AS Merko Ehitus

Consolidated annual report 2022

AS MERKO EHITUS

GROUP

CONSOLIDATED ANNUAL REPORT
01.01.2022 – 31.12.2022

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, Teet Roopalu, Indrek Neivelt, Kristina Siimar
Management Board: Andres Trink, Tõnu Toomik
Auditor: AS PricewaterhouseCoopers

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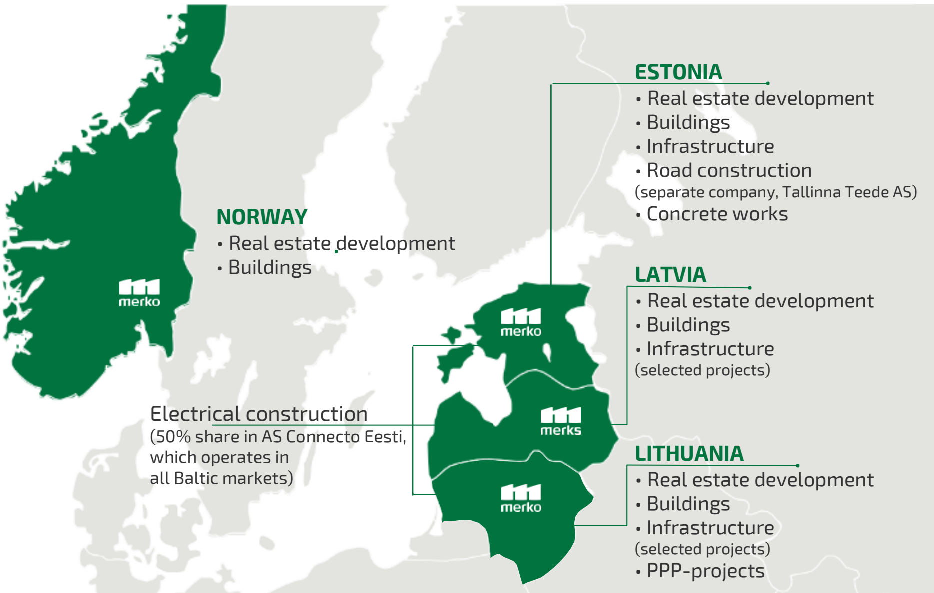
MAIN FACTS

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

~10,000 high-quality homes has Merko built while operating in Estonia, Latvia and Lithuania.

2022 new contracts signed
318M

2022 revenue
410M

2022 EBITDA
38M

2022 net profit
35M

Dec 31, 2022 employees
661

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

ANDRES TRINK
AS MERKO EHITUS
CHAIRMAN OF THE
MANAGEMENT BOARD

Dear shareholders,

2022 was a year of good financial results for Merko. Revenue broke the 400-million-euro mark, half of it coming from outside Estonia. Profit grew 19 per cent and return on equity was 20.4 per cent. Considering the rapid rise in interest rates and the worsening of the investment climate, I'm glad that our figures managed to keep pace with high inflation.

Merko's operating activity rests on two foundations – residential real estate development and provision of construction service. The group's results for 2022 reflect the growth of our past investments into apartment development, and successful apartment sales on all three Baltic markets. We're also pleased that our construction service business area succeeded in managing risks extremely well in a turbulent operating environment.

The war in Ukraine rages on. The transition to the green economy continues. Government intervention in the economy, the number of regulations and the compliance burden on companies are all growing. The apartment market, which was frozen in spring 2022, is still in a waiting phase. The economy's momentum has dissipated for now, and high inflation and rising interest rates continue.

We are also determined to stay the course: to create a better living environment and new homes, build modern buildings and good infrastructure. In recent years, we have learned not to be overly surprised by the big changes around us and rapidly adapt to them, without forgetting the long-range perspective. We do our work, attend to our business, and cherish our employees and partners. We value the trust placed in Merko and learn from our mistakes. Wherever we are able to, we try to give back to society.

I would like to thank all of Merko's employees and partners for coping well in these challenging conditions.

Thanks to the buyers of the homes we build and our construction service customers for their trust. Our gratitude goes out to our shareholders for believing in Merko in tough times.

Andres Trink

MERKO GROUP

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.

Values

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

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 2022, the group fulfilled the financial objectives set for both return on equity and equity ratio as a proportion of assets:

Return on equity
20.4%

Equity ratio
48%

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 2018-2022

	2022	2021	2020	2019	2018	AVERAGE
Return on equity, ROE (on yearly basis)	20.4%	18.8%	16.2%	12.9%	15.3%	16.7%
Dividend rate	*	61%	77%	-	92%	58%
Equity ratio 31.12.	47.5%	51.6%	59.6%	46.2%	48.9%	50.8%

**The dividend rate for 2022 depends on the decision of the general meeting of shareholders to pay dividends.*

SIGNIFICANT PROJECTS COMPLETED IN 2022

PROJECTS IN THE EDUCATIONAL SPHERE

Over the years, Merko has built tens of buildings in the education sector and 2022 saw the addition of two distinguished school buildings in Tallinn: the Tallinn School of Music and Ballet (MUBA) in the city centre and the St. John's School in Nõmme. With four aboveground and one underground storey, MUBA, with capacity for 700 students, is Europe's most modern educational institution offering an education in music and dance. The wings surrounding a large interior courtyard house different types of music classrooms, rehearsal halls and auditoriums, concert halls of different sizes and functions, a recording studio, library, swimming pool and practice rooms and a café and student lounge. St. John's School under the pine trees of Nõmme, and accompanied by a church and sacristy, accommodates 350 students. As part of the expansion project, a new wing will be completed in 2023 for upper secondary school level students. The existing and new parts of the school buildings have the same architectural design and will be connected by walkway. Besides the expansion of St. John's, Merko is currently building the Pelgulinna state gymnasium building in Tallinn for over 1,000 students, the academic building of Rae state gymnasium for 540 students in Harju County and the Uus-Veerenni nursery school for 150 children in the city centre of Tallinn.

In Latvia, a nursery school was built in Salaspils in 2022, where Merks bought a new, fully furnished building and the necessary infrastructure. Modern and environmentally friendly CLT (cross-laminated timber) panels were used to build the 288-place nursery school. CLT means a smaller carbon footprint and relies on renewable timber resources. The Liepāja Nursery School for more than 140 children is also under construction. The heart of the two-storey building is a playroom on the ground floor, which towers over two storeys and which can be used as a hall for events.

PUBLIC PARKS

The buildings and infrastructure built by Merko give shape to the public urban space, an important part of which is parks and plazas. 2022 saw the completion of a city park and youth centre in Kauguri district of Jūrmala, Latvia. The 3.8-hectare park has a children's playground, skate park, skating rink and outdoor gym area, picnic tables, basketball court and other sports and recreational facilities.

A park area of more than 8,500 square metres in the Uus-Veerenni residential quarter of Tallinn developed by Merko was completed, for year-round recreational use by visitors of all ages. The park has play features for children, sculptures, a leisure area and a reading corner that serves as an outdoor community library. The landscape architecture of the new park in Tallinn values the concept of diversity of life and re-use and is meant for both residents and guests of Uus-Veerenni.

PROJECTS IN THE ENERGY SECTOR

In all three Baltic states, Merko has built a number of energy facilities that prioritize local energy generation and which improve security of supply. Of the three countries, Lithuania has seen the most efforts in renewable energy, where Merko Statyba has become a valued builder of wind farms, having established foundations for more than 100 such facilities.

In 2022, 13 foundations for powerful wind turbines were laid for a wind farm in the Telšiai region. In addition, the company built foundations and substations for 12 wind turbines in the Šilalė region (60 MW transformer power) and built roads totalling close to 8 km and 30 kV of cable line running for approximately 36 kilometres. In addition, 14 foundations and infrastructure were built for a wind farm in the Akmenė region and 14 foundations in the wind farm in the Mažeikiai region. Wind farms in the Telšiai and Kelmė region were under construction.

PROJECTS IN THE NATIONAL DEFENCE SECTOR

Merko has made a significant contribution to the national defence of Estonia by building various buildings and infrastructure. In recent years, the biggest focus has been on strengthening the infrastructure among the south-eastern border, where Merko is designing and building both the first and second phase of the border between Estonia and Russia.

In 2022, border infrastructure along a 23.5 km stretch was completed, from the point where Estonia, Latvia and Russia meet to Tserebi village on the southern shore of Lake Vanigõjärv 3.5 kilometres north of the Luhamaa border point. The second phase of the south-eastern border is under construction, encompassing border infrastructure on the following 34.7 kilometre border segment in Võru County. This segment of border starts at Tserebi on the southern shore of Lake Vanigõjärv and ends in Võmmorski village. Both of these segments are being completed in collaboration between two companies – the lead partner is Merko Ehitus Eesti and the partner is GRK Eesti.

January 2023 saw the completion of a 4 hectare equipment park in the Taara military complex in Võru, allowing Defence League units to accommodate 500 vehicles under cover and ensure that the equipment is kept in good order with an automatic car wash and gantry. Four new universal hangars for accommodation are being built in the allied hosting area at Tapa military base. In Lithuania, restoration works on the historical Kaunas barracks commissioned by the NATO Support and Procurement Organisation were completed in 2022. The historically valuable parts of the building, which is on the list of cultural heritage, had to be preserved and, in places, restored. All of the work had to meet NATO's high quality standards.

PROJECTS WITH INTERNATIONAL SUSTAINABILITY CERTIFICATES

Merko contributes to sustainability both as an enterprise and through the quality of its own developments. We also build internationally certified sites. In 2022, a modern automotive electronic components production plant was built for UAB Continental Automotive Lithuania, which will meet the highest construction standards in the industry. The production building was designed and built pursuant to the Gold level of the international LEED standard for sustainable buildings. Also in 2022, the Toyota car service building operated by Tokvila was built in Vilnius. The A+ energy class building uses ground-loop system for heating and cooling, which along with new-generation heat-return painting equipment helps save energy and reduce CO_2 emissions. The building has 16 car charging stations and a 680kW solar plant on the roof that generates up to 80% of the necessary power.

Under construction by Merko are a number of large-scale sites that are based on sustainability and environmental conservation in the development and construction process and are designed and built based on the international BREEAM standard. Nearly-zero energy buildings in the Arter quarter in the Tallinn city centre were designed and built based on the Excellent level of the international BREEAM standard. The Elemental Skanste office buildings under construction in Riga were designed to meet BREEAM Excellent and will vie for Outstanding level upon completion. The building seeks to become the first building with that a high rating in Latvia. Also under construction in Riga is the Gustavs Business Centre, designed and built to meet BREEAM Excellent level.

MAJOR RESIDENTIAL ENVIRONMENTS BUILT BY MERKO

A strategic business area for the group is residential real estate development, in which we have become one of the strongest brands in the Baltics. We focus on creating large and modern residential projects. To ensure the best possible quality, we steer the entire development process starting from planning, design and construction to sales and warranty service. In the space of more than 30 years, we have built quality homes for around 10,000 families, and we have hundreds of new units under construction and development in Tallinn, Tartu, Riga and Vilnius

NOBLESSNER

Noblessner, which won the title of best urban space development in the Baltics, is being developed by Merko in collaboration with BLRT Group. This seaside complex next to the Seaplane Harbour in Tallinn boasts historical industrial architecture, a promenade, marina and high-quality new residential-commercial development. The first apartments on Staapli Street were completed in 2019; they are home to 200 families and the services in the storefront space are among the favourites for urbanites. In late 2022, two residential buildings with spacious balconies that contain 60 apartments and three commercial units were completed on Vesilennuki Street and slated for completion in 2023 are three buildings on Vesilennuki and one on Allveelaeva Street, with a total 247 new apartments and 22 commercial units.

LAHEKALDA

Lahekalda, a district on the higher promontory of Maarjamäe between the districts of Kadriorg and Pirita, will become home to more than 1,000 families in the next 10 or so years. By late 2022, eight buildings with 386 units had been completed and the next two buildings were in preparation. The leisure and play areas in the interior courtyards of the buildings offer privacy and recreational possibilities for residents. A nursery school and local supermarket are planned for the quarter as well.

UUS-VEERENNI

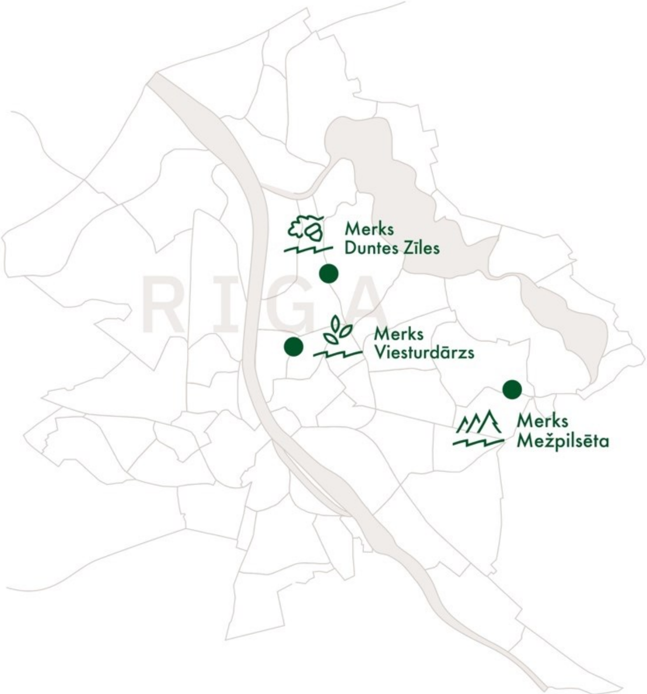
Once the entire residential district is completed, Uus-Veerenni in the Tallinn city centre will be home to 1,400 families. In the first phases, we have built 26 buildings with 367 apartments and 8 commercial spaces. Twelve buildings with a total 137 apartments and 8 commercial spaces are nearing completion. Between the buildings are landscaped interior courtyards with recreational and play infrastructure. The first of these won the annual Association of Landscape Architects award in the category of courtyard space in 2020. Also in 2022, construction works on Tiiu Street and the Uus-Veerenni park area reached completion. These are a combination of sustainable solutions, art, exercise equipment and features like an outdoor library/reading corner that will enliven community life. A nursery school in Uus-Veerenni will be completed in 2023.

MERKS VIESTURDĀRZS

Merks Viesturdārzs residential development is located next to the historical Viesturdārzs Park in Riga's most scenic district. It is the largest apartment development in the city centre of Riga, the recipient of numerous awards and acclaim from professionals in the field. The entire project will be home to more than 350 families and the first phase, with 96 apartments and three commercial spaces at Rūpniecības 25 was completed in 2020. The second phase with 167 apartments and five commercial spaces at Rupniecibas 27 was completed in 2022. The third phase, a five-to seven-storey articulated building with 90 apartments and four commercial spaces at Rupniecibas 33, will be completed in late 2023.

MERKS MEŽPILSĒTA

Merks Mežpilsēta is a residential project in one of Riga's most verdant areas, Mežciems, which makes it a preferred choice for young families. The forests of Biķernieki and Jugla are close by, offering a diverse range of recreational possibilities. The development project covers several phases with more than 350 apartments. In the first phase, there were three five-storey buildings with a total of 117 apartments. Around the apartment there is a private green space with children's playgrounds and pavilions.



MERKS DUNTES ZILES

2022 saw the completion of the Merks Duntes Zīles development adjoining the Skanste district of Riga. Contemporary four- and five-storey buildings became home for 84 families. Both buildings have lifts and storage spaces for common and personal use. Parking spaces can be found on underground storeys and outdoors. The fence around the building ensures privacy and adds safety for the playgrounds, picnic area and bicycle storage space.

VILNELES SKVERAI

Near Vilnius Old Town, Merko will continue developing the Skverai residential area consisting of a total of 26 buildings and which will be home for more than 1,000 families once it is completed. So far, 12 buildings with a total of almost 450 apartments and 20 commercial spaces have been built in the first two phases. The third phase got off the ground in 2022 – eight buildings of six to eight storeys and more than 300 apartments. The new apartment buildings are arranged around a common courtyard that have a common courtyard with cosy landscaped areas, children's playgrounds and leisure space. The new residential quarter also has commercial units with services for residents.

A SUSTAINABLE ENVIRONMENT

The construction companies in the Merko Group are building a multifaceted living environment – urban space and landscapes. We plan our projects to ensure that their impact on environmental quality is minimal.

MERKO EHITUS EESTI'S CO_2 FOOTPRINT

The group's largest subsidiary Merko Ehitus Eesti has been keeping track of its CO_2footprint since 2021, following the internationally recognized GHG Protocol Corporate Accounting and Reporting Standard. The standard covers seven greenhouse emissions parameters – carbon dioxide (CO_2), methane (CH_4), dinitrogen oxide (N_2O), hydrofluorocarbons (HFC), perfluorocarbons (PFC), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3). The standard distributes the GHG emissions related to the activity of the organization or enterprise into three scopes: 1) direct emissions, i.e. fuels used in company vehicles 2) indirect emissions from energy – i.e. energy purchased for the company's office 3) all other indirect emissions – the impacts of the fuels and energy consumption of the company's construction sites.

Based on the calculations using existing data, Merko Ehitus Eesti's 2022 greenhouse gas emissions in 2022 were 9,867 tonnes of CO_2-equivalent (tonnes of CO_2 equivalent), which is higher than the 2021 figure. The growth was due to an increase in the amount of energy used on the company's construction sites due to a change in the nature of the sites in progress and construction technology needs. Merko Ehitus Eesti succeeded in decreasing the CO_2 footprint of the fuels used in the company's vehicles and the company's offices. The greenhouse gas emissions from fuels used in road transport in 2022 was 631.7 tonnes of CO_2 equivalent – 10% less than in 2021 (702.3 tonnes of CO_2 equivalent). The amount of power and natural gas consumed in the company's office building decreased compared to the 2021 by 13% to 285.7 tonnes of CO_2 equivalent (2021: 327.9 t CO_2 eqv).

GREEN ENERGY ON ESTONIA'S LARGEST CONSTRUCTION SITE

The Nearly-zero energy buildings in the Arter quarter in the Tallinn city centre were designed and built based on the Excellent level of the international BREEAM standard. Certification meant more additional and more stringent requirements for such parameters as work arrangements on the construction site. As the prime construction contractor, Merko Ehitus Eesti prepares reports on water and power consumed (including electricity, gas and fuels) as well as on waste (quantity, handler, handling site and handling method) and transport of materials (type of material delivered to site, area of use, contractor, quantity, means of transport and transport distance). The last-mentioned information is necessary for calculation of CO_2 emissions. The BREEAM certification process devotes separate attention to sustainable use of timber and Arter is one of the few (although not the only) construction site in Estonia where all of the timber and timber products (sawn timber, plywood, parquet, integrated furniture, etc.) has either an FSC or PEFC certificate, which certify legal logging and processing of timber.

To reduce the carbon footprint, Merko Ehitus Eesti in 2022 adopted power generated from green, meaning renewable energy sources at processes in Arter. The annual quantity of energy consumed was 612MWh, of which nearly 70%, 427 MWh, was renewable energy. Compared to ordinary mixed-residual power, using renewable-sourced electricity reduced the CO_2 footprint from electricity alone by 65% and the carbon footprint of the entire Merko Ehitus Eesti organization by 255 t of CO_2 equivalent.

SOCIAL RESPONSIBILITY

We take responsibility for our decisions and activities that impact employees, clients, partners and local communities, environment and society as a whole. We focus on four business areas in our giving back to society: we create possibilities for people to get exercise, encourage education and posterity, value culture and artistic heritage and help those in need.

SPORT AND EXERCISE

In the field of exercise and popular sport, Merko focuses on creating possibilities for all Estonians to engage in these pursuits, doing their part to help raise healthy years life expectancy. Merko's largest sponsorship project is the Estonian recreational trails project that started with Swedbank and Eesti Energia in 2005, the goal of which is to provide year-round free recreational options for as many Estonians as possible and thereby popularize healthy lifestyles.

Estonia has 123 recreational trails, most in naturally scenic places. They were visited an estimated 8 million times in 2022. The visitor statistic numbers have been made more accurate due to the fact that by the end of 2022, motion detectors had been installed along 60 of the trails. Estonia's most often visited recreational trails are found in the greater Tallinn area: the Nõmme and Paepargi trail (each with more than 410,000 visits), Harku (more than 375,000), Merimetsa (approximately 300,000 visits) and Keila (more than 270,000). Narva's Äkkeküla and Tädu trail in Viimsi each had more than 230,000 visits, Pirita had more than 220,000 and Pärnu County's Reiu-Raeküla trail nearly 210,000.

In total, Estonia has more than 1,100 kilometres of recreational trails open year-round, maintained by 200-strong crew, either as volunteers or in cooperation with local government. The use of the trails is simplified by maps and markings and equipment for stretching and lifts, bike trails and pump tracks. Some trails also have bike repair stations and drinking water taps. The weather sensors installed along the trails give real-time information about conditions and cameras provide a live look at the condition of the trails, which is particularly valuable in skiing season. By the end of 2022, there were sensors along 23 major trails; 16 had webcams.

In the years 2019-2022, the focus for Eesti Terviserajad was improved artificial snow making capability at regional sports centres. In cooperation with state and local governments, a total of 4.8 million euros was invested in 23 trails to this end. In 2022, artificial snow was produced on 23 recreational trails. Among the year's largest development projects was preparations for starting construction of the Kiili recreational trail in 2023, planning of Raku Lake trail and triathlon centre, paving the Äkkeküla trails and approving a design for a construction of a leisure centre in 2023, building the Keila recreational trail and artificial snow pond and lighting project and approval of the building design documentation for the new leisure centre.

Since it was founded, Eesti Terviserajad with its three founding organizations and supporters has invested 5.5 million euros into developing trails and the total investment into all amenities for sports and recreation is nearly 55 million euros, including not only the SA Eesti Terviserajad resources but investments by state and local governments and support from the European Union.

In late 2022, Merks opened its first recreational trail on Zaķusala Island in the Daugava River in Riga. The recreational trail called Merks Green Trail has ski trails in winter with ski rentals and other seasonal possibilities at other times of the year. The trail is free for the public and in the first months of its existence it was used by both novices and pro athletes representing Latvia internationally.

Merks contributed to supporting the career of Latvian cross-country skier Patrīcija Eiduka. Patrīcija is the only skier to have represented Latvia at the Winter Olympics, when she competed at the Pyeongchang Games of 2018 at the age of 18. She has had success at the junior level at the Lillehammer Games of 2016, the world championship at Lahti in 2017 and the junior world championships in 2018, where she placed 10th in the sprint. In 2022, Merks also supported the javelin club in the small town of Talsi and the Lithuanian Ice Hockey Association.

Merks's 25th anniversary celebration also had a sports-minded theme, with a step-counting challenge for employees. Upon the employees collectively reaching 15 million steps, the company made a 2,500-euro donation to the Angel Mail organization, which used the sum to purchase Christmas presents and necessary items for children deprived of parents and elderly people who lack close relatives and live in care homes. Upon reaching 25 million steps, the company donated 2,500 euros to the OPEN creative centre, which supports troubled teenagers and offers a safe refuge for people who lack security in their actual home.

EDUCATION AND NEXT GENERATION

In Estonia, Merko has been awarding scholarships in cooperation with Tallinn University of Technology for the last 15 years. In 2022, the young teacher and research scholarship, worth 4,000 euros, went to Tuule Mall Parts of the civil engineering and architecture doctoral programme. She is an active member of the nearly zero energy building research group and an enthusiastic young scholar and teacher. The 2,500-euro engineering scholarships were awarded to three building design and construction management students who stayed on at Merko after completing their internship, posting outstanding achievements. The scholarships went to Melanie Juhkam, Tõnu Saarelaan and Arle-Martin Kuura.

In Latvia, Merks and Teenage Resource Centre held a campaign called "Everything Starts At Home", aimed at drawing attention to ways of improving relations between parents and teens. In the spring, a home well-being survey was conducted, drawing a record over 2,200 teen respondents. The campaign also included advertising and installation in the urban space and a work shadow day for teens at the Merks office. Public discussion from the parents' perspective as to how to talk to teens received 2,500 views and media coverage as well as great feedback from parents who attended.

CULTURE

In 2022, the St. Nicholas church steeple lift construction continued with support from Merko. It will be completed in 2023. The lift will allow everyone, including museum-goers with special needs and mobility devices, to enjoy the Tallinn skyline. As a longstanding partner of the Art Museum of Estonia, we participate in the project as a consultant and financial supporter.

Besides building construction sites and new modern living environments, we also make the public space more beautiful with artworks. The Uus-Veerenni residential development in the Tallinn city centre will be home to about 1,400 families, and from 2022 on, it will be adorned by the steel sculpture "Seenemees" (Mushroom Man), designed by Heigo Jelle. We will install sculptural animal heads by Jass Kaselaan – the title of this group of artworks is "Lelud" (Toys). Two new steel sculptures were installed in Noblessner: the sculpture "Maa-õhk tüüpi tüdruk" (Earth-air type of girl) on the corner of the Proto discovery centre and "Kaks kolivad suurde linna" (Two Move to the Big City) in the interior courtyard of the Staapli 4 apartment building.

2022 was the national year of the libraries in Estonia. By fusing the idea of better health through spending time in the open air – an idea Merko cares about – with the idea of gaining worthy knowledge, a reading corner was set up in Uus-Veerenni park as a community open-air library. The book cabinets have quality works for younger and older readers alike. The books can be browsed while sitting on lighted park benches or borrowed and returned. Together with local residents, we are continuing to regularly restock the book cabinets. In 2023, we added Tammsaare works to mark Estonian Literature Day, celebrated on the writer's birthday. Other works added were Estonian neuroscientist Jaan Aru's book "Loovusest ja logelemisest" (Creativity and Loafing) and Jaan's own reads he'd recommend for his neighbours.

SUPPORTING UKRAINE

Support for Ukraine became one of Merko's support projects in 2022, mainly in cooperation with the non-profit Slava Ukraini, which has a good overview of what Ukraine needs and dispatches the items to the right place rapidly.

The non-profit's first major project involved purchasing ambulances and medical supplies, assembling the shipment and sending it to Ukraine. Since ordinary ambulances are not practical in a combat zone and transport of wounded requires a vehicle that is durable and properly equipped, the non-profit Slava Ukraini developed a guerrilla ambulance project based on information from Ukraine. With support from Merko, ten Toyota Hiace 4WDs were converted to guerrilla ambulances – cars with a stretcher, lighting, power for life-support equipment, IV drip stand and other equipment –, that are easy to clean and repairable by just about any mechanic. We also supported purchase of tourniquets and a HAMILTON-T1 ventilator for transporting and evacuating premature infants. The HAMILTON T1 will be used in a neonatal intensive care unit at the Chernivts regional perinatal care centre.

In Latvia, Merks works with the real estate developer Kapitel and the local initiative "I want to help war refugees", offering them a temporary place to live in historical Benjamin House in central Riga. The former hotel rooms have been converted to temporary lodging. The building also offers food services and information on services and support available in Riga, and Latvian lessons. Several hundred war refugees were hosted in the hotel's rooms in 2022. In Lithuania, we supported a refugee centre in Vilnius and the volunteer organization non-profit Stiprūs Kartu, which helps war refugees cope upon reaching Lithuania. We also donated 40 bunk beds to Kaunas lodging centre, which is providing a place to stay for Ukrainian children deprived of parental care and mothers with infants.

RECOGNITION IN 2022

EMPLOYEE RECOGNITIONS

- The Builder of the Year 2022 competition organized by the Estonian Association of Construction Entrepreneurs (EEEL) selected the winner: AS Merko Ehitus Eesti project director and civil engineer Taavi Lipp for successfully steering the construction works at the Tallinn School of Music and Ballet (MUBA) building.
- Merks specialist Raivis Freidensons took second place at the Latvian Civil Engineer of the year 2021 competition in the category of young specialists.

RECOGNITION OF OBJECTS

- The Tallinn School of Music and Ballet (MUBA) building won the Construction Project of the year 2022 title in the category of buildings at the Estonian Association of Architectural and Consulting Engineering Companies competition.
- At the Best Building in Latvia 2021 competition held by the Latvian Builders Association – the most prestigious event of its kind in the country – Merks and Merks Mājas won two awards in the BIM category. Second place went to the third phase of the Merks Viesturdārzs development project and third went to the first phase of the Merks Lucavsala development project.
- The Lithuanian Real Estate Development Association (LNTPA) and the Sustainable Development Academy announced the country's best real estate projects of the year.
    - The best public sector project of the year title went to the Kaunas police precinct headquarters building built by Merko Statyba. This was Lithuania's first A++ energy performance class administrative building that gets almost all of the energy it needs from renewable sources. The building is a workplace for 350 Kaunas County police officials.
    - The title of Lithuania's best business project of 2022 went to the renovation of Neringa Hotel and Restaurant, where Merko Statyba was the general contractor. The hotel building on Gedimino prospektas, an avenue in central Vilnius, and the interior of the restaurant dating from 1960 is under heritage conservation in Lithuania. The reconstruction and renovation work also included the construction of a new building with an underground parking garage.
- The Continental Automotive Lithuania production facility built by Merko Statyba in Kaunas won two honours in 2022. At the Lithuanian Product of the Year competition held each year by the Lithuanian Confederation of Industrialists, the project won two gold medals. The project was also declared the best BIM project of the year at "Digital Construction 2022. Vilnius", the largest event of its kind in Lithuania.

COMPANY RECOGNITIONS

- At the most competitive enterprises competition held by the Estonian Chamber of Commerce and Industry, AS Merko Ehitus won recognition as the most competitive construction company for the 16th time.
- In a survey conducted by employer branding agency Instar, close to 7,000 participants assessed the attractiveness of 254 Estonian organizations in nine categories. Among STEM students, Merko came in second, and top among construction companies.
- The jury of the Baltic Real Estate Leaders Forum (BRELF), considered the most important real estate event of the year, selected the Merko Ehitus Group's Latvia subsidiary SIA Merks as the Developer of the Year.

MOST RENOWNED REAL ESTATE DEVELOPER IN ESTONIA

- Kantar Emor's annual real estate brand survey found that Merko was still Estonia's best-known real estate developer and also among the real estate developers with the best reputation. Overwhelmingly, Merko's advantages cited were its strong reliability, good quality, locations of its developments and high professionalism. Merko had won the same title for the last three years.

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 open 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		2022	2021	2020
Revenue	million EUR	409.6	339.4	315.9
Gross profit	million EUR	53.7	46.8	43.7
Gross margin	%	13.1	13.8	13.8
Operating profit	million EUR	35.0	32.2	25.5
Operating profit margin	%	8.6	9.5	8.1
Profit before tax	million EUR	37.1	32.1	24.5
EBT margin	%	9.1	9.5	7.7
Net profit	million EUR	34.1	29.0	22.5
attributable to equity holders of the parent	million EUR	34.6	29.1	23.0
attributable to non-controlling interest	million EUR	(0.5)	(0.1)	(0.5)
Net margin	%	8.5	8.6	7.3

Other income statement indicators		**2022**	**2021**	**2020**
EBITDA	million EUR	37.9	34.8	28.2
EBITDA margin	%	9.3	10.3	8.9
General expense ratio	%	4.9	5.2	5.6
Labour cost ratio	%	10.3	11.3	11.5
Revenue per employee	thousand EUR	623	521	478

Other significant indicators		**31.12.2022**	**31.12.2021**	**31.12.2020**
Return on equity	%	20.4	18.8	16.2
Return on assets	%	9.2	10.0	8.4
Return on invested capital	%	15.1	16.9	13.1
Assets	million EUR	387.4	324.4	256.9
Equity	million EUR	183.7	167.0	157.4
Equity attributable to equity holders of the parent	million EUR	184.2	167.2	153.2
Equity ratio	%	47.5	51.6	59.6
Debt ratio	%	23.7	16.2	11.3
Current ratio	times	2.0	2.4	2.7
Quick ratio	times	0.6	0.9	1.0
Accounts receivable turnover	days	33	31	35
Accounts payable turnover	days	55	39	37
Number of employees as at 31.12	people	661	670	666
Average number of employees (total group)	people	657	651	661
Order book	million EUR	297.2	257.3	225.1

Calculation of ratios is provided on page 106 of the report.

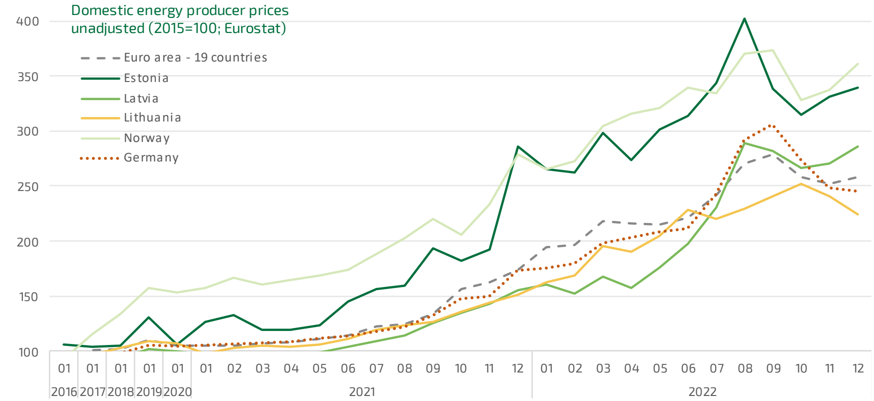
ECONOMIC ENVIRONMENT IN 2022

GENERAL ECONOMIC ENVIRONMENT

	2022				2021			
	Euro area	**Estonia**	**Latvia**	**Lithuania**	**Euro area**	**Estonia**	**Latvia**	**Lithuania**
GDP annual change in current prices	+3.5%	-1.3%	+2.0%	+1.9%	+5.3%	+8.0%	+4.1%	+6.0%
Construction price index annual change	+12.2%	+18.2%	+13.4%	+18.0%	+6.4%	+9.4%	+6.8%	+6.6%
Unemployment rate (end of period)	6.6%	5.4%	7.1%	6.4%	6.9%	5.5%	7.4%	7.2%

Source: Eurostat

2022 will be remembered as the year in which Russia invaded Ukraine. The shocks sustained by the economy due to the war were not limited to supply chain disruptions, sanctions or the rise in overall uncertainty. As a whole, the Baltic region became perceived as a region of higher risk by foreign investors due to the proximity of an aggressively-behaving Russia. In parallel with the war, Russia attempted to influence the behaviour of European countries by using its leverage on pricing and reliability of supply of energy, aiming to indirectly finance the cost of the war at the expense of European countries. The soaring prices of energy carriers became the trigger event which the massive quantitative easing of past years channelled into an inflation explosion. In the second half of the reporting year, as a response to out-of-control inflation, the central bank started raising prime interest rates. Over a scant 5 months, the rates rose 3 percentage points.


Domestic energy producer prices unadjusted (2015=100; Eurostat)

The influence of the war on economic activity varied greatly by sector and region. The Baltic states, being smaller open economies with weaker social guarantees, saw prices of electricity in spring and summer 2022 rise to 100 times higher than the average for the last decade, setting off an inflationary spiral that at times approached 25% (monthly result year-over-year). Larger and more stable European countries did not have to weather such sharp shifts in the economic environment. For the year as a whole, the GDP for the Eurozone (19 EU members) grew +3.5% (2021 GDP +5.3%). The Baltics with their smaller and more open economies reached or were approaching recession in Q4, but for the full year as a whole region they remained in the black despite stratospheric inflation. According to preliminary data, in 2022 the total output of the economy in the euro area grew by more than 6% only in Ireland (+12.0%), Malta (+6.9%) and Portugal (+6.7%), in addition to the countries of the European Union in Croatia (+6.3 %). As the only country, Estonia showed a decline in GDP in the year as a whole (-1.3%).

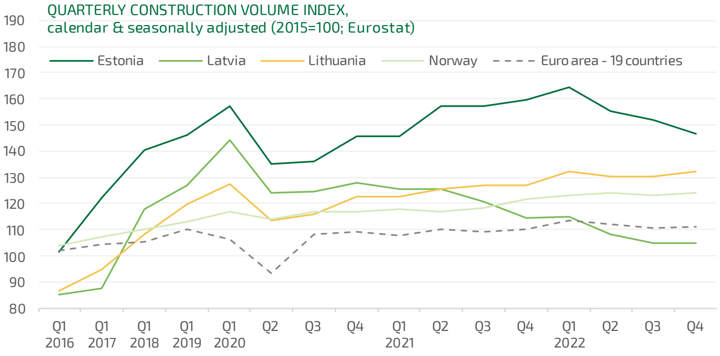
On the positive side, by autumn, alternative arrangements had been made for a majority of the necessary supply of input goods, and the speculative leaps in price caused by deficits gradually gave way to more stable and easier to forecast input prices. In the Baltics, prices mainly stabilized at a higher level, since the replacement of materials and industrial goods from Russia and Belarus were accompanied by longer logistics chains and additional costs.

In spite of the war, the influence of the recovery from the pandemic also continued and the unemployment rate fell practically everywhere due to companies reopening and tourism returning. Unemployment was 6.6% as a whole for the Eurozone in December 2022 (December 2021: 6.9%, 2020: 8.1%). Unemployment continued declining in the Baltics, especially in Lithuania, where unemployment fell to 6.4% in December 2022 from 9.9% in September 2020. High employment was also the reason given by the central banks as to why rising interest rates were not able to bring inflation to heel. At the same time, a structural workforce shortage can be seen in both the processing industry and the construction sector, clearly pointed to by growth in the workforce expenses index in the industry, construction and service sector. In Lithuania, the growth has even stayed in the double digits.

Labour cost index annual change (%)	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**Q1 2022**	**Q2 2022**	**Q3 2022**
Euro area	0.8	-0.2	2.0	2.4	3.8	3.8	2.9
Estonia	5.0	5.1	7.8	8.2	8.9	10.0	8.3
Latvia	4.4	6.3	6.6	7.8	12.5	7.6	5.7
Lithuania	10.8	6.9	14.3	15.1	11.0	13.0	13.5

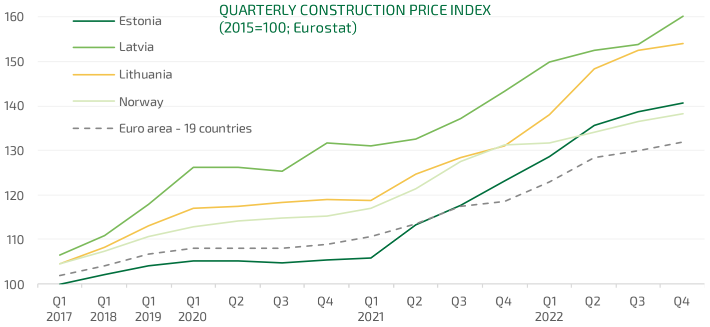
Source: Eurostat

CONSTRUCTION MARKET


QUARTERLY CONSTRUCTION VOLUME INDEX, calendar & seasonally adjusted (2015=100; Eurostat)

By the end of the first year of the war, Baltic construction volumes were clearly declining. The only country to remain near the peak volumes of Q1 2022 is Lithuania, but this was not enough to compensate for the clear decline in Estonia and the decline that has continued in Latvia since the pandemic period. In part, the drop in construction volumes was caused by interruption in supply chains and temporary deficit in materials, related to the beginning of the war. After the supply chains were rearranged, soaring construction prices became a new reason for the declining volumes, forcing both the public sector and private sector to take time out to reappraise their plans. In the context of 2022, public procurements – now on a second or third go-around (including EU-funded projects like Rail Baltic) – meant postponed work. The private sector more confidently took on renewable energy projects but this contributed to preservation of volumes above all in Lithuania, where renewable energy has been a priority since the closure of Ignalina nuclear plant. In the other Baltic states, strict rules on planning and proceedings on permits kept the projects from being launched in expedited manner.

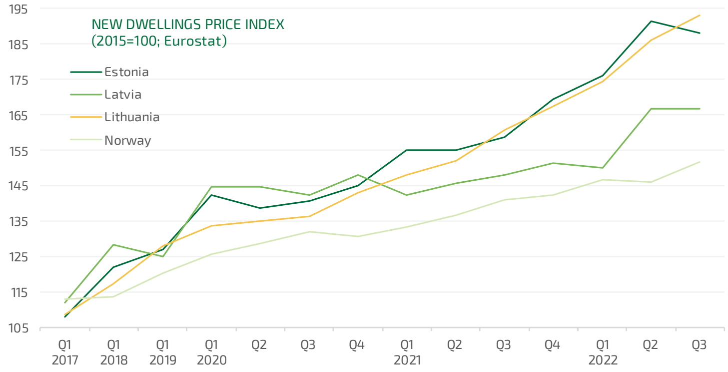
The construction price index continued robust growth throughout the year. Stabilization of materials prices in the second half of the year did not help to anchor the general construction price index, and the continuing rise in prices of workforce and construction machinery drove Baltic construction prices higher in Q4 as well.


QUARTERLY CONSTRUCTION PRICE INDEX (2015=100; Eurostat)

The main factor in 2022 has been the rise in the price of construction service. Prices of construction services have set records in all of the countries in which Merko operates. The falling construction volumes should, in theory, decelerate the rise of prices, but this has not shown up in statistics yet. In the construction sector as well, the price rise tends not to be demand-driven; rather, producers and suppliers are forced to raise prices to cover their higher input prices. As such, neither central bank interest rate hikes nor the contraction of volumes in the construction market are exerting an influence on supply-based price rise.

The Merko group was little affected by the drop in construction volumes and setbacks involving supply chains. None of our projects ran over deadlines. The group even managed to grow its construction contracts portfolio. In the private sector, Merko succeeded in signing construction contracts on the cost-plus principle and in the second half of the year, the public sector, too, began offering more indexed contracts. Public sector procurements again achieved a larger share in the contracts portfolio in 2022, since the contracts of a military nature and construction contracts related to renewable energy concluded by the public sector were given a high priority.

APARTMENT DEVELOPMENT


NEW DWELLINGS PRICE INDEX (2015=100; Eurostat)

The war had a negative impact on the housing market as well. Although war refugees meant major demand for rental properties in the Baltics in Q2 and this was reflected in the activity on the apartment market as well, the price growth trend for new housing came to a halt in Q3. This temporary spike in demand gave way to uncertainty toward the end of the year, caused by the rise in prime interest rates and the related growth in loan payments. Although data for Q4 have not yet been released, local data sources suggest that indeed the rising prices have given way to a plateau. There is a considerable expectation that prices will fall on the aftermarket for older apartments and the first modest price drop was pinpointed by analysts already in Q4. On the primary market for new apartments, most developers have postponed the launch of new developments until confidence returns among buyers, and hence there is no oversupply on the new apartments market.

In the Baltic countries, real household income turned to decline and failed to keep pace with rising housing prices. Swedbank's Housing Affordability Index showed that affordability of apartments dropped, mainly due to the spike in prices of housing in Q1 and the higher Euribor rate. According to the index, affordability has dropped in Tallinn to a level last seen in 2009, in Vilnius to the 2017 level and in Riga, 2020. The index value 150 means 150% coverage: in other words, the average household's income exceeds by 50% the necessary minimum income for purchasing an average dwelling (55 m2). The index values in Q4 of 2022 were 110.5 in Tallinn (Q4 of 2021: 147.5); 107.0 in Vilnius (145.3) and 164.3 in Riga (208.5).

OUTLOOK FOR 2023

Merko group does not prepare its own macroeconomic forecasts and uses the ones from Swedbank, SEB and Luminor to compile its activity plans.

The economic forecasts that were current during the period in which the annual report was prepared called for very little change in the economy or a slight contraction in 2023, with the growth figure for the Baltics projected to range from -0.9% to +0.4%. Lithuania appears to be in the best position, and the forecasts for Latvia exhibit the greatest variation. At the same time, banks continue to call for very high growth in the CPI – 8.5-9.0% – and a project that unemployment will remain moderate, 6.5-7.5%.

As no one can confidently predict the war will end by a specific time, it is only natural that all forecasts are at least based on the assumption that no additional escalation of the war will take place. 2022 was characterized by questions about the availability of energy sources, above all how to supply Europe with gas, and these concerns will not extend into 2023, but as a whole the price of energy carriers amid preparations for the next heating period is still in question.

While average inflation expected for the year ahead is in the single digits, it is expected that it will remain in the double digits for the Baltics for at least H1, with the increasingly higher base curbing the inflation rate. The availability of credit for participants of the real economy and the consumer price index will each be affected by how well the inflated supply of money from quantitative easing can now start to be reduced. It is extremely difficult to suppress inflation stemming from supply-side inputs without economically destroying units that account for the supply. This outlook will curtail the flow of foreign investment into the Baltic region and is certain to reduce demand for, say, commercial real estate in the long term.

Continuing or normalized uncertainty will very likely be the keyword that best describes the outlook for 2023. Many regionally important branches of the economy, including construction and real estate, will be looking for the new equilibrium for a long time. The influence of the green transformation now under way is currently hard to quantify, Pessimists are expecting bank credits to continue to dry up and foresee cost hikes for enterprises, while optimists hope that additional EU finding will drive development of products and technologies.

CONSTRUCTION SERVICES

The construction sector will likely display signs of some sort of decline in volumes in 2023. This will mainly be caused by persistent inflation, since construction volumes are reported in constant prices and will not manage to keep up with inflation. The dearth of workforce is easing as a result of the declining volumes, but the price of labour will continue to grow. In the renewable energy area, demand for wind turbines will continue to be strong and highly able to pay. The relative importance of the public sector as a construction service customer will probably grow, both thanks to military infrastructure and the segments of Rail Baltica expected to enter the construction stage. While there will be a delay, it is quite certain that additional budgetary funding has been found to cover the rising construction prices.

Risks will remain largely similar to last year's – the war's negative influence on private sector orders, the unpredictable behaviour of energy prices once state subsidies end, possible supply chain disruptions outside European countries and slower course of work on construction sites. Yet to be assessed as of now is how the response to the damage from the Turkey-Syria earthquake and the influence of rebuilding cities will impact the always critical balance between demand and supply on the construction market. In such conditions it continues to be important for general contractors to ensure strong capitalization and liquidity sufficient to ride out the potentially challenging periods. It is also necessary to be capable of responding efficiently in changing conditions if external changes lead to a need to adapt activities to better fit the new conditions.

Considering the solid financial state of Merko Ehitus group, and the broad-based capability to provide construction services, all of the conditions are in place for successfully navigating 2023. However, we must remain selective about longer-duration projects and keep a close eye on developments in the economic environment and the political situation in general. It is important to maintain the profitability of activities.

APARTMENT DEVELOPMENT

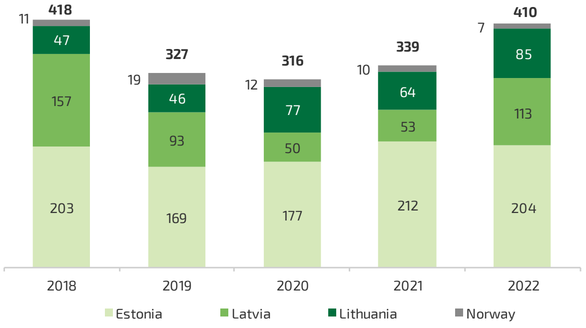
We anticipate that the slump in the housing market will continue in the first half of this year, especially in Tallinn and Vilnius. Foreign investors spooked by the war will probably not return to the apartment market in 2023 even if the war should end or decrease in intensity. The conservative attitude will not be as long-lived among local investors who buy apartments as rental income earners, they will likely gradually return to the market as soon as the summer. Market activity will remain muted since the increasing interest rates and still-high inflation will dramatically reduce the number of people who can afford new residential property. Slightly higher activity can be anticipated in Riga, where lower apartment price levels will prove more attractive for investors.

The long-term perspective for Merko Ehitus on the apartment development front will not change as a result – both now and in future, the group will develop integral residential environments, focusing on larger areas, offering stable quality and expert spatial solutions. In the shorter term, the group will make investment decisions as the situation develops and likely begin 2023 with fewer development sites. Given the low market activity and higher interest rates, it is not reasonable to build a large number of apartments not knowing what the interest from buyers is. In the longer term, Merko Ehitus will continue preparing developments based on its solid financial standing, i.e. without changing the pace of planning and filing for building permits, so that when the market recovers we will be capable of launching new developments with a short lead time.

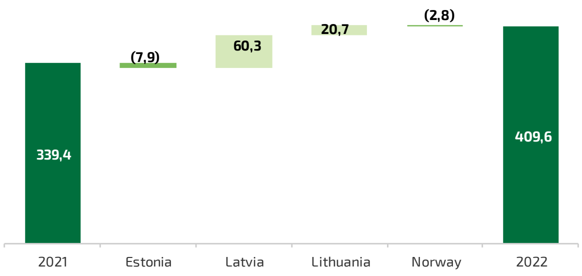
OPERATING RESULT

REVENUE AND PROFIT

DISTRIBUTION OF GROUP REVENUE BY GEOGRAPHICAL LOCATION
in million euros

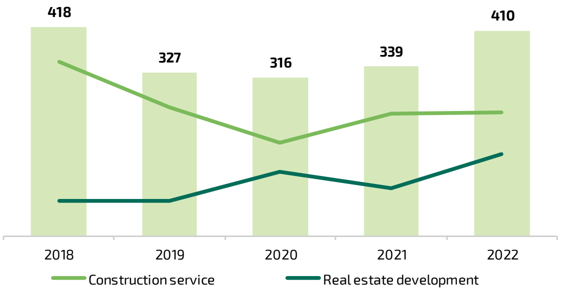


CHANGES IN GROUP REVENUE
in million euros

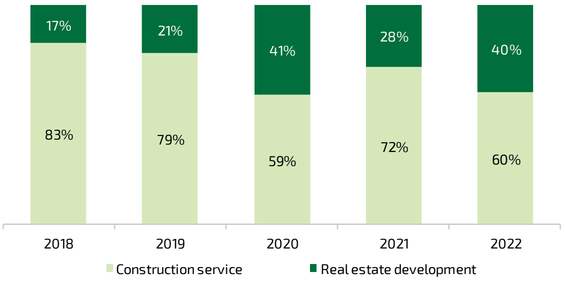


In 2022, the revenue of Merko Ehitus group was EUR 409.6 million, (2021: EUR 339.4 million). 49.9% of the period's revenue was generated in Estonia, 27.6% in Latvia, 20.7% in Lithuania and 1.8% in Norway (2021: 62.6% in Estonia, 18.8% in Lithuania, 15.6% in Latvia and 3.0% in Norway). Compared to 2021, the group's revenue increased by EUR 70 million or 20.7%, including a 114.2% increase in Latvia and 32.3% in Lithuania, and the revenue decreased by 3.7% in Estonia and 27.5% in Norway. The group's sales revenue increased in the real estate development business area where, compared to 2021, the highest number of apartments ever was handed over to customers.

DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
in million euros



DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
in percents

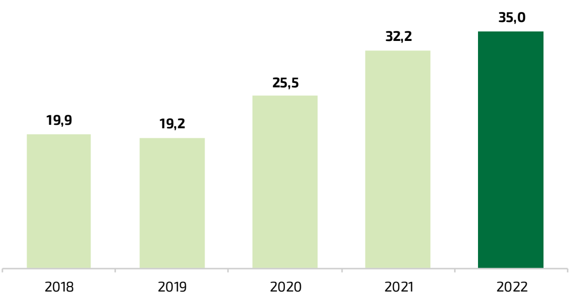


In the structure of sales revenue, real estate development increased significantly, accounting for 40% of the group's total sales revenue (2021: 28%). Apartment sales volumes grew significantly in 2022 even as the volumes of construction service stayed at the same level. In recent years, the group has increased business volumes with regard to apartment developments and become more selective about construction services – when it comes to new projects, the focus is on a risk-return ratio that is suitable for the group. In construction service, the group avoids being pulled into competition at any price, preventing the share of higher-risk projects from increasing in the construction contracts portfolio.

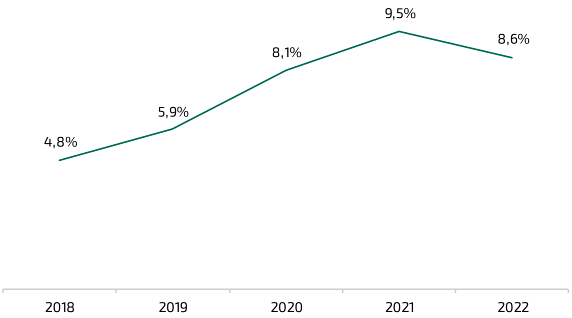
By country, Estonian sales continued to account for the largest share of revenue – 50% (2021: 63%). The group finds it strategically important for the business operations to be diversified both geographically and in terms of business segments. Thus, the group continues to strengthen and implement its competitive advantages outside Estonia and is closely monitoring the development and opportunities in both the Baltic states and in Norway, as well as balancing construction activities with real estate development projects.

In 2022, the group's operating profit totalled EUR 35.0 million (2021: EUR 32.2 million). The operating profit margin in 2022 (8.6%) decreased by 0.9 pp compared to last year (2021: 9.5%). The operating profit was influenced mainly by rising input prices, which cannot be passed on to customers in full. Operating profit is also impacted by the broader introduction of cost-plus and indexed contracts, which in addition to the rise of expenses also passes on savings on costs to consumers and thus curbs the growth of profitability.

GROUP OPERATING PROFIT
in million euros

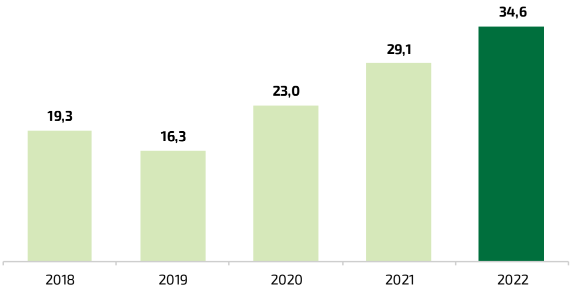


GROUP OPERATING PROFIT MARGIN
percentages

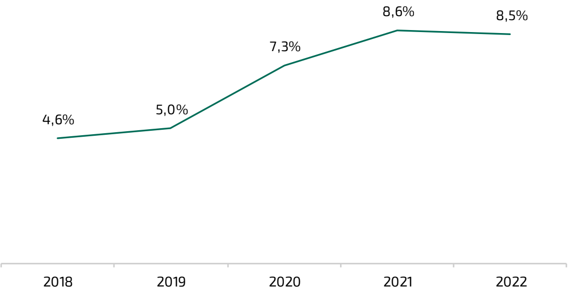


In 2022, the group's pre-tax profit totalled EUR 37.1 million and the net profit attributable to owners of the parent company was EUR 34.6 million, compared to the pre-tax profit of EUR 32.1 million and net profit attributable to owners of the parent company of EUR 29.1 million in 2021. The group's profit before tax margin was 9.1% (2021: 9.5%) and net margin was 8.5% (2021: 8.6%).

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.

CONSTRUCTION SERVICE

REAL ESTATE DEVELOPMENT

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 2022 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

	2022	2021	CHANGE
Revenue	246.9	243.4	+1.4%
% of total revenue	60.3%	71.7%	
Operating profit	8.5	11.8	-28.1%
Operating profit margin	3.4%	4.9%	

In 2022, the revenue of the construction service segment was EUR 246.9 million (2021: EUR 243.4 million). Compared to the previous year, sales revenue in the business area increased by 1.4%. However, the group will continue to remain selective regarding its construction contracts. The construction service segment revenue for 2022 made up 60.3% of the group's total revenue, having decreased by 11.4 pp compared to the year before (2021: 71.7%).

In 2022, the group earned an operating profit of EUR 8.5 million in this segment (2021: EUR 11.8 million). The operating profit margin was 3.4%, which is 1.5 pp lower than the comparable ratio in 2021 (4.9%). The operating was mainly influenced by rising input prices, which cannot be passed on to customers in full, and the broader introduction of cost-plus and indexed contracts, which, in addition to cost increases, also shares 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 and the impossibility of predicting the course of the war started by Russia. The public sector's priorities have also shifted, but the sector's typical inelasticity and inertia, procurements are still being conducted for projects where a contract was not awarded due to problems of finding additional funding in 2021-2022 due to the rapid rise in input prices. As a result, there are more public sector procurements on the market, with the renewable energy segment being a notable exception.

Among the substantial projects in process that started in 2022 and earlier and will continue in 2023 were, in Estonia, the construction works of the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre, Tallinn School of Music and Ballet 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 Rannamõisa tee and Vana-Kalamaja street. In Latvia, 2022 were the larger projects constructions of the Orkla wafer and biscuits production plant, the construction works of reconstruction of Riga Technical University Civil Engineering Faculty building, GUSTAVS business center, Elemental Skanste office buildings as well as city park and youth house in Kauguri and the NATO base in Ādaži. In Lithuania, larger projects were construction of several wind farm balance of plants, car service building and NATO training centre buildings were underway. In Norway, mostly smaller scale contracts were in the works.

LARGEST PROJECTS COMPLETED IN 2022

PROJECT NAME		LOCATION	COUNTRY
Tallinn School of Music and Ballet	new	Pärnu mnt 59, Tallinn	Estonia
First stage of the infrastructure of the land part of south-eastern border of the Republic of Estonia	new	Võru County	Estonia
St John's School	new	Kivimäe St. 25, Tallinn	Estonia
Public water supply and sewerage system	new	Aespa small town, Rapla County	Estonia
Defence Forces' buildings in Taara campus	rec/new	Kose Rd. 3, Võru County	Estonia
Civil Engineering Faculty of Riga Technical University	rec	Kipsalas St. 6a, Riga	Latvia
Orkla wafer and biscuits production plant	new	Laimas St. 6, Ādaži	Latvia
City park and youth house in Kauguri	new	Kauguri, Jūrmala	Latvia
Tokvila car service building	new	Savanorių Ave. 274, Vilnius	Lithuania
Continental production building	new	Davalgonių St. 12, Kaunas district	Lithuania
Wind farm foundation	new	Židikai village, Mažeikiai district	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

	2022	2021	CHANGE
Revenue	162.7	96.0	+69.6%
incl. revenue from sale of apartments	127.0	72.7	
incl. construction service from public-private-partnerships	-	6.9	
incl. construction service to joint venture projects	32.0	7.6	
incl. revenue from immovable properties	-	5.2	
% of total revenue	39.7%	28.3%	
Operating profit	30.3	22.7	+33.8%
Operating profit margin	18.6%	23.6%	

A total of 923 apartments (incl. 46 apartments in a joint venture) were sold in 2022 at the total value of EUR 127.0 million (excl. VAT), compared to 496 apartments (incl. 1 apartment in a joint venture) and EUR 72.7 million in 2021. In addition, the group sold 9 commercial areas (incl. 2 in a joint venture), in 2021 7 commercial areas. Of the 923 apartments sold 344 were located in Estonia, 306 in Latvia, 273 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 construction service and property management services.

In 2022, the share of revenue from the real estate development segment formed 39.7% of the group's total revenue (2021: 28.3%), having increased over the year by 11.4 pp. Compared to the previous year, 382 apartments more were handed over to customers in our own developments, which led to a significant increase in sales revenue. Such developments were expected – the group had more apartments in a state of readiness for final sale agreements than it did in 2021. This result does not reflect the actual state of the market, since the growth of sales revenue mainly stems from preliminary sale agreements signed under law of obligations in the 2020-2021 period. In 2022, with the buildings completed, these reached the final signing under property law.

In 2022, operating profit of the real estate development segment amounted to EUR 30.3 million (2021: EUR 22.7 million) and the operating profit margin was 18.6% (2021: 23.6%), which decreased by 5.0 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.

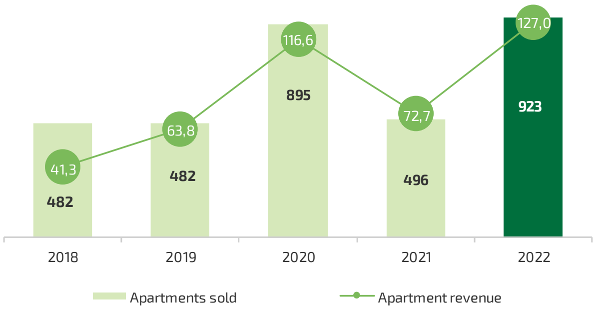
Merko manages all development phases of new housing – planning, designing, building and sales. Homes developed and built by Merko are characterised by integrated living environments, energy efficiency, good sound insulation from indoor and outdoor noise as well as healthy interior climate. Effective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

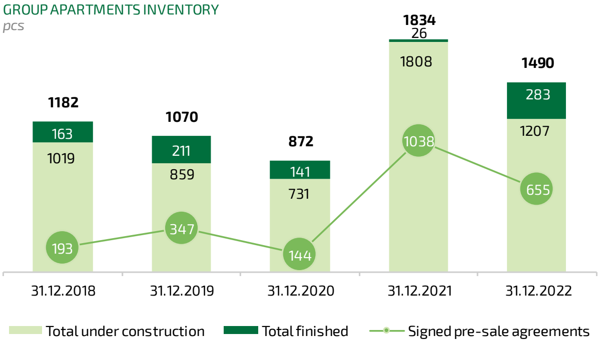
APARTMENTS SOLD / APARTMENT REVENUE

pcs / in million euros



GROUP APARTMENTS INVENTORY

pcs



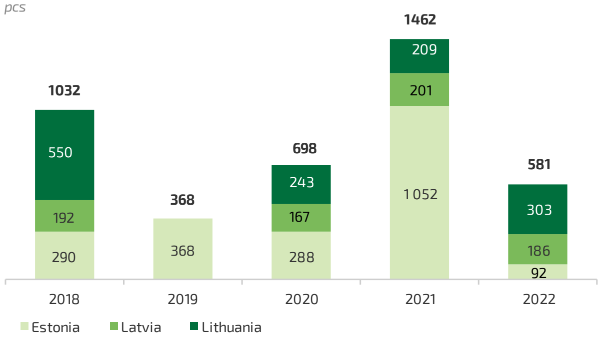
At the end of the period, Merko Ehitus group's inventory of apartments amounted to 1,490 units, of which 283 were completed and 1,207 in construction. 655 apartments were covered with preliminary agreements, incl. 119 completed apartments and 536 apartments under construction. The sale of these apartments 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 2022, Merko Ehitus group had a total of 835 apartments for active sale (as at 31 December 2021: 796 apartments), for which there are no pre-sale agreements and of which 164 have been completed and 671 are under construction. The number of apartments on sale as at 31 December 2022 has increased by 39 apartments compared to 31 December 2021.

In 2022, the group invested a total of EUR 130.1 million (2021: EUR 71.6 million) in new development projects launched in 2022 as well as projects already in progress from previous year.

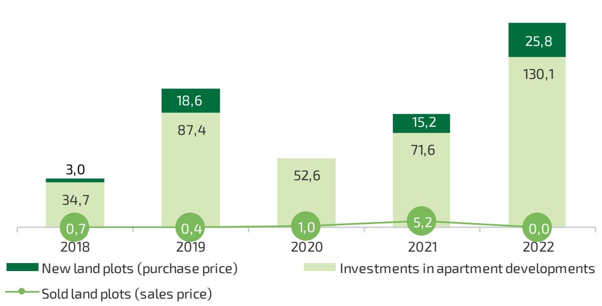
APARTMENTS LAUNCHED BY GEOGRAPHICAL LOCATION

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 2022, the group's inventories included land plots with development potential, where the construction works had not started, of EUR 84.1 million (31.12.2021: EUR 66.1 million).

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

million EUR

	31.12.2022	**31.12.2021**
Estonia	27.6	25.9
Latvia	23.6	25.0
Lithuania	31.3	13.6
Norway	1.6	1.6
Total	**84.1**	**66.1**

In 2022, the group purchased new land plots at an acquisition cost of EUR 25.8 million (in 2021, new land plots were acquired at a cost of EUR 15.2 million).

THE APARTMENT DEVELOPMENTS COMPLETED IN 2022

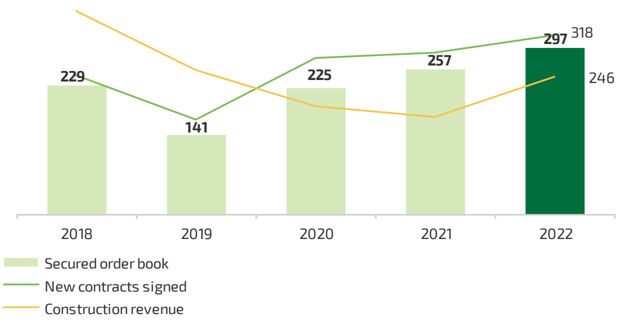
PROJECT		LOCATION	NUMBER OF APARTMENTS
Paekalda 14 (Lahekalda 3rd stage)	new	Tallinn, Estonia	48 apartments
Erminurme 4, 6, 8 (Erminurme 3rd stage)	new	Tartu, Estonia	60 apartments
Pärnu mnt 328	new	Tallinn, Estonia	38 apartments
Tiiu 12 (Veerenni 4th stage)	new	Tallinn, Estonia	84 apartments
Paekalda 23 (Lahekalda 4th stage)	new	Tallinn, Estonia	98 apartments
Pededzes 3 (Merks Duntes Zīles)	new	Riga, Latvia	84 apartments
Hipokrāta 24 (Merks Mežpilsēta 1st stage)	new	Riga, Latvia	117 apartments
Rūpniecības 27 (Merks Viesturdārzs 2rd stage)	new	Riga, Latvia	167 apartments
Manufakturu 7 (Vilneles Skvera 1st stage)	new	Vilnius, Lithuania	237 apartments

SECURED ORDER BOOK

As at 31 December 2022, the group's secured order book (excluding own property developments) amounted to EUR 297.2 million as compared to EUR 257.3 million as at 31 December 2021. The secured order book excludes the group's proprietary residential development projects and work related to developing real estate investments.

In 2022, new construction contracts worth EUR 317.9 million were signed (excludes property developments), compared to EUR 288.1 million in the prior year.

SECURED ORDER BOOK
in million euros



LARGEST CONSTRUCTION CONTRACTS SIGNED IN 2022

in millions of euros (as announced during 2022 on Nasdaq Baltic stock exchange)

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION DATE	COST
Construction contract to perform above-grade construction works of Arter quarter in Tallinn, Liivalaia St. 34 and 36	Estonia	Q3 of 2024	116.0
Design and construction contract for the construction of a tram line connecting the Tallinn Old Harbour with Rail Baltic's Ülemiste passenger terminal	Estonia	February of 2025	36.5
Construction contract for the construction of Pelgulinna state gymnasium in Tallinn	Estonia	August of 2023	25.0
Construction for the construction of Rae state gymnasium educational building in Jüri	Estonia	Beginning of 2024	14.3
Construction contract for the construction works of NATO training centre buildings in Vilnius	Lithuania	Q2 of 2024	7.0
Construction contract for the construction of wind turbine foundations for the wind farm in Telšiai district	Lithuania	July of 2023	3.5
Construction contract for the construction three detached houses in Oslo	Norway	August of 2023	3.0

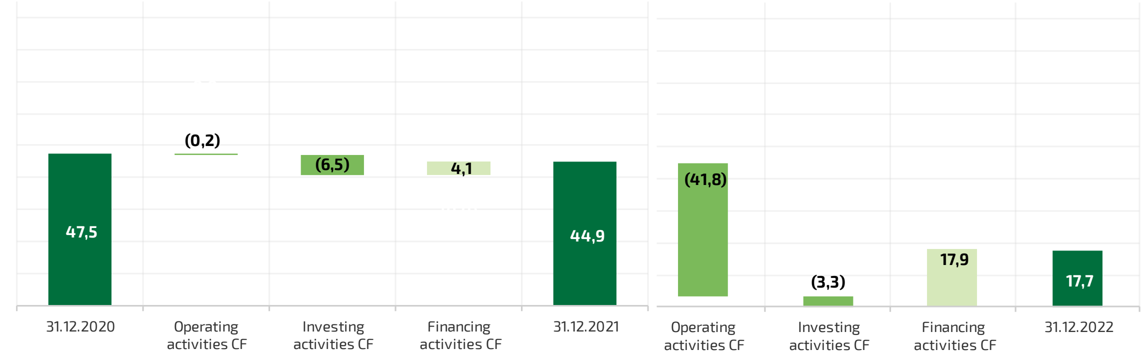
In 2022, the volume of concluded contracts in the private sectors remained high, accounting for 63% of the balance of the group's secured order book (31.12.2021: approximately 73%).

CASH FLOWS

The change in short-term investments and cash equivalents in 2022 of Merko Ehitus group was negative by EUR 27.2 million and as at 31 December 2022 the group had cash and cash equivalents in the amount of EUR 17.7 million (31.12.2021: EUR 44.9 million).

The operating cash flows of 2022 were negative by EUR 41.8 million (2021: negative by EUR 0.2 million), cash flow from investing activity was negative by EUR 3.3 million (2021: negative by EUR 6.5 million) and the cash flow from financing activity was positive by EUR 17.9 million (2021: positive by EUR 4.1 million).

CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The cash flow from operating activities had positive effect from EBITDA of EUR 37.9 million (2021: positive effect of EUR 34.8 million), from the change in trade and other payables related to operating activities of EUR 8.9 million (2021: positive effect of EUR 30.9 million) and from the change in the provisions of EUR 1.5 million (2021: positive effect of EUR 2.0 million). The negative effects to cash flow from operating activities came from changes in receivables and liabilities related to construction contracts of EUR 1.1 million (2021: negative effect of EUR 7.2 million), from the changes in trade and other receivables related to operating activities of EUR 22.0 million (2021: negative effect of EUR 21.1 million) and change in inventories of EUR 62.4 million (2021: negative effect of EUR 34.1 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments, in both 2021 and 2022, the negative cash flow was due to the increase in the volume of inventories related to the construction of apartments. Interest was paid in the amount of EUR 1.7 million (2021: EUR 0.8 million) and corporate income tax was paid in the amount of EUR 2.5 million (2021: EUR 3.2 million).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 1.3 million, which is mainly related to the renewal of equipment in the field of construction (2021: EUR 2.6 million) and from the acquisition of a subsidiary in the amount of EUR 0.7 million and the acquisition of an joint venture in the amount of EUR 2.2 million (2021: there were no acquisitions of subsidiaries and joint ventures, was acquisition of an associated company in the net amount of EUR 4.1 million). The positive effect came from the sale of non-current assets in the amount of EUR 0.3 million (2021: EUR 0.2 million) and EUR 0.6 million from the dividends received from the joint venture (2021: no dividends received).

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 (23.7% of total assets as at 31.12.2022; 16.2% as at 31.12.2021).

In cash flows from financing, the larger negative factors were dividend payment of EUR 17.7 million (2021: EUR 17.7 million), the buy-out of minority interests in the amount of EUR 1.9 million (2021: there was no buyout of minority share), repayments of lease liabilities in the amount of EUR 1.1 million (2021: net negative cash flow of EUR 1.0 million) and the change in loans related to net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 0.4 million (2021: positive cash flow in the net amount of EUR 9.4 million). Positive cash flow from financing activity resulted from the net change in loans received and repaid in connection with development projects in the amount of EUR 14.1 million (2021: net positive cash flow of EUR 13.4 million), which resulted from the increase in loans taken for residential development projects and from the change in loans related to other activities in the amount of EUR 24.8 million (2021: net positive cash flow of EUR 0.0 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 2022, the group did not receive any hints (2021: 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 2022 or 2021, no conflict of interest cases of key persons were identified by the group.

SAFETY CULTURE

To avoid accidents at work and injuries, Merko's top priority is safety. The company's occupational health and safety management system has ISO 45001 certification. Merko has developed safety-conscious action as one of the pillars of operations in the group's companies.

To do this, employees are provided the necessary tools and PPG, occupational health and safety training is held, supervisors regularly undergo training, as do employees with frequent contact with this topic (first aid staff, welders, crane operators, etc.).

Merko Ehitus Eesti has successfully continued safety seminars it started in 2021 to introduce employees to proactive influence of planning safety – working as a team to prevent accidents from happening. In addition, Merko Ehitus Eesti employees are sent a regular newsletter starting in 2022, informing them of key events in the field of quality and always capped off with an overview of the on-the-job safety field. The company is implementing a culture of reporting near misses, which concerns the ability to notice dangerous situations and every individual employee's confidence and courage in reporting unsafe situations.

HUMAN DEVELOPMENT AND MAKING EMPLOYEES FEEL VALUED

The group's human resources policy supports the achievement of Merko's goals, ensuring the consistency of the organization and management, maintaining common values and a professional team. Merko's success hinges on cooperation between veteran professionals and young stars of the future. That's what ensures the strengths for years to come and the introduction of new practices. We also work to ensure a supportive work environment, and a fair and competitive wage commensurate with employee contribution, with an additional package of incentives aimed at highlighting healthy lifestyles and family values. Regular employee reviews and satisfaction surveys are conducted to evaluate employee satisfaction and gather feedback.

The aim of Merko's educational and development activity is to support all facets of employee development, strengthen teams and to share experience. We also support and recognize acquisition of additional education and professional certification and improving skillsets, participating in speciality training and conferences outside the company.

With the goal of contributing to a new generation of professionals, enriching the academic education provided in schools by way of sharing practical experiences and knowhow. Tours of construction sites and work shadow days are organized by youths, Merko's employees provide lectures in schools, take part in student events, offer internship opportunities and award Merko scholarships.

As an employer, we treat all employees equally and do not tolerate discrimination in any form. We proceed from the principles of equal treatment also in cooperation with clients, subcontractors, service providers and other partners. The relevant principles are set out in the group's Code of Business Ethics and the handbook. The topic of business ethics is dealt with more thoroughly on the group's website https://group.merko.ee/en/corporate-responsibility/.

Merko remunerates its employees fairly, considering their contribution to achieving goals. A more detailed overview of remuneration can be found in the Remuneration report (see p. 102). Employees who achieve and exceed goals are rewarded. It is a tradition at Merko to remember employees' personal milestones – birthdays, graduations, marriage, childbirth and the beginning of first grade. Since we consider family values important, we organize company events meant for both employees and their families. Long-serving employees are offered additional incentives in the form of extra holiday. Employees continue to draw their salary when they are off serving in national defence exercises.

ENVIRONMENT AND SOCIAL RESPONSIBILITY

The construction companies in the Merko Group are building a multifaceted living environment – urban space and landscapes. We plan our projects to ensure that their impact on environmental quality is minimal. The environmental risks of Merko's main activities are assessed and necessary measure are planned on a project basis. Construction waste is one of the most significant environmental factors – Merko implements waste sorting on its sites whenever possible and ensures internal supervision so that all waste generated are handed over to a waste handler with the environmental permit for the relevant category of waste.

Merko's environmental goals are the economical use of resources, reducing waste generation, recovery of materials wherever technically possible. To achieve all of this, environmental consciousness is promoted among employees and partners, and Merko is a leader in the Estonian construction sector when it comes to shaping principles of circular economy in construction products – by introducing our best practices at public lectures and engaging in cooperation with environmental specialists at the state level.

Starting in 2022, Merko Ehitus is participating in the Estonian Green Tiger project on the working group preparing the Estonian construction roadmap 2040. The goal of the document to be drafted in spring 2023 is to provide an overview of what kinds of measures are possible and necessary today for minimizing environmental impacts of the building space. The Estonian construction roadmap 2040 gives detailed answers the following questions: why, how, when and who should do what to make Estonia's construction sector internationally competitive in future; ensure people a high-quality living environment and is able to fulfil the Estonian and EU environment requirements and the goal of climate neutrality by 2050.

SHARE AND SHAREHOLDERS

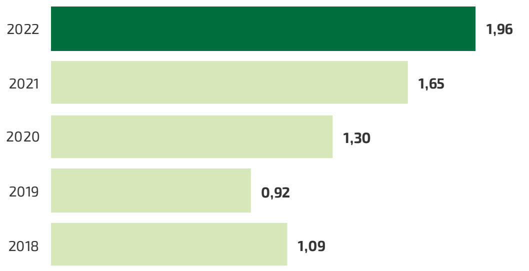
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As at 31 December 2022, the company has 17,700,000 shares. The number of shares did not change during 2022.

In 2022, 40,602 transactions were conducted with the shares of Merko Ehitus in the course of which 1.22 million shares were traded (6.9% of shares outstanding), with the total monetary value of transactions at EUR 18.2 million (comparative data for 2021: 46,961 transactions, in the course of which 2.06 million shares were traded (11.6% of shares outstanding) and the total monetary value of transactions was EUR 29.8 million). The lowest share price was EUR 11.60, and the highest share price was EUR 16.96 (2021: EUR 9.48 and EUR 17.14 respectively). The closing price of the share as at 31 December 2022 was EUR 14.16 (31.12.2021: EUR 15.22). As at 31 December 2022, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 250.6 million, decreased by 7.0% compared to the end of the equivalent period in the prior year (31.12.2021: EUR 269.4 million).

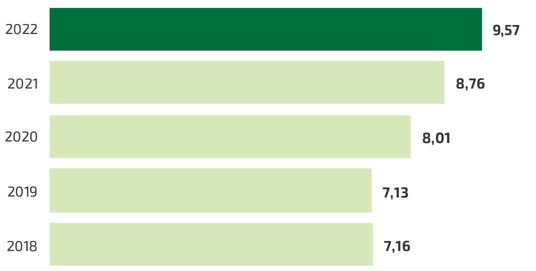
INFORMATION ON SECURITY

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

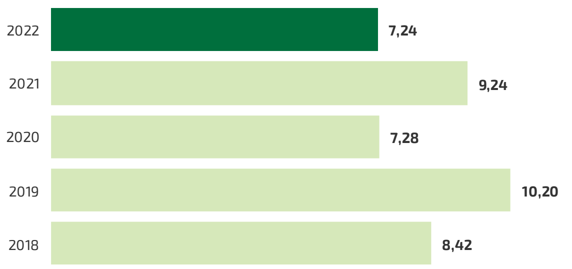
EARNINGS PER SHARE(EPS)
euros



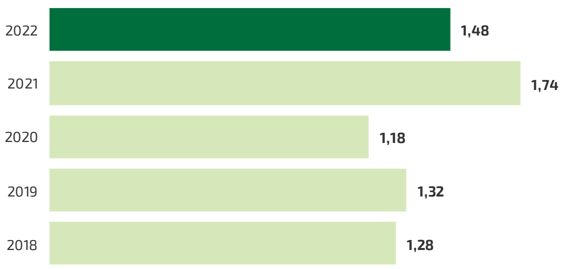
EQUITY PER SHARE
euros



P/E RATIO
times



P/B RATIO
times



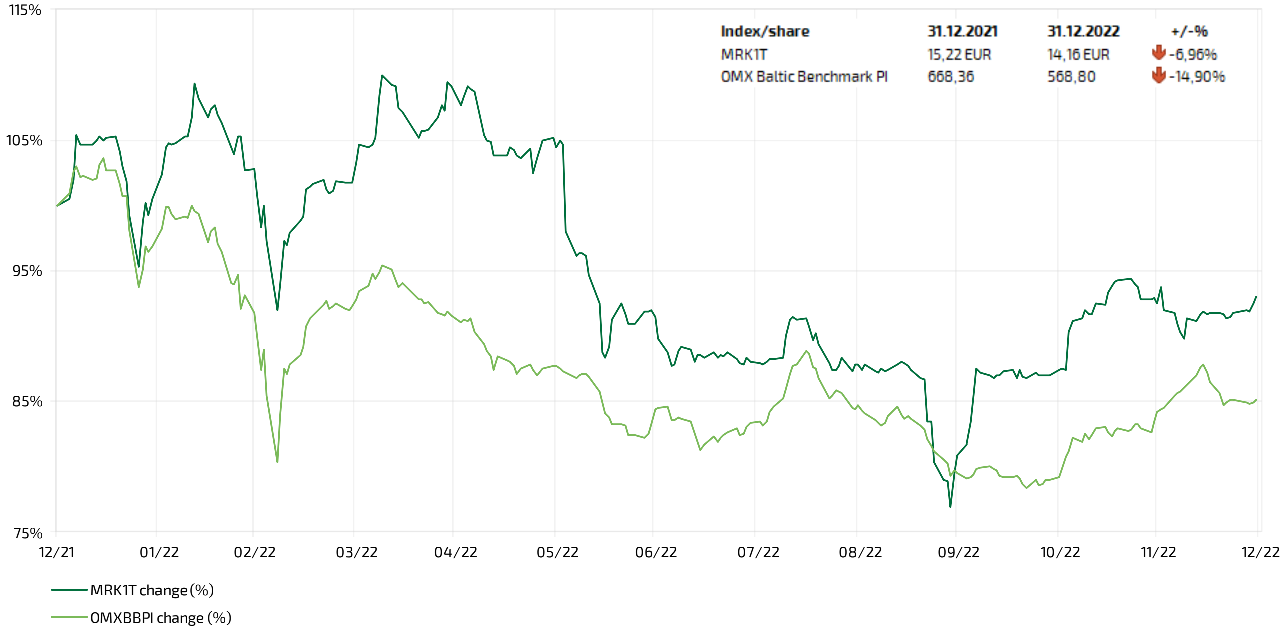
TRADING HISTORY OF SECURITY, IN EUROS

	2022	2021	2020
Highest	16.96	17.14	10.60
Lowest	11.60	9.48	6.56
Average	14.50	14.41	8.80
Closing as at 31.12	14.16	15.22	9.46
Change as at 31.12, %	-6.96	+60.89	+0.85
Traded shares, pcs	1,218,741	2,061,047	1,623,435
Turnover, million EUR	18.16	29.78	13.97
Market value as at 31.12, million EUR	250.6	269.4	167.4

STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.12.2022

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1 000 001 - …	1	0.01%	12,742,686	71.99%
100 001 – 1 000 000	6	0.05%	1,266,156	7.15%
10 001 – 100 000	49	0.42%	1,039,964	5.88%
1001-10 000	528	4,56%	1,495,790	8.45%
101-1000	2,757	23.79%	925,368	5.23%
1-100	8,246	71.17%	230,036	1.30%
Total	**11,587**	**100%**	**17,700,000**	**100%**

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



SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.12.2022 AND CHANGE COMPARED TO THE PREVIOUS YEAR

	NUMBER OF SHARES	% OF TOTAL 31.12.2022	% OF TOTAL 31.12.2021	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	411,750	2.33%	2.13%	34,315
Firebird Republics Fund Ltd	319,586	1.80%	1.77%	5,633
Firebird Avrora Fund Ltd	169,261	0.96%	0.99%	(5,633)
SEB Life and Pension Baltic SE Estonian Branch	148,787	0.84%	0.84%	-
Clearstream Banking AG	113,051	0.64%	0.64%	(614)
Firebird Fund L.P.	103,721	0.59%	0.59%	-
Siseinfo OÜ	100,000	0.56%	0.73%	(30,000)
Seitse Samuraid OÜ	70,000	0.40%	0.56%	(30,000)
Hans Palla	54,000	0.31%	0.18%	23,000
Total largest shareholders	**14,232,842**	**80.41%**	**80.43%**	**(3,299)**
Total other shareholders	3,467,158	19.59%	19.57%	3,299
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.

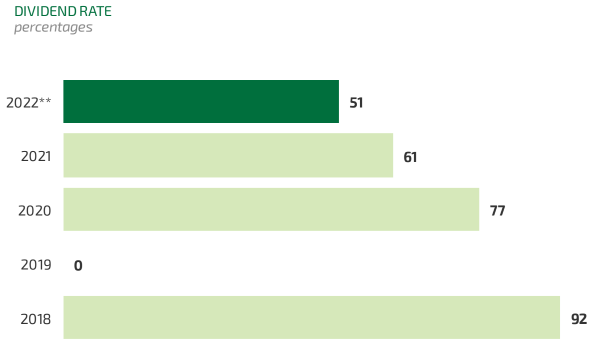
According to AS Merko Ehitus long-term financial objectives, 50-70% of the annual profit are distributed to shareholders as dividends.

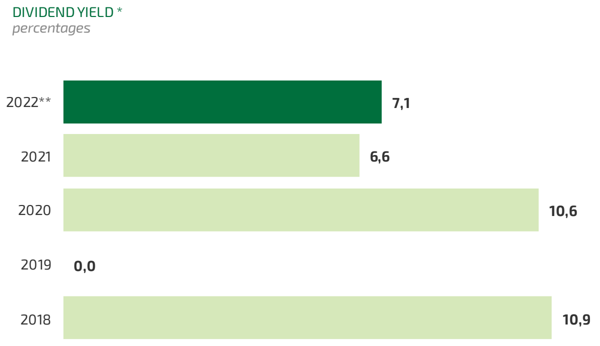
On 4 May 2022, the shareholders of AS Merko Ehitus approved the Supervisory Board's proposal to the shareholders to pay out the total amount of EUR 17.7 million (EUR 1.00 per share) as dividends from net profit brought forward, which is equivalent to a 61% dividend rate and a 6.6% dividend yield for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

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

The Management Board proposes to pay the shareholders EUR 17.7 million as dividends from net profits brought forward (EUR 1.00 per share) in 2023, which is equivalent to a 51% dividend rate and a 7.1% dividend yield for the year 2022 (using the share price as at 31 December 2022).

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.*
*** 2022 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 2022.

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, UAB Merko Statyba, UAB Merko Bustas, Merko Bygg AS (former name AS Peritus Entreprenør) and the company belonging to the SIA Merks group SIA Merks Mājas.

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 2022 is the following:

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

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

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

In accordance with the Commercial Code, its Articles of Association and 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 2022 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Urmas Somelar (Head of Group Finance) and Janno Hermanson (Auditor).

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

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.

Teet Roopalu
Member of the Supervisory Board

Positions held:

2004-…	AS Merko Ehitus, Member of the Supervisory Board
2010-…	AS Riverito, Member of the Management Board
2015-…	Järvevana OÜ, Member of the Management Board
2003-2022	AS Kapitel (AS E.L.L. Kinnisvara until 2017), Member of the Supervisory Board
2002-2004	AS Merko Ehitus, Adviser to the Management Board

Has worked for different construction companies, including as a director of finance. Has been in charge of economic activities in the EKE system as a chief economist; worked as a bank director; and has also worked in building design.

Education:

Tallinn University of Technology, construction economics and organisation

Number of shares: -

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: 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
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: -

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 2022, the Supervisory Board held 16 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	16	100%
Teet Roopalu	15	94%
Indrek Neivelt	15	94%
Kristina Siimar	9	56%

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 2022 and 2021 financial years, the members of the Supervisory Board were remunerated as follows (in euros):

NAME	2022	2021
Teet Roopalu	38,347	38,347
Indrek Neivelt	38,347	38,347
Kristina Siimar	25,565	-
TOTAL	**102,259**	**76,694**

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 ends: 31 December 2023

Positions held:

2012-…	AS Merko Ehitus, Chairman of the Management Board; Chairman of the Supervisory Board of Merko Ehitus Eesti AS, SIA Merks 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: 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 Merko Ehitus Eesti AS, SIA Merks, 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: -

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.

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 page 102.

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the most significant subsidiaries that are wholly owned by AS Merko Ehitus as at 31 December 2022:

COMPANY *	**SUPERVISORY BOARD**	**MANAGEMENT BOARD**
AS Merko Ehitus Eesti *(79,072,424 euros)*	Andres Trink (Chairman), Tõnu Toomik, Martin Rebane	Ivo Volkov (Chairman), Jaan Mäe, Veljo Viitmann
OÜ Merko Investments *(21,582,063 euros)*	-	Andres Trink, Urmas Somelar
SIA Merks *(32,682,682 euros)*	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Andris Bišmeistars (Manager)
SIA Merks Mājas *(61,186,577 euros)*	-	Andris Bišmeistars (Chairman) Mikus Freimanis
UAB Merko Statyba *(11,200,574 euros)*	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Chairman), Jaanus Rästas
UAB Merko Bustas *(20,288,590 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 2022.*

Changes in the management of group subsidiaries

According to a decision of the Management Board of AS Merko Ehitus from 29 April 2022, the powers of the Member of the Supervisory Board of AS Merko Ehitus Eesti, Mr. Martin Rebane, have been extended until 29 April 2025. The Supervisory Board of AS Merko Ehitus Eesti will continue with three members: Mr. Andres Trink (The Chairman), Mr. Tõnu Toomik and Mr. Martin Rebane.

On 16 May 2022, SIA Merks – part of AS Merko Ehitus group – as sole shareholder of its subsidiary SIA Merks Mājas, decided to appoint Mr. Mikus Freimanis as a new member of the Management Board of the company. The authority of a member of the Management Board of Mr. Mikus Freimanis is open-ended. The Management Board of SIA Merks Mājas will continue with two members: Mr. Andris Bišmeistars (Chairman) and Mr. Mikus Freimanis.

According to a decision of the Supervisory Board of AS Merko Ehitus Eesti from 29 August 2022, the mandate of the Member of the Management Board of AS Merko Ehitus Eesti, Mr. Ivo Volkov, has been extended for the new three-year period starting from 1 January 2023. The Supervisory Board of AS Merko Ehitus Eesti will continue with three members: Mr. Ivo Volkov (the Chairman), Mr. Jaan Mäe and Mr. Veljo Viitmann.

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 November 1, 2017, the members of the audit committee of AS Merko Ehitus are: Mr. Teet Roopalu (the Chairman), Mr. Indrek Neivelt and Mr. 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 2021, the financial auditor for annual reports of 2021-2022 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 2022, PwC provided to AS Merko Ehitus advisory services permitted under Estonian Audit Act. We find that the financial audit conducted in 2022 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 91-99.

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 2022, the group's insider register lists 97 persons with permanent access (31.12.2021: 89 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 2022 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 2022 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 2022, AS Merko Ehitus published 37 stock exchange releases through the stock exchange system.

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

We will publish 2023 consolidated interim reports as follows:

DATE	EVENT
05.05.2023	2023 3 months unaudited interim report
03.08.2023	2023 6 months and II quarter unaudited interim report
02.11.2023	2023 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 2022, AS Merko Ehitus organised 5 investor meetings (2021: 1).

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:

ANDRES TRINK	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 andres.trink@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 2022 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 2022 through means of communication as such need has not been identified so far.
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 2023 on 16 December 2022. 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 2022, 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 2022.

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

MANAGEMENT DECLARATION

The Management Board declares and confirms that according to their best knowledge, the year 2022 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.

Andres Trink	Chairman of the Management Board	/ digitally signed /	31.03.2023
Tõnu Toomik	Member of the Management Board	/ digitally signed /	31.03.2023

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of euros

	Note	2022	2021
Revenue	3	409,633	339,375
Cost of goods sold	4	(355,975)	(292,563)
Gross profit		**53,658**	**46,812**
Marketing expenses	5	(4,077)	(3,611)
General and administrative expenses	6	(15,860)	(13,925)
Other operating income	7	3,144	3,508
Other operating expenses	8	(1,834)	(582)
Operating profit		**35,031**	**32,202**
Finance income	9	1	12
Finance costs	10	(1,450)	(886)
Profit (loss) from associates and joint ventures	19	3,516	799
Profit before tax		**37,098**	**32,127**
Corporate income tax expense	11	(2,995)	(3,104)
Net profit for financial year		**34,103**	**29,023**
incl. net profit attributable to equity holders of the parent		34,640	29,140
net profit attributable to non-controlling interest		(537)	(117)
Other comprehensive income (loss), which can subsequently be classified in the income statement			
Currency translation differences of foreign entities		30	33
Comprehensive income for the period		**34,133**	**29,056**
incl. attributable to equity holders of the parent		34,648	29,163
attributable to non-controlling interest		(515)	(107)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	12	1.96	1.65

The notes set out on pages 47-90 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2022	31.12.2021
ASSETS			
Current assets			
Cash and cash equivalents	14	17,665	44,930
Trade and other receivables	15	77,959	55,484
Prepaid corporate income tax		38	114
Inventories	17	225,661	160,593
		321,323	**261,121**
Non-current assets			
Investments in associates and joint ventures	19	12,895	7,703
Other long-term loans and receivables	20	22,982	24,079
Deferred income tax assets	21	693	622
Investment property	22	11,485	13,828
Property, plant and equipment	23	17,452	16,350
Intangible assets	24	582	669
		66,089	**63,251**
TOTAL ASSETS		**387,412**	**324,372**
LIABILITIES			
Current liabilities			
Borrowings	26	49,687	11,636
Payables and prepayments	27	96,248	90,054
Income tax liability		1,241	681
Short-term provisions	28	9,820	7,976
		156,996	**110,347**
Non-current liabilities			
Long-term borrowings	26	42,236	41,001
Deferred income tax liability	21	2,355	3,112
Other long-term payables	29	2,133	2,900
		46,724	**47,013**
TOTAL LIABILITIES		**203,720**	**157,360**
EQUITY			
Non-controlling interests	18	(495)	(227)
Equity attributable to equity holders of the parent			
Share capital	31	7,929	7,929
Statutory reserve capital		793	793
Currency translation differences		(783)	(791)
Retained earnings		176,248	159,308
		184,187	**167,239**
TOTAL EQUITY		**183,692**	**167,012**
TOTAL LIABILITIES AND EQUITY		**387,412**	**324,372**

The notes set out on pages 47-90 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 31.12.2020	**7,929**	**793**	**(814)**	**145,320**	**153,228**	**4,207**	**157,435**
Profit (loss) for the financial year	-	-	-	29,140	29,140	(117)	29,023
Other comprehensive income (loss)	-	-	23	-	23	10	33
Total comprehensive income (loss) for the financial year	**-**	**-**	**23**	**29,140**	**29,163**	**(107)**	**29,056**
Transactions with owners							
Non-controlling interests of purchased subsidiary	-	-	-	-	-	1	1
Contribution to subsidiary's share capital	-	-	-	-	-	37	37
Purchase of non-controlling interest (Note 18)		-	-	2,548	2,548	(4,434)	(1,886)
Option over shares relating to non-controlling interests		-	-	-	-	69	69
Dividends (Note 13)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	**-**	**-**	**-**	**(15,152)**	**(15,152)**	**(4,327)**	**(19,479)**
Balance as at 31.12.2021	**7,929**	**793**	**(791)**	**159,308**	**167,239**	**(227)**	**167,012**
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**

For share capital see also Note 31.

The notes set out on pages 47-90 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2022	2021
Cash flows from (used in) operating activities			
Operating profit		35,031	32,202
Adjustments:			
Depreciation and impairment	22-24	2,880	2,593
(Profit)/loss from sale of non-current assets	7	(313)	(111)
(Profit)/loss from sale of a business unit	7	-	(500)
Change in receivables and liabilities related to construction contracts	3	(1,066)	(7,164)
Interest income from operating activities	7	(2,260)	(2,116)
Change in provisions	28	1,540	1,981
Change in trade and other receivables related to operating activities		(22,024)	(21,079)
Change in inventories	17	(62,360)	(34,148)
Change in trade and other payables related to operating activities		8,911	30,916
Interest received	7, 9, 15, 20	2,188	1,355
Interest paid	10, 27	(1,652)	(764)
Other finance income (costs)	10	(133)	(204)
Corporate income tax paid		(2,529)	(3,161)
Total cash flows from (used in) operating activities		**(41,787)**	**(200)**
Cash flows from investing activities			
Acquisition of subsidiaries	18	(695)	(1)
Acquisition of associates	19	(2,236)	(4,550)
Purchase of investment properties	22	-	(7)
Purchase of property, plant and equipment (excl. leased assets)	23, 26	(1,117)	(2,403)
Proceeds from sale of property, plant and equipment	7, 23	343	146
Purchase of intangible assets	24	(141)	(233)
Proceeds from sale intangible assets	24	-	19
Sale of business unit	7, 19	-	500
Interest received	9, 15	1	12
Dividends received	19	560	-
Total cash flows from investing activities		**(3,285)**	**(6,517)**
Cash flows from (used in) financing activities			
Proceeds from borrowings	26	147,990	27,882
Repayments of borrowings	26	(109,484)	(5,119)
Repayments of lease liabilities	26	(1,108)	(951)
Contributions to the subsidiary's share capital from non-controlling shareholder	18	-	9
Buyout of non-controlling interest	18	(1,886)	-
Dividends paid	13	(17,661)	(17,686)
Total cash flows from (used in) financing activities		**17,851**	**4,135**
Net increase/decrease in cash and cash equivalents		**(27,221)**	**(2,582)**
Cash and cash equivalents at the beginning of the period	14	**44,930**	**47,480**
Effect of exchange rate changes		**(44)**	**32**
Cash and cash equivalents at the end of the period	14	**17,665**	**44,930**

The notes set out on pages 47-90 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 2022 were signed by the Management Board on 31 March 2023.

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 2022, 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 and Lithuania and a majority holding in a construction entity in 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.

Assets and liabilities are classified as current and non-current in the statement of financial position. Current assets include assets that are expected to be realized in the course of group's ordinary operating cycle. Current liabilities include liabilities the due date of which is within 12 months after the balance sheet date. The remaining assets and liabilities are classified as non-current.

Expenses are classified according to their function in the income statement.

Items 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 2022:

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022)

- The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

- The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework.
- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The group assesses that there is no material impact of application of the amendments to its financial statements.

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 2023, and which the group has not early adopted:

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. The group assesses that there is no material impact of application of the amendments to its financial statements.

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.

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. The group controls the entity, if it receives or is entitled to variable profits arising from its role in the entity and the group can influence the amount of profit by exerting influence over the entity.

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.

Group entities use uniform accounting policies.

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. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group makes an election whether to recognise any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. From the date of acquisition, the revenue and expenses of the acquired entity are reported in the income statement of the group and goodwill is reported in the statement of financial position of the group.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Goodwill is subsequently measured at its cost less any impairment losses. Goodwill arising in a business combination is not amortised. Instead, an impairment test is carried out once a year. Goodwill is written down to its recoverable amount if the carrying amount is not recoverable (Note 1.11).

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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. ASSOCIATES

Associates are all entities in which the group has significant influence but not control over their operating and financial policies. Significant influence is presumed to exist when the parent owns between 20% and 50% of the voting rights. Investments in associates are initially recognised at cost and subsequently measured using the equity method of accounting. Investments in associates include goodwill identified on acquisition.

The group's share of its associates' post-acquisition profits or losses is recognised in the group's income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, the group will not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

1.7. 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.

1.8. JOINTLY CONTROLLED OPERATIONS

Under IFRS 11 Joint Arrangements, 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. 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.

1.9. 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.

The functional currency of subsidiaries located abroad is the currency of their business environment; therefore the financial statements of such subsidiaries are translated into euros for consolidation purposes; the asset and liability items are translated using the foreign exchange rates of the European Central Bank prevailing at the balance sheet date, income and expenses using the weighted average foreign exchange rates for the year and other changes in equity using the foreign exchange rates at the date at which they arose. Exchange rate differences arising from translation are reported in the equity item Currency translation differences and in the consolidated comprehensive income item Currency translation differences of foreign entities.

1.10. 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.

Purchases and sales of financial assets conducted in normal market conditions are recognised on trade-date – the date on which the group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the group measures the financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset.

All group's debt instruments are classified in amortised cost measurement category.

Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on the unpaid principal are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/expenses. Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss.

As at 31 December 2021 and 31 December 2022, all the group's financial assets (trade receivables, contractual assets, loans granted, bank deposits, cash and cash equivalents, and other financial assets) were classified in amortised cost measurement category.

The group has no investments in equity instruments.

1.11. 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. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (loss events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. 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.

If there is objective evidence that an impairment loss has incurred for loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have already been recognised), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can objectively be related to an event occurring after impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

NON-FINANCIAL ASSETS

Signs, which could give evidence to decrease in the value of assets are assessed critically on each reporting date. If such signs are identified, a recoverable value test is carried out for these assets. Losses deriving from the decrease in the value of assets is recognised, if the book value of the asset or the cash generating unit of such asset is above the recoverable value. 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. In assessing the value in use of the asset the assumed future cash flows are discounted to their current value, using a discount rate, which reflects both the current market assessment of the change in the time value of money, as well as the specific risks associated with the asset. In case of an asset, which does not generate independent cash flows, the recoverable value is determined for the cash generating unit to which the asset belongs.

In case of non-current assets, prior write-downs are cancelled, if there are indicators, according to which the decrease in the value of the asset has ceased to exist and there have been changes in the assessments, which were the basis for the determination of the recoverable value of the asset. Prior write-down is cancelled only in such amount, which does not increase the post-cancellation value of the asset above the residual value, which would have been reached, taking into account normal depreciation, if the write-down had not been made.

1.12. 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.

A completed real estate property is sold either in units (by houses, apartments, office spaces, etc.) or as a whole. Revenue is recognised as income from the sale of goods (Note 1.21). Upon the sale of real estate properties, the group and the acquirer enter into a notarised agreement for transferring the property, and a respective entry is made in the land register.

1.13. 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.

1.14. 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. The cost consists of the purchase price and other costs directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Subsequent expenditure incurred for items of property, plant and equipment is recognised as non-current assets when it is probable that future economic benefits associated with the asset will flow to the group and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses at the time they are incurred. For right-of-use assets refer to note 1.16. 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.

If an item of property, plant and equipment consists of separately identifiable components with different useful lives, these components are accounted for as separate assets and accordingly, separate depreciation rates are set for them depending on their useful lives.

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition of items of property, plant and equipment are included either within other operating income or other operating expenses in the income statement.

Non-current assets are written down to their recoverable amount if the latter is lower than their carrying amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

1.15. INTANGIBLE ASSETS

Intangible assets are recognised in the statement of financial position when the asset can be controlled by the group, the expected future benefits attributable to the asset will flow to the group and the cost of the asset can be measured reliably. The cost of an intangible asset consists of its purchase price and other expenditure directly related to the purchase. 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).

1.16. LEASED ASSETS

THE GROUP AS A LESSEE

Leases are classified in accordance with IFRS 16, effective 1 January 2019, in accordance with paragraph of this Note.

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. If the lessee has the right to use a part of an asset the contract is considered a lease if the part of an asset is physically identifiable (e.g. lease of one floor in a building). There are several conditions to consider when evaluating a lease term. 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 so far. Such payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

According to IFRS 16 lease term is:

- non-cancellable period of a lease – a period during which the lessee has no option to terminate the lease;
- periods covered by an option to terminate the lease – if the lessee is reasonably certain not to exercise that option;
- periods covered by an option to extend the lease - if the lessee is reasonably certain to exercise that option and has an option to extend the lease during one more time period. The same applies to termination options: if the lessee is certain not to use the termination option, the option should not be used to reduce the lease term.

In assessing the lease term, all relevant facts and circumstances shall be considered that create an incentive for the lessee to use that option. Lease term starts from the moment when the lessee is able to use the asset. Likelihood to use the options is considered at the commencement date. The likelihood to use the options in considered from the perspective of the lessee and it is affected by:

- contractual terms and conditions for the optional periods compared with market rates
- costs relating to the penalties of using/not using the options as well as other similar costs such as negotiation costs, relocation costs etc. If such costs (including penalties) are significant it is unlikely that the lessee will exercise the option to terminate and it is likely, that the lessee will exercise the option to extend;
- significant leasehold improvements undertaken over the term of the contract are expected to increase the likelihood to extend (and not to terminate) the lease;
- Very short-term non-cancellable period indicates that the lessee intends to extend the lease term (to avoid costs related to obtaining a new lease);
- the importance of that underlying asset to the lessee's operations and business plan - if the underlying asset is a specialised asset or suitable alternatives are not available the lessee is more likely to exercise the option to extend.

In addition, lessee's earlier operating activities shall be considered to determine the likelihood to exercise options to extend or terminate.

Lease term does not include periods when both parties have an option to terminate the lease. The lessee might intend to use the option to extend the lease period, however, that option does not depend solely on the intention of the lessee.

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.

1.17. 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.

Financial liabilities are classified as current when they are due to be settled within twelve months after the balance sheet date; or the group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowings that are due within 12 months after the balance sheet date, but which are refinanced after the balance sheet date as non-current, are recognised as current ones. Also, borrowings are classified as current if the lender had a contractual right at the balance sheet date to demand immediate repayment of the borrowing due to the breach of conditions set forth in the agreement.

Borrowing costs directly related to the construction of a real estate property until the property is ready for use or sale, are capitalised. In other cases, borrowing costs are recognised as an expense in the period in which they are incurred.

1.18. 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 (2021: 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% (2021: 15%), in the Kingdom of Norway at the rate of 22% (2021: 22%) and in the Republic of Finland at the rate of 20% (2021: 20%).

1.19. EMPLOYEE BENEFITS

TERMINATION BENEFITS

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without a possibility of withdrawal; or providing termination benefits as a result of another offer made to encourage voluntary redundancy. Termination benefits are discounted to their present value.

PROFIT-SHARING AND BONUS PLANS

The group recognises a liability and an expense for bonuses and profit-sharing plans, based on a formula that takes into consideration the profit attributable to the parent's owners after certain adjustments. The group recognises a provision where contractually obliged or when there is past practice that has created a constructive obligation.

1.20. 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.

Provisions are recognised in the statement of financial position based on the best estimate of the management board at the present value of the expenditure expected to be sufficient to settle the obligation. A pre-tax rate of discount is used, which reflects current market valuations of the time value of money and the risks associated with liabilities that are not already included in the best estimate of the related expenses.

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.

1.21. 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.

Estimates of revenue, costs or extent of progress toward completion of the contract are revised, if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the statement of profit or loss in that period in which the circumstances that gave rise to the revision became known to the management.

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.

1.22. CASH AND CASH EQUIVALENTS

In the statement of financial position and the cash flow statement, cash and cash equivalents comprise highly liquid funds with low variation in value, such as cash on hand, cash in bank accounts and term deposits with maturities of three months or less. Management regards deposits with maturities greater than 3 months as investments and hence does not include them in cash and cash equivalents.

The indirect method has been used for the preparation of the cash flow statement.

1.23. LOANS GRANTED

Loans granted are recognised in the group based on business principles and the loans are issued to companies with whom contracts are in place for the purpose of co-financing development projects. Real estate developers are granted loans on condition that the group receives an opportunity to provide construction service in the developments being financed. Due to the direct link between the loans and the group's business activity, the said loans and the related interests received are recognised in the cash flow statement under cash flows from operating activities (Note 16).

1.24. CONTINGENT LIABILITIES

Contingent liabilities are those liabilities the realisation of which is less probable than non-realisation or the amount of which cannot be determined reliably. Contingent liabilities are not recognised in the statement of financial position, but they are disclosed in the notes to the financial statements (Note 33).

1.25. STATUTORY RESERVE CAPITAL

Reserve capital is formed to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

1.26. EVENTS AFTER THE BALANCE SHEET DATE

The financial statements of the reporting period include material circumstances affecting the assessment of assets and liabilities that became evident between the balance sheet date and the date of preparing the financial statements but that are related to transactions in the reporting period or previous periods. Material events after the balance sheet date not related to transactions in the reporting period or previous periods are not reported in the statement of financial position but they are disclosed in the notes to the financial statements.

1.27. DIVIDENDS

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.

1.28. SEGMENT REPORTING

According to IFRS 8 Operating Segments, segment reporting is applicable to operating segments whose results are regularly reviewed by the group's chief operating decision maker to make business-related decisions. 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 2022, the amount of the provision for onerous contracts was EUR 8 thousand (2021: EUR 582 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 – 9,839/+8,075 thousand (2021: EUR -8,543/+7,574 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 2022 (2021: EUR 34 thousand higher), incl. real estate properties for sale/development in the amount of EUR 31 thousand (2021: EUR 33 thousand) and work-in-progress in the amount of EUR 4 thousand (2021: EUR 1 thousand). In 2022, 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 302 thousand lower. In 2021, no impairment losses were recognized for inventories of work-in-progress, finished goods and acquisition of real estate properties for sale/development, therefore no impairment test has been performed. 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 2022 and 2021, no impairment tests were performed, as there were no indications of impairment of assets. As at 31 December 2022, the carrying amount of property, plant and equipment was EUR 17,452 thousand (31.12.2021: EUR 16,350 thousand) and the carrying amount of intangible assets was EUR 582 thousand (31.12.2021: EUR 669 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 2022 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 2021: 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 12,363 thousand, the fair value of which by expert opinion was EUR 28,370 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 2022, the carrying amount of investment property was EUR 11,486 thousand (31.12.2021: EUR 13,828 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

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	(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 (loss) 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 joint ventures (Note 19)	9,667	3,228	12,895

2021	**Construction service**	**Real estate development**	**Total segments**
Revenue	247,694	130,176	377,870
Inter-segment revenue	(4,271)	(34,224)	(38,495)
Revenue from clients	**243,423**	**95,952**	**339,375**
incl. clients whose revenue is at least 10% of the group's consolidated revenue:			
client A (Estonian state)	69,436	-	69,436
Timing of revenue recognition at a point in time	1,846	80,536	82,382
Timing of revenue recognition over time	241,577	15,416	256,993
Operating profit (-loss)	**11,819**	**22,673**	**34,492**
Segment pre-tax profit (loss)	**12,477**	**22,149**	**34,626**
incl. interest income from operating activities (Note 7)	97	2,019	2,116
depreciation (Notes 4, 5, 6)	(2,064)	(529)	(2,593)
recognition of provisions (Notes 4, 6, 28)	(5,806)	(2,241)	(8,047)
reversal of provisions (Note 4, 6, 28)	513	101	614
profit (loss) from associates and joint ventures (Note 19)	827	(28)	799
other finance income (costs) (Notes 9, 10)	(41)	(467)	(508)
incl. interest expenses	(34)	(346)	(380)
Segment assets 31.12.2021	**65,923**	**203,775**	**269,698**
incl. associates and joint ventures (Note 19)	5,377	2,326	7,703

In addition to the segment assets, as at 31 December 2022 the group holds assets in the amount of EUR 30,146 thousand (31 December 2021: EUR 54,674 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousands of euros

	2022	2021
Pre-tax profit from reporting segments	**41,290**	**34,626**
Other operating profit (loss)	(3,801)	(2,291)
incl. recognition of provisions (Notes 6, 8, 28)	(925)	(17)
finance income (costs)	(391)	(208)
incl. interest expenses	(341)	(131)
Total profit before tax	**37,098**	**32,127**

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

During the 12 months of 2022, AS Merko Ehitus group supported Ukraine through its business activities. The largest amount of EUR 214 thousand was donated through the non-profit association Slava Ukraini, reflected in the Other operating profit (loss) line.

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 -180 thousand (31 December 2021: EUR -158 thousand) has not been presented separately in the respective cost item.

REVENUE BY CLIENT LOCATION

in thousands of euros and percentage

	2022		2021	
Estonia	204,480	50%	212,405	62%
Latvia	113,163	27%	52,825	16%
Lithuania	84,564	21%	63,905	19%
Norway	7,426	2%	10,240	3%
Total	**409,633**	**100%**	**339,375**	**100%**

CONTRACT ASSETS AND LIABILITIES

in thousands of euros

	31.12.2022	31.12.2021
Accrued income from construction services (Note 15)	15,378	15,050
Prepayments for construction services (Note 27)	(6,298)	(7,024)
Advance payments received for construction contract works (Note 27, 29)	(5,184)	(12,963)
Recognised provision for onerous construction contracts (Note 28)	(8)	(582)

During the accounting year advance payments received prior for construction contract works in a sum of EUR 12,963 thousand (2021: EUR 8,576 thousand) were recognised as revenue. As of 31 December 2022, the group's secured order book stood at EUR 297,174 thousand (2021: EUR 257,266 thousand), for which the revenue is recognised in future periods. According to management estimation, 73% of revenue is going to be recognised in 2023 and 27% in 2024.

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

in thousands of euros

	31.12.2022	31.12.2021
Estonia	30,314	24,175
Latvia	10,786	13,202
Lithuania	1,199	1,039
Norway	115	134
Total	**42,414**	**38,550**

NOTE 4 COST OF GOODS SOLD

in thousands of euros

	2022	2021
Construction services and properties purchased for resale	215,323	181,370
Materials	63,665	49,647
Staff costs	28,652	26,313
Construction mechanisms and transport	9,199	10,027
Design	8,561	5,022
Real estate management costs	827	385
Depreciation (Note 3)	1,973	1,731
Impairment of inventories (Notes 3, 17, 34)	3,408	-
Provisions (Notes 3, 28)	11,291	7,565
Other expenses	13,076	10,503
Total cost of goods sold	**355,975**	**292,563**

NOTE 5 MARKETING EXPENSES

in thousands of euros

	2022	2021
Staff costs	2,538	2,369
Advertising, sponsorship	916	793
Transport	164	127
Depreciation	115	107
Other expenses	344	215
Total marketing expenses	**4,077**	**3,611**

NOTE 6 GENERAL AND ADMINISTRATIVE EXPENSES

in thousands of euros

	2022	2021
Staff costs	11,104	9,706
Office expenses, communication services	582	438
Consulting, legal, auditing*	960	634
Transport	345	300
Computer equipment and software	523	551
Depreciation	792	755
Provisions (Notes 3, 28)	101	(115)
Other expenses	1,453	1,656
Total general and administrative expenses	**15,860**	**13,925**

* Customer contract fees of the audit firms accounted for during the accounting year were EUR 170 thousand for audit fees (2021: EUR 143 thousand) and EUR 12 thousand for other business activities (2021: EUR 156 thousand).

NOTE 7 OTHER OPERATING INCOME

in thousands of euros

	2022	2021
Interest income from operating activities	2,260	2,116
Profit from sale of non-current assets	313	111
Fines and penalties for delay received	324	202
Collection of doubtful receivables (Notes 15, 34)	15	2
Other income	232	1,077
Total other operating income	**3,144**	**3,508**

NOTE 8 OTHER OPERATING EXPENSES

in thousands of euros

	2022	2021
Fines, penalties	167	154
Gifts, donations	506	212
Doubtful receivables expense (Notes 15, 34)	232	87
Provisions (Notes 3, 28)	900	-
Other expenses	29	129
Total other operating expenses	**1,834**	**582**

NOTE 9 FINANCE INCOME

in thousands of euros

	2022	2021
Interest income (Note 3)	1	12
Total finance income	**1**	**12**

NOTE 10 FINANCE COSTS

in thousands of euros

	2022	2021
Interest expense (Notes 3, 26)	1,180	681
Foreign exchange losses	137	8
Other finance costs	133	197
Total finance costs	**1,450**	**886**

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:

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

2021	Latvia	Lithuania	Norway	Estonia	Total
Profit (loss) before tax	474	10,753	(316)	21,216	32,127
Tax rate applicable to profits	0%	15%	22%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	0	(1,613)	70	-	(1,543)
Tax calculated on expenses not deductible for tax purposes	-	(218)	-	-	(218)
Tax effect of income not subject to tax	-	171	-	-	171
Tax losses of previous periods recognised in the reporting period	-	1	(2)	-	(1)
Tax losses not recognised in the reporting period	-	(12)	(16)	-	(28)
Income tax withheld on dividends (Note 13)	-	-	-	(1,334)	(1,334)
Deferred income tax on dividends	-	-	-	(151)	(151)
Total income tax expense	**0**	**(1,671)**	**52**	**(1,485)**	**(3,104)**
incl. income tax expense	0	(1,610)	(24)	(1,334)	(2,968)
deferred income tax expense (Note 21)	-	(61)	76	(151)	(136)

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 1.18).

As of 31.12.2022 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 742 thousand euros (31.12.2021: EUR 1,519 thousand euros).

As of 31.12.2022, the parent company AS Merko Ehitus has EUR 1,660 thousand (31.12.2021: EUR 0 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 2022, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 140,704 thousand (31.12.2021: EUR 126,814 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 415 thousand (31.12.2021: EUR 0), the corresponding income tax on dividends would amount to EUR 34,761 thousand (31.12.2021: EUR 31,703 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration. Above that 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.

	2022	2021
Net profit attributable to shareholders *(in thousand EUR)*	34,640	29,140
Weighted average number of ordinary shares *(thousand pcs)*	17,700	17,700
Basic earnings per share *(in euros)*	**1.96**	**1.65**

In 2022 and 2021, 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 2022, the shareholders of AS Merko Ehitus approved the Supervisory Board's proposal to the shareholders to pay out the total amount of EUR 17,700 thousand as dividends from net profit, i.e. EUR 1.00 per share, which is equivalent to a 61% dividend rate and a 6.6% dividend yield for the year 2021 (using the share price as of 31 December 2021). Comparable figures in 2021 were accordingly: EUR 17,700 thousand (EUR 1.00 per share) as dividends, which is equivalent to a 77% dividend rate and a 10.6% dividend yield for the year 2020 (using the share price as at 31 December 2020).

The income tax rate (14/86) of regularly paid (net) dividends in the amount of EUR 5,628 thousand was applied to dividends paid out in 2022. From the dividends paid to natural person shareholders and to which 14/86 income tax rate was applied, group withheld an additional 7% income tax. The group incurred income tax expenses in 2022 in connection with dividend payments in an amount of 1,576 thousand euros (2021: EUR 1,334 thousand) (Note 11).

In cooperation with the Supervisory Board, the Management Board proposes to pay the shareholders EUR 17,700 thousand as dividends from net profits brought forward (EUR 1.00 per share) in 2023, which is equivalent to a 51% dividend rate and a 7.1% dividend yield for the year 2022 (using the share price as at 31 December 2022).

NOTE 14 CASH AND CASH EQUIVALENTS

in thousands of euros

	31.12.2022	31.12.2021
Bank accounts	17,665	44,930
Total cash and cash equivalents (Note 34)	**17,665**	**44,930**

NOTE 15 TRADE AND OTHER RECEIVABLES

in thousands of euros

	31.12.2022	31.12.2021
Trade receivables (Note 34)		
Accounts receivable	52,746	35,444
Allowance for doubtful receivables	(3,285)	(3,347)
	49,461	**32,097**
Tax prepayments excluding corporate income tax		
Value added tax	795	1,021
Other taxes	3	50
	798	**1,071**
Accrued income form construction services (Notes 3, 34)	**15,378**	**15,050**
Other short-term receivables		
Short-term loans (Notes 16, 34)	5,000	1,115
Other short-term receivables (Note 34)	124	195
	5,124	**1,310**
Prepayments for services		
Prepayments for construction services	6,386	5,547
Prepaid insurance	642	158
Other prepaid expenses	170	251
	7,198	**5,956**
Total trade and other receivables	**77,959**	**55,484**
incl. short-term loan receivables from related parties (Note 16)	5,000	1,115
other short-term receivables and prepayments to related parties (Note 32)	8,049	3,573

Although in 2022 the share of overdue receivables decreased from 7.3% to 4.9% of total receivables, the amount of overdue invoices increased to EUR 2,404 thousand as of 31.12.2022 (31 December 2021: 2,338 thousand), as the total amount of receivables increased. By 9 March 2023, EUR 276 thousand or 11.5% of overdue invoices had been received as of the reporting date. In 2022, the share of receivables overdue for more than 121 days increased but the total amount of overdue receivables remained more or less at the same level, and the average collection period of trade receivables extended to the level of 33 days (2021: 31 days).

	2022	2021
Doubtful receivables at the beginning of the period	(3,347)	(3,525)
Reporting period doubtful receivables expenses (Note 8)	(218)	(56)
Receivables written off during the year as uncollectible	276	232
Received doubtful receivables (Note 7)	-	2
Effect of exchange rates	4	-
Doubtful receivables at the end of the period	**(3,285)**	**(3,347)**

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)	Unrelated legal entities	Unrelated individuals	Total
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
Interest rate	6.0%			
2021				
Loan balance at beginning of the year	1,115	368	3	1,486
Granted	-	3,861	-	3,861
Received	-	(4,229)	(3)	(4,232)
Loan balance at end of the year	**1,115**	-	-	**1,115**
incl. current portion (Notes 15, 34)	1,115	-	-	1,115
Average effective interest rate	6.0%	7-15%	5%	

All issued loans reported as at the balance sheet date had not yet fallen due.

NOTE 17 INVENTORIES

in thousands of euros

	31.12.2022	31.12.2021
Materials	503	347
Work-in-progress	92,049	82,953
Finished goods	43,414	6,819
Goods for resale		
Registered immovables purchased for resale/development	84,133	66,160
Other goods purchased for resale	4,249	149
	88,382	**66,309**
Prepayments for inventories		
Prepayments for real estate properties	517	4,109
Prepayments for other inventories	796	56
	1,313	**4,165**
Total inventories	**225,661**	**160,593**

The inventories pledged as collateral as at 31 December 2022 for loans total EUR 136,482 thousand (2021: EUR 90,959 thousand) (Note 30).

In 2022, inventories have been written down to their net realisable value by EUR 3,408 thousand incl. registered immovables purchased for resale/development impairment was made to the one property by EUR 3,400 thousand (2021: EUR 0 thousand). Previously made write-downs have not been reversed (2021: EUR 0 thousand).

	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**
	31.12.2022	**31.12.2021**		
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
AS Merko Infra	-	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	-	Estonia, Tallinn	Mining
Tallinna Teede AS	100	100	Estonia, Tallinn	Road construction
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 MB Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	100	100	Latvia, Riga	Real estate
SIA Merks Mājas	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	Latvia, Riga	Real estate
SIA Zakusala Estates	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	Latvia, Riga	Construction *(in liquidation)*
PS Merks-Ostas Celtnieks	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	Latvia, Riga	Construction
SIA Merko Būve	100	-	Latvia, Riga	Construction
Merko Finland Oy	100	100	Finland, Helsinki	Construction *(in liquidation)*
Merko Investments AS	100	100	Norway, Sofiemyr	Holding
Merko Bygg AS (ex-Peritus Entreprenør AS)	56	56	Norway, Sofiemyr	Construction
Løkenskogen Bolig AS	62	62	Norra, Sofiemyr	Real estate

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

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

On 16 March 2022, a subsidiary of AS Merko Ehitus group, OÜ Merko Kaevandused, acquired a 100% holding in OÜ Metsara-Metspere Kinnisvara, with a share capital of EUR 409 thousand and for a purchase price of EUR 695 thousand. Acquisition of the subsidiary is recognised in the group as an acquisition of land and is recorded under property, plant and equipment (Note 23).

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. The liquidation of OY Merko Finland is scheduled to be completed within 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.

TRANSACTIONS AFTER THE BALANCE SHEET DATE

After the balance sheet date, on 13 January 2023, SIA Merko Būve was registered in Latvian Business Register. PS "Merko Merks" was liquidated on 10 March 2023 in Latvian Business Register.

PURCHASE OF SUBSIDIARY

in thousand euros

	OÜ Metsara-Metspere Kinnisvara	
Acquired ownership interest		100%
Acquisition date		16.03.2022
	Book value	**Fair value**
Cash	0	0
Property, plant and equipment	409	695
Liabilities	0	0
Net assets	409	695
Fair value of net assets		**695**
Acquisition cost		**695**
Subsidiary's cash and cash equivalent on acquisition		0
Paid on acquisition		(695)
Cash flow from acquisition of subsidiary		**(695)**
Net profit from the beginning of the year	-	
Net profit following the acquisition	-	

NOTE 19 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	Ownership and voting rights %		**Location**	**Area of operation**
	31.12.2022	**31.12.2021**		
Associates and joint ventures				
AS Connecto Eesti	50	35	Estonia, Tallinn	Construction
Kodusadam OÜ	50	50	Estonia, Tallinn	Real estate

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

in thousands of euros	**Investment at 31.12.2020**	**Changes in 2021**		**Investment at 31.12.2021**
		acquisition	**profit (loss) on entities**	
Associates and joint ventures				
Connecto Eesti AS	-	4,550	827	5,377
Kodusadam OÜ	2,354	-	(28)	2,326
Total associates and joint ventures	**2,354**	**4,550**	**799**	**7,703**

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

ACQUISITION OF JOINT VENTURE

in thousand euros

	AS Connecto Eesti
Additional share %	15%
Acquisition date	28.02.2022

	Fair value
Cash	1,049
Receivables	1,103
Inventories	432
Non-current assets	460
Borrowings	(156)
Other liabilities	(1,821)
Fair value of net assets	**1,067**
Acquisition cost	**2,236**
Goodwill	**1,169**
Paid for share of joint venture in cash	(2,236)
Outflow of cash – investing activities	**(2,236)**

In 2022, the investment into the joint venture includes a goodwill of EUR 1,169 thousand as determined upon acquisition, which is largely related to the company's ability to jointly win repeated long-term contracts in procurements under the Connecto trademark as well as its readiness to participate in large-scale projects both in Estonia and abroad.

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 2022, 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 52 thousand (2021: EUR -61 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 1.4%, with an average EBITDA margin of 5.8%. The weighted average cost of capital of 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 (-loss)
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**
2021											
AS Connecto Eesti	8,947	12,573	3,251	248	14,190	434	82	9,817	33,778	(31,242)	2,536
Kodusadam OÜ	4,164	14,244	85	2,230	11,611	-	-	4,652	420	(475)	(55)
Total	**13,111**	**26,817**	**3,336**	**2,478**	**25,801**	**434**	**82**	**14,469**	**34,198**	**(31,717)**	**2,481**

In 2022, interest expenses have been recognised in the expenses of AS Connecto Eesti total EUR 9 thousand (2021: 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 contractual obligations to finance, as needed, the joint ventures' activities with loans totalling EUR 5,000 thousand (31.12.2021: EUR 3,250 thousand), of which the group has paid EUR 5,000 thousand in total (31.12.2021: EUR 1,115 thousand). In addition, the group has an obligation to provide construction services in future periods in amount of EUR 26,316 thousand (31.12.2021: EUR 50,333 thousand).

NOTE 20 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousands of euros

	31.12.2022	31.12.2021
Long-term bank deposit (Note 34)	-	5
Long-term trade receivables (Note 34) *	22,982	24,074
Total other long-term loans and receivables	**22,982**	**24,079**

* incl. long-term receivables from a buyer of Balsiu School in amount of EUR 9,317 thousand (31.12.2021: EUR 9,682 thousand) and long-term receivables from a buyer of Kaunas Police Headquarters building in amount of EUR 13,661 thousand (31.12.2021: EUR 14,311) (Note 1.21).

NOTE 21 DEFERRED INCOME TAX ASSETS AND LIABILITIES

in thousands of euros

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

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**	**-**	**-**	**639**
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

31.12.2021	**Lithuania**	**Norway**	**Estonia**	**Total**
Deferred income tax assets				
effect of construction contract works	274	-	-	274
effect of recognition of provisions	345	-	-	345
other effects	3	-	-	3
Total deferred income tax assets	**622**	**-**	**-**	**622**
Deferred income tax liability				
effect of other payables	(1,545)	(43)	-	(1,588)
effect of exchange rates	-	(5)	-	(5)
deferred income tax on dividends	-	-	(1,519)	(1,519)
Total deferred income tax liability	**(1,545)**	**(48)**	**(1,519)**	**(3,112)**
Deferred income tax expense of the financial year (Note 11)	(61)	76	(151)	(136)

NOTE 22 INVESTMENT PROPERTIES

in thousands of euros

	Land	**Right of superficies**	**Buildings**	**Total**
Cost at 31.12.2020	12,407	29	2,631	15,067
Accumulated depreciation 31.12.2020	-	(13)	(1,132)	(1,145)
Carrying amount at 31.12.2020	**12,407**	**16**	**1,499**	**13,922**
Acquisition and improvements	7	-	-	7
Depreciation	-	(1)	(100)	(101)
Carrying amount at 31.12.2021	**12,414**	**15**	**1,399**	**13,828**
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**

As at 31 December 2022, 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 (31.12.2021: 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 28,370 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 2022, investment properties pledged as collateral for loans total EUR 10,895 thousand (31.12.2021: EUR 13,618 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 31.12.2020	712	6,040	14,377	4,027	3,959	29,115
Accumulated depreciation at 31.12.2020	-	(2,689)	(8,760)	(3,145)	-	(14,594)
Carrying amount at 31.12.2020	**712**	**3,351**	**5,617**	**882**	**3,959**	**14,521**
incl. leased assets (Note 25)	-	186	2,487	-	-	2,673
Currency translation differences	-	-	-	2	-	2
Acquisition and improvements	-	521	1,873	224	1,848	4,466
incl. leased assets	-	521	1,541	-	-	2,062
Disposals	-	-	(306)	-	-	(306)
Disposal in the course of business combination	-	-	-	(63)	-	(63)
Reclassification	-	1,623	2,737	703	(5,063)	-
Write-offs	-	-	(2)	-	-	(2)
Depreciation	-	(359)	(1,635)	(274)	-	(2,268)
Carrying amount at 31.12.2021	**712**	**5,136**	**8,284**	**1,474**	**744**	**16,350**
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

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

As at 31 December 2022, property, plant and equipment pledged as collateral for loans total EUR 2,186 thousand (31.12.2021: EUR 2,299 thousand) (Note 30).

NOTE 24 INTANGIBLE ASSETS

in thousands of euros

	Goodwill	Software	Prepayments	Total
Cost at 31.12.2020	69	2,122	15	2,206
Accumulated amortisation and impairment at 31.12.2020	-	(1,495)	-	(1,495)
Carrying amount at 31.12.2020	**69**	**627**	**15**	**711**
Currency translation differences	3	1	-	4
Acquisitions	-	55	178	233
Obtained in the course of business combination	1	-	-	1
Disposals	-	(19)	-	(19)
Disposal in the course of business combination	-	(39)	-	(39)
Reclassification	-	121	(121)	-
Write-offs	-	(14)	-	(14)
Amortisation and impairment	-	(208)	-	(208)
Carrying amount at 31.12.2021	**73**	**524**	**72**	**669**
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**

NOTE 25 LEASED ASSETS

in thousands of euros

	Office space and warehouses	Vehicles and equipment	Total
31.12.2020			
Cost	495	3,684	4,179
Accumulated depreciation	(309)	(1,197)	(1,506)
Carrying amount (Note 23)	**186**	**2,487**	**2,673**
Additions	521	1,541	2,062
Termination of lease contracts	-	(333)	(333)
Depreciation	(164)	(814)	(978)
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**

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

in thousands of euros

	2022	2021	Note
Interest expense	65	45	10
Expense relating to short-term leases	109	112	4, 5, 6
Expense relating to leases of low-value assets	118	94	4, 5, 6

Consideration paid for leases recognised as fixed assets (including the leases that ended during the period) amounted to EUR 1,004 thousand in 2022 (2021: EUR 834 thousand).

Consideration paid for short-term cancellable leases for vehicles as right-of-use assets amounted to EUR 52 thousand in 2022 (2021: EUR 71 thousand). Rented assets have not been subleased.

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

	31.12.2022	31.12.2021
Cost	2,506	2,682
Accumulated depreciation	(1,156)	(1,232)
Carrying amount	**1,350**	**1,450**

	2022	2021
Operating lease income received for investment properties (Note 22)	269	234
Future operating lease income:	**352**	**559**
Next year	292	266
In 2…5 years	53	286
Later than 5 years	7	7
Direct administrative expenses of investment properties (Note 22)	(114)	(148)

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)
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		

	Lease liabilities	Loans from				Total borrowings (Note 34)
		banks	entities under common control (Note 32)	other entities	total	
2021						
Balance at beginning of the year	2,703	20,299	6,000	56	26,355	29,058
Received	2,068	27,833	-	49	27,882	29,950
Repaid	(951)	(5,070)	-	(49)	(5,119)	(6,070)
Sale/return to lessor	(301)	-	-	-	-	(301)
Loan balance as at end of the year	**3,519**	**43,062**	**6,000**	**56**	**49,118**	**52,637**
incl. current portion	868	10,712	-	56	10,768	11,636
non-current portion 2…5 years	2,651	32,350	6,000	-	38,350	41,001
Accrued interest of reporting period	45	596	130	1	727	772
incl. capitalised interest cost	-	101	-	-	101	101
Interest rate range	1.0%-2.49% +3-6 month Euribor	0.98%-2.7% +3-12 month Euribor	2.65%+6 month Euribor	4%+12 month Euribor		
Base currencies	EUR	EUR	EUR	EUR		

	2022	2021
Minimum future payments under lease liabilities	4,302	3,628
incl. current portion	1,198	911
non-current portion with the term of 2...5 years	3,104	2,717

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

	2022	2021
Lease liabilities		
1-5 months	726	681
6-12 months	2,915	2,295
Bank loans		
1-5 months	21,888	14,410
6-12 months	46,687	28,652
Loans from entities under common control		
6-12 months	6,000	6,000
Loans from other entities		
6-12 months	-	56
Total	**78,216**	**52,094**

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

	2022	2021
Lease liabilities	661	543
Bank loans	4,985	-
Loan from parent company	8,000	-
Loans from other related parties	61	-
Total	**13,707**	**543**

Loan collaterals and pledged assets are presented in Note 30.

NOTE 27 PAYABLES AND PREPAYMENTS

in thousands of euros

	31.12.2022	31.12.2021
Trade payables (Note 34)	**46,020**	**29,413**
Payables to employees	**11,638**	**11,640**
Tax liabilities, except for corporate income tax		
value added tax	6,587	3,119
personal income tax	615	546
social security tax	1,680	1,270
unemployment insurance tax	65	58
contributions to mandatory funded pension	33	39
other taxes	143	124
	9,123	**5,156**
Prepayments for construction services (Notes 3, 34)	**6,298**	**7,024**
Other liabilities (Note 34)		
interest liabilities	113	20
other liabilities	961	2,338
	1,074	**2,358**
Prepayments received *	**22,095**	**34,463**
Total payables and prepayments	**96,248**	**90,054**
incl. payables to related parties (Note 32)	2,519	2,503

* As of 31 December 2022, the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 5,184 thousand (31.12.2021: EUR 12,435 thousand) and of prepayments received connection with residential properties (apartment buyers) in a sum of EUR 16,911 thousand (31.12.2021: EUR 22,028 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**
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
2021						
Balance at beginning of the year	3,448	312	202	2,319	66	6,347
Recognised (Notes 3, 4, 6)	2,145	644	-	5,189	86	8,064
Reversed (Notes 3, 6)	(412)	-	(202)	-	-	(614)
Used during the year	(1,292)	(374)	-	(3,971)	(66)	(5,703)
Related with business combination	(118)	-	-	-	-	(118)
Balance at end of the year	**3,771**	**582**	-	**3,537**	**86**	**7,976**
incl. current portion	3,771	582	-	3,537	86	7,976

* 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

	31.12.2022	31.12.2021
Trade payables (Note 34)	2,133	2,110
Prepayments received *	-	528
Other long-term payables (Note 34)	-	262
Total other long-term payables	**2,133**	**2,900**
incl. other long-term payables to related parties (Notes 32)	-	262

* As of 31 December 2022, the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 0 thousand (31.12.2021: EUR 528 thousand) (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	31.12.2022	31.12.2021
Movable property	77,033	59,464
Financial assets *	25,802	25,679
Total	**102,835**	**85,143**

* The financial assets of UAB Balsiu Mokyklos SPV, which OÜ Merko Property has pledged to secure the investment loan in the amount of EUR 6,557 thousand for the benefit of OP Corporate Bank plc Lithuanian branch (31.12.2021: EUR 6,082 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 10,645 thousand for the benefit of AB SEB bankas (31.12.2021: EUR 11,508 thousand for the benefit of AB SEB bankas).

Mortgages	31.12.2022	31.12.2021
Inventories (Note 17)	136,482	90,959
Land and buildings (Note 23)	2,186	2,299
Investment properties (Note 22)	10,895	13,618
Total	**149,563**	**106,876**

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 6,557 thousand (31.12.2021: EUR 6,082 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 10,645 thousand is secured by the pledge (31.12.2021: EUR 11,508 thousand AB SEB bankas).

NOTE 31 SHARE CAPITAL

There were no changes in share capital during 2022 and 2021.

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 31.12.2022 and 31.12.2021, the share of capital of AS Merko Ehitus was EUR 7,929 thousand and the consolidated net assets of AS Merko Ehitus were EUR 184,187 thousand (31.12.2021: EUR 167,239 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 31.12.2022 and 31.12.2021, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

GOODS AND SERVICES

in thousands of euros

	2022	2021
Provided services and goods sold		
Parent company	15	13
Associate and joint venture	30,116	6,307
Entities under common control	44,941	15,729
Members of the management **	186	399
Total services provided and goods sold	**75,258**	**22,448**
Interest income		
Joint ventures	196	68
Purchased services and goods		
Parent company	104	90
Associates and joint ventures	203	145
Entities under common control	73	64
Members of the management	-	1
Total purchased services and goods	**380**	**300**
Interest expense		
Parent company	73	-
Entities under common control	153	130
Other related parties	1	1
Total interest expense	**227**	**131**

BALANCES WITH RELATED PARTIES

in thousands of euros

	31.12.2022	31.12.2021
Receivables from related parties		
Loans granted (Note 15, 16, 20)		
Joint ventures	5,000	1,115
Receivables and prepayments (Note 15)		
Parent company	5	4
Associates and joint ventures	3,239	1,924
Entities under common control	4,805	1,616
Members of the management	-	29
Total receivables and prepayments	**8,049**	**3,573**
Total receivables from related parties	**13,049**	**4,688**
Payables to related parties		
Lease liabilities (Note 26)		
Entities under common control	254	31
Short-term loans received (Note 26)		
Parent company	8,000	-
Other related parties	61	-
Total Short-term loans received	**8,061**	-
Payables and prepayments (Note 27)		
Parent company	-	9
Associates and joint ventures	35	8
Entities under common control	2,444	2,446
Members of the management	40	40
Total payables and prepayments	**2,519**	**2,503**
Long-term loans received (Note 26)		
Entities under common control	6,000	6,000
Other related parties	-	-
Total long-term loans received	**6,000**	**6,000**
Other long-term payables (Note 29)		
Other related parties	-	262
Total payables to related parties	**16,834**	**8,796**

* Provided services to joint ventures consist mainly of construction services.
** In 2022 and 2021, construction and design services were provided to management members and sold an apartment. These were not significant transactions for the group.

With regard to receivables from related parties, no impairments were performed in either 2022 or 2021.

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 2022 were EUR 1,363 thousand (12 months of 2021: EUR 860 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 228 thousand (2021: EUR 228 thousand). In the 12 months of 2022, the Management Board members of AS Merko Ehitus did not receive benefits (12 months of 2021: 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 2022

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

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

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31 December 2022

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

NOTE 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.

	31.12.2022	31.12.2021
Performance period's warranty to the customer	28,235	28,573
Tender warranty	10	31
Guarantee warranty period	22,796	19,639
Prepayment guarantee	4,504	15,026
Contracts of surety	500	1,466
Total contingent liabilities	**56,045**	**64,735**

Performance period's warranty to the customer – warranty provider guarantees to the customer that the contractor's obligations arising from construction contract will be adequately 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 2022 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 (2021: Aa3) and the parent company of SEB group, Skandinaviska Enskilda Banken AB, has a Moody's long-term credit rating Aa2 (2021: Aa2). OP Corporate Bank PLC has a Moody's long-term credit rating Aa3 (2021: Aa3). Luminor Bank has a Moody's long-term credit rating A3 (2021: 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 2022. 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**		
31.12.2022				
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**	**-**
31.12.2021				
Cash and cash equivalents (Note 14, 20)	44,930	5	44,935	-
Trade receivables (Notes 15, 20)	32,097	24,074	56,171	-
Accrued income from construction service (Notes 3, 15)	15,050	-	15,050	-
Loans granted (Notes 15, 16, 20)	1,115	-	1,115	-
Other short-term receivables (Note 15)	195	-	195	-
Total	**93,387**	**24,079**	**117,466**	**-**

The group's customers are primarily large local entities or public sector entities (as at 31 December 2022, the public sector proportion in accounts receivable amounted to 44.7%; 31.12.2021: 21.4%) with well-known and sufficient creditworthiness.

TRADE RECEIVABLES BY DUE DATE

in thousands of euros

	31.12.2022		31.12.2021	
Not overdue	70,039	96.7%	53,833	95.8%
1-30 days overdue	160	0.2%	723	1.3%
31-60 days overdue	89	0.1%	566	1.0%
61-90 days overdue	274	0.4%	192	0.3%
91-120 days overdue	500	0.7%	34	0.1%
121-180 days overdue	88	0.1%	194	0.4%
More than 180 days overdue	1,293	1.8%	629	1.1%
Total trade receivables* (Notes 15, 20)	**72,443**	**100%**	**56,171**	**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 2,404 thousand (31.12.2021: EUR 2,338 thousand), of which EUR 276 thousand has been collected by 9 March 2023. In a year, the share of overdue receivables from total receivables decreased from 4.2% to 3.3%. 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.

As at balance sheet date, the loans granted to joint ventures, the economic activities of which the group has a good overview of, totalled EUR 5,000 thousand (31.12.2021: EUR 1,115 thousand) and therefore, no additional collateral is required. As at 31 December 2022, there were no loans granted to unrelated parties (31.12.2020: EUR 0).

LIQUIDITY RISK

The group's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31 December 2022, the group´s current ratio was 2.0 (31.12.2021: 2.4) and the quick ratio 0.6 (31.12.2021: 0.9). 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 53,000 thousand, of which EUR 36,191 thousand was unused (31.12.2021: EUR 49,000 thousand, of which EUR 48,981 thousand was unused). In 2023, the contracts in a total amount of EUR 49,000 thousand will expire, which renewal will be considered. In addition to the overdraft facilities, the company has a working capital loan facility with a limit of EUR 10.0 million from AS Riverito, of which EUR 2.0 million was unused at the end of current period (31.12.2021: there was no loan agreement)

The management estimates that the group's capital structure – equity ratio of 47.5% (31.12.2021: 51.6%) and a moderate proportion of interest-bearing liabilities at 23.7% (31.12.2021: 16.2%) 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		
31.12.2022					
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)**

	Allocation by due date			Total	Carrying amount
	1-3 months	4-12 months	2-5 years		
31.12.2021					
Assets					
Cash and overnight deposits (Note 14, 20)	44,930	-	5	44,935	44,935
Trade receivables (Notes 15, 20)	26,659	5,438	24,074	56,171	56,171
Accrued income from construction services (Notes 3, 15)	15,050	-	-	15,050	15,050
Loans and interest (Notes 15, 16, 20)	-	1,115	-	1,115	1,115
Other short-term receivables (Note 15)	127	68	-	195	195
Total	**86,766**	**6,621**	**24,079**	**117,466**	**117,466**
Liabilities					
Trade payables (Notes 27, 29)	24,049	5,364	2,110	31,523	31,523
Prepayments for construction services (Notes 3, 27)	7,024	-	-	7,024	7,024
Loan and lease liabilities (Note 26) *	4,459	7,177	41,001	52,637	52,637
Other liabilities (Note 27, 29)	2,034	324	262	2,620	2,620
Total	**37,566**	**12,865**	**43,373**	**93,804**	**93,804**
Net assets / liabilities	**49,200**	**(6,244)**	**(19,294)**	**23,662**	**23,662**

* 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 or the interbank rates of the countries of incorporation of the entities. As at 31 December 2022, the share of interest-bearing liabilities in the group's capital structure was 23.7% of the balance sheet total (as at 31 December 2021, 16.2% of the balance sheet total). In the estimation of management, influence of changes in the interest rate environment on the group's results in the 12-month perspective is close to the threshold of materiality. If inflation does not ease off and the central bank continues to hike prime interest rates at the rate seen in the second half of 2022, we cannot rule out that the 6-month Euribor (the rate most often used) will rise to 5%. Such a development would bring about additional annual interest expenses and the level of materiality defined in the risk management policy would be reached (EUR 3.0 million).

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

As at 31 December 2022, the group's interest-bearing liabilities totalled EUR 91,923 thousand (31.12.2021: EUR 52,637 thousand), of which short-term loans and repayments of long-term liabilities in 2023 totalled EUR 49,687 thousand (31.12.2021: EUR 11,636 thousand) and long-term loans and lease liabilities totalled EUR 42,236 thousand (31.12.2021: EUR 41,001 thousand). As at 31 December 2022, the group's loans granted totalled EUR 5,000 thousand (31.12.2021: EUR 1,115 thousand), all of which were classified as short-term loans with repayments in 2023 (31.12.2021: EUR 1,115 thousand short-term loan). Floating loan interest depended on interbank market 1- 12 month interest in the entity's domicile and Euribor. As at 31 December 2022, the break-down of interest-bearing borrowings and loans granted was as follows:

	31.12.2022	31.12.2021
Fixed rate liabilities	13,707	543
Liabilities with floating rate interests 1-5 months	22,614	15,092
Liabilities with floating rate interests 6-12 months	55,602	37,002
Total interest-bearing borrowings (Note 26)	**91,923**	**52,637**
Fixed rate receivables	5,000	1,115

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 the zero 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 78 thousand (31.12.2021: EUR 52 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
31.12.2022		
Assets	98.8%	1.2%
Liabilities	99.2%	0.8%
31.12.2021		
Assets	96.8%	3.2%
Liabilities	97.0%	3.0%

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 8 (2021: 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 2022, indemnity applications submitted to insurance companies totalled EUR 0.52 million (2021: EUR 0.35 million), and insurance benefits were received in the amount of EUR 0.24 million (2021: EUR 0.13 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 2022, warranty provisions were set up at the group in the total amount of EUR 2.30 million (2021: EUR 2.14 million) and disbursements amounted to EUR 1.62 million (2021: EUR 1.29 million). As at the year-end, the group's warranty provision amounted to EUR 4.42 million (31.12.2021: EUR 3.77 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 2022, a provision has been set up at the group in the amount of EUR 1.2 million for covering potential claims and legal costs (31.12.2021: no provision has been formed). (Note 28).

An overview of the key legal disputes of group entities ended during 2022 and ongoing as of 31 December 2022 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 Tallinn Administrative Court suspended the proceedings in the administrative case until the procedure for the detailed planning of the properties has been completed. The impact of this claim has not been taken into account in the group's reporting.

LATVIA

Latvian Competition Council administrative proceeding

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

On 13 September 2021, SIA Merks and AS Merko Ehitus contested the decision of the Latvian Competition Council in the Latvian administrative court. Before the court decision comes into effect, the fine of EUR 2.7 million levied by the Competition Council will not become payable and the possible claims for damages of third persons will not be subject to review nor other possible consequences arising from law will be applicable before the court decision enters into force.
The first court hearing set to discuss the substance of the appeals took place on 12 October 2022, but the hearing was spent on submitting and discussing the various parties' requests. Ten court hearings to review the substance of the complaints were scheduled for the first half of 2023, of which the three that have now been held were used to hear the plaintiffs' petitions and arguments.

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 has decided that it is appropriate to form a provision of 1/3 of the potential fine claim to cover the outcome of the dispute whose resolution is still a long way off and has not this far clearly favoured one side or another. The group has formed an EUR 900 thousand provision. This does not reflect the group's assessment of the expected outcome and only reflects the conservative approach of principles of accounting used in the group.

SIA Ostas Celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas Celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas Celtnieks" according to its share in the consortium. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. The court hearing took place on 28 July 2022, with the court dismissing the claim on the ground that the claim had been submitted by an incorrect person (a formal legal person of the consortium). On 25 October 2022, SIA Merks lodged an appeal which was accepted and will be reviewed on 18 April 2023. The impact of this requirement has not been taken into account in the group's reporting.

Salaspils County Council

On 29 July 2022, SIA Merks filed a lawsuit against the Salaspils County Government in the Court of Economic Affairs in order to find a solution to the disagreements arising from the interpretation of the Salaspils kindergarten construction contract. Salaspils county government filed a counterclaim stating disagreement with the claim of SIA Merks. At the end of 2022, SIA Merks signed the Delivery-acceptance deed and, based on the expert decision, submitted a claim to the court against the Salaspils county government in the amount of EUR 1,635 thousand (EUR 1,304 thousand being the principal claim and EUR 331 thousand late interest). The next court hearing is scheduled for 9 May 2023. The group has not made any provisions as of the date of the report.

SIA Hanza 14

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

VALUE OF ASSETS

In 2022, the group recognised EUR 3,640 thousand (2021: EUR 86 thousand) in impairment losses on assets and inventories, incl. EUR 218 thousand on the write-off of doubtful receivables (2021: EUR 56 thousand), EUR 14 thousand loss from write-off of prepayments to suppliers (2021: EUR 30 thousand) and from inventories EUR 3,400 thousand on registered immovables purchased for resale/development as well as EUR 8 thousand on other goods purchased for resale (2021: no impairment loss of inventory was made). The receivables expensed in prior periods were not received (2021: EUR 2 thousand). See also Notes 15 and 17 for further details.

WAR IN UKRAINE

In parallel with Russia's continued aggression in Ukraine, according to experts, Russia has manipulated gas supplies and prices to counterbalance the sanctions. Due to the multiplicity of impacts and the hybrid activities of all parties, it is still not possible to estimate the impact of the war with accounting accuracy, as energy prices are simultaneously considered an important factor in triggering high inflation. On the one hand, sanctions, energy price increases and inflation have led to a general rise in input prices. On the other hand, the relatively cheaper labour provided by the war refugees has held back the wage growth expectations of the local workforce, and the additional demand they have generated in the housing market has kept the apartment market stronger despite the rising uncertainty. The assessment of the different impacts continues to be difficult, the consolidation into a single impact assessment is currently beyond the capabilities. Undoubtedly, the war has had an extremely negative effect on the economic situation, both through the increase in input prices and the decrease in the pace of construction orders and housing sales, and the group has not been able to fully pass these negative effects on to buyers. On the other hand, we cannot rule out as a direct result of ongoing war, increasing uncertainty and, stemming reduction of investments and purchases in the economy as a whole, which has the effect of escalating internal competition within the sector and exerting downward pressure on margins. Quantifying this negative net effect at the group level requires stabilization of the economy at new equilibrium.

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 2022 and 31 December 2021 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 (31.12.2022: EUR 9,317 thousand; 31.12.2021: EUR 9,682 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 18,171 thousand (31.12.2021: EUR 19,625 thousand) and the fair value of the mentioned receivables is equal to EUR 15,077 thousand using the effective interest rate of 2.88% (31 December 2021: EUR 19,399 thousand using the effective interest rate of 0.16%). The fair value of trade receivables (31.12.2022: EUR 13,661 thousand; 31.12.2021: EUR 14,311 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 19,171 thousand (31.12.2021: EUR 20,914 thousand) and the fair value of the mentioned receivables is equal to EUR 16,233 thousand using the effective interest rate of 2.88% (31.12.2021: EUR 20,698 thousand using the effective interest rate of 0.16%). 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 2022 and 2021, 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 2022, the total equity attributable to equity owners of the parent was EUR 184,187 thousand (31.12.2021: EUR 167,239 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% (31.12.2022: 47,5%, 31.12.2021: 51.6%).

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

	31.12.2022	**31.12.2021**
Borrowings	91,923	52,637
Less: cash and cash equivalents and short-term deposits	(17,665)	(44,930)
Net debt	74,258	7,707
Total equity attributable to owners of the parent	184,187	167,239
Total net debt and equity attributable to equity owners of the parent	258,445	174,946
Share of net borrowings	28,7%	4,4%

The group's net debt at 31 December 2022 was EUR 74.3 million (31.12.2021: negative EUR 7.7 million).

	31.12.2022	**31.12.2021**
Cash and cash equivalents	17,665	44,930
Short-term borrowings	(49,687)	(11,636)
Long-term borrowings	(42,236)	(41,001)
Net debt	(74,258)	(7,707)
Cash and cash equivalents	17,665	44,930
Fixed rate liabilities	(13,707)	(543)
Variable rate liabilities	(78,216)	(52,094)
Net debt	(74,258)	(7,707)

	Cash and cash equivalents	Borrowings	Lease liabilities	Total
Net debt 31.12.2020	47,480	(26,355)	(2,703)	18,422
Cash flow	(2,582)	(22,763)	951	(24,394)
Effect of exchange rate changes	32	-	-	32
New lease contracts	-	-	(2,068)	(2,068)
Termination of lease liabilities	-	-	301	301
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)**

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 page 28 and remuneration information in the Remuneration Report on page 102;
- descriptive information on key management personnel is provided in the Corporate Governance Recommendations (CGR) report on pages 33-37 and in the Remuneration Report on page 102;
- 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 38.

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

	2022	2021
Revenue	555	1,360
Cost of goods sold	(31)	(594)
Gross profit	**524**	**766**
Marketing expenses	(87)	(20)
General and administrative expenses	(2,561)	(2,185)
Other operating income	2,171	1,608
Other operating expenses	(1,167)	(102)
Operating profit (loss)	**(1,120)**	**67**
Finance costs	(385)	(208)
Finance income from investments in subsidiaries	18,646	14,077
Profit before tax	**17,141**	**13,936**
Deferred income tax expense	(25)	(19)
Net profit for the year	**17,116**	**13,917**

STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2022	**31.12.2021**
ASSETS		
Current assets		
Cash and cash equivalents	545	6,827
Receivables and prepayments	48,467	173
	49,012	**7,000**
Non-current assets		
Investments in subsidiaries	120,896	115,264
Other long-term financial assets	17,120	50,955
Property, plant and equipment	370	166
Intangible assets	13	44
	138,399	**166,429**
TOTAL ASSETS	**187,411**	**173,429**
LIABILITIES		
Current liabilities		
Borrowings	13,677	55
Trade and other payables	1,344	1,467
Short-term provisions	924	16
	15,945	**1,538**
Non-current liabilities		
Long-term borrowings	6,258	6,099
	6,258	**6,099**
TOTAL LIABILITIES	**22,203**	**7,637**
EQUITY		
Share capital	7,929	7,929
Statutory reserve capital	793	793
Retained earnings	156,486	157,070
TOTAL EQUITY	**165,208**	**165,792**
TOTAL LIABILITIES AND EQUITY	**187,411**	**173,429**

STATEMENT OF CHANGES IN EQUITY

in thousands of euros

Parent	**Share capital**	**Statutory reserve capital**	**Retained earnings**	**Total**
Balance as at 31.12.2020	7,929	793	**160,853**	**169,575**
Net profit for financial year	-	-	13,917	13,917
Dividends	-	-	(17,700)	(17,700)
Balance as at 31.12.2021	**7,929**	**793**	**157,070**	**165,792**
Carrying amount of holdings under control or significant influence				(115,264)
Value of holdings under control or significant influence under the equity method				116,711
Adjusted unconsolidated equity as at 31.12.2021				**167,239**
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**

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

	2022	2021
Cash flows from operating activities		
Operating profit (loss)	(1,120)	67
Adjustments:		
Depreciation and impairment	118	112
Interest income from business activities	(2,171)	(1,605)
Change in provisions	860	(25)
Change in trade and other receivables related to operating activities	(18,400)	(3,442)
Change in inventories	-	561
Change in trade and other payables related to operating activities	(114)	113
Interest received	668	2,129
Interest paid	(341)	(132)
Other finance income and costs	(44)	(76)
Corporate income tax paid	(25)	(19)
Total cash flows from operating activities	**(20,569)**	**(2,317)**
Cash flows from investing activities		
Acquisition of subsidiaries	-	(19,500)
Investments in subsidiaries	(188)	(77)
Reduction of equity in subsidiary	-	28,200
Purchase of property, plant and equipment (excl. leased assets)	(12)	(3)
Purchase of intangible assets	(2)	(9)
Interest received	-	1
Dividends received	18,646	14,077
Total cash flows from investing activities	**18,444**	**22,689**
Cash flows from financing activities		
Proceeds from borrowings	13,581	-
Loan repayments received	-	(4)
Repayments of lease liabilities	(77)	(75)
Dividends paid	(17,661)	(17,686)
Total cash flows from financing activities	**(4,157)**	**(17,765)**
Net increase/decrease in cash and cash equivalents	**(6,282)**	**2,607**
Cash and cash equivalents in the beginning of period	**6,827**	**4,220**
Cash and cash equivalents at end of the period	**545**	**6,827**

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 2022, 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 31 March 2023.

What we have audited

The Group’s consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2022;
- the consolidated statement of financial position as at 31 December 2022;
- 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, which include significant accounting policies 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.

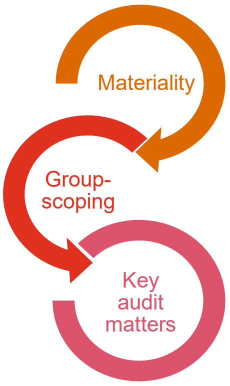
Independence

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.

During the period from 1 January 2022 to 31 December 2022 we have not provided any non-audit services to the Company and its subsidiaries.

Our audit approach

Overview



- Overall group audit materiality is EUR 3.6 million, which represents approximately 0.9% 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 99% 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 judgment, 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 3.6 million
How we determined it	Approximately 0.9% 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.

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.

itted to

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 1.21 'Revenue' and Note 3 'Operating Segments' for further details). In 2022 the Group has recognised revenue of EUR 410 million, EUR 247 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 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.	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; • 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 1.12 'Inventories', Note 17 'Inventories' and Note 34 'Risk management' subsection 'value of assets' for further details). As at 31 December 2022 the Group's statement of financial position includes inventory in the amount of EUR 224 million, of which EUR 43 million were finished apartments, EUR 92 million unfinished apartments and EUR 84 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. 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 99% 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 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.

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.

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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=2023-03-31).

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 2022 (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) 2019/815 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 control requirements

We apply the provisions of the International Standard on Quality Management (Estonia) 1 (revised) and accordingly maintain a comprehensive system of quality management including documented policies and 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;

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- 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 15 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

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

31 March 2023
Tallinn, Estonia

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PROFIT ALLOCATION PROPOSAL

in euros

Total retained earnings as at 31.12.2022	**176,248,246**
incl. net profit for 2022	34,639,747

The Management Board proposes profit allocation as follows:

Dividends (EUR 1.00 per share)	17,700,000
Retained earnings after profit allocation	**158,548,246**

Andres Trink	Chairman of the Management Board	/ digitally signed /	31.03.2023
Tõnu Toomik	Member of the Management Board	/ digitally signed /	31.03.2023

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 2022 and 2021 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):

	2022	2022 performance pay ROE component	2022 performance pay strategic objectives component	**2021**
Andres Trink	**640,588**	**97,200**	**202,800**	**383,836**
Incl. basic salaries	150,279	-	-	136,142
Incl. performance pay	300,000	97,200	202,800	230,000
Incl. taxes and changes in reserves	190,309	-	-	17,694
Tõnu Toomik	**585,908**	**87,480**	**182,520**	**373,723**
Incl. basic salaries	129,558	-	-	115,305
Incl. performance pay	270,000	87,480	182,520	205,000
Incl. taxes and changes in reserves	186,351	-	-	53,418
TOTAL	**1,226,496**	**184,680**	**385,320**	**757,559**

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.

The performance-based pay allocated to executives for their performance in 2022 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 2022.

In 2022, 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 2022, the labour cost was EUR 42.3 million (2021: EUR 38.4 million), up 10.2% 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 (39.1%) is distributed differently as compared to the growth in the average remuneration to executives in the five-year period (58.7%), but overall is significantly greater.

	2022	**2021**	**2020**	**2019**	**2018**
Net profit attributable to equity holders of the parent (million EUR)	34.6	29.1	23.0	16.3	19.3
Return on equity (%)	20.4	18.8	16,2	12.9	15.3
Average number of fulltime employees (people)	657	651	661	709	743
Labour cost (million EUR)	42.3	38.4	36.4	37.4	34.4
Average labour cost per year for employees (thousand EUR)	64.4	59.0	55.1	52.7	46.3
Number of managers	2	2	2	2	2
Average labour cost per year for managers (thousand EUR)	613.2	378.8	518.9	405.7	386.5
Change in labour costs of employees (%)	9.2	7.0	4.5	14.0	6.0
Change in labour costs of managers (%)	61.9	-27.0	27.9	5.0	27.2

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.

KEY FINANCIAL INDICATORS IN 2018-2022

CONSOLIDATED INCOME STATEMENT

in thousands of euros

	2022	2021	2020	2019	2018
Revenue	409,633	339,375	315,918	326,779	418,011
Cost of goods sold	(355,975)	(292,563)	(272,169)	(291,958)	(384,962)
Gross profit (loss)	**53,658**	**46,812**	**43,749**	**34,821**	**33,049**
% of revenue	*13.1%*	*13.8%*	*13.8%*	*10.7%*	*7.9%*
Marketing expenses	(4,077)	(3,611)	(4,212)	(4,260)	(3,285)
General and administrative expenses	(15,860)	(13,925)	(13,412)	(12,988)	(12,304)
Other operating income	3,144	3,508	2,320	2,983	3,527
Other operating expenses	(1,834)	(582)	(2,979)	(1,318)	(1,115)
Operating profit (loss)	**35,031**	**32,202**	**25,466**	**19,238**	**19,872**
% of revenue	*8.6%*	*9.5%*	*8.1%*	*5.9%*	*4.8%*
Finance income	1	12	1	3	8
Finance costs	(1,450)	(886)	(866)	(684)	(696)
Profit (loss) from joint ventures	3,516	799	(144)	1,766	591
Profit (loss) before tax	**37,098**	**32,127**	**24,457**	**20,323**	**19,775**
% of revenue	*9.1%*	*9.5%*	*7.7%*	*6.2%*	*4.7%*
Corporate income tax expense	(2,995)	(3,104)	(1,954)	(3,833)	(375)
Net profit (loss) for the financial year	**34,103**	**29,023**	**22,503**	**16,490**	**19,400**
incl. attributable to equity holders of the parent	34,640	29,140	22,994	16,270	19,343
% of revenue	*8.5%*	*8.6%*	*7.3%*	*5.0%*	*4.6%*
Attributable to non-controlling interests	(537)	(117)	(491)	220	57

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2022	31.12.2021	31.12.2020	31.12.2019	31.12.2018
ASSETS					
Current assets					
Cash and cash equivalents	17,665	44,930	47,480	24,749	39,978
Trade and other receivable	77,959	55,484	32,657	50,413	76,183
Prepaid corporate income tax	38	114	306	104	224
Inventories	225,661	160,593	126,332	166,226	117,992
	321,323	**261,121**	**206,775**	**241,492**	**234,377**
Non-current assets					
Investments in joint ventures	12,895	7,703	2,354	2,498	732
Other long-term loans and receivables	22,982	24,079	17,979	11,094	10,391
Deferred income tax assets	693	622	653	-	-
Investment properties	11,485	13,828	13,922	14,047	13,771
Property, plant and equipment	17,452	16,350	14,521	11,919	9,715
Intangible assets	582	669	711	777	671
	66,089	**63,251**	**50,140**	**40,335**	**35,280**
TOTAL ASSETS	**387,412**	**324,372**	**256,915**	**281,827**	**269,657**
LIABILITIES					
Current liabilities					
Borrowings	49,687	11,636	13,649	20,725	19,900
Payables and prepayments	96,248	90,054	55,846	69,585	77,016
Corporate income tax liability	1,241	681	1,202	812	381
Short-term provisions	9,820	7,976	6,347	7,976	8,100
	156,996	**110,347**	**77,044**	**99,098**	**105,397**
Non-current liabilities					
Long-term borrowings	42,236	41,001	15,409	43,001	24,266
Deferred income tax liability	2,355	3,112	3,001	1,682	1,481
Other long-term payables	2,133	2,900	4,026	3,491	2,179
	46,724	**47,013**	**22,436**	**48,174**	**27,926**
TOTAL LIABILITIES	**203,720**	**157,360**	**99,480**	**147,272**	**133,323**
EQUITY					
Non-controlling interests	(495)	(227)	4,207	4,217	4,577
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	(783)	(791)	(814)	(710)	(721)
Retained earnings	176,248	159,308	145,320	122,326	123,756
	184,187	**167,239**	**153,228**	**130,338**	**131,757**
TOTAL EQUITY	**183,692**	**167,012**	**157,435**	**134,555**	**136,334**
TOTAL LIABILITIES AND EQUITY	**387,412**	**324,372**	**256,915**	**281,827**	**269,657**

OTHER KEY FIGURES

attributable to equity holders of the parent

		2022	**2021**	**2020**	**2019**	**2018**
EBITDA	million EUR	37.9	34.8	28.2	21.9	21.9
EBITDA margin	%	9.3	10.3	8.9	6.7	5.2
General expense ratio	%	4.9	5.2	5.6	5.3	3.7
Staff costs ratio	%	10.3	11.3	11.5	11.4	8.2
Revenue per employee	thousand EUR	623	521	478	461	563
ROE	%	20.4	18.8	16.2	12.9	15.3
ROA	%	9.2	10.0	8.4	5.6	6.9
ROIC	%	15.1	16.9	13.1	11.1	11.5
Equity ratio	%	47.5	51.6	59.6	46.2	48.9
Debt ratio	%	23.7	16.2	11.3	22.6	16.4
Current ratio	times	2.0	2.4	2.7	2.4	2.2
Quick ratio	times	0.6	0.9	1.0	0.8	1.1
Accounts receivable turnover	days	33	31	35	45	40
Accounts payable turnover	days	55	39	37	53	41
Number of employees as at 31.12	people	661	670	666	694	764
Average number of employees	people	657	651	661	709	743
Secured order book as at 31.12	million EUR	297	257	225	141	229
New contracts signed	million EUR	318	288	277	170	246

SHARE-RELATED KEY FIGURES

attributable to equity holders of the parent

		2022	**2021**	**2020**	**2019**	**2018**
Earnings per share (EPS)	EUR	1.96	1.65	1.30	0.92	1.09
Equity per share	EUR	9.57	8.76	8.01	7.13	7.16
Dividend per share	EUR	*	1.00	1.00	-	1.00
Dividend rate	%	*	61	77	-	92
Dividend yield	%	*	6.6	10.6	-	10.9
P/B ratio	times	1.48	1.74	1.18	1.32	1.28
P/E ratio	times	7.24	9.24	7.28	10.20	8.42
Share price trend						
Average	EUR	14.50	14.41	8.80	9.55	10.02
Highest	EUR	16.96	17.14	10.60	10.30	11.80
Lowest	EUR	11.60	9.48	6.56	8.74	8.70
Share price as at 31.12	EUR	14.16	15.22	9.46	9.38	9.20
Market value as at 31.12	million EUR	250.6	269.4	167.4	166.0	162.8
Share turnover trend						
Share turnover	million EUR	18.16	29.78	13.97	21.31	12.16
Transactions	pcs	40,602	46,961	22,033	8,558	4,299
Shares traded	million pcs	1.22	2.06	1.62	2.23	1.18
Ratio of shares traded	%	6.9	11.6	9.2	12.6	6.7
Number of shares	million pcs	17.70	17.70	17.70	17.70	17.70
Number of shareholders as at 31.12	pcs	11,587	9,309	5,658	3,924	2,664

** Ratios related to dividends for 2022 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 2022 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		**2022**	**2021**
	Real estate activities		
6420	activities of holding companies	540	452
6810	sales of own real estate	-	895
6820	renting and operating of own or leased real estate	15	13
	Total revenue	**555**	**1,360**

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 covered in the taxonomy but not environmentally sustainable. If the project does not meet any of the screening criteria of "substantial contribution" specified in the regulation, 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

Based on the fact that regulations 2021/2178 and 2021/2139 entered into force on 30 December 2021 and Annex I to regulation 2021/2178 require the accounting methods to be disclosed consitently, Merko Ehitus group takes the position that in 2021 (i.e. before the entry of force of the regulation) there was not sufficient grounds for applying accounting methods in a manner that gives a correct and comparable result with these reports. Thus, the share presented for the previous years in all the forms in column 19 is considered equal to zero, because before 30.12.2021 there was no legal clarity and basis for individual evaluation of projects under regulations 2021/2178 and 2021/2139.

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

- Since, only “climate change mitigation” and “climate change adaptation” screening criteris, out of the substantial contribution criteria, have been established in the delegated regulation, the columns for the other four other criteria (columns 7-10) have been hidden.
- 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	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems			
(1)	(2)	(3) Thous. EUR	(4) %	(5) %	(6) %	(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														
Wind farm construction service	F42.22	38,821	9,5%	100,0%	0,0%		Y					Y	100%	0%
Turnover of environmentally sustainable activities		38,821	**9,5%**	100,0%	0,0%								**100%**	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		38,821	**9,5%**	**100,0%**	**0,0%**									
B. Taxonomy-non-eligible activities														
Turnover of Taxonomy-non-eligible activities		370,813	**90,5%**											
Total A + B		409,633	**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 turnover in the financial year	Taxonomy- aligned proportion of turnover in the previous year
				Climate change mitigation	Climate change adaptation	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems			
(1)	(2)	(3)	(4)	(5)	(6)	(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														
…		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		3,961	**100,0%**											
Total A + B		3,961	**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 turnover in the financial year	Taxonomy- aligned proportion of turnover in the previous year
				Climate change mitigation	Climate change adaptation	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems			
(1)	(2)	(3)	(4)	(5)	(6)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
		Tuh.EUR	%	%	%	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%	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		19,936	**100,0%**											
Total A + B		19,936	**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: 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, 103-105, 116	
102-8	Basic information on employees	p. 28, 102, 116	
102-9	Supply chain		Merko Ehitus group companies use suppliers and subcontractors extensively in all operating countries. The materials 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, 116-117	
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 Utilities Association Estonian Mining Industries Association Estonian Security Companies Association 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	In its operations, the group is guided by the strategy and values of Merko Ehitus and responsible management system and business principles, including code of business ethics and Our Merko ('Meie Merko' in Estonia), which summarizes the nature, principles and values of Merko. These are included in the orientation of new personnel and also highlighted in various events and materials for personnel.
GOVERNANCE			
102-18	Governance structure	p. 33-37	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholders	p. 111	
102-41	Collective bargaining agreements		Merko Ehitus group does not have general collective bargaining agreements, it complies with company-specific agreements in line with local legislation.

102-42	Identification and selection of stakeholders	p. 111	
102-43	Approach to stakeholder engagement	p. 111	
102-44	Key topics and concerns raised		Customers and employee satisfaction surveys, grievances about labour practices. In 2022, the number of new grievances about labour practices against Merko group amounted to 0 (2021: none), the number of grievances (both from current and previous years) addressed was 0 (2021: none) and the number of grievances (both from current and previous years) resolved was 0 (2021: none).

Feedback from clients helps make our products and services better. In Estonia, we sampled feedback in 2022 from over 500 customers who had bought an apartment to see what they felt about different aspects about their new home and the purchase process. We conducted the surveys among new residents in the completed phases of the Uus-Veerenni, Pikaliiva, Lahekalda and Erminurme projects. The survey drew a 40% response rate, and the average recommendation index was +59 on a scale of -100 to +100.

In February 2022, Merks in Latvia conducted a survey on working environment and safety at work, in which it asked both office workers and construction workers about the workplace, ergonomics of their workstation, remote work, asking separate questions about working in the construction sector, employee well-being, and availability of the necessary support and information. Most – 91% of the 82 employees responded. The lion's share of the employees was satisfied with their duties and workload and sense that the necessary materials are readily available. They also put in suggestions for improving the work environment and workplace.

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. 111	
102-47	List of material topics	p. 111	
102-48	Restatements of information		-
102-49	Changes in reporting		-
102-50	Reporting period	p. 2	The reporting period is the calendar year, January 1, 2022 – December 31, 2022
102-51	Date of most recent previous report		The most recent previous integrated annual report was published on April 7, 2022.
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. 112-118	
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. 103-105	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 2022 (2021)** **Customers** Revenue EUR 409.6 million (339.4) **Suppliers** Materials and goods, EUR 72.9 million (59.7) External services EUR 215.3 million (181.4) **Employees** 661 employees (670) Labour costs EUR 42.3 million (38.4) **Investors** Dividends EUR 17.7 million (17.7) **Public sector** Corporate income tax expense EUR 3.0 million (3.1)

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

	2022	2021
Estonia	20,826	24,620
Latvia	2,668	2,025
Lithuania	8,577	7,806
Norway	765	838
Total	**32,836**	**35,289**

** Actually paid and not calculated tax amounts.*

PAID* TAXES BY TAX TYPES

in thousands of euros

	2022	2021
Value added tax	10,212	14,057
Taxes on employee wages	17,398	14,571
Other taxes	1,787	1,455
Corporate income tax	3,439	5,206
Total	**32,836**	**35,289**

** 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 33-37	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. 6-11, 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 continuously provides training and orientation to its personnel on the prevention of corruption and other illegal operating practices. The content and scope of the training depends partly on the role of the persons concerned.
205-3	Confirmed incidents of corruption and actions taken		There were no confirmed incidents of corruption in 2022. 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		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, 102	
401-1	New employee hires and employee turnover		In the financial year, 81 people joined and 90 people left (2021: 144 people joined and 140 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, 102	

TOTAL NUMBER OF EMPLOYEES BY EMPLOYMENT CONTRACT

	2022		2021	
Permanent contract	618	93%	632	94%
Temporary contract	43	7%	38	6%
Total	**661**	**100%**	**670**	**100%**

TOTAL NUMBER OF PERMANENT EMPLOYEES BY EMPLOYMENT TYPE

	2022		2021	
Full-time	575	93%	602	95%
Part-time	43	7%	30	5%
Total	**618**	**100%**	**632**	**100%**

TOTAL NUMBER OF EMPLOYEES BY GENDER

	2022		2021	
Male	547	83%	555	83%
Female	114	17%	115	17%
Total	**661**	**100%**	**670**	**100%**

TOTAL NUMBER OF EMPLOYEES BY GEOGRAPHICAL LOCATION

	2022		2021	
Estonia	441	67%	440	66%
Latvia	82	12%	85	13%
Lithuania	117	18%	122	18%
Norway	21	3%	23	3%
Total	**661**	**100%**	**670**	**100%**

TOTAL NUMBER OF EMPLOYEES BY EMPLOYMENT POSITION

	2022		2021	
Management	12	2%	14	2%
Middle management, specialists	437	66%	423	63%
Workers	212	32%	233	35%
Total	**661**	**100%**	**670**	**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 organize occupational health and safety supervision and training, including continuing education. To forestall health problems, plan a safer work environment and use health rehabilitation measures, we provide health checks periodically at our healthcare partners, the content and frequency depends on the nature of the hazards in the specific employee's work. In addition, we offer employees the possibility of getting vaccinated for flu and tick-borne encephalitis and enable COVID-19 testing if necessary. Healthy lifestyles help compensate for stressful jobs. To promote physical fitness, we compensate employees' sports and health costs and encourage them to get active in the fresh air and use recreational trails all over Estonia – after all, Merko has been establishing and developing a network of trails for 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 2021, only three potentially dangerous incidents were reported but in 2022 the number was 11. 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 2022, 80% of Merko Ehitus group's employees worked in companies with an international health and safety certificate ISO 45001 (2021: 79%). 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

	2022	**2021**	**2020**
Total number of injuries/accidents excluding minor (first-aid level)	10	5	9
Total number of occupational illnesses	0	0	0
Total number of lost days due to occupational injuries/accidents or illnesses	314	212	368
Total number of absentee days	7,401	7,668	5,757
Total number of fatalities *	0	0	0
Injury rate (per 100 employees)	1.7	0.8	1.5
Occupational diseases rate (per 100 employees)	0.0	0.0	0.0
Lost days rate (per 100 employees)	53.5	35.3	61.5
Absentee rate per year (%)	5.0	5.1	3.9

Calculation of ratios is provided on page 106 of the report.

** In 2022, there were 6 work-related accident, 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 (2021: 0; 2020: 0) and were no fatal accidents to such employees (2021: 0; 2020: 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	Merko Ehitus Eesti employees' education and development activity has become seated in the Merko master class programme created in 2020. This programme involves Merko staff and out-of-house instructors conducting various in-house training sessions. Employees also take part in professional training offered by various training partners in the construction sector. Online courses have become the norm and again allowed greater participation rates in 2022. 2022 also saw two very important thematic seminars continue – the safety seminar was held for the second time and a construction quality seminar for the third time. The main goal is to share experiences and learn to prevent errors. For the purpose of making construction more efficient and increasing productivity, an educational programme was launched and a pilot training was held where the use of LEAN principles in construction and the possibilities of using alliance and integrated product execution methods were introduced. As part of the programme, participants learned about construction projects in Finland that use the relevant methods. To hone digital knowledge and skill sets, four large-scale BIM training courses were held. Participants learned to simplify everyday work steps and also were trained in additional work methods. To psychologically support employees, training courses were held to ensure work ability and maintain psychological well-being during stressful times. The group's Latvian staff took part at a conference held by the company in June focusing on innovation and improvements in the construction field, dealing with the latest technologies for managing,

<table>
<tr><td></td><td></td><td></td><td>executing and overseeing operations. Lithuanian employees took, among others, courses on occupational safety and healthcare, sales psychology, customer experience management, legislative amendments in the field. They also went on learning trips and participated at various conferences in the field.</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">2022</th><th colspan="2">2021</th></tr>
<tr><td>Estonia*</td><td>118</td><td>27%</td><td>-</td><td>-</td></tr>
<tr><td>Latvia</td><td>28</td><td>34%</td><td>23</td><td>27%</td></tr>
<tr><td>Lithuania</td><td>117</td><td>100%</td><td>122</td><td>100%</td></tr>
<tr><td>Norway</td><td>3</td><td>14%</td><td>3</td><td>13%</td></tr>
<tr><td>Total</td><td>266</td><td>40%</td><td>148</td><td>22%</td></tr>
</table>
<i>* Due to the pandemic in 2021, no reviews were conducted in Estonia</i></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. 10-11, 14-15, 111</td><td>In the financial year, the group supported sports, education and culture with donations amounting to a total of EUR 0.44 million (2021: EUR 0.14 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>
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