating activities (Note 7)	21	2,239	2,260
depreciation (Notes 4, 5, 6)	(2,229)	(651)	(2,880)
impairment of inventories (Notes 4, 17)	(8)	(3,400)	(3,408)
recognition of provisions (Notes 4, 6, 28)	(6,616)	(4,833)	(11,449)
reversal of provisions (Note 4, 6, 28)	26	56	82
profit from joint ventures (Note 19)	2,614	902	3,516
other finance income (costs) (Notes 9, 10)	(89)	(787)	(876)
incl. interest expenses	(51)	(607)	(658)
Segment assets 31.12.2022	**73,579**	**283,687**	**357,266**
incl. associates and joint ventures (Note 19)	9,667	3,228	12,895

In addition to the segment assets, as at 31 December 2023 the group holds assets in the amount of EUR 79,636 thousand (31 December 2022: EUR 30,146 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousands of euros

	2023	**2022**
Pre-tax profit from reporting segments	**55,544**	**41,290**
Other operating profit (loss)	(2,752)	(3,801)
incl. recognition of provisions (Notes 6, 8, 28)	(238)	(925)
reversal of provisions	900	-
finance income (costs)	(810)	(391)
incl. interest expenses	(735)	(341)
Total profit before tax	**51,982**	**37,098**

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

Other finance income and costs, not associated with any segment, includes financial income from bank deposits, profit (loss) from exchange rate changes, non-capitalized loan interest costs and other finance income and costs.

As the basis for the figure, that is allocated to segments based on revenue proportion, is the sum of group's unallocated costs, the interest income (expenses) in the sum of EUR -292 thousand (31 December 2022: EUR -180 thousand) has not been presented separately in the respective cost item.

REVENUE BY CLIENT LOCATION

in thousands of euros and percentage

	2023		**2022**	
Estonia	283,147	61%	204,480	50%
Latvia	61,843	13%	113,163	27%
Lithuania	115,232	25%	84,564	21%
Norway	6,082	1%	7,426	2%
Total	**466,304**	**100%**	**409,633**	**100%**

CONTRACT ASSETS AND LIABILITIES

in thousands of euros

	31.12.2023	31.12.2022
Accrued income from construction services (Note 15)	8,305	15,378
Prepayments for construction services (Note 27)	(34,584)	(6,298)
Advance payments received for construction contract works (Note 27, 29)	(33,727)	(5,184)
Recognised provision for onerous construction contracts (Note 28)	(8)	(8)

During the accounting year advance payments received prior for construction contract works in a sum of EUR 5,184 thousand (2022: EUR 12,963 thousand) were recognised as revenue. As of 31 December 2023, the group's secured order book stood at EUR 477,481 thousand (2022: EUR 297,174 thousand), for which the revenue is recognised in future periods. According to management estimation, 86% of revenue is going to be recognised in 2024 and 14% in 2025.

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

in thousands of euros

	31.12.2023	31.12.2022
Estonia	42,317	30,314
Latvia	10,837	10,786
Lithuania	2,762	1,199
Norway	35	115
Total	**55,951**	**42,414**

NOTE 4 COST OF GOODS SOLD

in thousands of euros

	2023	2022
Construction services and properties purchased for resale	279,421	215,323
Materials	47,970	63,665
Staff costs	32,999	28,652
Construction mechanisms and transport	8,881	9,199
Design	7,703	8,561
Real estate management costs	1,105	827
Depreciation (Note 3)	2,599	1,973
Impairment of inventories (Notes 3, 17, 34)	2,200	3,408
Provisions (Notes 3, 28)	5,296	11,291
Other expenses	13,093	13,076
Total cost of goods sold	**401,267**	**355,975**

NOTE 5 MARKETING EXPENSES

in thousands of euros

	2023	2022
Staff costs	2,747	2,538
Advertising, sponsorship	1,022	916
Transport	133	164
Depreciation	137	115
Other expenses	273	344
Total marketing expenses	**4,312**	**4,077**

NOTE 6 GENERAL AND ADMINISTRATIVE EXPENSES

in thousands of euros

	2023	2022
Staff costs	14,485	11,104
Office expenses, communication services	569	582
Consulting, legal, auditing*	1,001	960
Transport	344	345
Computer equipment and software	572	523
Depreciation	922	792
Provisions (Notes 3, 28)	(71)	101
Other expenses	1,601	1,453
Total general and administrative expenses	**19,423**	**15,860**

* Customer contract fees of the audit firms accounted for during the accounting year were EUR 221 thousand for audit fees (2022: EUR 170 thousand) and EUR 12 thousand for other business activities (2022: EUR 12 thousand).

NOTE 7 OTHER OPERATING INCOME

in thousands of euros

	2023	2022
Interest income from operating activities	2,146	2,260
Profit from sale of non-current assets	960	313
Fines and penalties for delay received	175	324
Collection of doubtful receivables (Notes 15, 34)	724	15
Other income	166	232
Total other operating income	**4,171**	**3,144**

NOTE 8 OTHER OPERATING EXPENSES

in thousands of euros

	2023	2022
Fines, penalties	10	167
Foreign exchange losses	17	-
Gifts, donations	253	506
Doubtful receivables expense (Notes 15, 34)	89	232
Provisions (Notes 3, 28)	600	900
Other expenses	22	29
Total other operating expenses	**991**	**1,834**

NOTE 9 FINANCE INCOME

in thousands of euros

	2023	2022
Interest income (Note 3)	297	1
Total finance income	**297**	**1**

NOTE 10 FINANCE COSTS

in thousands of euros

	2023	2022
Interest expense (Notes 3, 26)	2,697	1,180
Foreign exchange losses	153	137
Other finance costs	167	133
Total finance costs	**3,017**	**1,450**

NOTE 11 CORPORATE INCOME TAX

in thousands of euros

The income tax on the group's profit before tax differs from the theoretical amount that would arise using the statutory tax rates applicable to profits of the consolidated entities for the following reasons:

2023	**Latvia**	**Lithuania**	**Norway**	**Estonia**	**Total**
Profit (loss) before tax	3,515	21,651	(1,819)	28,635	51,982
Tax rate applicable to profits	0%	15%	22%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	0	(3,248)	0	0	(3,248)
Tax calculated on expenses not deductible for tax purposes	(5)	(2)	-	-	(7)
Tax effect of income not subject to tax	-	3	-	-	3
Tax losses of previous periods recognised in the reporting period	-	122	42	-	164
Tax losses not recognised in the reporting period	-	(149)	-	-	(149)
Income tax withheld on dividends (Note 13)	-	-	-	(691)	(691)
Deferred income tax on dividends	-	-	-	(2,153)	(2,153)
Total income tax expense	**(5)**	**(3,274)**	**42**	**(2,844)**	**(6,081)**
incl. income tax expense	(5)	(5,899)	-	(691)	(6,595)
deferred income tax expense (Note 21)	-	2,625	42	(2,153)	514

2022	**Latvia**	**Lithuania**	**Norway**	**Estonia**	**Total**
Profit (loss) before tax	5,660	13,761	(1,135)	18,812	37,098
Tax rate applicable to profits	0%	15%	22%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	0	(2,064)	250	-	(1,814)
Tax calculated on expenses not deductible for tax purposes	(12)	(62)	-	-	(74)
Tax effect of income not subject to tax	-	9	-	-	9
Tax losses of previous periods recognised in the reporting period	-	97	-	-	97
Tax losses not recognised in the reporting period	-	(54)	(250)	-	(304)
Income tax withheld on dividends (Note 13)	(110)	-	-	(1,576)	(1,686)
Deferred income tax on dividends	-	-	-	777	777
Total income tax expense	**(122)**	**(2,074)**	**0**	**(799)**	**(2,995)**
incl. income tax expense	(122)	(2,122)	-	(1,576)	(3,820)
deferred income tax expense (Note 21)	-	48	-	777	825

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 1.17).

As of 31.12.2023 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 2,894 thousand euros (31.12.2022: EUR 742 thousand euros).

As of 31.12.2023, the parent company AS Merko Ehitus has EUR 1,513 thousand (31.12.2022: EUR 1,660 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As of 31 December 2023, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 162,969 thousand (31.12.2022: EUR 140,704 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 378 thousand (31.12.2022: EUR 415), the corresponding income tax on dividends would amount to EUR 40,364 thousand (31.12.2022: EUR 34,761 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration. Above that 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 12 EARNINGS PER SHARE

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

	2023	2022
Net profit attributable to shareholders *(in thousand EUR)*	46,048	34,640
Weighted average number of ordinary shares *(thousand pcs)*	17,700	17,700
Basic earnings per share *(in euros)*	**2.60**	**1.96**

In 2023 and 2022, the group did not have any potential ordinary shares to be issued; therefore, the diluted earnings per share equal the basic earnings per share.

NOTE 13 DIVIDENDS PER SHARE

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.

On 4 May 2023, the shareholders of AS Merko Ehitus approved the Supervisory Board's proposal to the shareholders to pay out the total amount of EUR 17,700 thousand as dividends from net profit, i.e. EUR 1.00 per share, which is equivalent to a 51% dividend rate and a 7.1% dividend yield for the year 2022 (using the share price as of 31 December 2022). Comparable figures in 2022 were accordingly: EUR 17,700 thousand (EUR 1.00 per share) as dividends, which is equivalent to a 61% dividend rate and a 6.6% dividend yield for the year 2021 (using the share price as at 31 December 2021).

The income tax rate (14/86) of regularly paid (net) dividends in the amount of EUR 3,929 thousand was applied to dividends paid out in 2023. From the dividends paid to natural person shareholders and to which 14/86 income tax rate was applied, group withheld an additional 7% income tax. The group incurred income tax expenses in 2023 in connection with dividend payments in an amount of 691 thousand euros (2022: EUR 1,576 thousand) (Note 11).

In cooperation with the Supervisory Board, the Management Board proposes to pay the shareholders EUR 23,010 thousand as dividends from net profits brought forward (EUR 1.30 per share) in 2024, which is equivalent to a 50% dividend rate and a 8.5% dividend yield for the year 2023 (using the share price as at 31 December 2023).

NOTE 14 CASH AND CASH EQUIVALENTS

in thousands of euros

	31.12.2023	31.12.2022
Bank accounts	61,545	17,665
Overnight deposits	785	-
Term deposits with maturities of 3 months of less	15,000	-
Total cash and cash equivalents (Note 34)	**77,330**	**17,665**

NOTE 15 TRADE AND OTHER RECEIVABLES

in thousands of euros

	31.12.2023	31.12.2022
Trade receivables (Note 34)		
Accounts receivable	54,692	52,746
Allowance for doubtful receivables	(134)	(3,285)
	54,558	**49,461**
Tax prepayments excluding corporate income tax		
Value added tax	661	795
Other taxes	-	3
	661	**798**
Accrued income form construction services (Notes 3, 34)	**8,305**	**15,378**
Other short-term receivables		
Short-term loans (Notes 16, 34)	-	5,000
Other short-term receivables (Note 34)	1,029	124
	1,029	**5,124**
Prepayments for services		
Prepayments for construction services	2,922	6,386
Prepaid insurance	1,137	642
Other prepaid expenses	142	170
	4,201	**7,198**
Total trade and other receivables	**68,754**	**77,959**
incl. short-term loan receivables from related parties (Note 16)	-	5,000
other short-term receivables and prepayments to related parties (Note 32)	10,743	8,049

Although in 2023 the share of overdue receivables increased from 4.9% to 5.4% of total receivables, the amount of overdue invoices increased to EUR 2,954 thousand as of 31.12.2023 (31 December 2022: 2,404 thousand), as the total amount of receivables increased. By 8 March 2024, EUR 840 thousand or 28.4% of overdue invoices had been received as of the reporting date. In 2023, the share of receivables overdue up to 60 days increased and the total amount of overdue receivables for more than 120 days decreased, but the average collection period of trade receivables extended to the level of 38 days (2022: 33 days).

	2023	2022
Doubtful receivables at the beginning of the period	(3,285)	(3,347)
Reporting period doubtful receivables expenses (Note 8)	(89)	(218)
Receivables written off during the year as uncollectible	2,507	276
Received doubtful receivables (Note 7)	724	-
Effect of exchange rates	9	4
Doubtful receivables at the end of the period	**(134)**	**(3,285)**

According to the management estimates, based on historical experience, there are sufficient reasons to conclude that the trade receivables reported in the financial statements will be collected from the buyers.

A more detailed overview of the group's credit risk is provided in Note 34.

NOTE 16 LOANS GRANTED

in thousands of euros

	Joint ventures (Note 32)	Total
2023		
Loan balance at beginning of the year	5,000	5,000
Granted	(5,000)	(5,000)
Loan balance at end of the year	-	-
Interest rate	6.0%	
2022		
Loan balance at beginning of the year	1,115	1,115
Granted	3,885	3,885
Loan balance at end of the year	**5,000**	**5,000**
incl. current portion (Notes 15, 34)	5,000	5,000
Average effective interest rate	6.0%	

NOTE 17 INVENTORIES

in thousands of euros

	31.12.2023	31.12.2022
Materials	358	503
Work-in-progress	60,244	92,049
Finished goods	43,357	43,414
Goods for resale		
Registered immovables purchased for resale/development	89,434	84,133
Other goods purchased for resale	1,558	4,249
	90,992	**88,382**
Prepayments for inventories		
Prepayments for real estate properties	-	517
Prepayments for other inventories	484	796
	484	**1,313**
Total inventories	**195,435**	**225,661**

The inventories pledged as collateral as at 31 December 2023 for loans total EUR 97,434 thousand (2022: EUR 136,482 thousand) (Note 30). In 2023, inventories have been written down to their net realisable value by EUR 2,200 thousand (2022: EUR 3,408 thousand). Previously made write-downs have not been reversed (2022: EUR 0 thousand).

	Carrying amount before write-down	Write-down	Carrying amount after write-down
31.12.2023			
Work-in-progress	62,444	(2,200)	60,244
Total	**62,444**	**(2,200)**	**60,244**

	Carrying amount before write-down	Write-down	Carrying amount after write-down
31.12.2022			
Registered immovables purchased for	87,533	(3,400)	84 133
Other goods purchased for resale	4,257	(8)	4,249
Total	**91,790**	**(3,408)**	**88,382**

NOTE 18 SHARES IN SUBSIDIARIES

	Ownership and voting rights %		**Location**	**Area of operation**
	31.12.2023	**31.12.2022**		
AS Merko Ehitus Eesti	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
OÜ Metsara-Metspere Kinnisvara	100	100	Estonia, Tallinn	Mining
Tallinna Teede AS	100	100	Estonia, Tallinn	Road construction
OÜ Merko Kodud	100	-	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
UAB Timana	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektai	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 MN 2 Projektas	100	-	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	100	Lithuania, Vilnius	Real estate
UAB MB 4 Projektas	100	-	Lithuania, Vilnius	Real estate
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Latvia, Riga	Construction
SIA Merko Management Latvia (ex-SIA SK Viesturdarzs)	-	100	Latvia, Riga	Real estate
SIA Industrialais Parks	100	100	Latvia, Riga	Real estate
SIA Merks Mājas	-	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	-	100	Latvia, Riga	Real estate
SIA Zakusala Estates	-	100	Latvia, Riga	Real estate
PS Merko-Merks	-	100	Latvia, Riga	Construction
PS Merks-Ostas Celtnieks	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	Latvia, Riga	Construction
SIA Merks Mājas	100	-	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	-	Latvia, Riga	Real estate
SIA Zakusala Estates	100	-	Latvia, Riga	Real estate
SIA Merko Būve	100	100	Latvia, Riga	Construction
SIA Merko Management Latvia (ex-SIA SK Viesturdarzs)	100	-	Latvia, Riga	Real estate
Merko Finland Oy	-	100	Finland, Helsinki	Construction
Merko Investments AS	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS (ex- Merko Bygg AS)	100	56	Norway, Sofiemyr	Construction
Løkenskogen Bolig AS	62	62	Norra, Sofiemyr	Real estate

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

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

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

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

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

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

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

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

On 27 July 2023, OÜ Merko Kaevandused and OÜ Metsara-Metspere Kinnisvara, both belonging to AS Merko Ehitus group, signed a merger agreement. The merging company is OÜ Merko Kaevandused, as a result of the merger, the merged company OÜ Metsara-Metspere Kinnisvara ends without liquidation proceedings. The merger date is 1st of January 2024, after which all transactions of the acquired company will be deemed to be made on the account of OÜ Merko Kaevandused. The Commercial Register made the final entry in its registers on 11 January 2024.

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

On 5 October 2023 AS Merko Ehitus' 100% subsidiaries AS Merko Ehitus Eesti and OÜ Merko Kodud signed a notarised division agreement, according to which AS Merko Ehitus Eesti transfers the assets and liabilities related to property development activities to OÜ Merko Kodud. The purpose of the division is to align legal structure with structure of the business segments of the AS Merko Ehitus group and harmonize the structure across the home markets of Merko Ehitus. The balance sheet date of the division is 1 January 2024. The division entered into force on 29 February 2024 with an entry in the commercial register.

NOTE 19 INVESTMENTS IN JOINT VENTURES

	Ownership and voting rights %		Location	Area of operation
	31.12.2023	**31.12.2022**		
Joint ventures				
AS Connecto Eesti	50	50	Estonia, Tallinn	Electrical construction
Kodusadam OÜ	50	50	Estonia, Tallinn	Real estate

in thousands of euros	Investment at 31.12.2022	Changes in 2023		Investment at 31.12.2023
		profit on entities	**dividends**	
Joint ventures				
Connecto Eesti AS	9,667	5,771	(1,200)	14,238
Kodusadam OÜ	3,228	4,449	-	7,677
Total joint ventures	**12,895**	**10,220**	**(1,200)**	**21,915**

in thousands of euros	Investment at 31.12.2021	Changes in 2022			Investment at 31.12.2022
		acquisition	**profit on entities**	**dividends**	
Joint ventures					
Connecto Eesti AS	5,377	2,236	2,614	(560)	9,667
Kodusadam OÜ	2,326	-	902	-	3,228
Total joint ventures	**7,703**	**2,236**	**3,516**	**(560)**	**12,895**

The investment into the joint venture is initially recorded at acquisition cost, is reflected on the equity method. Subsequently adjusted for the post-acquisition changes that have occurred in the group's share of the net assets under common control.

Changes in the associated company, recognized based on the equity method in 2023, contain deferred income tax on dividends in accordance with IAS 12 and elimination of the goodwill impairment triggered by the differences in the Estonian Financial Reporting Standards and the IFRS in the total amount of EUR -354 thousand (2022: EUR 52 thousand).

As at the balance sheet date, a goodwill impairment test has been carried out with regard to AS Connecto Eesti's cash generating unit holding the goodwill. The goodwill impairment test has been performed based on the principle of prudence. The recoverable value of the assets is determined as the value-in-use, based on the management estimates of the cash flow forecasts for the next 5 years. The cash flows of the forecast period are estimated based on reasonable growth rates. Management has assessed the prospects of power and communication networks over the near-term horizon, establishing the long-term growth rate for revenue and expenditure at 2.5%, and the average growth rate for turnover during the forecast period at 3.6% (31 December 2022: 1,4%), with an average EBITDA margin of 7.1% (31 December 2022: 5,8%). The weighted average cost of capital of 10% (31 December 2022: 9,5%) has been used as the discount rate, in line with the company's field of activity and risk level. The gross profit margin budgeted by the management relies on the business experience of previous periods and the competitive situation on the market. No impairment losses were evident in the reporting period, with no impairment of goodwill thus recognized.

ASSOCIATES AND JOINT VENTURES

in thousands of euros

	Assets 31.12.			**Liabilities 31.12**							
	Cash	**Other current assets**	**Non-current assets**	**Short-term borrowings**	**Other current liabilities**	**Long term loans**	**Other long-term liabilities**	**Equity 31.12.**	**Income**	**Expenses**	**Net profit**
2023											
AS Connecto Eesti	10,568	40,971	4,715	389	31,684	777	212	23,192	105,221	(92,971)	12,250
Kodusadam OÜ	15,918	15,708	88	-	16,360	-	-	15,354	65,817	(56,920)	8,897
Total	**24,486**	**56,679**	**4,803**	**389**	**48,044**	**777**	**212**	**38,546**	**171,038**	**(149,891)**	**21,147**
2022											
AS Connecto Eesti	5,123	18,934	3,740	353	13,350	687	66	13,341	90,116	(84,992)	5,124
Kodusadam OÜ	3,012	39,422	100	12,800	23,277	-	-	6,457	14,507	(12,703)	1,804
Total	**8,135**	**58,356**	**3,840**	**13,153**	**36,627**	**687**	**66**	**19,798**	**104,623**	**(97,695)**	**6,928**

In 2023, interest expenses have been recognised in the expenses of AS Connecto Eesti total EUR 54 thousand (2022: EUR 9 thousand). Interest expenses have not been recognised in the expenses of Kodusadam OÜ as the loan usage costs are capitalized during construction period.

In connection with the joint venture, the group has no contractual obligations to finance joint venture activities with loans (31.12.2022: EUR 5,000 thousand) but the group has an obligation to provide construction services in future periods in amount of EUR 3,461 thousand (31.12.2022: EUR 26,316 thousand).

NOTE 20 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousands of euros

	31.12.2023	**31.12.2022**
Long-term trade receivables (Note 34) *	24,490	22,982
Total other long-term loans and receivables	**24,490**	**22,982**

* incl. long-term receivables from a buyer of Balsiu School in amount of EUR 8,908 thousand (31.12.2022: EUR 9,317 thousand) and long-term receivables from a buyer of Kaunas Police Headquarters building in amount of EUR 11,844 thousand (31.12.2022: EUR 13,661).

NOTE 21 DEFERRED INCOME TAX ASSETS AND LIABILITIES

in thousands of euros

Break-down of deferred income tax assets and liabilities in subsidiaries:

31.12.2023	**Lithuania**	**Norway**	**Estonia**	**Total**
Deferred income tax assets				
effect of construction contract works	2,762	-	-	2,762
effect of recognition of provisions	104	-	-	104
other effects	432	-	-	432
Total deferred income tax assets	**3,298**	**-**	**-**	**3,298**
Deferred income tax liability				
effect of other payables	(1,547)	-	-	(1,547)
deferred income tax on dividends	-	-	(2,894)	(2,894)
Total deferred income tax liability	**(1,547)**	**-**	**(2,894)**	**(2,894)**
Deferred income tax expense of the financial year (Note 11)	2,625	42	(2,153)	514

31.12.2022	**Lithuania**	**Norway**	**Estonia**	**Total**
Deferred income tax assets				
effect of construction contract works	377	-	-	377
effect of recognition of provisions	60	-	-	60
other effects	256	-	-	256
Total deferred income tax assets	**693**	**-**	**-**	**693**
Deferred income tax liability				
effect of other payables	(1,568)	(48)	-	(1,616)
effect of exchange rates	-	3	-	3
deferred income tax on dividends	-	-	(742)	(742)
Total deferred income tax liability	**(1,568)**	**(45)**	**(742)**	**(2,355)**
Deferred income tax expense of the financial year (Note 11)	48	-	777	825

NOTE 22 INVESTMENT PROPERTIES

in thousands of euros

	Land	**Right of superficies**	**Buildings**	**Total**
Cost at 31.12.2021	12,414	29	2,631	15,074
Accumulated depreciation 31.12.2021	-	(14)	(1,232)	(1,246)
Carrying amount at 31.12.2021	**12,414**	**15**	**1,399**	**13,828**
Reclassification to inventories	(2,242)	-	-	(2,242)
Depreciation	-	(1)	(100)	(101)
Carrying amount at 31.12.2022	**10,172**	**14**	**1,299**	**11,485**
Cost at 31.12.2022	10,172	29	2,455	12,656
Accumulated depreciation 31.12.2022	-	(15)	(1,156)	(1,171)
Carrying amount at 31.12.2022	**10,172**	**14**	**1,299**	**11,485**
Acquisition and improvements	-	-	357	357
Reclassification from inventories	-	-	5,200	5,200
Depreciation	-	-	(219)	(219)
Carrying amount at 31.12.2023	**10,172**	**14**	**6,637**	**16,823**
Cost at 31.12.2023	10,172	29	8,012	18,213
Accumulated depreciation 31.12.2023	-	(15)	(1,375)	(1,390)
Carrying amount at 31.12.2023	**10,172**	**14**	**6,637**	**16,823**

As at 31 December 2023, the carrying amounts of investment properties do not significantly differ from their fair values, with the exception of land, the fair value of which has been estimated by valuation expert at EUR 25,370 thousand (31.12.2022: the carrying amounts of investment properties did not significantly differ from their fair values, with the exception of land, the fair value of which had been estimated by valuation expert at EUR 25,370 thousand). Fair values have mainly been estimated based on comparable transactions (Level 2). Fair value measurement was carried out using Level 3 inputs of the fair value hierarchy.

Investment properties have been acquired for the purpose of earning rental income and/or for capital appreciation. Buildings located on the plot of land have temporarily been leased out under the operating lease terms. Information about the earned rental income and direct administrative expenses of investment properties leased out is disclosed in Note 25.

As at 31 December 2023, investment properties pledged as collateral for loans total EUR 10,815 thousand (31.12.2022: EUR 10,895 thousand) (Note 30).

NOTE 23 PROPERTY, PLANT AND EQUIPMENT

in thousands of euros

	Land	**Buildings**	**Machinery and equipment**	**Other fixtures**	**Construction in progress and prepayments**	**Total**
Cost at 31.12.2021	712	8,184	17,920	4,523	744	32,083
Accumulated depreciation at 31.12.2021	-	(3,048)	(9,636)	(3,049)	-	(15,733)
Carrying amount at 31.12.2021	**712**	**5,136**	**8,284**	**1,474**	**744**	**16,350**
incl. leased assets (Note 25)	-	543	2,881	-	-	3,424
Currency translation differences	-	-	(1)	(1)	-	(2)
Acquisition and improvements	-	290	2,187	138	510	3,125
incl. leased assets	-	290	1,718	-	-	2,008
Acquisition in the course of business combination	695	-	-	-	-	695
Disposals	-	-	(161)	-	-	(161)
Reclassification	(141)	-	250	239	(348)	-
Write-offs	-	-	(1)	-	-	(1)
Depreciation	-	(386)	(1,902)	(266)	-	(2,554)
Carrying amount at 31.12.2022	**1,266**	**5,040**	**8,656**	**1,584**	**906**	**17,452**
Cost at 31.12.2022	1,266	8,251	19,177	4,814	906	34,414
Accumulated depreciation at 31.12.2022	-	(3,211)	(10,521)	(3,230)	-	(16,962)
Carrying amount at 31.12.2022	**1,266**	**5,040**	**8,656**	**1,584**	**906**	**17,452**
incl. leased assets (Note 25)	-	662	3,459	-	-	4,121
Currency translation differences	-	-	-	(2)	-	(2)
Acquisition and improvements	-	71	2,449	134	262	2,916
incl. leased assets	-	71	1,641	-	-	1,712
Disposals	-	-	(565)	-	-	(565)
Reclassification	-	-	536	-	(536)	-
Write-offs	-	-	-	(2)	-	(2)
Depreciation	-	(786)	(2,127)	(273)	-	(3,186)
Carrying amount at 31.12.2023	**1,266**	**4,325**	**8,949**	**1,441**	**632**	**16,613**
Cost at 31.12.2023	1,266	8,322	18,588	4,526	632	33,334
Accumulated depreciation at 31.12.2023	-	(3,997)	(9,639)	(3,085)	-	(16,721)
Carrying amount at 31.12.2023	**1,266**	**4,325**	**8,949**	**1,441**	**632**	**16,613**
incl. leased assets (Note 25)		561	3,708	-	-	4,269

Information on leased assets is provided in Note 25, and on lease payments in Note 26.

As at 31 December 2023, property, plant and equipment pledged as collateral for loans total EUR 2,072 thousand (31.12.2022: EUR 2,186 thousand) (Note 30).

NOTE 24 INTANGIBLE ASSETS

in thousands of euros

	Goodwill	Software	Prepayments	Total
Cost at 31.12.2021	73	1,401	72	1,546
Accumulated amortisation and impairment at 31.12.2021	-	(877)	-	(877)
Carrying amount at 31.12.2021	**73**	**524**	**72**	**669**
Currency translation differences	(4)	-	-	(4)
Acquisitions	-	6	135	141
Reclassification	-	95	(95)	-
Amortisation and impairment	-	(224)	-	(224)
Carrying amount at 31.12.2022	**69**	**401**	**112**	**582**
Cost at 31.12.2022	69	1,500	112	1,681
Accumulated amortisation and impairment at 31.12.2022	-	(1,099)	-	(1,099)
Carrying amount at 31.12.2022	**69**	**401**	**112**	**582**
Currency translation differences	(4)	(1)	-	(5)
Acquisitions	-	5	189	194
Reclassification	-	116	(116)	-
Amortisation and impairment	(64)	(187)	-	(251)
Carrying amount at 31.12.2023	**65**	**334**	**185**	**520**
Cost at 31.12.2023	65	1,431	185	1,681
Accumulated amortisation and impairment at 31.12.2023	(64)	(1,097)	-	(1,161)
Carrying amount at 31.12.2023	**1**	**334**	**185**	**520**

NOTE 25 LEASED ASSETS

in thousands of euros

	Office space and warehouses	Vehicles and equipment	Total
31.12.2021			
Cost	1,016	4,538	5,554
Accumulated depreciation	(473)	(1,657)	(2,130)
Carrying amount (Note 23)	**543**	**2,881**	**3,424**
Additions	290	1,718	2,008
Termination of lease contracts	(56)	(327)	(383)
Depreciation	(115)	(813)	(928)
31.12.2022			
Cost	1,083	5,622	6,705
Accumulated depreciation	(421)	(2,163)	(2,584)
Carrying amount (Note 23)	**662**	**3,459**	**4,121**
Additions	71	1,641	1,712
Termination of lease contracts	-	(394)	(394)
Depreciation	(172)	(998)	(1,170)
31.12.2023			
Cost	894	5,632	6,526
Accumulated depreciation	(333)	(1,924)	(2,257)
Carrying amount (Note 23)	**561**	**3,708**	**4,269**

The group's consolidated statement of profit or loss and other comprehensive income includes the following amounts relating to leases:

in thousands of euros

	2023	2022	Note
Interest expense	175	65	10
Expense relating to short-term leases	93	109	4, 5, 6
Expense relating to leases of low-value assets	137	118	4, 5, 6

Consideration paid for leases recognised as fixed assets (including the leases that ended during the period) amounted to EUR 1,316 thousand in 2023 (2022: EUR 1,004 thousand).

Consideration paid for short-term cancellable leases for vehicles as right-of-use assets amounted to EUR 43 thousand in 2023 (2022: EUR 52 thousand). Rented assets have not been subleased.

LEASES - THE GROUP AS A LESSEE (INVESTMENT PROPERTIES LEASED OUT UNDER NON-CANCELLABLE OPERATING LEASE TERMS)

	31.12.2023	31.12.2022
Cost	8,063	2,506
Accumulated depreciation	(1,375)	(1,156)
Carrying amount	**6,688**	**1,350**

	2023	2022
Operating lease income received for investment properties (Note 22)	379	269
Future operating lease income:	**3,946**	**352**
Next year	633	292
In 2…5 years	2,727	53
Later than 5 years	586	7
Direct administrative expenses of investment properties (Note 22)	(185)	(114)

NOTE 26 BORROWINGS

in thousands of euros

		Loans from						
	Lease liabilities	**banks**	**parent company** (Note 32)	**entities under common control** (Note 32)	**related parties** (Note 32)	**other entities**	**total**	**Total borrowings** (Note 34)
2023								
Balance at beginning of the year	4,302	73,560	8,000	6,000	61	-	87,621	91,923
Received	1,712	48,160	-	-	-	-	48,160	49,872
Repaid	(1,312)	(77,364)	(8,000)	-	-	-	(85,364)	(86,676)
Sale/return to lessor	(300)	-	-	-	-	-	-	(300)
Reclassification	-	-	-	-	(57)	57	-	-
Exchange rate	-	-	-	-	(4)	-	(4)	(4)
Loan balance as at end of the year	**4,402**	**44,356**	-	**6,000**	-	**57**	**50,413**	**54,815**
incl. current portion	1,092	12,524	-	6,000	-	57	18,581	19,673
non-current portion 2...5 years	3,310	31,832	-	-	-	-	31,832	35,142
Accrued interest of reporting period	174	2,911	30	362	1	-	3,306	3,480
incl. capitalised interest cost	-	798	-	-	-	-	798	798
Interest rate range	1.0%-2.49% +3-6 month Euribor	1.12%-2.7% +3-12 month Euribor	1.55%	2.65%+6 month Euribor	5%	5%		
Base currencies	EUR	EUR	EUR	EUR	NOK	NOK		

in thousands of euros

		Loans from						
	Lease liabilities	**banks**	**parent company** (Note 32)	**entities under common control** (Note 32)	**related parties** (Note 32)	**other entities**	**total**	**Total borrowings** (Note 34)
2022								
Balance at beginning of the year	3,519	43,062	-	6,000	-	56	49,118	52,637
Received	2,008	139,914	8,000	-	76	-	147,990	149,998
Repaid	(1,108)	(109,416)	-	-	(12)	(56)	(109,484)	(110,592)
Sale/return to lessor	(117)	-	-	-	-	-	-	(117)
Exchange rate	-	-	-	-	(3)	-	(3)	(3)
Loan balance as at end of the year	**4,302**	**73,560**	**8,000**	**6,000**	**61**	-	**87,621**	**91,923**
incl. current portion	1,198	40,428	8,000	-	61	-	48,489	49,687
non-current portion 2...5 years	3,104	33,132	-	6,000	-	-	39,132	42,236
Accrued interest of reporting period	65	1,435	68	153	1	-	1,657	1,722
incl. capitalised interest cost	-	563	-	-	-	-	563	563
Interest rate range	1.0%-2.49% +3-6 month Euribor	0.98%-2.7% +3-12 month Euribor	1.55%	2.65%+6 month Euribor	5%	-		
Base currencies	EUR	EUR	EUR	EUR	NOK	EUR		

	2023	2022
Minimum future payments under lease liabilities	4,902	4,302
incl. current portion	1,284	1,198
non-current portion with the term of 2...5 years	3,618	3,104

Borrowings with floating interest rates related to Euribor are divided by the interest rate changes and the contractual repricing dates as follows:

	2023	2022
Lease liabilities		
1-5 months	1,293	726
6-12 months	2,548	2,915
Bank loans		
1-5 months	16,884	21,888
6-12 months	27,472	46,687
Loans from entities under common control		
6-12 months	6,000	6,000
Total	**54,197**	**78,216**

Borrowings with the contractual fixed interest rate are divided as follows:

	2023	2022
Lease liabilities	561	661
Bank loans	-	4,985
Loan from parent company	-	8,000
Loans from other related parties	57	61
Total	**618**	**13,707**

Loan collaterals and pledged assets are presented in Note 30.

NOTE 27 PAYABLES AND PREPAYMENTS

in thousands of euros

	31.12.2023	31.12.2022
Trade payables (Note 34)	**42,472**	**46,020**
Payables to employees	**14,846**	**11,638**
Tax liabilities, except for corporate income tax		
value added tax	4,258	6,587
personal income tax	769	615
social security tax	2,075	1,680
unemployment insurance tax	70	65
contributions to mandatory funded pension	48	33
other taxes	113	143
	7,333	**9,123**
Prepayments for construction services (Notes 3, 34)	**34,584**	**6,298**
Other liabilities (Note 34)		
interest liabilities	98	113
other liabilities	537	961
	635	**1,074**
Prepayments received *	**34,028**	**22,095**
Total payables and prepayments	**133,898**	**96,248**
incl. payables to related parties (Note 32)	173	2,519

* As of 31 December 2023, the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 31,360 thousand (31.12.2022: EUR 5,184

thousand) and of prepayments received connection with residential properties (apartment buyers) in a sum of EUR 2,668 thousand (31.12.2022: EUR 16,911 thousand) (Note 3).

NOTE 28 PROVISIONS

in thousands of euros

	Provision for warranty obligation for construction	**Provision for onerous construction contracts**	**Provision for legal costs and claims filed** (Note 34) *	**Provision for costs of projects sold and work-in-progress of projects**	**Other provisions**	**Total**
2023						
Balance at beginning of the year	4,425	8	1,200	4,086	101	9,820
Recognised (Notes 3, 4, 6)	3,122	1	1,706	1,873	323	7,025
Reversed (Notes 3, 6)	-	-	(1,200)	-	-	(1,200)
Used during the year	(1,593)	(1)	-	(3,499)	(101)	(5,194)
Balance at end of the year	**5,954**	**8**	**1,706**	**2,460**	**323**	**10,451**
incl. current portion	5,954	8	1,706	2,460	323	10,451
2022						
Balance at beginning of the year	3,771	582	-	3,537	86	7,976
Recognised (Notes 3, 4, 6)	2,301	11	1,200	8,761	101	12,374
Reversed (Notes 3, 6)	(26)	-	-	(56)	-	(82)
Used during the year	(1,621)	(585)	-	(8,156)	(86)	(10,448)
Balance at end of the year	**4,425**	**8**	**1,200**	**4,086**	**101**	**9,820**
incl. current portion	4,425	8	1,200	4,086	101	9,820

* Additional information is provided in subsection “Legal risk” in Note 34.

The basic principle for making provisions for warranty obligations are the historical trends in the statistical share of construction contract volumes. Historically, the amount of provision used has not varied significantly from the amount of provision recognised.

The provisions for costs of projects sold are based on the total costs of projects as defined in business plans, which are constantly updated and realized pursuant to the work performed.

NOTE 29 OTHER LONG-TERM PAYABLES

in thousands of euros

	31.12.2023	**31.12.2022**
Trade payables (Note 34)	3,128	2,133
Prepayments received *	2,367	-
Total other long-term payables	**5,495**	**2,133**

* As of 31 December 2023, the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 2,367 thousand (31.12.2022: EUR 0) (Note 3).

NOTE 30 LOAN COLLATERALS AND PLEDGED ASSETS

The group has entered into commercial pledge contracts to secure loans and other liabilities, set mortgages on assets and pledged shares of its subsidiaries:

in thousands of euros

Commercial pledges	**31.12.2023**	**31.12.2022**
Movable property	58,542	77,033
Financial assets *	24,496	25,802
Total	**83,038**	**102,835**

* The financial assets of UAB Balsiu Mokyklos SPV, which OÜ Merko Property has pledged to secure the investment loan in the amount of EUR 6,033 thousand for the benefit of OP Corporate Bank plc Lithuanian branch (31.12.2022: EUR 6,557 thousand for the benefit of OP Corporate Bank plc Lithuanian branch) and the financial assets of UAB VPSP2, which UAB Merko Statyba has pledged to secure the investment loan in the amount of EUR 9,598 thousand for the benefit of AB SEB bankas (31.12.2022: EUR 10,645 thousand for the benefit of AB SEB bankas).

Mortgages	**31.12.2023**	**31.12.2022**
Inventories (Note 17)	97,434	136,482
Land and buildings (Note 23)	2,072	2,186
Investment properties (Note 22)	10,815	10,895
Total	**110,321**	**149,563**

Pledges of shares

In addition to the commercial pledge on financial assets, OÜ Merko Property has pledged the shares of its wholly-owned subsidiary UAB Balsiu Mokyklos SPV for the benefit of OP Corporate Bank plc Lithuanian branch. An investment loan in the amount of EUR 6,033 thousand (31.12.2022: EUR 6,557 thousand for the benefit of OP Corporate Bank plc Lithuanian branch) is secured by the pledge. UAB Merko Statyba has pledged the shares of its wholly-owned (100%) subsidiary UAB VPSP2 for the benefit of AB SEB bankas. An investment loan in the amount of EUR 9,598 thousand is secured by the pledge (31.12.2022: EUR 10,645 thousand AB SEB bankas).

NOTE 31 SHARE CAPITAL

There were no changes in share capital during 2023 and 2022.

The Commercial Code of the Republic of Estonia specifies the following requirements for the share capital of the entities registered in Estonia:

- the minimum share capital of a public limited company shall be at least EUR 25 thousand;
- the net assets of a public limited company shall be at least one half of the Company's share capital but not less than EUR 25 thousand.

The size of share capital or its minimum and maximum limits are set out in the articles of association of a public limited company whereas the minimum share capital shall equal at least ¼ of maximum share capital.

According to the current articles of association of AS Merko Ehitus, the Company's share capital consists of 17,700 thousand registered ordinary shares without nominal value which have been fully paid for and without amending the articles of association of the public limited company, changes can be made to the Company's share capital within the range of EUR 6,000 – 24,000 thousand.

As at 31.12.2023 and 31.12.2022, the share of capital of AS Merko Ehitus was EUR 7,929 thousand and the consolidated net assets of AS Merko Ehitus were EUR 212,055 thousand (31.12.2022: EUR 184,187 thousand), therefore the Company's equity and share capital were in compliance on both balance sheet date with the requirements established in the Republic of Estonia. The calculated value of the share was 0.447966 euros.

NOTE 32 RELATED PARTY TRANSACTIONS

In compiling the Annual 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 this 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 31.12.2023 and 31.12.2022, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

GOODS AND SERVICES

in thousands of euros

	2023	**2022**
Provided services and goods sold		
Parent company	6	15
Associate and joint venture	26,708	30,116
Entities under common control	82,058	44,941
Members of the management **	161	186
Total services provided and goods sold	**108,933**	**75,258**
Interest income		
Joint ventures	215	196
Purchased services and goods		
Parent company	49	104
Associates and joint ventures	268	203
Entities under common control	75	73
Total purchased services and goods	**392**	**380**
Interest expense		
Parent company	30	73
Entities under common control	362	153
Other related parties	1	1
Total interest expense	**393**	**227**

BALANCES WITH RELATED PARTIES

in thousands of euros

	31.12.2023	**31.12.2022**
Receivables from related parties		
Loans granted (Note 15, 16, 20)		
Joint ventures	-	5,000
Receivables and prepayments (Note 15)		
Parent company	-	5
Associates and joint ventures	1,852	3,239
Entities under common control	8,862	4,805
Members of the management	29	-
Total receivables and prepayments	**10,743**	**8,049**
Total receivables from related parties	**10,743**	**13,049**

	31.12.2023	31.12.2022
Payables to related parties		
Lease liabilities (Note 26)		
Entities under common control	216	254
Short-term loans received (Note 26)		
Parent company	-	8,000
Entities under common control	6,000	-
Other related parties	-	61
Total Short-term loans received	**6,000**	**8,061**
Payables and prepayments (Note 27)		
Associates and joint ventures	142	35
Entities under common control	31	2,444
Members of the management	-	40
Total payables and prepayments	**173**	**2,519**
Long-term loans received (Note 26)		
Entities under common control	-	6,000
Total payables to related parties	**6,389**	**16,834**

* Provided services to joint ventures consist mainly of construction services.
** In 2023 and 2022, construction and design services were provided to management members and sold apartments. These were not significant transactions for the group.

With regard to receivables from related parties, no impairments were performed in either 2023 or 2022.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The cost of remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus incl. basic salaries and performance pay, as well as taxes and changes in reserves for the 12 months of 2023 were EUR 1,843 thousand (12 months of 2022: EUR 1,363 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorisation agreements have been entered into with the members of the Supervisory Board according to which no termination benefits are paid to them upon the termination of the contract. Upon premature removal or termination of authority of the members of the Supervisory and Management Boards, AS Merko Ehitus has the obligation to pay compensation totalling EUR 210 thousand (2022: EUR 228 thousand). In the 12 months of 2023, the Management Board members of AS Merko Ehitus received EUR 120 thousand in compensation (12 months of 2022: EUR 0).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

Track record and photographs of the members of the Supervisory Board can be found in the management report and 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 December 2023

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

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

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31 December 2023

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

NOTE 33 CONTINGENT LIABILITIES

in thousands of euros

The group has purchased the following guarantees from financial institutions 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 significant expenses related to these guarantees are unlikely.

	31.12.2023	31.12.2022
Performance period's warranty to the customer	39,359	28,235
Tender warranty	32	10
Guarantee warranty period	27,194	22,796
Prepayment guarantee	31,466	4,504
Contracts of surety	500	500
Total contingent liabilities	**98,551**	**56,045**

Performance period's warranty to the customer – warranty provider guarantees to the customer that the contractor's obligations arising from construction contract will be adequately completed.
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 – warranty provider guarantees to the customer that the construction defects discovered during the warranty period will be eliminated.
Prepayment guarantee – warranty provider guarantees to the customer that advances will be reimbursed, if contractor fails to deliver goods or services agreed.
Contracts of surety – the group guarantees the timely fulfilment of group member's liabilities towards a third party (e.g. providing services by a certain date in the agreed amount).

As at 31 December 2023 the group has recognised a provision (Note 28) with regards to the guarantee for warranty period which is based upon historical experience and contractual volumes.

Tax authorities have the right to review the group's tax records within 5 years after submitting the tax declaration and upon detecting errors, impose additional taxes, interest and fines. The group's management estimates that there are no circumstances which might lead the tax authorities to impose additional significant taxes on the group.

For legal risks, please refer to the respective paragraph of Note 34.

NOTE 34 RISK MANAGEMENT

FINANCIAL RISKS MANAGEMENT

In its daily activities, the group has to factor in various risks in the financial sector. The most significant ones are market risk (includes interest rate risk and foreign exchange risk) and financial risk (includes credit risk and liquidity risk). These are complemented by estimations of capitalization and the fair value of financial assets, which reflect more indirect risks. Based on the group's balance sheet structure and position in the market, none of these risks have a significant impact as at the date of preparation of the financial statements. The group's risk management is based on laws, regulations, requirements and regulations arising from International Financial Reporting Standards, as well as the group's internal regulations and good business practices. The group's finance unit is responsible for management of financial risks.

CREDIT RISK

Credit risk relates to a potential damage which would occur if the parties to the contract are unable to fulfil their contractual obligations. For mitigating credit risk, the payment behaviour of clients is constantly monitored, the future outlook of their businesses is analysed, including business logic and its compliance with general economic developments and the developments of the corresponding economic sector, as well as their financial position. If necessary, third persons are engaged as a guarantor in transactions. Construction activities are partially financed by customer prepayments. As a rule, a precondition for receiving a prepayment is a bank guarantee for the prepayment submitted to the customer.

Free cash is mostly held in bank account or term deposits at banks, which are part of Swedbank, SEB, Luminor and OP Corporate Bank groups. Baltic banks, which are part of Swedbank and SEB group do not have separate ratings by Moody's. The parent company of Swedbank group, Swedbank AB, has a Moody's long-term credit rating Aa3 (2022: Aa3) and the parent company of SEB group, Skandinaviska Enskilda Banken AB, has a Moody's long-term credit rating Aa2 (2022: Aa2). OP Corporate Bank PLC has a Moody's long-term credit rating Aa3 (2022: Aa3). Luminor Bank has a Moody's long-term credit rating A3 (2022: A3).

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 31 December 2023. The management estimates that the group cash and cash equivalents are not exposed to significant credit risk.

FINANCIAL ASSETS EXPOSED TO CREDIT RISK

in thousands of euros

	Allocation by due dates		Carrying amount	Collateral
	1-12 months	2-5 years		
31.12.2023				
Cash and cash equivalents (Note 14, 20)	77,330	-	77,330	-
Trade receivables (Notes 15, 20)	54,558	24,490	79,048	-
Accrued income from construction service (Notes 3, 15)	8,305	-	8,305	-
Other short-term receivables (Note 15)	1,029	-	1,029	-
Other shares and securities	-	80	80	-
Total	**141,222**	**24,570**	**165,792**	**-**
31.12.2022				
Cash and cash equivalents (Note 14, 20)	17,665	-	17,665	-
Trade receivables (Notes 15, 20)	49,461	22,982	72,443	-
Accrued income from construction service (Notes 3, 15)	15,378	-	15,378	-
Loans granted (Notes 15, 16, 20)	5,000	-	5,000	-
Other short-term receivables (Note 15)	124	-	124	-
Total	**87,628**	**22,982**	**110,610**	**-**

The group's customers are primarily large local entities or public sector entities (as at 31 December 2023, the public sector proportion in accounts receivable amounted to 42.5%; 31.12.2022: 44.7%) with well-known and sufficient creditworthiness.

TRADE RECEIVABLES BY DUE DATE

in thousands of euros

	31.12.2023		31.12.2022	
Not overdue	76,095	96.3%	70,039	96.7%
1-30 days overdue	890	1.1%	160	0.2%
31-60 days overdue	380	0.5%	89	0.1%
61-90 days overdue	193	0.2%	274	0.4%
91-120 days overdue	48	0.1%	500	0.7%
121-180 days overdue	222	0.3%	88	0.1%
More than 180 days overdue	1,220	1.5%	1,293	1.8%
Total trade receivables* (Notes 15, 20)	**79,048**	**100%**	**72,443**	**100%**

** Trade receivables are presented in net amount, i.e. the sum of receivables also includes allowance for doubtful receivables from buyers.*

As at the balance sheet date, the amount of overdue receivables was EUR 2,954 thousand (31.12.2022: EUR 2,404 thousand), of which EUR 840 thousand has been collected by 8 March 2023. In a year, the share of overdue receivables from total receivables increased from 3.3% to 3.7%. The group keeps track of payment history for all customers separately for each receivable. Customers who have exceeded the payment deadline are handled personally in order to find solutions that ensure the best possible protection of the group's interests. According to management estimates, which are based on customers' historical payment behaviour, background assessment on the payment behaviour and business perspectives of new clients, the receivables reported in the financial statements will be paid off by the buyers. The receivables, which were not overdue at the balance sheet date, will be paid by due date. As well as invoiced trade receivables, management estimates the credit risk of accrued income from construction service to be low. The management bases its assessment on the regular monitoring of the financial position and payment behaviour of the contractual partner and the outlook of the contractor's economic sector and general economic developments. Trade receivables and receivables from customers of construction works under the stage of completion method have not been guaranteed with additional collateral as is customary in the industry.

LIQUIDITY RISK

The group's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31 December 2023, the group´s current ratio was 2.0 (31.12.2022: 2.0) and the quick ratio 0.9 (31.12.2022: 0.6). In addition to available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at end of the year, the group entities had concluded overdraft contracts with banks in the total amount of EUR 57,000 thousand, of which EUR 54,599 thousand was unused (31.12.2022: EUR 53,000 thousand, of which EUR 36,191 thousand was unused). In 2023, the contracts in a total amount of EUR 4,000 thousand will expire, which renewal will be considered.

The management estimates that the group's capital structure – equity ratio of 49.9% (31.12.2022: 47.5%) and a moderate proportion of interest-bearing liabilities at 12.9% (31.12.2022: 23.7%) of the balance sheet total – ensures the group's trustworthiness for creditors. It also enables to prolong existing financial liabilities and raise additional working capital funds, if needed.

FINANCIAL ASSETS/LIABILITIES

in thousands of euros

	Allocation by due date			Total	Carrying amount
	1-3 months	4-12 months	2-5 years		
31.12.2023					
Assets					
Cash and cash equivalents (Note 14, 20)	77,330	-	-	77,330	77,330
Trade receivables (Notes 15, 20)	50,691	3,867	24,490	79,048	79,048
Accrued income from construction services (Notes 3, 15)	8,305	-	-	8,305	8,305
Other short-term receivables (Note 15)	26	1,003	-	1,029	1,029
Other shares and securities	-	-	80	80	80
Total	**136,352**	**4,870**	**24,570**	**165,792**	**165,792**
Liabilities					
Trade payables (Notes 27, 29)	38,026	4,446	3,128	45,600	45,600
Prepayments for construction services (Notes 3, 27)	34,584	-	-	34,584	34,584
Loan and lease liabilities (Note 26) *	808	18,865	35,142	54,815	54,815
Other liabilities (Note 27, 29)	179	456	-	635	635
Total	**73,597**	**23,767**	**38,270**	**135,634**	**135,634**
Net assets / liabilities	**62,755**	**(18,897)**	**(13,700)**	**30,158**	**30,158**

	Allocation by due date			Total	Carrying amount
	1-3 months	4-12 months	2-5 years		
31.12.2022					
Assets					
Cash and overnight deposits (Note 14, 20)	17,665	-	-	17,665	17,665
Trade receivables (Notes 15, 20)	44,516	4,945	22,982	72,443	72,443
Accrued income from construction services (Notes 3, 15)	15,378	-	-	15,378	15,378
Loans and interest (Notes 15, 16, 20)	-	5,000	-	5,000	5,000
Other short-term receivables (Note 15)	107	17	-	124	124
Total	**77,666**	**9,962**	**22,982**	**110, 610**	**110, 610**
Liabilities					
Trade payables (Notes 27, 29)	33,085	12,935	2,133	48,153	48,153
Prepayments for construction services (Notes 3, 27)	6,298	-	-	6,298	6,298
Loan and lease liabilities (Note 26) *	14,916	34,771	42,236	91,923	91,923
Other liabilities (Note 27, 29)	707	367	-	1,074	1,074
Total	**55,006**	**48,073**	**44,369**	**147,448**	**147,448**
Net assets / liabilities	**22,660**	**(38,111)**	**(21,387)**	**(36,838)**	**(36,838)**

* The schedule of expected interest payments cannot be determined with reasonable accuracy. In line with the best practice of property development, the loan obligations to acquire land plots have been assumed with open-end maturities. The repayment of these loan obligations depends on the progress of related development projects and on the timing of cash flows generated from those projects after their completion. Consequently, the management is of opinion that even its best estimate of the timing of expected interest payments would not be sufficiently accurate for the users of these financial statements and this information has not been disclosed.

MARKET RISK

INTEREST RISK

Interest risk arises from interest rate changes in the financial markets because of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor. As at 31 December 2023, the share of interest-bearing liabilities in the group's capital structure was 12.9% of the balance sheet total (as at 31 December 2022, 23.7% of the balance sheet total). According to the management, influence of changes in the interest rate environment on the group's results in 12-month perspective is insignificant. The ECB has completed the cycle of raising the base interest rate in September 2023, and although the base interest rate is expected to be lowered in the spring-summer of 2024, according to financial market analysts, the reductions will start rather later and in smaller steps compared to the cycle of rate increases. The widely expected 0.5-1.0% drop in base interest rates will insignificantly reduce the group's interest expense.

EFFECT OF CHANGES IN INTEREST RATE RISK ON FINANCE COSTS AND INCOME

As at 31 December 2023, the group's interest-bearing liabilities totalled EUR 54,815 thousand (31.12.2022: EUR 91,923 thousand), of which short-term loans and repayments of long-term liabilities in 2024 totalled EUR 19,673 thousand (31.12.2022: EUR 49,687 thousand) and long-term loans and lease liabilities totalled EUR 35,142 thousand (31.12.2022: EUR 42,236 thousand). Floating loan interest depended on Euribor. As at 31 December 2023, the break-down of interest-bearing borrowings and loans granted was as follows:

	31.12.2023	31.12.2022
Fixed rate liabilities	618	13,707
Liabilities with floating rate interests 1-5 months	18,177	22,614
Liabilities with floating rate interests 6-12 months	36,020	55,602
Total interest-bearing borrowings (Note 26)	**54,815**	**91,923**
Fixed rate receivables	-	5,000

The management estimates that there have been changes in the base interest rates, which have an impact on the financial position of the group. Assuming that average Euribor would rise 10 basis points above current level over the next 12 months as compared to the beginning of the year and there is no change in the position of liabilities, interest expenses would increase by EUR 54 thousand (31.12.2022: EUR 78 thousand). All the loans granted have fixed interest rate and therefore a change in the reference rates would have no impact on the interest income.

In addition to risk arising from changes in Euribor, there is risk due to changes in the risk margin attributable to the changes in the economic environment related refinancing of liabilities. This is most directly manifested in a possible need to extend overdraft credit contracts.

FOREIGN EXCHANGE RISK

The group's economic activities are conducted mainly in the currencies of the countries of location of the companies: euros in Estonia, Latvia and Lithuania and kroner in Norway. Transactions within the group are conducted in euros as a rule. To eliminate foreign currency risks, close track is kept of the proportions of the group's assets and liabilities held in different currencies and, when it comes to entering into long-term construction contacts, the euro is the preferred currency in the Baltics, and, in Norway, the krone. The bread-down of financial assets and liabilities in local currencies as at the balance sheet date is as follows:

	In EUR	In NOK
31.12.2023		
Assets	99.2%	0.8%
Liabilities	99.3%	0.7%
31.12.2022		
Assets	98.8%	1.2%
Liabilities	99.2%	0.8%

Considering the fact that the materials and services used in construction are generally sourced from the local market or supplied from within the EU, the currency risk in the group is currently minimal.

MANAGEMENT OF OTHER RISKS

OPERATIONAL RISK

Considering the group's field of business, it is essential in operational risk management that the improvement and application of safety standards and regulations continues and that supervision of compliance with environmental requirements is increased. One measure for managing operational risks is the implementation of quality and environmental management systems. Risks related to occupational health and safety in construction are assessed and managed in all units and process stages of the group. The largest construction companies of the group have implemented quality management system ISO 9001 and environmental management system ISO 14001 and health and safety management system ISO 45001. All management systems are certified. The group employs 10 (2022: 8) full-time quality specialists who are responsible for developing quality, safety and management systems and ensuring their functioning.

Insurance is used as additional mitigation of operational risks, especially for risks that cannot otherwise be mitigated. The group concludes total risk insurance contracts with insurance companies to hedge the risk of unanticipated loss events occurring in the construction process. The general policy is entered into for one year and it compensates the customer, subcontractors and third parties for any losses caused by AS Merko Ehitus group company or its subcontractor. The risks of the projects, which the annual policy does not cover (water construction, railroad construction, bridges, etc.), are additionally mapped out and an insurance contract is concluded separately for each object taking into consideration its specifics. In concluding contracts for services involving design work, an insurance contract for professional liability is required from subcontractors or an insurance contract at own expense is concluded, covering the damage arising from design, erroneous measurement, advice and instructions. The services of insurance brokers are used in mapping out risks, concluding insurance contracts and handling loss events. In 2023, indemnity applications submitted to insurance companies totalled EUR 0.71 million (2022: EUR 0.52 million), and insurance benefits were received in the amount of EUR 0.47 million (2022: EUR 0.24 million).

A warranty provision has been provided at the group to cover for the construction errors, which have become evident during the warranty period. In 2023, warranty provisions were set up at the group in the total amount of EUR 3.12 million (2022: EUR 2.30 million) and disbursements amounted to EUR 1.59 million (2022: EUR 1.62 million). As at the year-end, the group's warranty provision amounted to EUR 5.95 million (31.12.2022: EUR 4.42 million). For work performed by subcontractors, the subcontractors are responsible for remedying the defects that became evident during the warranty period. For critically important contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank first demand guarantees.

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 group's activities from the perspective of laws or contracts from a different position and dispute the legitimacy of the group's activities.

As of 31 December 2023, a provision has been set up at the group in the amount of EUR 1.7 million for covering potential claims and legal costs (31.12.2022: EUR 1.2 million). (Note 28).

An overview of the key legal disputes of group entities ended during 2023 and ongoing as of 31 December 2023 is presented below.

ESTONIA

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

The court cases in connection with Minister of the Environment regulation No 22 of 27 March 2015, which redrew the boundaries of species protection sites to exclude properties on Paekalda street owned by AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ (now merged with AS Merko Ehitus Eesti, part of AS Merko Ehitus group). On 2 February 2016, AS Merko Ehitus group companies filed a complaint in Tallinn Administrative Court for compensation of damage. The claims consist of direct patrimonial damage (reduction in the value of immovable property and expenditures made on development activity) and claims for revenue foregone (failed development activity in 2005-2007). On 22 April 2019 the Tallinn Administrative Court partially satisfied the appeal and ordered the Republic of Estonia to pay AS Merko Ehitus Eesti EUR 760 thousand and late interest until the principal claim is duly discharged. The court also ordered that procedural costs of EUR 12 thousand be paid to AS Merko Ehitus Eesti. Both sides filed an appeal to the Tallinn District Court, which partially annulled the decision of the Tallinn Administrative Court and sent the case back to Administrative Court to determine the amount of compensation. Both parties to the dispute filed cassation appeals with the Supreme Court. By a decision of 5 March 2021, the Supreme Court dismissed the cassation appeal of AS Merko Ehitus Eesti, but sent the appeal regarding the claim for compensation for direct property damage caused by the lawful activities of the Republic of Estonia to the Tallinn Administrative Court for reconsideration. The court renewed the proceedings of the administrative case with the court order of 15 November 2023 and set procedural deadlines for the parties. The parties have until 5 March 2024 to present their views on the compromise amounts, and the court hearing will take place on 12 April 2024, if the parties do not reach a compromise before then. The impact of this claim has not been taken into account in the group's reporting.

LATVIA

Latvian Competition Council administrative proceeding

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

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

The last court session to discuss the content of the appeal claim took place on 26 September 2023. In its judgement, announced on 25 January 2024, the court of appeal upheld the decision of the Competition Council. On 26 February 2024, SIA Merks and AS Merko Ehitus filed an appeal in cassation with the Supreme Court of Latvia in appeal against the decision of the Latvian Competition Council.

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

Considering that judicial proceedings have reached the stage of substantive discussions and based on the principle of conservatism, the group formed in fiscal year 2022 a provision of 1/3 of the potential fine claim, i.e. EUR 900 thousand. Given the timing of the announcement of the court of appeal's decision, the subsequent decisions regarding provisions will be made in 2024 and will be reflected in the 2024 results.

SIA Ostas Celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas Celtnieks" in an amount of EUR 257 thousand (EUR 236 thousand being the principal claim and EUR 21 thousand penalty interest). The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas Celtnieks" according to its share in the consortium. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. In July 2023, SIA Merks received a positive judgment from the regional court, and it has entered into force. Simultaneously SIA "Ostas Celtnieks" has been declared insolvent and liquidation sale of its assets is in process. SIA Merks was recognized as a creditor in the insolvency proceeding of SIA "Ostas Celtnieks". The claim is reflected in the balance sheet with a value of approximately 54 thousand euros.

Salaspils County Council

On 29 July 2022, SIA Merks filed a lawsuit against the Salaspils county government in the Court of Economic Affairs in order to find a solution to the disagreements arising from the interpretation of the Salaspils kindergarten construction contract. At the end of 2022, SIA Merks signed the Delivery-acceptance deed and based on the expert decision, submitted a claim to the court against the Salaspils county government in the amount of EUR 1,892 thousand (EUR 1,304 thousand being the principal claim and EUR 588 thousand penalty interest). Salaspils County government has filed a counterclaim in the amount of 1,003 thousand euros. The next court hearing is scheduled for 2 April 2024. The group has not made any provisions as of the date of the report.

SIA Hanza 14

In August 2022, the Arbitration Institute of the Stockholm Chamber of Commerce (Stockholm Arbitration) accepted SIA Hanza 14's application for annulment of the non-entry into force of the construction contract signed on 16 June 2020 and for SIA Merks to fulfil its contractual obligations. The non-entry into force of the construction contract was announced by Merko Ehitus with a stock exchange announcement on 28 August 2020. Stockholm arbitration issued a decision on 11 January 2024, the rejecting SIA Hanza's 14 claims in full and ordering it to pay the costs of the proceedings incurred by SIA Merks.

VALUE OF ASSETS

In 2023, the group recognised EUR 2,289 thousand (2022: EUR 3,640 thousand) in impairment losses on assets and inventories, incl. EUR 89 thousand on the write-off of doubtful receivables (2022: EUR 218 thousand) and from inventories EUR 2,200 thousand of undervaluation of development costs in work-in-progress (2022: EUR 3,408 thousand on registered immovables purchased for resale/development and on other goods purchased for resale). The receivables expensed in prior periods were received EUR 724 thousand (2022: EUR 0). See also Notes 15 and 17 for further details.

WAR IN UKRAINE

More than two years has passed since the start of Russia's war of aggression in Ukraine. Merko Ehitus Group has assessed the direct effects of the war to remain below the threshold of significance. However, in the absence of direct effects, indirect effects continue to occur. Sanctions, inflation triggered by the price increase of energy carriers and logistics chains led to a general increase in input prices by approximately 35-40%. It should be noted that a complete distinction between the effects of the Covid pandemic and the effects of war is not possible. At the same time, the group has been able to transfer this price increase to the buyers of services and products for the most part, and no permanent impact on the group's business activities or pre-tax profit has been observed.

The war and the resulting uncertainty among consumers, local entrepreneurs and international investors, continue to negatively affect the group's economic environment, both through the lasting uncertainty of private sector customers and the decrease in the pace of housing sales. The negative effect caused by the market contraction cannot be passed on to anyone. At the same time, the group considers that it is not appropriate to present the overall negative net effect as an effect of the war in Ukraine.

FAIR VALUE ESTIMATION

According to the estimation of the group, the carrying values of financial assets at amortised cost (Notes 14, 15, 16, 20) and financial liabilities at amortised cost (Notes 26, 27, 29) in the consolidated balance sheet as at 31 December 2023 and 31 December 2022 do not vary significantly from their fair value.

The Management Board estimates that the fair value of long-term receivables does not materially differ from their carrying amount because no material changes have occurred in risk margins of the borrowers. The fair value of receivables is measured using the discounted cash flow method in accordance with IFRS 7 on the basis of Level 3 inputs of the fair value hierarchy.

The fair value of trade receivables (31.12.2023: EUR 8,908 thousand; 31.12.2022: EUR 9,317 thousand) related to Balsiu– equals their carrying amount, as the impact of discounting is not significant. The carrying amount of future receivables related to Balsiu School is

EUR 16,717 thousand (31.12.2022: EUR 18,171 thousand) and the fair value of the mentioned receivables is equal to EUR 14,057 thousand using the effective interest rate of 2.88% (31 December 2022: EUR 15,077 thousand using the effective interest rate of 2.88%). The fair value of trade receivables (31.12.2023: EUR 11,844 thousand; 31.12.2022: EUR 13,661 thousand) related to Kaunas Police Headquarters – equals their carrying amount, as the impact of discounting is not significant. The carrying amount of future receivables related to Kaunas Police Headquarters is EUR 17,428 thousand (31.12.2022: EUR 19,171 thousand) and the fair value of the mentioned receivables is equal to EUR 14,958 thousand using the effective interest rate of 2.88% (31.12.2022: EUR 16,233 thousand using the effective interest rate of 2.88%). As the amount receivable is due from the state institutions, the interest rate used for the fair value calculation is a long-term borrowing rate at the end of the period applicable to the Republic of Lithuania (www.ecb.europa.eu/stats/financial_markets_and_interest_ rates/long_term_interest_rates).

Long-term receivables related to Balsiu School and Kaunas Police Headquarters are valued on the basis of Level 2 inputs of the fair value hierarchy.

A significant part of the group's long-term payables has a floating interest rate, which changes according to fluctuations of the market interest rate. In the estimation of the management, the group's risk margins have not materially changed since the loans were obtained and the interest rates on the group's debt meet the market conditions. The fair value of long-term financial obligations is determined based on discounted future contractual cash flows using the market interest rate available to the group for the use of similar financial instruments (Level 3).

To provide an indication of the inputs used to determine fair value, the group has classified its financial instruments into three levels based on the requirements of accounting standards.

Level 1: Financial instruments valued at unadjusted prices on the stock market or other active regulated market. As at 31 December 2023 and 2022, the group did not have any Level 1 financial instruments.

Level 2: Financial instruments whose values are based on valuation methods based on observable inputs. This category includes e.g. financial instruments valued based on prices of identical instruments traded on an active regulated market or financial instruments which are revalued at regulated market price but have low liquidity on the stock market.

Level 3: Financial instruments where the valuation methods used for revaluation are based on non-observable inputs.

CAPITAL MANAGEMENT

The group considers borrowings and total equity as capital. As at 31 December 2023, the total equity attributable to equity owners of the parent was EUR 212,055 thousand (31.12.2022: EUR 184,187 thousand). The group's principle is to maintain a strong equity base for the purpose of retaining its trustworthiness among its shareholders, creditors, and the market, and to ensure the group's sustainable development. Over the long term, the group's goal is to increase income for its shareholders and ensure its ability to pay dividends.

The group's equity is currently mainly tied up in the land plots portfolio invested in for the purpose of real estate development, which the group has realised according to the changes in the market primarily through its own developments. The group can additionally regulate the equity structure through dividends payable to shareholders or repayments of share capital.

The group considers it important to ensure an optimal capital structure. Therefore, it monitors that the group's equity to assets ratio is at least 40% (31.12.2023: 49.9%, 31.12.2022: 47.5%).

According to good market practice, the group uses the ratio of net debt to total capital to monitor its capital composition:

	31.12.2023	**31.12.2022**
Borrowings	54,815	91,923
Less: cash and cash equivalents and short-term deposits	(77,330)	(17,665)
Net debt	(22,515)	74,258
Total equity attributable to owners of the parent	212,055	184,187
Total net debt and equity attributable to equity owners of the parent	189,540	258,445
Share of net borrowings	-11.9%	28.7%

The group's net debt at 31 December 2023 was negative EUR 22.5 million (31.12.2022: EUR 74.3 million).

	31.12.2023	**31.12.2022**
Cash and cash equivalents	77,330	17,665
Short-term borrowings	(19,673)	(49,687)
Long-term borrowings	(35,142)	(42,236)
Net debt	22,515	(74,258)
Cash and cash equivalents	77,330	17,665
Fixed rate liabilities	(618)	(13,707)
Variable rate liabilities	(54,197)	(78,216)
Net debt	22,515	(74,258)

	Cash and cash equivalents	**Borrowings**	**Lease liabilities**	**Total**
Net debt 31.12.2021	44,930	(49,118)	(3,519)	(7,707)
Cash flow	(27,221)	(38,506)	1,108	(64,619)
Effect of exchange rate changes	(44)	3	-	(41)
New lease contracts	-	-	(2,008)	(2,008)
Termination of lease liabilities	-	-	117	117
Net debt 31.12.2022	**17,665**	**(87,621)**	**(4,302)**	**(74,258)**
Cash flow	59,722	(37,204)	1,312	98,238
Effect of exchange rate changes	(57)	4	-	(53)
New lease contracts	-	-	(1,712)	(1,712)
Termination of lease liabilities	-	-	300	300
Net debt 31.12.2023	**77,330**	**(50,413)**	**(4,402)**	**22,515**

NOTE 35 OTHER INFORMATION

According to the technical standards of the European Single Electronic Format (ESEF) and the understanding of the use of electronic marking at the time of the preparation of the report, machine-readable information about the following information shall appear in the notes to the financial statements, even if the corresponding information is presented for the purpose of easy readability in other parts of the annual report. In this regard, we provide references regarding the presence of information and its location as follows:

- personnel policy information on employees is provided in the Management Report on pages 28-29 and remuneration information in the Remuneration Report on pages 99-100;
- descriptive information on key management personnel is provided in the Corporate Governance Recommendations (CGR) report on pages 34-37 and in the Remuneration Report on pages 99-100;
- Risk management policies and practices (incl. both general and financial instruments) are described in addition to Note 34 but also in the Management Report on page 27 and in the CGR report on page 39.

NOTE 36 SUPPLEMENTARY DISCLOSURES ON THE PARENT COMPANY

The financial information of the parent comprises separate primary statements of the parent (income statement, statement of financial position, cash flow statement and statement of changes in equity), the disclosure of which is required by the Estonian Accounting Act. The primary financial statements of the parent have been prepared using the same accounting methods and measurement bases as those used for the preparation of the consolidated financial statements, except for subsidiaries, associates and joint ventures, which are reported at cost in the separate primary financial statements of the parent.

INCOME STATEMENT

in thousands of euros

	2023	**2022**
Revenue	652	555
Cost of goods sold	(16)	(31)
Gross profit	**636**	**524**
Marketing expenses	(65)	(87)
General and administrative expenses	(3,331)	(2,561)
Other operating income	4,483	2,171
Other operating expenses	(379)	(1,167)
Operating profit (loss)	**(1,344)**	**(1,120)**
Finance costs	(940)	(385)
Finance income from investments in subsidiaries	18,110	18,646
Profit before tax	**18,514**	**17,141**
Deferred income tax expense	-	(25)
Net profit for the year	**18,514**	**17,116**

STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2023	31.12.2022
ASSETS		
Current assets		
Cash and cash equivalents	211	545
Receivables and prepayments	6,595	48,467
	6,806	**49,012**
Non-current assets		
Investments in subsidiaries	115,294	120,896
Other long-term financial assets	59,046	17,120
Property, plant and equipment	326	370
Intangible assets	2	13
	174,668	**138,399**
TOTAL ASSETS	**181,474**	**187,411**
LIABILITIES		
Current liabilities		
Borrowings	13,478	13,677
Trade and other payables	1,515	1,344
Short-term provisions	232	924
	15,225	**15,945**
Non-current liabilities		
Long-term borrowings	227	6,258
	227	**6,258**
TOTAL LIABILITIES	**15,452**	**22,203**
EQUITY		
Share capital	7,929	7,929
Statutory reserve capital	793	793
Retained earnings	157,300	156,486
TOTAL EQUITY	**166,022**	**165,208**
TOTAL LIABILITIES AND EQUITY	**181,474**	**187,411**

STATEMENT OF CHANGES IN EQUITY

in thousands of euros

Parent	**Share capital**	**Statutory reserve capital**	**Retained earnings**	**Total**
Balance as at 31.12.2021	7,929	793	**157,070**	**165,792**
Net profit for financial year	-	-	17,116	17,116
Dividends	-	-	(17,700)	(17,700)
Balance as at 31.12.2022	**7,929**	**793**	**156,486**	**165,208**
Carrying amount of holdings under control or significant influence				(120,896)
Value of holdings under control or significant influence under the equity method				139,875
Adjusted unconsolidated equity as at 31.12.2022				**184,187**
Net profit for financial year	-	-	18,514	18,514
Dividends	-	-	(17,700)	(17,700)
Balance as at 31.12.2023	7,929	793	**157,300**	**166,022**
Carrying amount of holdings under control or significant influence				(115,294)
Value of holdings under control or significant influence under the equity method				161,327
Adjusted unconsolidated equity as at 31.12.2023				**212,055**

Adjusted unconsolidated equity is used as the basis for verifying compliance with equity requirements set forth in the Commercial Code.

CASH FLOW STATEMENT

in thousands of euros

	2023	2022
Cash flows from operating activities		
Operating profit (loss)	1,344	(1,120)
Adjustments:		
Depreciation and impairment	100	118
(Profit)/loss from sale of non-current assets	(9)	-
Interest income from business activities	(4,473)	(2,171)
Change in provisions	(757)	860
Change in trade and other receivables related to operating activities	2,474	(18,400)
Change in trade and other payables related to operating activities	193	(114)
Interest received	1,944	668
Interest paid	(750)	(341)
Other finance income and costs	(172)	(44)
Corporate income tax paid	-	(25)
Total cash flows from operating activities	**(106)**	**(20,569)**
Cash flows from investing activities		
Investments in subsidiaries	(100)	(188)
Reduction of equity in subsidiary	5,700	-
Purchase of property, plant and equipment (excl. leased assets)	(11)	(12)
Proceeds from sale of property, plant and equipment	28	-
Purchase of intangible assets	0	(2)
Interest received	1	-
Dividends received	18,113	18,646
Total cash flows from investing activities	**23,731**	**18,444**
Cash flows from financing activities		
Proceeds from borrowings	5,000	13,581
Loan repayments received	(11,180)	-
Repayments of lease liabilities	(100)	(77)
Dividends paid	(17,679)	(17,661)
Total cash flows from financing activities	**(23,959)**	**(4,157)**
Net increase/decrease in cash and cash equivalents	**(334)**	**(6,282)**
Cash and cash equivalents in the beginning of period	**545**	**6,827**
Cash and cash equivalents at end of the period	**211**	**545**

Independent auditor's report

To the Shareholders of Aktsiaselts MERKO EHITUS

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Aktsiaselts MERKO EHITUS (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2023, and the Group´s consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 1 April 2024.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2023;
- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^1 of the Auditors Activities Act of the Republic of Estonia.

Translation note:

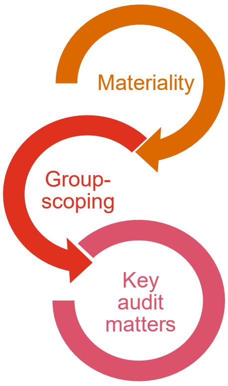
This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

This independent auditor's report (translation of the Estonian original) should only be used with the original document submitted in machine-readable .xhtml format that is submitted to the Tallinn Stock Exchange (Link: https://nasdaqbaltic.com/statistics/et/instrument/EE3100098328/reports?date=2024-04-02).

The non-audit services that we have provided to the Company and its subsidiaries in the period from 1 January 2023 to 31 December 2023 are disclosed in the management report and note 6 to the consolidated financial statements.

Our audit approach

Overview



- Overall group audit materiality is EUR 4 million, which represents approximately 0.85% of the Group’s consolidated revenue.

- A full scope audit was performed by Group’s audit team or, under our instructions, by PwC network firms and other firms for Group entities covering 96% of the Group’s revenues and 85% of the Group’s assets. Selected audit procedures were performed on remaining balances.

- revenue recognition on construction contracts
- valuation of inventory relating to property developments

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group audit materiality	EUR 4.0 million
How we determined it	Approximately 0.85% of consolidated revenue
Rationale for the materiality benchmark applied	We have calculated overall materiality using consolidated revenue benchmark, as by our estimate it is the key metric used by the Group's management, shareholders and creditors, in evaluating the performance of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Revenue recognition on construction contracts (refer to Note 1 'Summary of significant accounting policies – subsection 1.19 'Revenue' and Note 3 'Operating Segments' for further details). In 2023 the Group has recognised revenue of EUR 466 million, EUR 298 million of which is related to construction services. The Group's revenues from construction services are generated from a large portfolio of contracts with different terms regarding service fee, use of subcontractors or partners and profit sharing. Revenue from construction contracts is recorded by reference to the progress towards satisfaction of performance obligations (stage of completion). Determining the stage of completion requires the management to estimate the cost to complete the contract, as well as any possible adjustments to the contractual fee, at each measurement date. Accounting estimates have subjective nature and rely on many sources of information, both within the Group and external, about the expected outcome of a contract. The complexity resulting from both the large number of varying contractual terms and	We audited revenue recognition on construction contracts through a combination of controls testing and substantive testing. We assessed if Group had appropriately applied the guidance in the revenue standard, IFRS 15 regarding accounting for revenue, including for revenue recognised over time. We performed testing of the design, implementation and operating effectiveness of controls supporting identification of contractual terms, selection of suitable accounting policies and assessment of the stage of completion. The controls testing was supported by substantive audit procedures. We selected a sample of contracts and performed substantive procedures that included, but were not limited to: • reconciling the contract fee used in calculating the revenue based on the stage of completion to the contract; • reconciling incurred contract costs included in revenue calculation to accounting records and testing the proper allocation of costs to individual contracts; • testing correct periodisation of contract costs; • checking the formula used for calculation of revenue based on stage of completion;

estimation uncertainties regarding the expected outcome of construction contracts could lead to errors that may become material, when aggregated. As such, revenue recognition on construction contracts requires significant time and resource to audit due to both its magnitude and complexity, and is therefore considered to be a key audit matter.	• investigating the estimates of margins during current and comparative periods applied for revenue calculation of the same contracts to identify potential management bias. We also evaluated the correctness of disclosures in relation to the construction contracts.
Valuation of inventory relating to property developments (refer to Note 1 'Summary of significant accounting policies – subsection 1.11 'Inventories', Note 17 'Inventories' and Note 34 'Risk management' subsection 'value of assets' for further details). As at 31 December 2023 the Group's statement of financial position includes inventory in the amount of EUR 195 million, of which EUR 43 million were finished apartments, EUR 60 million unfinished apartments and EUR 89 million land purchased for development and resale (mostly with the aim of being developed as residential property). Inventories are carried at the lower of cost and net realisable value. With property prices, especially those of residential property, following the economic cycle and exhibiting substantial fluctuation over time, net realisable value of the inventory of finished and unfinished apartments and property for resale needs to be carefully monitored against the carrying amount. Should the net realisable value of a property fall below its carrying amount, a write-down to net realisable value is necessary. Determining the net realisable value of property requires estimates of the expected selling price and may require estimates of the cost to complete the development of the property. Due to the magnitude and related estimation uncertainty, valuation of inventory of finished and unfinished apartments and land to be developed for sale is considered a key audit matter.	We assessed the management's expertise to perform valuation of property. The management is experienced in property valuation and the outcomes of completed development projects have usually met the profitability estimates. We evaluated the model prepared by the management for determining the net realisable value and identifying any necessary write-down. We performed testing of the inputs used in the valuation model. Our work targeted individual properties on our assessment of the risk, based on the location, carrying amount and any specific conditions related to a property. For inputs based on estimates, which include unit costs applicable for completing the construction and sales price, we assessed the reasonableness of the inputs by comparing them with historical data from completed projects and available market information such as construction price indexes. Where possible, we compared the estimated sales prices with comparable market transactions and with the prices agreed in promissory sales contract. It was evident from our work that sufficient attention had been paid to each property's individual characteristics including their construction quality, geographic location and relevant legal or contractual obligations. We also assessed the appropriateness of disclosures provided in respect of net realisable value of inventory, including sensitivity analysis.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises a number of subsidiaries that are further disclosed in Note 18 and two joint ventures, information about which is disclosed in Note 19. A full scope audit was performed by PwC Estonia or, under our instructions, by other PwC network firms and firms outside PwC network for entities covering 96% of the Group's revenues and 85% of assets. The remaining entities of the Group were immaterial, therefore we only performed selected audit procedures on these components relating to specified account balances or disclosures.

Where work was performed by component auditors, we determined the level of involvement we needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

At the Group level we also audited the consolidation process. We also evaluated whether significant risk of material misstatement existed, using analytical procedures in relation to the aggregated financial information of the remaining entities not subject to audit or audit of specified account balances, including comparing their account balances to those present at the time of deciding the audit scope.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises Main facts, Statement of the chairman of the management board, Merko Group, Management report, Corporate governance code, Management declaration, Profit allocation proposal and other notes to the consolidated annual report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the Management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act of the Republic of Estonia. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia.

In accordance with the Securities Market Act of the Republic of Estonia with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 135^3 (3) of the Securities Market Act of the Republic of Estonia.

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

This independent auditor's report (translation of the Estonian original) should only be used with the original document submitted in machine-readable .xhtml format that is submitted to the Tallinn Stock Exchange (Link: https://nasdaqbaltic.com/statistics/et/instrument/EE3100098328/reports?date=2024-04-02).

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management report has been prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia; and
- the Remuneration Report has been prepared in accordance with Article 135^3 (3) of the Securities Market Act of the Republic of Estonia.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged as part of our audit engagement letter by the Management Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of Aktsiaselts MERKO EHITUS for the year ended 31 December 2023 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the “ESEF Regulation”). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and those charged with governance

The Management Board of the Company is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for overseeing the financial reporting process, which should also be understood as the preparation of consolidated financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (Estonia) 3000 (revised) “Assurance Engagements other than Audits and Reviews of Historical Financial Information" (ISAE (EE) 3000 (revised)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE (EE) 3000 (revised) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality management requirements and professional ethics

We apply International Standard on Quality Management (Estonia) 1 (revised), which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's' use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

Appointment and period of our audit engagement

We were first appointed as auditors of Aktsiaselts MERKO EHITUS, as a public interest entity for the financial year ended 31 December 2008. Our appointment has been renewed by tenders and shareholders resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for Aktsiaselts MERKO EHITUS, as a public interest entity, of 16 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of Aktsiaselts MERKO EHITUS can be extended for up to the financial year ending 31 December 2027.

AS PricewaterhouseCoopers

/digitally signed/	/digitally signed/
Janno Hermanson Certified auditor in charge, auditor's certificate no. 570	Kristiina Veermäe Auditor's certificate no. 596

1 April 2024
Tallinn, Estonia

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

This independent auditor's report (translation of the Estonian original) should only be used with the original document submitted in machine-readable .xhtml format that is submitted to the Tallinn Stock Exchange (Link: https://nasdaqbaltic.com/statistics/et/instrument/EE3100098328/reports?date=2024-04-02).

PROFIT ALLOCATION PROPOSAL

in euros

Total retained earnings as at 31.12.2023	**204,171,057**
incl. net profit for 2023	46,048,325

The Management Board proposes profit allocation as follows:

Dividends (EUR 1.30 per share)	23,010,000
Retained earnings after profit allocation	**181,161,057**

Ivo Volkov	Chairman of the Management Board	/ digitally signed /	01.04.2024
Tõnu Toomik	Member of the Management Board	/ digitally signed /	01.04.2024
Urmas Somelar	Member of the Management Board	/ digitally signed /	01.04.2024

OTHER NOTES TO THE ANNUAL REPORT

REMUNERATION REPORT

REMUNERATION OF EXECUTIVES

Pursuant to legal acts, AS Merko Ehitus releases an overview of remuneration paid to executives and its conformity to the remuneration principles. The principles of remuneration of executives and the corresponding procedure are developed and approved by the AS Merko Ehitus supervisory board, thus preventing and mitigating any conflict of interest. Most recently, the supervisory board approved a full updated set of the remuneration principles for executives on 14 December 2021, which was approved at general meeting of shareholders in 2022. Amendment proposals submitted at the meeting by shareholders in regard to the executive remuneration principles will be reviewed and taken into account if supported by a simple majority at the meeting.

In the 2023 and 2022 financial years, the Management Board members' recognized cost of remuneration incl. basic salaries and performance pay, as well as taxes and changes in reserves for the reporting year were as follows (in euros):

	2023	Performance pay ROE component	Performance pay strategic objectives component	2022
Andres Trink*	**915,545**	**262,800**	**387,200**	**640,588**
Incl. basic salaries and compensation for non-performance of competition	308,741	-	-	150,279
Incl. performance pay (for 2022 & 2023)	650,000	262,800	387,200	300,000
Incl. taxes and changes in reserves	(43,196)	-	-	190,309
Tõnu Toomik	**597,323**	**110,160**	**129,840**	**585,908**
Incl. basic salaries	148,647	-	-	129,558
Incl. performance pay (for 2022)	240,000	110,160	129,840	270,000
Incl. taxes and changes in reserves	208,676	-	-	186,351
Urmas Somelar	**326,899**	-	-	-
Incl. basic salaries	60,600	-	-	-
Incl. taxes and changes in reserves	266,299	-	-	-
TOTAL	**1,839,767**	**372,960**	**517,040**	**1,226,496**

Performance pays represent the gross performance-based pay allocated and paid for the previous year's performance and recognized in the reporting year. Changes in reserves also include the reserve formed to cover performance pays to be paid in subsequent years for this reporting year.

**Andres Trink service contract expired on 31.12.2023, at the end of the service contract, compensation for non-performance of competition in the amount of one year's service fee was paid in 2023, in addition to the usual remuneration, and an advance part of the performance pay calculated for 2023. Changes in reserves are also related to the corresponding payments.*

The performance-based pay allocated to executives for their performance in 2023 financial year conform to the remuneration principles, motivating the executives to achieve and maintain a high calibre of return on equity and to launch and implement strategic initiatives for strengthening the group's position on its home markets. No exceptions to the remuneration policies were made in allocating remuneration to the executives for the results of the financial year 2023, except for the advance performance fee payment in connection with the termination of Andres Trink's service contract.

In 2023, none of the executives received remuneration from other companies belonging to the group and they were not granted or offered shares or share options as remuneration. Nor did the group's supervisory board initiate any reclaims of performance bonuses in regard to the executives.

REMUNERATION OF EMPLOYEES

The group's objective is to pay its employees a competitive salary. In addition to basic remuneration, performance-based remuneration is paid.

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 2023, the labour cost was EUR 50.2 million (2022: EUR 42.3 million), up 18.8% from the previous year.

Benefits that are standard for full-time employees and not offered to part-time employees are not separately disclosed in Merko group companies, except with regard to part-time employees employed under a contract for a specified term, who are not entitled to all of the benefits offered to group employees.

The following table shows, for each of the last five financial years, the annual change in the group's performance, and the average remuneration paid to employees and executives. The growth of the employees' average remuneration during the five-year period (46.9%) is distributed differently as compared to the growth in the average remuneration to executives in the five-year period (75.5%), but overall is clearly lower. 2023 had a major impact from the appointment of an additional member of the Management Board, the performance pay reserves of managers formed as a result of a successful year and the compensation for non-competition paid upon termination of the employment contract.

	2023	**2022**	**2021**	**2020**	**2019**
Net profit attributable to equity holders of the parent (million EUR)	46.0	34.6	29.1	23.0	16.3
Return on equity (%)	23.4	20.4	18.8	16,2	12.9
Average number of fulltime employees (people)	649	657	651	661	709
Labour cost (million EUR)	50.2	42.3	38.4	36.4	37.4
Average labour cost per year for employees (thousand EUR)	77.4	64.4	59.0	55.1	52.7
Number of managers	2.6*	2	2	2	2
Average labour cost per year for managers (thousand EUR)	712.2	613.2	378.8	518.9	405.7
Change in labour costs of employees (%)	20.2	9.2	7.0	4.5	14.0
Change in labour costs of managers (%)	16.1	61.9	-27.0	27.9	5.0

Pursuant to the principles of accrual accounting, the labour costs also include the expense borne by the company in the reporting year on forming reserves and does not equal the actual disbursements during the reporting year; instead it includes considerations to be paid out in future periods.

**The number of members of the Management Board increased to 3 members on 01.06.2023, i.e. the number of members is shown in the table as an annual average.*

KEY FINANCIAL INDICATORS IN 2019-2023

CONSOLIDATED INCOME STATEMENT

in thousands of euros

	2023	**2022**	**2021**	**2020**	**2019**
Revenue	466,304	409,633	339,375	315,918	326,779
Cost of goods sold	(401,267)	(355,975)	(292,563)	(272,169)	(291,958)
Gross profit (loss)	**65,037**	**53,658**	**46,812**	**43,749**	**34,821**
% of revenue	*13.9%*	*13.1%*	*13.8%*	*13.8%*	*10.7%*
Marketing expenses	(4,312)	(4,077)	(3,611)	(4,212)	(4,260)
General and administrative expenses	(19,423)	(15,860)	(13,925)	(13,412)	(12,988)
Other operating income	4,171	3,144	3,508	2,320	2,983
Other operating expenses	(991)	(1,834)	(582)	(2,979)	(1,318)
Operating profit (loss)	**44,482**	**35,031**	**32,202**	**25,466**	**19,238**
% of revenue	*9.5%*	*8.6%*	*9.5%*	*8.1%*	*5.9%*
Finance income	297	1	12	1	3
Finance costs	(3,017)	(1,450)	(886)	(866)	(684)
Profit (loss) from joint ventures	10,220	3,516	799	(144)	1,766
Profit (loss) before tax	**51,982**	**37,098**	**32,127**	**24,457**	**20,323**
% of revenue	*11.1%*	*9.1%*	*9.5%*	*7.7%*	*6.2%*
Corporate income tax expense	(6,081)	(2,995)	(3,104)	(1,954)	(3,833)
Net profit (loss) for the financial year	**45,901**	**34,103**	**29,023**	**22,503**	**16,490**
incl. attributable to equity holders of the parent	46,048	34,640	29,140	22,994	16,270
% of revenue	*9.9%*	*8.5%*	*8.6%*	*7.3%*	*5.0%*
Attributable to non-controlling interests	(147)	(537)	(117)	(491)	220

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2023	31.12.2022	31.12.2021	31.12.2020	31.12.2019
ASSETS					
Current assets					
Cash and cash equivalents	77,330	17,665	44,930	47,480	24,749
Trade and other receivable	68,754	77,959	55,484	32,657	50,413
Prepaid corporate income tax	2	38	114	306	104
Inventories	195,435	225,661	160,593	126,332	166,226
	341,521	**321,323**	**261,121**	**206,775**	**241,492**
Non-current assets					
Investments in joint ventures	21,915	12,895	7,703	2,354	2,498
Other shares and securities	80	-	-	-	-
Other long-term loans and receivables	24,490	22,982	24,079	17,979	11,094
Deferred income tax assets	3,298	693	622	653	-
Investment properties	16,823	11,485	13,828	13,922	14,047
Property, plant and equipment	16,613	17,452	16,350	14,521	11,919
Intangible assets	520	582	669	711	777
	83,739	**66,089**	**63,251**	**50,140**	**40,335**
TOTAL ASSETS	**425,260**	**387,412**	**324,372**	**256,915**	**281,827**
LIABILITIES					
Current liabilities					
Borrowings	19,673	49,687	11,636	13,649	20,725
Payables and prepayments	133,898	96,248	90,054	55,846	69,585
Corporate income tax liability	4,260	1,241	681	1,202	812
Short-term provisions	10,451	9,820	7,976	6,347	7,976
	168,282	**156,996**	**110,347**	**77,044**	**99,098**
Non-current liabilities					
Long-term borrowings	35,142	42,236	41,001	15,409	43,001
Deferred income tax liability	4,441	2,355	3,112	3,001	1,682
Other long-term payables	5,495	2,133	2,900	4,026	3,491
	45,078	**46,724**	**47,013**	**22,436**	**48,174**
TOTAL LIABILITIES	**213,360**	**203,720**	**157,360**	**99,480**	**147,272**
EQUITY					
Non-controlling interests	(155)	(495)	(227)	4,207	4,217
Equity attributable to equity holders of the parent					
Share capital	7,929	7,929	7,929	7,929	7,929
Statutory reserve capital	793	793	793	793	793
Currency translation differences	(838)	(783)	(791)	(814)	(710)
Retained earnings	204,171	176,248	159,308	145,320	122,326
	212,055	**184,187**	**167,239**	**153,228**	**130,338**
TOTAL EQUITY	**211,900**	**183,692**	**167,012**	**157,435**	**134,555**
TOTAL LIABILITIES AND EQUITY	**425,260**	**387,412**	**324,372**	**256,915**	**281,827**

OTHER KEY FIGURES

attributable to equity holders of the parent

		2023	2022	2021	2020	2019
EBITDA	million EUR	48.1	37.9	34.8	28.2	21.9
EBITDA margin	%	10.3	9.3	10.3	8.9	6.7
General expense ratio	%	5.1	4.9	5.2	5.6	5.3
Staff costs ratio	%	10.8	10.3	11.3	11.5	11.4
Revenue per employee	thousand EUR	718	623	521	478	461
ROE	%	23.4	20.4	18.8	16.2	12.9
ROA	%	11.8	9.2	10.0	8.4	5.6
ROIC	%	20.6	15.1	16.9	13.1	11.1
Equity ratio	%	49.9	47.5	51.6	59.6	46.2
Debt ratio	%	12.9	23.7	16.2	11.3	22.6
Current ratio	times	2.0	2.0	2.4	2.7	2.4
Quick ratio	times	0.9	0.6	0.9	1.0	0.8
Accounts receivable turnover	days	38	33	31	35	45
Accounts payable turnover	days	40	55	39	37	53
Number of employees as at 31.12	people	635	661	670	666	694
Average number of employees	people	649	657	651	661	709
Secured order book as at 31.12	million EUR	477	297	257	225	141
New contracts signed	million EUR	501	318	288	277	170

SHARE-RELATED KEY FIGURES

attributable to equity holders of the parent

		2023	2022	2021	2020	2019
Earnings per share (EPS)	EUR	2,60	1.96	1.65	1.30	0.92
Equity per share	EUR	11.11	9.57	8.76	8.01	7.13
Dividend per share	EUR	*	1.00	1.00	1.00	-
Dividend rate	%	*	51	61	77	-
Dividend yield	%	*	7.1	6.6	10.6	-
P/B ratio	times	1.38	1.48	1.74	1.18	1.32
P/E ratio	times	5.88	7.24	9.24	7.28	10.20
Share price trend						
Average	EUR	15.18	14.50	14.41	8.80	9.55
Highest	EUR	16.36	16.96	17.14	10.60	10.30
Lowest	EUR	14.14	11.60	9.48	6.56	8.74
Share price as at 31.12	EUR	15.30	14.16	15.22	9.46	9.38
Market value as at 31.12	million EUR	270.8	250.6	269.4	167.4	166.0
Share turnover trend						
Share turnover	million EUR	12.85	18.16	29.78	13.97	21.31
Transactions	pcs	28,455	40,602	46,961	22,033	8,558
Shares traded	million pcs	0.84	1.22	2.06	1.62	2.23
Ratio of shares traded	%	4.7	6.9	11.6	9.2	12.6
Number of shares	million pcs	17.70	17.70	17.70	17.70	17.70
Number of shareholders as at 31.12	pcs	12,876	11,587	9,309	5,658	3,924

** Ratios related to dividends for 2023 will depend on the decision of the general meeting of shareholders to pay dividends.*

DEFINITIONS 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 (%) = $\frac{\text{(Profit before tax + interest expense - foreign exchange gain (loss) + other financial income) of the current 4 quarters}}{\text{(Shareholders' equity (average) + interest-bearing liabilities (average)) of the current 4 quarters}}$

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 = $\frac{\text{Current assets - inventories}}{\text{Current liabilities}}$

Accounts receivable turnover (days) = $\frac{\text{Trade receivables of the current 4 quarters (average) x 365}}{\text{Revenue of the current 4 quarters}}$

Accounts payable turnover (days) = $\frac{\text{Payables to suppliers of the current 4 quarters (average) x 365}}{\text{Cost of goods sold of the current 4 quarters}}$

EBITDA (million EUR) = Operating profit + depreciation

EBITDA margin (%) = $\frac{\text{Operating profit + depreciation}}{\text{Revenue}}$

General expense ratio (%) = $\frac{\text{Marketing expenses + General and administrative expenses}}{\text{Revenue}}$

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 (%) = $\frac{\text{Payable dividends x 100}}{\text{Net profit (attributable to equity holders of the parent)}}$

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 capitalisation = Share price 31.12 x Number of shares

Ratio of shares traded = $\frac{\text{Number of shares traded during the year}}{\text{Number of shares in total}}$

Injury rate (per 100 employees) = $\frac{\text{Total number of injuries/accidents excluding minor (first-aid level) injuries/accidents x 200 000}}{\text{Total number of working hours per year}}$

Occupational diseases rate (per 100 employees) = $\frac{\text{Total number of occupational illnesses x 200 000}}{\text{Total number of working hours per year}}$

Lost days rate (per 100 employees) = $\frac{\text{Total number of lost days due to occupational illnesses/injuries/accidents x 200 000}}{\text{Total number of working hours per year}}$

Absentee rate per year = $\frac{\text{Total number of absentee days}}{\text{Calculated number of total working days per year}}$

REVENUE BREAK-DOWN OF THE PARENT PRESENTED ACCORDING TO THE ESTONIAN CLASSIFICATION OF ECONOMIC ACTIVITIES

Revenue break-down of the parent of AS Merko Ehitus for the year 2023 is presented according to Estonian Classification of Economic Activities EMTAK, as required under the Commercial Code § 4 p.6:

in thousands of euros

EMTAK code		**2023**	**2022**
	Real estate activities		
6420	activities of holding companies	646	540
6820	renting and operating of own or leased real estate	6	15
	Total revenue	**652**	**555**

SUSTAINABLE DEVELOPMENT REPORT

REPORTING ON THE EU TAXONOMY OF ECONOMIC ACTIVITIES

The reports presented below were prepared based on Regulation (EU) 2020/852 of the European Parliament and of the Council (taxonomy regulation) and the Commission Delegated Regulations (EU) 2021/2178 and 2021/2139 supplementing the former (reporting requirements and screening criteria).

METHODOLOGY FOR PREPARING THE REPORTS

The activities of Merko Ehitus are project-based, and thus the basis for preparing the reports is a project-based approach. Project-based accounting effectively rules out the occurrence of double-accounting in the reporting. When a project is launched, analysis is conducted, based on the nature of the project and the project documentation, in a uniform manner for both construction service and housing development segment to determine which of the criteria in delegated regulation 2021/2139 the project meets. If the project meets the criteria of "substantial contribution" specified in the regulation and there are no violations of the "does not significantly harm" principle or violations of minimum safeguards, the project is classified as environmentally sustainable. If the project meets the criteria of "substantial contribution" specified in the regulation but there is at least one violation of the "does not significantly harm" principle or of minimum safeguards, the project is classified as taxonomy-eligible but not environmentally sustainable. If the project does not meet any of the screening criteria of specified in the regulation 2021/2139, the project is classified as not covered by the taxonomy. In analysis of projects, the significant contribution criteria are applied with maximum conservatism, i.e. such that if there is more than one criterion for the relevant project category in delegated regulation 2021/2139, the project is classified as environmentally sound only if it meets all of the criteria.

Proceeding from project-based activities and applying principles of conservative assessment, the reports on Merko Ehitus group's capital expenditure and operating costs have relied on the precondition that for an expense to be classified environmentally sustainable, the expense must itself have an environmentally sound nature and solely the fact that it is in the service of an environmentally sustainable project is not grounds for assessing a capital expenditure or operating cost as environmentally sustainable. In project-based activity, the capital expenditure and operating costs directly related to the project are recognized as a part of the project and capital expenditure and operating costs on their own occur in the company's general administration and support services fields. Since these fields exist regardless of the share of operating volumes that is environmentally sustainable, we have, proceeding from conservatism and avoidance of so-called greenwash, prepared internal reporting guidelines based on the requirement that a given cost must itself have an environmentally sound nature and qualities in order to be reported as environmentally sustainable.

Regulation 2021/2178 allows capital expenditures and operating costs necessary for carrying out activities not covered in the taxonomy to be classified as environmentally sustainable if the expense is used to purchase assets or services from a taxonomy-aligned economic activity and it constitutes an individual measure that allows the main activity to consistently reduce CO_2 emissions. Simplified, this means that if the diesel car used by a support worker indirectly serves a project classified as environmentally sustainable, Merko Ehitus group's methodology does not allow the purchase of the car to be classified even as a partially environmentally sustainable operating cost. At the same time, under certain conditions, it is allowed to classify an electric car as an environmentally sound capital expenditure even if it is used for an activity not covered by the taxonomy.

At the current time, that classification is hindered by the complicated structure of point 1.1.2.2 of Annex 1 of the delegated regulation, as it requires the establishment and disclosure of a relevant programme as a precondition for classifying it as an environmentally sustainable capital expenditure/operating cost. Merko Ehitus group has not established such a programme. Based on the principle of conservatism, Merko Ehitus group deems it an unreasonably high greenwash risk to, in compiling reports on capital expenditures and operating costs, lend the cachet of environmental sustainability based on share of turnover from capital expenditures and operating costs projects, to capital expenditures and operating costs that are not themselves environmentally sustainable in terms of their content or characteristics. For this reason, Merko Ehitus uses an internal methodology stricter than in EU legal acts, thus excluding the risk of so-called greenwash, and allows only such expenses that themselves meet the criteria of environmental sustainability to be reported as environmentally sound capital expenditures and operating costs.

REPORTS

No changes in accounting methods have been made during the reporting period.

The reports were submitted in accordance with the forms specified in regulation 2021/2178, updated in accordance with delegated regulations 2023/2485 and 2023/248. The forms have been adapted in order to reduce the number of blank rows and improve readability as follows:

- Columns 20 (enabling activity) and 21 (transitional activity) are hidden as we found it is not possible to apply them in the current report for Merko Ehitus.
- In regard to activities eligible in the taxonomy but not environmentally sustainable, the regulation leaves it up to each reporting party to decide whether to fill columns 5-17. Merko Ehitus has decided not to fill these and they are presented on a grey background, which means non-applicable for the purposes of the report.

- If not all of the principles for applying the principle “does not significantly harm” principle are given in the screening criteria in regulation 2021/2139. the fields are shown in grey background, which means non-applicable for the purposes of the report.

Report1. Proportion of turnover from products or services associated with Taxonomy-aligned economic activities

Economic activities	NACE Code(s)	Absolute turnover	Proportion of turnover	Substantial contribution criteria						DNSH criteria (‘Does Not Significantly Harm’)						Minimum safeguards	Taxonomy- aligned proportion of turnover in the financial year	Taxonomy- aligned proportion of turnover in the previous year
				Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
		Thous. EUR	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%
A. Taxonomy-eligible activities			%															
A.1. Environmentally sustainable activities																		
Wind farm construction service	F42.22	42 813	9,2%	100,0%	0,0%	0,0%	0,0%	0,0%	0,0%		Y					Y	9,2%	9,5%
Turnover of environmentally sustainable activities		42 813	**9,2%**	100,0%	0,0%												**9,2%**	9,5%
A.2 Taxonomy-Eligible but not environmentally sustainable activities																		
Cunstruction of builidngs, residential development	F41	351 811	75,4%															
Turnover of Taxonomy-eligible but not environmentally sustainable activities		351 811	**75,4%**	0,0%	0,0%													
Total A.1 + A.2		394 623	**84,6%**	**10,8%**	**0,0%**													
B. Taxonomy-non-eligible activities																		
Turnover of Taxonomy-non-eligible activities	F42	71 681	**15,4%**															
Total A + B		466 304	**100,0%**															

Explanation based on 2021/2178 Annex I, point 1.2.3.1. b): the share of internal consumption of turnover reported in point A1 is zero.

** Wind farm construction service corresponds to point 7.6.(d) of Annex I of regulation 2021/2139 (screening criteria).*

Report2. Proportion of CapEx for products or services associated with Taxonomy-aligned economic activities

Economic activities	NACE Code(s)	Absolute turnover	Proportion of turnover	Substantial contribution criteria						DNSH criteria (‘Does Not Significantly Harm’)						Minimum safeguards	Taxonomy- aligned proportion of CapEx in the financial year	Taxonomy- aligned proportion of CapEx in the previous year
				Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
		Thous. EUR	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%
A. Taxonomy-eligible activities			%															
A.1. Environmentally sustainable activities																		
…		0	0,0%	0,0%	0,0%												0%	0%
Turnover of environmentally sustainable activities		0	**0,0%**	0,0%	0,0%												**0%**	0%
A.2 Taxonomy-Eligible but not environmentally sustainable activities																		
…		0	0,0%	0,0%	0,0%													
Turnover of Taxonomy-eligible but not environmentally sustainable activities		0	**0,0%**	0,0%	0,0%													
Total A.1 + A.2		0	**0,0%**	**0,0%**	**0,0%**													
B. Taxonomy-non-eligible activities																		
Turnover of Taxonomy-non-eligible activities		3 111	**100,0%**															
Total A + B		3 111	**100,0%**															

Report3. Proportion of OpEx from products or services associated with Taxonomy-aligned economic activities

Economic activities	NACE Code(s)	Absolute turnover	Proportion of turnover	Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')						Minimum safeguards	Taxonomy- aligned proportion of OpEx in the financial year	Taxonomy- aligned proportion of OpEx in the previous year
				Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems			
(1)	(2)	(3) Thous.EUR	(4) %	(5) %	(6) %	(7) Y/N	(8) Y/N	(9) Y/N	(10) Y/N	(11) Y/N	(12) Y/N	(13) Y/N	(14) Y/N	(15) Y/N	(16) Y/N	(17) Y/N	(18) %	(19) %
A. Taxonomy-eligible activities																		
A.1. Environmentally sustainable activities																		
…		0	0,0%	0,0%	0,0%												0,0%	0%
Turnover of environmentally sustainable activities		0	**0,0%**	0,0%	0,0%												**0,0%**	0%
A.2 Taxonomy-Eligible but not environmentally sustainable activities																		
…		0	0,0%	%	%													
Turnover of Taxonomy-eligible but not environmentally sustainable activities		0	**0,0%**	0,0%	0,0%													
Total A.1 + A.2		0	**0,0%**	**0,0%**	**0,0%**													
B. Taxonomy-non-eligible activities																		
Turnover of Taxonomy-non-eligible activities		23 736	**100,0%**															
Total A + B		23 736	**100,0%**															

SUSTAINABILITY REPORTING PRINCIPLES

The Annual Report of Merko Ehitus group is prepared based on the international integrated reporting framework and the Global Reporting Initiative (GRI) Standards. The purpose of the Annual Report is to provide a clear overview and description of how Merko Ehitus creates additional value to its customers, shareholders and other stakeholders, while highlighting the key factors of the value chain process. The Annual Report does not focus only on past events, but is more focused, through integrated reporting, on the horizon ahead. We aim to give the reader a better overview of the strategy, long-term objectives and sustainability of AS Merko Ehitus group as a whole.

Key economic, social responsibility and environmental aspects have been presented by using the integrated reporting principle, in the different sections and notes to the annual report.

In preparing the report, Merko Ehitus has focused on the key subjects of the group companies, depending on the specifics of their business, which are:

- Economic Performance;
- Market Presence;
- Indirect Economic Impacts;
- Procurement Practices;
- Anti-corruption;
- Materials;
- Energy;
- Waste;
- Environmental Compliance;
- Employment;
- Occupational Health and Safety;
- Training and Education;
- Local Communities;
- Political Contributions.

Further information on the internationally integrated reporting framework and GRI Standards can be acquired on websites integratedreporting.org and www.globalreporting.org.

STAKEHOLDERS

Merko Ehitus group has mapped its primary stakeholder groups: Merko group employees, shareholders and investors, customers for construction service and apartment buyers, local government units and public organisations, cooperation partners, subcontractors and suppliers and the public. Stakeholders are mapped and selected based on the standpoint of both the company and the stakeholder, taking into account cooperation between the parties and the impact of the company on the stakeholder.

The primary principles for disclosure of information at Merko are continuity, neutrality, transparency, integrity and fairness and preventive approach. Various channels have taken shape for communicating with different stakeholders:

Employees	Everyday cooperation and communication with the company's colleagues and managers at various levels, annual performance reviews, company's website, Intranet and newsletter, company information days and other events, in-house trainings and social media.
Shareholders, investors, banks	Stock market system and press releases, website section aimed at investors, investor meetings, materials and events.
Customers and apartment buyers	Everyday cooperation and communication in the course of the construction and sales process, feedback from customers and satisfaction surveys, company's website, public communication. Additional communication channels for apartment buyers: apartment development project website and sales materials, sales director and, in the case of some projects, sales office, events involving apartment buyers and social media.
Partners in cooperation, subcontractors and suppliers	Everyday cooperation and communication in the course of the construction process, meetings and events, public communication.
Local governments and public organisations	Meetings, public communication.
Broader public	Social responsibility and support and cooperation projects, cooperation with different organisations, public communication, social media.

GRI CONTENT INDEX

Standard	Disclosure	Page	Information
GRI 102:2016 General Disclosures			
ORGANISATIONAL PROFILE			
102-1	Name of the organisation	p. 2	
102-2	Products, services and trademarks	p. 3, 14-15, 21, note 3	
102-3	Location of headquarters	p. 2	
102-4	Location of operations	p. 3, 21, note 18	
102-5	Ownership and legal form	p. 3, 30-32, 33-37	
102-6	Markets served	p. 3, 21, 33, note 3	
102-7	Scale of the organisation	p. 3, 16, 20-21, 100-102, 113	
102-8	Basic information on employees	p. 28, 99-100, 113	
102-9	Supply chain		Merko Ehitus group companies use a wide range of suppliers and subcontractors extensively in all operating countries. The materials and services used in construction come from an extensive network of suppliers located mainly in Europe and in the operating countries of the group companies. Merko Ehitus group companies mainly act as general contractors, as a result of which the large extent of the workforce used in construction, (except for project management and work segments performed by their own employees) are subcontractors in the country where the construction site is located.
102-10	Significant changes during the reporting period		-
102-11	Precautionary Principle or approach	p. 27-28, 113-114	
102-12	External initiatives		No significant commitments to voluntary charters and other initiatives.
102-13	Memberships in associations		Merko Ehitus group companies are members in the following associations and organisations: Estonian Chamber of Commerce and Industry Estonian Association of Construction Entrepreneurs Estonian Waterworks Association Estonia Concrete Association Estonian Digital Construction Cluster Estonian Mining Industries Association Estonian Security Companies Association Estonian Human Resource Management Association PARE Rail Baltic Business Network Estonia NPO Estonian Infra Construction Association Latvian National Real Estate Developers Alliance Latvian Construction Industry Digitalization Association Skanste Development Agency Lithuanian Builders Association Lithuanian Real Estate Developers Association Entreprenørforeningen Bygg og Anlegg
STRATEGY			
102-14	CEO's statement	p. 4	
ETHICS AND INTEGRITY			
102-16	Organisation's values, principles, standards, norms of behaviour and codes of ethics	p. 5, 28	The group and its companies act according to the Merko Ehitus strategy and values and responsible management and operating principles (including the code of business ethics and ESG policy). In addition, the Meie Merko (Our Merko; called One Merko in Latvia, Lithuania and Norway) framework that sums up the core values and principles of Merko underpins our decision-making and everyday operations.
GOVERNANCE			
102-18	Governance structure	p. 33-38	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholders	p. 108	
102-41	Collective bargaining		Merko Ehitus group does not have general collective bargaining

	agreements		agreements, it complies with company-specific agreements in line with local legislation.
102-42	Identification and selection of stakeholders	p. 108	
102-43	Approach to stakeholder engagement	p. 108	
102-44	Key topics and concerns raised		Customers and employee satisfaction surveys, grievances about labour practices. In 2023, the number of new grievances about labour practices against Merko group amounted to 0 (2022: none), the number of grievances (both from current and previous years) addressed was 0 (2022: none) and the number of grievances (both from current and previous years) resolved was 0 (2022: none).

In 2023, Merko Ehitus Eesti conducted a satisfaction survey among apartment buyers in the Odra, Pärnu mnt 328, Uus-Veerenni (Tiiu 12 and Pille 11/Veerenni 36b), Metsatuka, Erminurme (fourth development phase buildings at Erminurme tee 14, 18 and 20) and Vesilennuki (first phase, buildings at Vesilennuki tn 22 and 24). We sent out the survey to 530 people. Turnout was 35% – 186 surveys were returned. The average recommendation index for these projects, also known as the customer loyalty index was +63 on a scale of -100 to +100. The projects with the highest index were Noblessneri Vesilennuki (+85), Pärnu mnt 328 (+79) and the fourth phase of Erminurme (+78). We also examined customer satisfaction with the sales and marketing materials, the home-buying process, living environment and construction quality. In all of these topics, the projects scored an average result of more than 8.4 on a 10-point scale.

In 2023, Merks Mājas conducted a satisfaction survey in Latvia, sampling sentiment among customers who bought into the second phase of Viesturdārzs, the first phase of Mežpilsēta and Duntes Zīles. The questions had to do with people's satisfaction in various stages of the projects: sales and marketing materials, the purchasing process, apartment floor plan and interior finishing, living environment or courtyard, stairwells and parking etc. and quality in general. Turnout was 22%. The highest rating was given to sales and marketing materials (8.1 out of a maximum 10), purchasing process got an average score of 7.6, living environment 7.5, quality 7.4 and floor plan and finishing 7.0. Viesturdārzs had the highest ratings.

In spring 2023, Merko Ehitus Eesti held a satisfaction survey among its employees. A total of 63% of employees responded, amounting to 143 people (we did not include skilled workers this time). We gauged satisfaction in seven aspects – satisfaction with work, organization of work in the person's own unit, cooperation and management, inter-departmental cooperation, mental health support in the workplace, general satisfaction and loyalty to Merko (recommendation index). To sum up, the results were positive. Compared to the results from the previous survey, there were no major fluctuations in any one of the topics, and the recommendation index rose from 53 to 55.

In October 2023, we conducted a satisfaction survey among Latvian employees, drawing responses from 45 employees (66%). The question covered key topics that had arisen following the organization's restructuring and yielded valuable feedback regarding improving and raising the effectiveness of in-house communication and exchange of information.

REPORTING PRACTICE			
102-45	Entities included in the consolidated financial statements		The report covers all of Merko Ehitus group's functions, unless otherwise mentioned.
102-46	Defining report content and topic Boundaries	p. 108	
102-47	List of material topics	p. 108	
102-48	Restatements of information		-
102-49	Changes in reporting		-
102-50	Reporting period	p. 2	The reporting period is the calendar year, 1 January 2023 – 31 December 2023
102-51	Date of most recent previous report		The most recent previous integrated annual report was published on 6 April 2023.
102-52	Reporting cycle		The report is published annually.
102-53	Contact point		Urmas Somelar, AS Merko Ehitus Head of Group Finance Unit
102-54	Claims of reporting in accordance with the GRI Standards		This report has been prepared in accordance with the GRI Standards (*Global Reporting Initiative)* Core option.
102-55	GRI Content Index	p. 109-115	
102-56	External assurance		The GRI report has not been assured by a third party.
MATERIAL TOPICS			
GRI 201: Economic Performance 2016			
GRI 103-1 to GRI 103-3	Management approach 2016	p. 100-102	The activities of Merko Ehitus group have a significant economic impact on society and the company's main stakeholders. The group companies are important employers and taxpayers, and the company creates business opportunities for suppliers and subcontractors by its activities. The business activities of Merko Ehitus are long-term and future-oriented in nature. Group has made considerable investments into assets, the realisation horizon

of which we measure in years. Cooperation with stakeholders is important for the group in order to ensure the sustainability of business activities.

201-1 Direct economic value generated and distributed

Direct economic value generated and distributed for stakeholders 2023 (2022)

Customers	**Suppliers**	**Employees**
Revenue EUR 466.3 million (409.6)	Materials and goods, EUR 56.9 million (72.9) External services EUR 279.4 million (215.3)	635 employees (661) Labour costs EUR 50.2 million (42.3)
	Investors	**Public sector**
	Dividends EUR 17.7 million (17.7)	Corporate income tax expense EUR 6.1 million (3.0)

Merko Ehitus group approach to taxes

Group is committed to being a responsible taxpayer in all operating countries. It complies with local and international tax regulations, practices and interpretations, as well as requirements concerning tax returns and other documentation. Merko Ehitus group applies the market price principle pursuant to the OECD Transfer Pricing Guidelines and local transfer pricing regulations in the group's internal business transactions.

PAID* TAXES BY COUNTRIES

in thousands of euros

	2023	2022
Estonia	36,388	20,826
Latvia	7,066	2,668
Lithuania	17,917	8,577
Norway	418	765
Total	**61,789**	**32,836**

** Actually paid and not calculated tax amounts.*

PAID* TAXES BY TAX TYPES

in thousands of euros

	2023	2022
Value added tax	38,060	10,212
Taxes on employee wages	19,081	17,398
Other taxes	851	1,787
Corporate income tax	3,797	3,439
Total	**61,789**	**32,836**

** Actually paid and not calculated tax amounts.*

GRI 202: Market Presence 2016

GRI 103-1 to GRI 103-3	Management approach 2016		The success of group's business operations in each operating country (Estonia, Latvia, Lithuania, Norway) depends on the local employees who are familiar with the business environment and cultures of each country. Although the group's structure is international, in each country we operate as local companies.
202-2	Proportion of management hired from the local community at significant locations of operation	p 33-38	The group is managed on the basis of countries in which it is active and the local leaders of companies are generally nationals of those countries.

GRI 203: Indirect Economic Impacts 2016

GRI 103-1 to GRI 103-3	Management approach 2016	As the leading construction company in the Baltic region, the group's economic activities have a significant impact on the local economic environment. The group's companies build buildings and facilities and develop real estate, creating a better living environment. The group designs and builds new buildings: homes for thousands of families as well as large public buildings, including educational institutions, national defence facilities, office buildings and shopping malls. The roads, bridges, tunnels and viaducts Merko has built make traffic safer and faster; while water treatment plants and public water and sewerage pipelines improve the quality of life and provide quality drinking water to hundreds of thousands of people. In addition, Merko has helped to ensure the necessary electrical connection for life to hundreds of thousands of companies and families and contributes to the production of green energy. In addition to the living environments developed and built by themselves, the companies of the group develop public space in cooperation with local governments. All of this serves to renew and improve the general environment, where, among other things, economic relations can develop more efficiently and more closely than before, thereby creating value for other market participants.

203-1	Infrastructure investments and services	p. 6-7, 22	
203-2	Significant indirect economic impacts	p. 6-12, 29	
GRI 204: Procurement Practices 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		The group's business is based on fair and transparent business ethics.
204-1	Proportion of spending on local suppliers at significant locations of operation	notes 4-5	The materials and services used in construction are generally from the local market or supplied from within the EU. Detailed data is not reported at group level.
GRI 205: Anti-corruption 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		Merko's core values include ethical business activities, and any forms of corruption are unacceptable for the group. All employees of the group must be guided by ethical principles and observe the code of business ethics established in the group and other documents and guidelines of the group's companies and principles shared in training. We also expect our customers and partners to follow ethical business practices in their daily work.
205-2	Communication and training on anti-corruption policies and procedures	p. 28	Merko offers its employees guidelines for identifying and preventing corruption and other unlawful activity (the code of business ethics and business ethics manual). To reinforce these topics in employees' minds, regular training courses are taught by local out-of-house training staff. The content and scope of the training depends on the role of the given person at the company.
205-3	Confirmed incidents of corruption and actions taken		There were no confirmed incidents of corruption in 2023. In addition to the prevention of corruption, Merko Ehitus group has a principle of investigating all suspected cases of misconduct and deciding on further action based on the results of the investigation.
GRI 301: Materials 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		Due to the fact that construction activities involve the use of many different building materials and products, the efficiency of such use is a significant cost-related area that is constantly in focus. Each construction project is unique; therefore, it is difficult to develop a uniform material efficiency indicator that would accurately reflect the actual level of efficiency. Thus, material efficiency is monitored and managed on an individual project basis. Besides project-bases analysis, Merko Ehitus is also engaged in the broader development of design organisation and technical calculation preparation practices from the viewpoint of material efficiency, focusing on the optimisation of building structures and the choice of materials. In choosing building materials and products, the construction companies in Merko group follow the principles of ensuring the requirements of European Parliament and of the Council regulation No 305/2011 and the national legal acts.
GRI 302 Energy 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		The group's main activity is construction management, which is not particularly energy-intensive compared to production activities. The group's business activities include many projects of different types and volume, and energy consumption can therefore vary considerably across periods. In conducting its activities, the company primarily focuses on energy efficiency on a project and unit level, developing various energy-efficient work methods and replacing its vehicles and tools as energy efficiency improves.
301-1	Energy consumption within the organisation	p. 9	The group's construction companies comply with the principles of environmental management system standard ISO 14001 and hold the respective certificate. The European Union Member States are obliged to comply with the Energy Efficiency Directive (2012/27/EU) and the local legislation that requires Merko to comply with its large company energy audit obligation. The regular energy audits of Merko group companies have been regularly submitted and declared to be in conformity.
301-2	Energy consumption outside of the organisation		The group's energy consumption outside of the organisation is mainly of a local nature and is based on the principles of construction management – sites with larger numbers of workers are mainly located near capitals, i.e. close to where the workers live, while the project management of smaller projects that are located farther away from the headquarters is often concentrated. Such projects are managed from the headquarters, which reduces energy consumption, fuel consumption and CO_2 emissions.

			Merko Ehitus group companies follow energy-efficient construction solutions in the design of buildings that meet the national requirements of the group's construction companies.
GRI 306: Waste 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		Construction activities, particularly at sites that involve demolitions works, generate large quantities of waste. Similarly to the question of materials and energy, the issue of re-using waste, reducing the volumes of waste and recycling waste is an issue of cost-efficiency for the group, which is managed on a project and unit basis. The waste generated at construction sites is sorted and delivered to a waste handler who holds a waste permit. If possible, waste is re-used depending on local recycling methods and the principles of legislation.
GRI 307: Environmental Compliance 2016			
GRI 103-1 to GRI 103-3	Management approach 2016	p. 9, 29	
307-1	Non-compliance with environmental laws and regulations		No significant fines and sanctions for non-compliance with environmental regulations during the period.
GRI 401: Employment 2016			
GRI 103-1 to GRI 103-3	Management approach 2016	p. 28, 99-100	
401-1	New employee hires and employee turnover		In the financial year, 62 people joined and 88 people left (2022: 81 people joined and 90 people left) of the Merko group (including both termless and fixed-term contracts). The age groups are not gathered at group level.
401-2	Benefits provided to full time employees	p. 28, 99-100	

TOTAL NUMBER OF EMPLOYEES BY EMPLOYMENT CONTRACT

	2023		2022	
Permanent contract	604	95%	618	93%
Temporary contract	31	5%	43	7%
Total	**635**	**100%**	**661**	**100%**

TOTAL NUMBER OF PERMANENT EMPLOYEES BY EMPLOYMENT TYPE

	2023		2022	
Full-time	574	95%	575	93%
Part-time	30	5%	43	7%
Total	**604**	**100%**	**618**	**100%**

TOTAL NUMBER OF EMPLOYEES BY GENDER

	2023		2022	
Male	534	84%	547	83%
Female	101	16%	114	17%
Total	**635**	**100%**	**661**	**100%**

TOTAL NUMBER OF EMPLOYEES BY GEOGRAPHICAL LOCATION

	2023		2022	
Estonia	428	67%	441	67%
Latvia	62	10%	82	12%
Lithuania	124	20%	117	18%
Norway	21	3%	21	3%
Total	**635**	**100%**	**661**	**100%**

TOTAL NUMBER OF EMPLOYEES BY EMPLOYMENT POSITION

	2023		2022	
Management	18	3%	12	2%
Middle management, specialists	412	65%	437	66%
Workers	205	32%	212	32%
Total	**635**	**100%**	**661**	**100%**

GRI 403: Occupational Health and Safety 2018			
GRI 103-1 to GRI 103-3	Management approach 2016		A safe working environment is top priority for the group's companies in order to avoid accidents at work and health problems. We provide our employees with the necessary work equipment and personal protective gear and regularly organize occupational health and safety supervision and training, including continuing education. Employees periodically undergo

			physicals at our healthcare partners. The frequency of these checks and the specific content depends on the nature of each person's work and the risk factors they face. To mitigate health risks, we offer employees opportunities to get vaccinated. The at-times stressful work is counterbalanced by health lifestyles and regular fitness and exercise activities. We compensate employees' sport and health expenses and encourage them to get outdoors and get active on recreational trails all over Estonia – the same ones that Merko has been developing and building for nearly 20 years.
403-1 to 403-7	Occupational health and safety, hazard identification, risk assessment and incident investigation, occupational health and safety training, promotion of worker health		The group's construction companies ensure the activities required by law in the field of occupational health and safety, supplemented by implementation of the requirements of the occupational health and safety management system. The group's construction companies have an occupational health and safety management system certified according to ISO 45001. The culture of reporting near misses is getting stronger at Merko Ehitus Eesti – in 2023, 8 potentially dangerous incidents were reported. In previous years, i.e. 11 incidents in 2022 and 3 incidents in 2021, respectively. This shows employees are taking note of dangerous situations and reporting them so that the company can learn from them before the dangerous situation actually leads to a mishap. In 2023, 75% of Merko Ehitus group's employees worked in companies with an international health and safety certificate ISO 45001 (2022: 80%). The disclosure contains information about the group's employees (the group has not collected more extensive data)
403-9 **403-10**	Rates of injury, fatalities and absenteeism		

In accordance with the GRI guidelines, the rates of injury, occupational diseases, lost days, and absenteeism presented below are related to the number of employees, not the number of hours worked. The factor 200,000 is derived from 50 working weeks at 40 hours per week, per 100 employees.

TOTAL NUMBER AND RATES OF INJURIES, OCCUPATIONAL ILLNESSES, LOST AND ABSENTEE DAYS AND FATALITIES

	2023	**2022**	**2021**
Total number of injuries/accidents excluding minor (first-aid level)	8	10	5
Total number of occupational illnesses	0	0	0
Total number of lost days due to occupational injuries/accidents or illnesses	132	314	212
Total number of absentee days	5,911	7,401	7,668
Total number of fatalities *	0	0	0
Injury rate (per 100 employees)	1.4	1.7	0.8
Occupational diseases rate (per 100 employees)	0.0	0.0	0.0
Lost days rate (per 100 employees)	22.7	53.5	35.3
Absentee rate per year (%)	4.1	5.0	5.1

Calculation of ratios is provided on page 103 of the report.

** In 2023, there were 5 work-related accidents, which resulted in injury to an employee of a subcontractor to which Merko group companies are liable for the general safety of the working environment (2022: 6; 2021: 2) and were no fatal accidents to such employees (2022: 0; 2021: 0).*

GRI 404: Training and Education 2016			
GRI 103-1 to GRI 103-3	Management approach 2016		
404-2	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	p. 28	The educational and professional growth activities of Merko Ehitus Eesti employees centre on a Merko master class programme that offers various in-house training courses taught by Merko staff and out of house experts. Merko employees also attend specialized professional training. Merko's commitment to safe and high-quality workplace is reflected in its organization of regular safety and quality seminars that focus on sharing experience and prevention of errors and give employee the chance to discuss safety-related best practice and learn from past miscues. In addition to specific construction-sector topics, the focus in 2023 was on people. Project managers and real estate development managers underwent a specially developed programme module that focused on the development of managers as someone who works with people, in order to create a work environment that supports growth and strong work relationships. At the training course held in

<table>
<tr><td></td><td></td><td></td><td>2023, employees received important knowledge of neuropsychology and training in the field of cyber security began with the purpose of creating a more secure environment for customers', partners' and company assets.
In Latvia, a first aid course for employees directly engaged in construction work was held in 2023. Most employees also attended a seminar on the topic of well-being and psychological and emotional health, meant for the entire workforce.
Lithuanian employees underwent training courses on different topics in 2023, including competition law and business ethics, data protection, ESG, occupational and health protection, fire safety, psychology, sales and customer experience management and English language training.</td></tr>
<tr><td>404-3</td><td>Employees receiving regular performance and career development reviews</td><td></td><td>THE NUMBER OF EMPLOYEES WHO RECEIVED AN ANNUAL PERFORMANCE REVIEW
<table>
<tr><th></th><th colspan="2">2023</th><th colspan="2">2022</th></tr>
<tr><td>Estonia</td><td>92</td><td>21%</td><td>118</td><td>27%</td></tr>
<tr><td>Latvia</td><td>62</td><td>100%</td><td>28</td><td>34%</td></tr>
<tr><td>Lithuania</td><td>124</td><td>100%</td><td>117</td><td>100%</td></tr>
<tr><td>Norway</td><td>12</td><td>57%</td><td>3</td><td>14%</td></tr>
<tr><td>Total</td><td>290</td><td>46%</td><td>266</td><td>40%</td></tr>
</table></td></tr>
<tr><td colspan="4">GRI 413: Local Communities 2016</td></tr>
<tr><td>GRI 103-1 to GRI 103-3</td><td>Management approach 2016</td><td></td><td>Operating in the construction and real estate development sector requires good relations with local communities on whom the company's business activities have an effect. Works at construction sites are organised so as to keep the disturbance of the surrounding residents, businesses and passers-by to a minimum, and those directly affected by construction works are given prior notice of plans to carry out construction works. Upon preparing new real estate developments, consideration is given to the practices of the former users of the development area, and the constructed buildings are surrounded with integral environments that correspond to the expectations of the local communities and suit the overall urban environment.</td></tr>
<tr><td>413-1</td><td>Percentage of operations with implemented local community engagement, impact assessments, and development programs</td><td>p. 10-12, 14-15, 108</td><td>In the financial year, the group supported sports, education and culture with donations amounting to a total of EUR 0.19 million (2022: EUR 0.44 million).</td></tr>
<tr><td>413-2</td><td>Operations with significant actual and potential negative impacts on local communities</td><td></td><td>-</td></tr>
<tr><td colspan="4">GRI 415: Political Contributions 2016</td></tr>
<tr><td>GRI 103-1 to GRI 103-3</td><td>Management approach 2016</td><td></td><td>The group's principle is not to make political donations.</td></tr>
<tr><td>415-1</td><td>Contributions to political parties and related institutions</td><td></td><td>Merko Ehitus group does not support any politicians, political parties or other political institutions.</td></tr>
</table>