



# AS MERKO EHITUS

## GROUP

### 2021 12 months and IV quarter consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2021 – 31.12.2021
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Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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# BRIEF OVERVIEW OF THE GROUP

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



## BUSINESS SEGMENTS

### ESTONIA

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

### LATVIA

General construction  
Civil engineering  
Residential real estate development and investments

### LITHUANIA

General construction  
Residential real estate development and investments

### NORWAY

General construction

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

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

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

## SHARES

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

The main shareholder is AS Riverito (72%)

## 2021 KEY FIGURES

Revenue **339.4 million** euros

Net profit **29.1 million** euros

**672** employees





## STRATEGY

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



# MANAGEMENT REPORT

## COMMENTARY FROM MANAGEMENT

Fourth-quarter revenue for Merko Ehitus was EUR 112.8 million and net profit for the same period was EUR 13.9 million. The revenue for the 12 months of 2021 grew by 7% compared to the previous year to EUR 339.4 million and net profit by 27% to over EUR 29 million. This year in the three Baltic states Merko has launched construction of more than 1,450 apartments due to be completed in the next two years.

According to the management of Merko Ehitus, the results for 2021 exceeded expectations from a year ago, especially considering the rapid growth of construction prices and continuing major supply chain problems. The market situation for general construction contracting has not improved. Furthermore, uncertainty is also fed by rising inflation, which in the absence of countermeasures threatens to engulf all prices in an upward spiral. Longer-term fixed-price contracts involve high risks that cannot be borne by general contractors alone, and more flexible pricing could be a solution. We will certainly see difficulties in the construction market in fulfilling the past contracts on time, and probably also the increase in the price of new construction objects. New developments and actual orders will be coming on the market, above all in the warehousing and logistics sector (which is continuing on a growth trajectory), the wind energy segment and public sector projects that cannot stand to be postponed. In the next period, Merko will keep concentrating more on the apartment development field, where we trust in our ability to keep the speed and cost of the development and construction process largely under control.

**2021 12M  
REVENUE  
339 MILLION EUROS**

**PROFIT  
BEFORE TAX  
32.1 MILLION EUROS**

The proportion of apartment development in the group's Q4 revenue was traditionally high, due to the timing of the project completion and delivery of sold apartments to buyers. Overall for the 12 months, real estate development made up less than 1/3 of revenue but over 2/3 of net profit. New sales of apartments in the Merko Ehitus group reflect the general situation on the apartment market – only a few of the completed apartments are unsold and over half of the ones under construction are covered by preliminary sale contracts.

In 2021, Merko handed over 496 apartments and 7 commercial spaces to buyers and will continue construction of more than 1,800 apartments, which will be completed in 2022 and 2023. The largest residential developments are Noblessner, Uus-Veerenni, Odra, Metsatuka and Lahekalda in Tallinn; Erminurme in Tartu; Viesturdārzs and Mežpilsēta in Riga and Vilneles Skverai in Vilnius.

Given the challenges of recent years in terms of pandemic and supply chain areas, the companies in Merko group have fared well, with timely responses to changes in the real estate market and higher demand for modern apartments. In pandemic conditions, they have managed to organize work on project sites without major stoppages. This has allowed return on equity to be raised to a level last seen prior to the financial crisis. The employees of Merko companies and all partners should be thanked, as they have found solutions to the unstable conditions on markets for key construction inputs and have harnessed possibilities for achieving goals as opportunities arise. However, new challenges are already ahead in the form of soaring energy prices and the onset of the green transition, which will certainly pose new obstacles and restrictions to usual activities in construction and real estate development.

In 2021, Merko signed EUR 288 million worth new construction contracts and the secured order-book balance reached EUR 257 million.

In the fourth quarter, the largest sites in progress were the third phase of the third development phase of the Mustamäe medical campus of the North-Estonia Medical Centre, the Tallinn School of Music and Ballet, St John's School, the Liivalaia quarter's zero-cycle construction works and the construction of infrastructure segments of the Republic of Estonia's southeast land border. In Latvia, the Orkla wafer and biscuit production plant, GUSTAVS business centre, Elemental Skanste office buildings, NATO facilities in Ādaži and the Kauguri city park and youth house were in progress; and in Lithuania, infrastructure for a number of wind farms and the Kaunas district police headquarters building, NATO barracks and a production building for Continental Automotive.

## OVERVIEW OF THE IV QUARTER AND 12 MONTHS RESULTS

### PROFITABILITY

2021 12 months' pre-tax profit was EUR 32.1 million and Q4 2021 was EUR 15.6 million (12M 2020: EUR 24.5 million and Q4 2020 was EUR 10.6 million), which brought the pre-tax profit margin to 9.5% (12M 2020: 7.7%).

Net profit attributable to shareholders for 12 months 2021 was EUR 29.1 million (12M 2020: EUR 23.0 million) and for Q4 2021 net profit attributable to shareholders was EUR 13.9 million (Q4 2020: EUR 9.9 million). 12 months net profit margin was 8.6% (12M 2020: 7.3%).

### REVENUE

Q4 2021 revenue was EUR 112.8 million (Q4 2020: EUR 106.4 million) and 12 months' revenue was EUR 339.4 million (12M 2020: EUR 315.9 million). 12 months' revenue increased by 7.4% compared to same period last year. The share of revenue earned outside Estonia in 12 months 2021 was 37.4% (12M 2020: 43.9%).

### SECURED ORDER BOOK

As of 31 December 2021, the group's secured order book was EUR 257.3 million (31 December 2020: EUR 225.1 million). In 12 months 2021, group companies signed new contracts in the amount of EUR 288.1 million (12M 2020: EUR 277.2 million). In Q4 2021, new contracts were signed in the amount of EUR 15.2 million (Q4 2020: EUR 29.1 million).

### REAL ESTATE DEVELOPMENT

In 12 months 2021, the group sold a total of 496 apartments; in 12 months 2020, the group sold 895 apartments. The group earned a revenue of EUR 72.7 million from sale of own developed apartments in 12 months 2021 and EUR 116.6 million in 12 months 2020. In Q4 of 2021 a total of 299 apartments were sold, compared to 361 apartments in Q4 2020, and earned a revenue of EUR 39.4 million from sale of own developed apartments (Q4 2020: EUR 49.6 million).

### CASH POSITION

At the end of the reporting period, the group had EUR 44.9 million in cash and cash equivalents, and equity of EUR 167.2 million (51.6% of total assets). Comparable figures as of 31 December 2020 were EUR 47.5 million and EUR 153.2 million (59.6% of total assets), respectively. As of 31 December 2021, the group's net debt was EUR 7.7 million (31 December 2020: negative EUR - 18.4 million).

### PROPOSAL FOR DISTRIBUTION OF PROFITS

In coordination with the Supervisory Board, the Management Board proposes to distribute to shareholders EUR 17.7 million in dividends (1 euro per share) from retained earnings in 2022. This is equivalent to a 61% dividend rate for 2021.

# OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

## CONSTRUCTION SERVICES

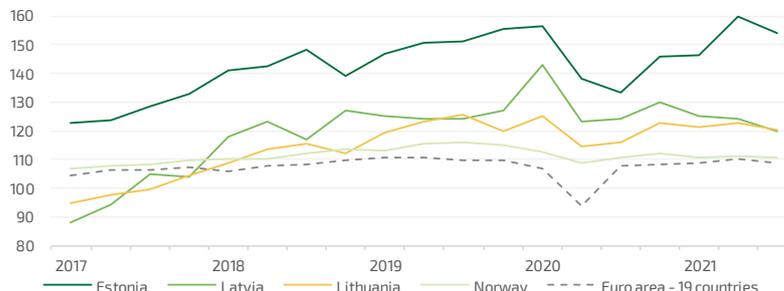
By the end of the second year of the pandemic, 2021, construction volumes in the Baltic states had practically returned to pre-crisis levels. Variation between countries still exists, but these differences are not significant. At the same time, further growth is not likely, as in light of continuing restrictions and the debate about whether to allow third-country workers into the Baltics, quick solutions to the dearth of workers are not on the horizon and existing resources have already been fully deployed. The positive impact of the stimulus measures in the EU recovery package is likely to remain modest, as potential growth of volumes is not limited by funding or lack of projects but rather shortages of materials and subcontractors.

The main factor impacting the construction sector was the soaring prices of construction service and continuing instability in supply chains for materials – developments that started in the second quarter of 2021.

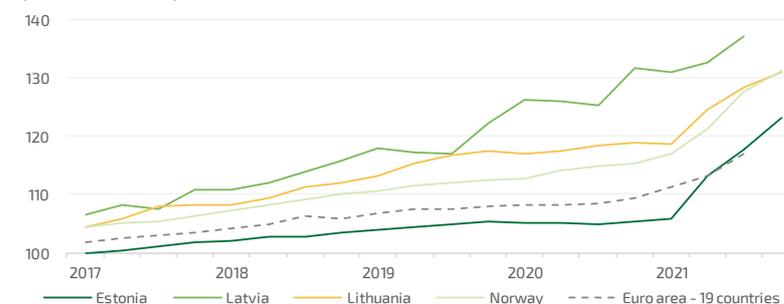
The energy price shock that hit in the last quarter of the year and the unexpectedly strong rise in inflation – which blindsided central banks – confirm experts' forecasts of continued rising prices and supply chain problems. If, on the strength of either the EU recovery plans or their own budgets, Baltic governments decide to increase investments and demand for construction services increases proportionally, it cannot be excluded that the price rise in inputs throughout the construction sector will be passed on to customers.

The likelihood of such a price rise scenario is not high, but it cannot be ruled out, either. What is certain is that construction input prices will not return to the former levels. How much of the price increase will be borne by the construction sector and how much by customers is hard to evaluate in these fast-changing times. In conditions where resources are limited, the result will probably be determined by, first, additional demand entering the market from public sector projects and secondly; the profitability of construction companies' own developments.

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



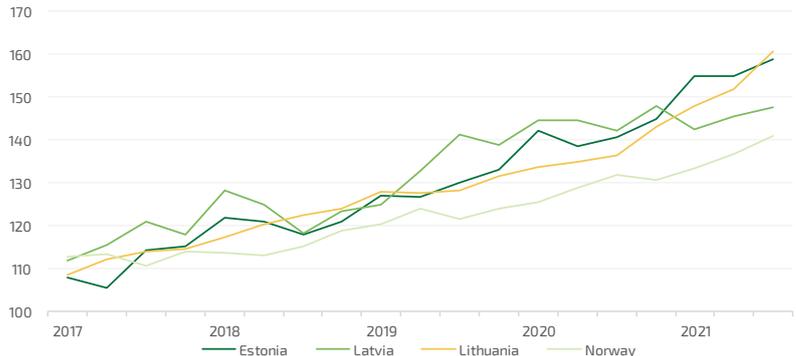
QUARTERLY CONSTRUCTION PRICE INDEX (2015=100; Eurostat)



## DEVELOPMENT OF APARTMENTS

The high level of activity on the new apartments market lasted throughout 2021 in all three Baltic states, remaining the most modest in Latvia and attaining very high levels in Estonia and Lithuania. Despite experts' previous opinions that the price rise was not sustainable, apartment prices set new records; volumes, too, returned to the levels seen before the financial crisis more than a decade ago. Considering strong demand and reduced supply stock on the apartment market, there is reason to presume that growth in sales volumes and prices will continue, although at a more modest level. Expectations of high inflation, and desire for a more energy efficient home – driven by energy price shock – will enliven the market for new apartments for at least the next 12 months and make it somewhat of a seller's market. In Latvia, which was in the doldrums for the first quarters of the year, the apartment market also showed its first signs of coming to life in the last quarter. This trend may be influenced by banks' loan policy and central banks' interest rates, on which all market participants have their eyes fixed with great interest.

NEW DWELLINGS QUARTERLY HOUSE PRICE INDEX (2015=100; Eurostat)



The abovementioned rise in construction prices puts pressure on developers' profit margins and, on the new apartments market, gives an advantage to developers associated with construction firms. If the current spike in energy prices proves to be a long-term phenomenon, we can expect additional and greater differentiation in both used and new apartments on the basis of energy performance indicators.

## BUSINESS ACTIVITIES

The group business reporting is divided into two business segments:

- construction service;
- real estate development.

### CONSTRUCTION SERVICE

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

million EUR

	12M 2021	12M 2020	VARIANCE	Q4 2021	Q4 2020	VARIANCE
Revenue	243.4	186.8	+30.3%	67.5	52.7	+28.1%
% of total revenue	71.7%	59.1%		59.8%	49.5%	
Operating profit	11.8	4.6	+159.1%	4.9	1.4	+246.1%
Operating profit margin	4.9%	2.4%		7.3%	2.7%	

In the 12 months of 2021, the revenue of the construction service segment was EUR 243.4 million (12M 2020: EUR 186.8 million). The sales revenue of construction service has increased by 30.3% compared to the same period last year. The construction service segment revenue for 12 months 2021 made up 71.7% of the group's total revenue (12M 2020: 59.1%). In this segment, the group earned an operating profit of EUR 11.8 million for 12 months (12M 2020: EUR 4.6 million). The operating profit margin was 4.9% (12M 2020: 2.4%).

Larger projects in progress in the fourth quarter in construction service segment in Estonia included the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre, Tallinn School of Music and Ballet, St John's School and zero cycle construction works of Liivalaia quarter as well as construction works of water supply and sewerage piping in Kohila Parish and construction works of the Republic of Estonia's southeast land border. In Latvia, larger ongoing projects in the fourth quarter included the construction works of the Orkla wafer and biscuits production plant, GUSTAVS business center, Elemental Skanste office buildings as well as the NATO base in Ādaži and city park and youth house in Kauguri. In Lithuania, larger projects were construction of wind farm balance of plants in Mažeikiai, Šilalė and Jonava districts, and, in Kaunas, the district Police headquarters building, NATO barracks and Continental Automotive production building were underway. In Norway, the group worked on the reconstruction of smaller scale contracts.

## REAL ESTATE DEVELOPMENT

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

million EUR

	12M 2021	12M 2020	VARIANCE	Q4 2021	Q4 2020	VARIANCE
Revenue	96.0	129.1	-25.7%	45.3	53.7	-15.7%
incl. revenue from sale of apartments	72.7	116.6		39.4	49.6	
incl. construction service from public-private-partnerships	6.9	6.4		0.3	2.2	
incl. construction service to joint venture projects	7.6	1.6		4.1	0.6	
incl. revenue from immovable properties	5.2	1.0		1.0	0.3	
% of total revenue	28.3%	40.9%		40.2%	50.5%	
Operating profit	22.7	23.7	-4.4%	11.1	10.9	+2.3%
Operating profit margin	23.6%	18.4%		24.6%	20.3%	

In 12 months 2021, the group sold a total of 496 apartments and 7 commercial premises; in 12 months 2020, 895 apartments and 9 commercial premises. The group earned a revenue of EUR 72.7 million (VAT not included) from sale of developed apartments in 12 months 2021 and EUR 116.6 million (VAT not included) in 12 months 2020. In the revenue and operating profit of the real estate development segment also are reflected the sales of commercial premises and parking spaces of the real estate development projects and the result of public-private-partnership contracts, based on which the group companies provide construction service and property management services.

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

In 12 months of 2021, real estate development segment revenues decreased by 25.7% compared to the same period last year and formed 28.3% of the group's total revenue (12 months of 2020: 40.9%).

The segment's operating profit for the 12 months of 2021 amounted to EUR 22.7 million (12 months of 2020: EUR 23.7 million) and the operating profit margin was 23.6% (12 months of 2020: 18.4%). The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, including the land acquisition price.

In 12 months of 2021, the group launched the construction of a total of 1,462 new apartments in the Baltic states (12 months of 2020: 698 apartments). In the 12 months, the group invested a total of EUR 71.6 million (12 months of 2020: EUR 52.6 million) in the ongoing development projects.

Revenue from apartment sales came in lower compared to the same period of previous year mainly because in 2020 the group had more apartments ready to be sold by deed of sale. The market has recovered quickly from the pandemic, demand is high, and apartments are reaching readiness for final sales according to construction schedule.

One of the group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As of 31 December 2021, the group's inventories included land plots with development potential, where the construction works have not started, in the amount of EUR 66.1 million (31.12.2020: EUR 60.7 million).

### GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	31.12.2021	31.12.2020
Estonia	25.9	24.9
Latvia	25.0	25.4
Lithuania	13.6	10.4
Norway	1.6	-
<b>Total</b>	<b>66.1</b>	<b>60.7</b>

In the 12 months of 2021, the group purchased new land plots at the acquisition cost of EUR 15.2 million (12 months of 2020: the group did not purchase new land plots for real estate development purposes).

## SECURED ORDER BOOK

As of 31 December 2021, the group's secured order book amounted to EUR 257.3 million, compared to EUR 225.1 million as of 31 December 2020, having increased by 14.3% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 12 months of 2021, EUR 288.1 million worth of new contracts were signed, which is increased by 3.9% compared to the same period of the previous year (12 months of 2020: EUR 277.2 million). The value of new contracts signed in the fourth quarter of 2021 amounted to EUR 15.2 million; in the fourth quarter of 2020 the value of new contracts signed amounted to EUR 29.1 million.

### LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FOURTH QUARTER OF 2021

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Construction- and design contract for the construction and repair works at the Taara armed forces campus in Võru	Estonia	November of 2022	5.0

As of 31 December 2021, the private sector orders accounted for approximately 73% of the total balance in the group's secured order book (31.12.2020: approximately 34%). Both the public and private sectors are re-evaluating the justification and profitability of investments in an environment of rapidly changing input prices. In such circumstances, the group continues to be selective in signing new contracts in order to ensure a proper risk and reward ratio.

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

## CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 44.9 million (31.12.2020: EUR 47.5 million). As the group's cash position continues to be strong, the group has not utilised its credit lines of existing overdrafts and loan agreements within reporting period. As of the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 49.0 million, which was almost entirely unused at the end of current period (31.12.2020: EUR 44.1 million of which was entirely unused).

The 12-month cash flow from operating activity was negative at EUR 0.2 million (12 months of 2020: positive EUR 62.5 million), cash flow from investing activity was negative at EUR 6.5 million (12 months of 2020: negative EUR 4.2 million) and the cash flow from financing activity was positive at EUR 4.1 million (12 months of 2020: negative EUR 35.5 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 34.8 million (12 months of 2020: positive effect of EUR 28.2 million), from the change in trade and other payables related to operating activities of EUR 30.9 million (12 months of 2020: negative effect of EUR 11.9 million) and from the change in the provisions of EUR 2.0 million (12 months of 2020: negative effect of EUR 1.1 million). The negative effects to cash flow from operating activities came from the changes in receivables and liabilities related to construction contracts of EUR 7.2 million (12 months 2020: positive effect of EUR 2.8 million), from the changes in trade and other receivables related to operating activities of EUR 21.1 million (12 months of 2020: positive effect of EUR 7.0 million) and from the change in inventories of EUR 34.1 million (12 months of 2020: positive effect of EUR 40.2 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments, while the negative cash flow is due to the increase in the volume of inventories related to the construction of apartments, then the positive cash flow is due to the decrease in inventories in the sale of the apartments. Interest was paid EUR 0.8 million (12 months of 2020: EUR 1.1 million) and corporate income tax was paid at EUR 3.2 million (12 months of 2020: EUR 1.1 million).

To support cash flows from operating activities, including increased volumes in apartment development, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (16.2% as of 31.12.2021; 11.3% as of 31.12.2020).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 2.6 million, which is mainly related to the renewal of equipment in the field of construction (12 months of 2020 EUR 4.5 million), and the acquisition of an associated company in the net amount of EUR 4.1 million (12 months of 2020: no acquisitions) and positive effect from the sale of non-current assets in the amount of EUR 0.2 million (12 months of 2020: EUR 0.3 million).

In cash flows from financing, the larger negative factors were dividend payment of EUR 17.7 million (12 months of 2020: EUR 0.1 million), repayments of lease liabilities in the amount of EUR 1.0 million (12 months of 2020: net negative cash flow of EUR 0.9 million). Positive cash flow from financing activity was gained from the change in loans related to net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 9.4 million (12 months of 2020: positive cash flow in the net amount of EUR 1.1 million) and the net change in loans received and repaid in connection with development projects in the amount of EUR 13.4 million (12 months of 2020: net negative cash flow of EUR 28.0 million). The increase in loans stemmed from the increase of the number of apartments in apartment development projects under construction.

The Q4 2021 cash flow from operating activity was positive at EUR 14.2 million (Q4 2020: positive EUR 45.5 million), cash flow from investing activity was negative at EUR 1.1 million (Q4 2020: negative EUR 1.8 million) and the cash flow from financing activity was positive at EUR 12.2 million (Q4 2020: negative EUR 21.6 million).

## RATIOS

(attributable to equity holders of the parent)

<b>INCOME STATEMENT SUMMARY</b>		<b>12M 2021</b>	<b>12M 2020</b>	<b>12M 2019</b>	<b>Q4 2021</b>	<b>Q4 2020</b>	<b>Q4 2019</b>
Revenue	million EUR	339.4	315.9	326.8	112.8	106.4	99.2
Gross profit	million EUR	46.8	43.7	34.8	20.3	18.5	13.9
Gross profit margin	%	13.8	13.8	10.7	18.0	17.4	14.0
Operating profit	million EUR	32.2	25.5	19.2	15.3	11.2	9.3
Operating profit margin	%	9.5	8.1	5.9	13.5	10.5	9.4
Pre-tax profit	million EUR	32.1	24.5	20.3	15.6	10.6	10.0
Pre-tax profit margin	%	9.5	7.7	6.2	13.8	9.9	10.1
Net profit	million EUR	29.0	22.5	16.5	13.9	9.9	9.2
attributable to equity holders of the parent	million EUR	29.1	23.0	16.3	13.9	9.9	9.3
attributable to non-controlling interest	million EUR	(0.1)	(0.5)	0.2	0.0	(0.0)	(0.1)
Net profit margin	%	8.6	7.3	5.0	12.3	9.3	9.3
<b>Other income statement indicators</b>		<b>12M 2021</b>	<b>12M 2020</b>	<b>12M 2019</b>	<b>Q4 2021</b>	<b>Q4 2020</b>	<b>Q4 2019</b>
EBITDA	million EUR	34.8	28.2	21.9	16.0	11.8	10.2
EBITDA margin	%	10.3	8.9	6.7	14.2	11.1	10.3
General expense ratio	%	5.2	5.6	5.3	5.1	5.9	5.8
Labour cost ratio	%	11.3	11.5	11.4	10.3	11.8	10.2
Revenue per employee	thousand EUR	521	478	461	173	161	140

<b>OTHER SIGNIFICANT INDICATORS</b>		<b>31.12.2021</b>	<b>31.12.2020</b>	<b>31.12.2019</b>
Return on equity	%	18.8	16.2	12.9
Return on assets	%	10.0	8.4	5.6
Return on invested capital	%	16.9	13.1	11.1
Assets	million EUR	324.4	256.9	281.8
Equity	million EUR	167.0	157.4	134.6
Equity attributable to equity holders of the parent	million EUR	167.2	153.2	130.3
Equity ratio	%	51.6	59.6	46.2
Debt ratio	%	16.2	11.3	22.6
Current ratio	times	2.4	2.7	2.4
Quick ratio	times	0.9	1.0	0.8
Accounts receivable turnover	days	31	35	45
Accounts payable turnover	days	39	37	53
Average number of employees	people	651	661	709
Secured order book	million EUR	257.3	225.1	141.4

Ratio definitions are provided on page 38 of the report.

## RISK MANAGEMENT

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

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

### *Legal risk*

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

As of 31 December 2021, no provision has been formed (31.12.2020: EUR 0.2 million) for covering potential claims and legal costs.

Below an overview of the key legal disputes and proceedings, which have taken place or ended during 2021 or are ongoing as of 31 December 2021 and which concern group entities is presented:

### **Estonia**

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

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

### **Latvia**

#### Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The parties reached an out-of-court settlement and the positive effect of the claim is reflected in the group's financial report.

#### Latvian Competition Council administrative proceeding

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

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

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

The Latvian Competition Council asked the court for an extension for submitting its arguments against the opinions of the plaintiffs and the Latvian administrative court respectively established 15 December 2021 as the new term for replying. At the time of compiling current report, the response from Latvian Competition Council's has not been made available to the applicants nor has a hearing been scheduled.

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

Considering the as yet unestablished terms for the court proceedings and the fact that the amount of the fine that would be applied under the most adverse scenario of these proceedings has a limited effect on the financial standing of the Merko Ehitus group, the Group has not formed any provisions.

#### SIA Ostas Celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas Celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas Celtnieks" according to its share in the consortium. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. The court took the evidence from both parties to the proceedings and advised the parties to enter into a suitable arrangement for both parties. No agreement was reached, SIA "Ostas Celtnieks" filed a counterclaim against SIA Merks for lost profits, which prolongs the process. SIA Merks submitted an application to transfer the court proceedings from Liepāja Circuit Court to Riga Economic Court, which was established and opened in 2021. The next court session is scheduled for 11 March 2022. The impact of this claim has not been taken into account in the group's reporting.

## EMPLOYEES AND LABOUR COSTS

As of 31 December 2021, Merko Ehitus group employed 672 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 6 (+0.9%). The number of employees increased in Latvia and Lithuania and decreased in Estonia in connection with the sale of the electrical engineering business area of AS Merko Infra to Connecto Eesti AS.

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

The group defines labour cost as salary (incl. fixed salary, additional pay, holiday pay, and performance pay), taxes based on salary, fringe benefits and taxes on fringe benefits. In 12 months 2021, the labour cost was EUR 38.4 million (12 months 2020: EUR 36.4 million), which increased by 5.4% compared to the same period previous year. The labour cost ratio decreased by 0.2 pp from 11.5% to 11.3% in comparable periods.

During 12 months of 2021, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 7.3 million in labour taxes in Estonia, being one of the largest labour tax payer in the construction sector (12 months 2020: EUR 7.3 million).

## ETHICAL BUSINESS PRACTICES

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

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

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

## SHARE AND SHAREHOLDERS

### INFORMATION ON SECURITY

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

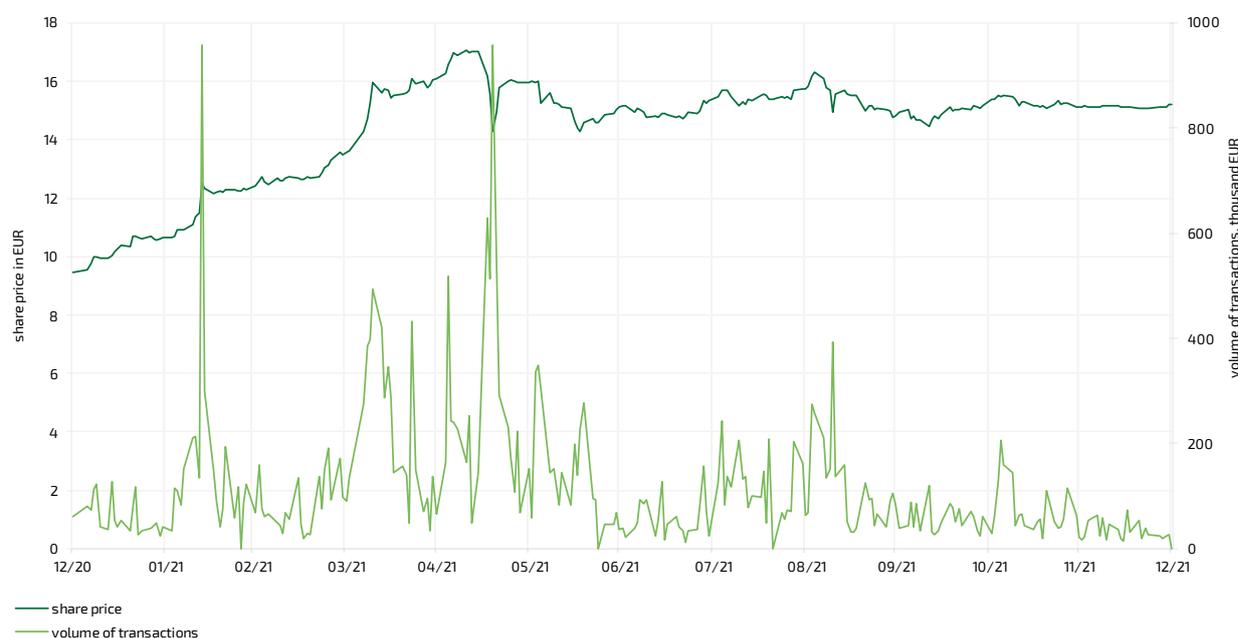
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As of 31 December 2021, the company has 17,700,000 shares. The number of shares has not changed during 2021.

A total of 46,961 transactions were conducted with the shares of Merko Ehitus in 12 months of 2021, with 2.06 million shares (11.6% of total shares) traded, generating a turnover of EUR 29.8 million (comparable figures in 12 months 2020 were accordingly: 22,033 transactions with 1.62 million shares traded (9.2% of total shares), generating a turnover of EUR 14.0 million). The lowest value-per-share transaction was recorded at the price of EUR 9.48 and the highest at EUR 17.14 per share (12 months of 2020: EUR 6.56 and EUR 10.60, accordingly). On 31 December 2021, the closing price of the share was EUR 15.22 (31.12.2020: EUR 9.46). As of 31 December 2021, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 269.4 million, up 60.9% compared to the end of the equivalent period of the prior year (31.12.2020: EUR 167.4 million).

	31.12.2021	31.12.2020	31.12.2019
Number of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	1.65	1.30	0.92
Equity per share, euros	8.76	8.01	7.13
P/B ratio	1.74	1.18	1.32
P/E ratio	9.24	7.28	10.20
Market value, million EUR	269.4	167.4	166.0

Ratio definitions are provided on page 38 of the report.

### CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2021



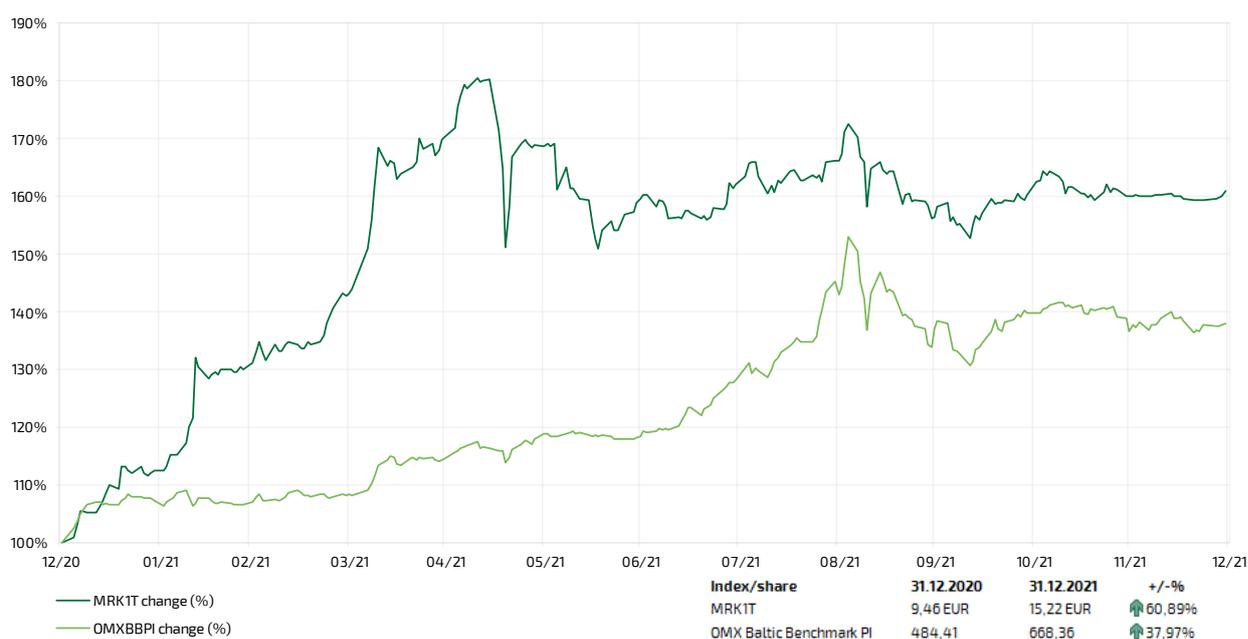
## STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS OF 31.12.2021

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	7	0.07%	1,362,455	7.70%
10,001 – 100,000	49	0.53%	1,087,146	6.14%
1,001-10,000	511	5.49%	1,476,206	8.34%
101-1,000	2,425	26.05%	849,612	4.80%
1-100	6,316	67.85%	181,895	1.03%
<b>Total</b>	<b>9,309</b>	<b>100%</b>	<b>17,700,000</b>	<b>100%</b>

## SHAREHOLDERS OF AS MERKO EHITUS AS OF 31.12.2021 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.12.2021	% OF TOTAL 30.09.2021	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	377,435	2.13%	2.09%	7,185
Firebird Republics Fund Ltd	313,953	1.77%	1.78%	(1,103)
Firebird Aurora Fund Ltd	174,894	0.99%	0.99%	(1,149)
SEB Life and Pension Baltic SE Estonian Branch	148,787	0.84%	0.84%	-
Siseinfo OÜ	130,000	0.73%	0.73%	-
Clearstream Banking AG	113,665	0.64%	0.64%	(15)
Firebird Fund L.P.	103,721	0.59%	0.59%	-
Seitse Samuraid OÜ	100,000	0.56%	0.56%	-
Sven Einar Stefan Andersson	80,000	0.45%	0.45%	-
<b>Total largest shareholders</b>	<b>14,285,141</b>	<b>80.71%</b>	<b>80.68%</b>	<b>(4,918)</b>
Total other shareholders	3,414,859	19.29%	19.32%	(4,918)
<b>Total</b>	<b>17,700,000</b>	<b>100%</b>	<b>100%</b>	<b>-</b>

## PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX BALTIC BENCHMARK PRICE INDEX IN 2021



## DIVIDENDS AND DIVIDEND POLICY

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

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

On 5 May 2021, 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 77% dividend rate and a 10.6% dividend yield for the year 2020 (using the share price as of 31 December 2020). No comparable data for 2020 were available since the general meeting of shareholders held on 6 May 2020 confirmed the Supervisory Board's proposal not to pay dividends from net profit brought forward to shareholders.

While the group did not incur income tax expenses arising in connection with disbursement of dividends in Estonia in 2018 and 2020, it did incur these in 2019 in the case of EUR 10.3 million of paid dividends. Due to that, in 2021, the group applied the 14/86 income tax rate on regularly payable dividends on one third of the EUR 10.3 million, i.e. EUR 3.4 million of the (net) dividends paid. The group withheld an additional 7% income tax from dividends paid to shareholders that were natural persons and on which the 14/86 income tax rate had been applied.

In cooperation with the Supervisory Board, the Management Board proposes to pay the shareholders EUR 17.7 million as dividends from net profits brought forward (EUR 1.00 per share) in 2022, which is equivalent to a 61% dividend rate and a 6.6% dividend yield for the year 2021 (using the share price as at 31 December 2021).

## CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE AND STRUCTURE

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

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

The overview of the Management Board and Supervisory Board have been presented on pages 18-19 and in Note 16 of the interim financial statements, and published, together with the track record and photographs, on the company's website at [group.merko.ee/en/corporate-governance-2/](http://group.merko.ee/en/corporate-governance-2/).

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

As of 31 December 2021, the management structure is as follows:



### GROUP'S LEGAL STRUCTURE

As of 31 December 2021, in addition to AS Merko Ehitus, the group comprises 33 companies (31.12.2020: 31). The group's legal structure is predominantly based on economic and legal rationality and does not in all cases conform one-to-one to the group's management structure. The detailed list of group companies is provided in Note 16 of the interim financial statements.

#### *Changes in the legal structure of the group*

On 6 November 2020, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas. Under the restructuring plan, UAB Merko Bustas's 100% owned subsidiary UAB Jurininku Aikštele was merged into its parent. The final entry in the Commercial Register was made on 17 November 2021.

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

On 18 February 2021, Merko Investments AS, a fully owned subsidiary of AS Merko Ehitus, acquired a 56% holding in a Norwegian company Løkenskogen Bolig AS with a share capital of NOK 30 thousand (EUR 2,884) at the purchase price of EUR 2 thousand for the purpose of real estate development.

On 2 June 2021, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus group, signed a contract with Aardekapp OÜ to acquire a 35% holding (192,500 shares) in Connecto Eesti AS, which designs, builds and maintains electrical, gas and telecommunications networks. After acquisition of the shares, the electrical construction business line of AS Merko Infra, 100% daughter company of AS Merko Ehitus Eesti, merged with Connecto Eesti AS. Estonian Competition Authority granted the needed approval on 25 June 2021. The transfer of shares and completion of the transactions took place on 01 July 2021. In August, transactions were completed in which AS Merko Infra and OÜ Elrek-Mont merged with AS Connecto Eesti. In the future the services will be provided under Connecto brand.

On 3 September 2021, the name change of SIA Merks Investīcijas, a 100% subsidiary of SIA Merks, a AS Merko Ehitus group company, was registered in the Latvian Commercial Register, and the new name of the company is SIA Merks Mājas. On 21 September 2021, SIA Merks Mājas acquired a 100% holding in real estate development subsidiaries SIA Ropažu Priedes and SIA Zakusala Estates from the parent company in intra-group transactions. The development of Latvian real estate in the Merko Ehitus group will in the future take place under the trademark of Merks Mājas and apartment development projects will be carried out through SIA Merks Mājas.

On 21 October 2021, AS Merko Infra and OÜ Merko Kaevandused, both belonging to AS Merko Ehitus group, signed a merger agreement. The acquiring company is OÜ Merko Kaevandused. AS Merko Infra will be acquired by OÜ Merko Kaevandused and as a result of the merger, the company being acquired will wind up without liquidation proceedings and OÜ Merko Kaevandused will become the legal successor of AS Merko Infra. The merger date is 1st of January 2022, after which all transactions of the acquired company will be deemed to be made on the account of OÜ Merko Kaevandused.

As an intra-group transaction in Lithuania, on 30 November 2021, SIA Merks, a 100% subsidiary of AS Merko Ehitus, acquired from subsidiary SIA Merks Mājas a 100% holding in the real estate development subsidiary SIA Industriālais Parks

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 Merks Mājas.

## GENERAL MEETING OF SHAREHOLDERS

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

In order to avoid physical gatherings during the COVID-19 corona pandemic, shareholders' decisions were adopted on 5 May 2021 without convening a general meeting. The annual report for 2020 and the profit allocation proposal were confirmed by vote. The dividends in the amount of EUR 17.7 million (EUR 1 per share) paid out to the shareholders on 18 June 2021.

In addition, the shareholders decided to appoint the audit firm AS PricewaterhouseCoopers as the auditor of AS Merko Ehitus for the financial years of 2021 and 2022 and to pay to the audit firm for auditing as per contract to be entered into with AS PricewaterhouseCoopers.

## SUPERVISORY BOARD

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

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

As of 31 December 2021, the Supervisory Board of AS Merko Ehitus had three members, of whom, in accordance with the requirements of the Corporate Governance Recommendations, Indrek Neivelt was an independent member.

## MANAGEMENT BOARD

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

it well in advance of the meeting so that the Supervisory Board can study it. The Management Board prepares reports for the Supervisory Board also in between the meetings, if it is considered necessary by the Supervisory Board or its Chairperson.

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

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

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

## SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as of 31 December 2021:

COMPANY	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti	Andres Trink (Chairman), Tõnu Toomik, Martin Rebane	Ivo Volkov (Chairman), Jaan Mäe, Veljo Viitmann
Tallinna Teede AS	Tõnu Toomik (Chairman), Ivo Volkov, Andres Trink	Jüri Läll (Chairman), Marek Rand
OÜ Merko Investments	-	Andres Trink, Urmas Somelar
SIA Merks	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Andris Bišmeistars (Manager)
UAB Merko Statyba	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Chairman) Jaanus Rästas
UAB Merko Bustas	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Manager)

### *Changes in the management of group subsidiaries*

The powers of the management board member of Tallinna Teede AS, a subsidiary of AS Merko Ehitus, Mr. Jüri Helila expired on 30 January 2021. On 19 January 2021, the supervisory board of Tallinna Teede AS decided to appoint Mr. Marek Rand as management board member starting from 1 February 2021 until 31 January 2024. The management board of Tallinna Teede AS continues with two members: Mr. Jüri Läll (the Chairman) and Mr. Marek Rand.

As per the decision of AS Merko Ehitus Management Board on 9 July 2021, starting from 16 July 2021, Mr. Urmas Somelar will be a Member of the Supervisory Boards of group companies UAB Merko Statyba, UAB Merko Bustas and SIA Merks, and a Member of the Management Board of group company OÜ Merko Investments, replacing the current member, Mr. Priit Roosimägi.

## MANAGEMENT BOARD'S DECLARATION

Members of the Management Board of AS Merko Ehitus declare and confirm that the consolidated unaudited interim report for the 12 months of 2021, which consists of the management report and the interim financial statements, prepared according to the current International Financial Reporting Standards as adopted by the European Union, provides, to the best of their knowledge, a true and fair view of the development of business operations, assets, liabilities, financial position, results of the operations, cash flows, and profit or loss of AS Merko Ehitus and the consolidated undertakings as a whole, includes a description of the principal risks and uncertainties, and reflects transactions with related parties. The parent company and the companies, which are part of the consolidation group, are going concerns.

Andres Trink	Chairman of the Management Board	10.02.2022
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Tõnu Toomik	Member of the Management Board	10.02.2022
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# INTERIM FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2021 12 months	2020 12 months	2021 IV quarter	2020 IV quarter
Revenue	2	339,375	315,918	112,842	106,438
Cost of goods sold	3	(292,563)	(272,169)	(92,499)	(87,901)
<b>Gross profit</b>		<b>46,812</b>	<b>43,749</b>	<b>20,343</b>	<b>18,537</b>
Marketing expenses		(3,611)	(4,212)	(979)	(1,055)
General and administrative expenses		(13,925)	(13,412)	(4,827)	(5,264)
Other operating income		3,508	2,320	997	606
Other operating expenses		(582)	(2,979)	(254)	(1,663)
<b>Operating profit</b>		<b>32,202</b>	<b>25,466</b>	<b>15,280</b>	<b>11,161</b>
Finance income/costs		(75)	(1,009)	276	(577)
incl. finance income/costs from associates and joint venture		799	(144)	415	(348)
interest expense		(681)	(719)	(133)	(189)
foreign exchange gain (loss)		(8)	(7)	31	5
other financial income (expenses)		(185)	(139)	(37)	(45)
<b>Profit before tax</b>		<b>32,127</b>	<b>24,457</b>	<b>15,556</b>	<b>10,584</b>
Corporate income tax expense		(3,104)	(1,954)	(1,678)	(727)
<b>Net profit for financial year</b>		<b>29,023</b>	<b>22,503</b>	<b>13,878</b>	<b>9,857</b>
incl. net profit attributable to equity holders of the parent		29,140	22,994	13,863	9,923
net profit attributable to non-controlling interest		(117)	(491)	15	(66)
<b>Other comprehensive income, which can subsequently be classified in the income statement</b>					
Currency translation differences of foreign entities		33	(115)	19	2
<b>Comprehensive income for the period</b>		<b>29,056</b>	<b>22,388</b>	<b>13,897</b>	<b>9,859</b>
incl. net profit attributable to equity holders of the parent		29,163	22,890	13,871	9,951
net profit attributable to non-controlling interest		(107)	(502)	26	(92)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	1.65	1.30	0.78	0.56

The notes set out on pages 25-37 are an integral part of these interim financial statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.12.2021	31.12.2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	44,930	47,480
Trade and other receivables	6	55,484	32,657
Prepaid corporate income tax		114	306
Inventories	7	160,593	126,332
		<b>261,121</b>	<b>206,775</b>
<b>Non-current assets</b>			
Investments in associates and joint ventures		7,703	2,354
Other long-term loans and receivables	8	24,079	17,979
Deferred income tax assets		622	653
Investment property	9	13,828	13,922
Property, plant and equipment	10	16,350	14,521
Intangible assets	11	669	711
		<b>63,251</b>	<b>50,140</b>
<b>TOTAL ASSETS</b>		<b>324,372</b>	<b>256,915</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	12	11,636	13,649
Payables and prepayments	13	90,054	55,846
Income tax liability		681	1,202
Short-term provisions	14	7,976	6,347
		<b>110,347</b>	<b>77,044</b>
<b>Non-current liabilities</b>			
Long-term borrowings	12	41,001	15,409
Deferred income tax liability		3,112	3,001
Other long-term payables	15	2,900	4,026
		<b>47,013</b>	<b>22,436</b>
<b>TOTAL LIABILITIES</b>		<b>157,360</b>	<b>99,480</b>
<b>EQUITY</b>			
Non-controlling interests		(227)	4,207
<b>Equity attributable to equity holders of the parent</b>			
Share capital		7,929	7,929
Statutory reserve capital		793	793
Currency translation differences		(791)	(814)
Retained earnings		159,308	145,320
		<b>167,239</b>	<b>153,228</b>
<b>TOTAL EQUITY</b>		<b>167,012</b>	<b>157,435</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>324,372</b>	<b>256,915</b>

The notes set out on pages 25-37 are an integral part of these interim financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
<b>Balance as of 31.12.2019</b>	<b>7,929</b>	<b>793</b>	<b>(710)</b>	<b>122,326</b>	<b>130,338</b>	<b>4,217</b>	<b>134,555</b>
Profit (loss) for the reporting period	-	-	-	22,994	22,994	(491)	22,503
Other comprehensive income	-	-	(104)	-	(104)	(11)	(115)
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>(104)</b>	<b>22,994</b>	<b>22,890</b>	<b>(502)</b>	<b>22,388</b>
<b>Transactions with owners</b>							
Option over shares relating to non-controlling interests	-	-	-	-	-	625	625
Dividends (Note 4)	-	-	-	-	-	(133)	(133)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>492</b>	<b>492</b>
<b>Balance as of 31.12.2020</b>	<b>7,929</b>	<b>793</b>	<b>(814)</b>	<b>145,320</b>	<b>153,228</b>	<b>4,207</b>	<b>157,435</b>
<b>Balance as of 31.12.2020</b>	<b>7,929</b>	<b>793</b>	<b>(814)</b>	<b>145,320</b>	<b>153,228</b>	<b>4,207</b>	<b>157,435</b>
Profit (loss) for the reporting period	-	-	-	29,140	29,140	(117)	29,023
Other comprehensive income	-	-	23	-	23	10	33
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>23</b>	<b>29,140</b>	<b>29,163</b>	<b>(107)</b>	<b>29,056</b>
<b>Transactions with owners</b>							
Non-controlling interests of purchased subsidiary	-	-	-	-	-	1	1
Contribution to subsidiary's share capital	-	-	-	-	-	37	37
Purchase of non-controlling interest	-	-	-	2,548	2,548	(4,434)	(1,886)
Option over shares relating to non-controlling interests	-	-	-	-	-	69	69
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	-	(17,700)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15,152)</b>	<b>(15,152)</b>	<b>(4,327)</b>	<b>(19,479)</b>
<b>Balance as of 31.12.2021</b>	<b>7,929</b>	<b>793</b>	<b>(791)</b>	<b>159,308</b>	<b>167,239</b>	<b>(227)</b>	<b>167,012</b>

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

The notes set out on pages 25-37 are an integral part of these interim financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2021 12 months	2020 12 months
<b>Cash flows from operating activities</b>			
Operating profit		32,202	25,466
Adjustments:			
Depreciation and impairment		2,593	2,751
(Profit)/loss from sale of non-current assets		(111)	(250)
(Profit)/loss from sale of a business unit		(500)	-
Change in receivables and liabilities related to construction contracts		(7,164)	2,794
Interest income from operating activities		(2,116)	(1,499)
Change in provisions		1,981	(1,072)
Change in trade and other receivables related to operating activities		(21,079)	7,017
Change in inventories		(34,148)	40,231
Change in trade and other payables related to operating activities		30,916	(11,937)
Interest received		1,355	1,349
Interest paid		(764)	(1,068)
Other finance income (costs)		(204)	(139)
Corporate income tax paid		(3,161)	(1,132)
<b>Total cash flows from operating activities</b>		<b>(200)</b>	<b>62,511</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries		(1)	-
Acquisition of associate		(4,550)	-
Purchase of investment property		(7)	(7)
Purchase of property, plant and equipment (excl. leased assets)		(2,403)	(4,321)
Proceeds from sale of property, plant and equipment		146	289
Purchase of intangible assets		(233)	(143)
Proceeds from sale intangible assets		19	-
Sale of business unit		500	-
Interest received		12	1
<b>Total cash flows from investing activities</b>		<b>(6,517)</b>	<b>(4,181)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		27,882	20,433
Repayments of borrowings		(5,119)	(54,911)
Repayments of lease liabilities		(951)	(922)
Contributions to the subsidiary's share capital from non-controlling shareholder		9	-
Dividends paid		(17,686)	(133)
<b>Total cash flows from financing activities</b>		<b>4,135</b>	<b>(35,533)</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>(2,582)</b>	<b>22,797</b>
<b>Cash and cash equivalents at the beginning of the period</b>	5	<b>47,480</b>	<b>24,749</b>
<b>Effect of exchange rate changes</b>		<b>32</b>	<b>(66)</b>
<b>Cash and cash equivalents at the end of the period</b>	5	<b>44,930</b>	<b>47,480</b>

The notes set out on pages 25-37 are an integral part of these interim financial statements.

# NOTES

## NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 12 months 2021 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2020 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2020 audited annual report and 2020 12 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 12 months 2021 presents a true and fair view of the group's economic results based on the principle of going concern. The influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

## NOTE 2 OPERATING SEGMENTS

in thousand euros

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

Reporting of the group's operations are segmented as:

- construction service,
- real estate development.

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

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

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

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

<b>2021 12 months</b>	<b>Construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	247,694	130,176	377,870
Inter-segment revenue	(4,271)	(34,224)	(38,495)
<b>Revenue from clients</b>	<b>243,423</b>	<b>95,952</b>	<b>339,375</b>
incl. timing of revenue recognition at a point in time	1,846	80,536	82,382
timing of revenue recognition over time	241,577	15,416	256,993
<b>Operating profit (loss)</b>	<b>11,819</b>	<b>22,673</b>	<b>34,492</b>
<b>Profit (loss) before tax</b>	<b>12,477</b>	<b>22,149</b>	<b>34,626</b>
incl. interest income from operating activities	97	2,019	2,116
depreciation	(2,064)	(529)	(2,593)
recognition of provisions	(5,806)	(2,241)	(8,047)
reversal of provisions	513	101	614
profit (loss) from associate and joint venture	827	(28)	799
other finance income (costs)	(41)	(467)	(508)
incl. interest expenses	(34)	(346)	(380)
<b>Assets 31.12.2021</b>	<b>65,923</b>	<b>203,775</b>	<b>269,698</b>
incl. associate and joint venture	5,377	2,326	7,703
<b>2020 12 months</b>	<b>Construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	188,735	147,891	336,626
Inter-segment revenue	(1,888)	(18,820)	(20,708)
<b>Revenue from clients</b>	<b>186,847</b>	<b>129,071</b>	<b>315,918</b>
incl. timing of revenue recognition at a point in time	1,381	119,915	121,296
timing of revenue recognition over time	185,466	9,156	194,622
<b>Operating profit (loss)</b>	<b>4,561</b>	<b>23,710</b>	<b>28,271</b>
<b>Profit (loss) before tax</b>	<b>4,385</b>	<b>23,122</b>	<b>27,507</b>
incl. interest income from operating activities	23	1,476	1,499
depreciation	(2,245)	(506)	(2,751)
impairment of inventories	(382)	(222)	(604)
recognition of provisions	(1,806)	(1,430)	(3,236)
reversal of provisions	79	-	79
profit from joint venture	-	(144)	(144)
other finance income (costs)	(27)	(353)	(380)
incl. interest expenses	(29)	(288)	(317)
<b>Assets 31.12.2020</b>	<b>52,239</b>	<b>163,083</b>	<b>215,322</b>
incl. joint venture	-	2,354	2,354

<b>2021 IV quarter</b>	<b>Construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	69,549	50,277	119,826
Inter-segment revenue	(2,013)	(4,971)	(6,984)
<b>Revenue from clients</b>	<b>67,536</b>	<b>45,306</b>	<b>112,842</b>
incl. timing of revenue recognition at a point in time	462	40,730	41,192
timing of revenue recognition over time	67,074	4,576	71,650
<b>Operating profit (loss)</b>	<b>4,941</b>	<b>11,142</b>	<b>16,083</b>
<b>Profit (loss) before tax</b>	<b>5,368</b>	<b>11,040</b>	<b>16,408</b>
incl. interest income from operating activities	-	538	538
depreciation	(493)	(202)	(695)
recognition of provisions	(2,247)	(2,041)	(4,288)
reversal of provisions	412	-	412
profit from associate and joint venture	437	(22)	415
other finance income (costs)	(7)	(93)	(100)
incl. interest expenses	(9)	(98)	(107)
<b>Assets' change in IV quarter</b>	<b>(3,989)</b>	<b>5,571</b>	<b>1,582</b>
incl. associate and joint venture	437	(22)	415

<b>2020 IV quarter</b>	<b>Construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	54,047	57,935	111,982
Inter-segment revenue	(1,344)	(4,200)	(5,544)
<b>Revenue from clients</b>	<b>52,703</b>	<b>53,735</b>	<b>106,438</b>
incl. timing of revenue recognition at a point in time	363	50,609	50,972
timing of revenue recognition over time	52,340	3,126	55,466
<b>Operating profit (loss)</b>	<b>1,427</b>	<b>10,893</b>	<b>12,320</b>
<b>Profit (loss) before tax</b>	<b>1,404</b>	<b>10,392</b>	<b>11,796</b>
incl. interest income from operating activities	5	409	414
depreciation	(479)	(169)	(648)
impairment of inventories	(382)	(222)	(604)
recognition of provisions	(410)	(1,115)	(1,525)
reversal of provisions	76	-	76
profit from joint venture	-	(348)	(348)
other finance income (costs)	(10)	(144)	(154)
incl. interest expenses	(12)	(119)	(131)
<b>Assets' change in IV quarter</b>	<b>(3,334)</b>	<b>(26,107)</b>	<b>(29,441)</b>
incl. joint venture	-	(348)	(348)

In addition to the segment assets, as of 31.12.2021 the group holds assets in the amount of EUR 54,674 thousand (31.12.2020: EUR 41,593 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	2021 12 months	2020 12 months	2021 IV quarter	2020 IV quarter
<b>Pre-tax profit from reporting segments</b>	<b>34,626</b>	<b>27,507</b>	<b>16,408</b>	<b>11,796</b>
Other operating profit (loss)	(2,291)	(2,805)	(804)	(1,160)
incl. recognition of provisions	(17)	(9)	(17)	(9)
finance income (costs)	(208)	(245)	(48)	(52)
incl. interest income (expenses)	(131)	(176)	(33)	(38)
<b>Total profit before tax</b>	<b>32,127</b>	<b>24,457</b>	<b>15,556</b>	<b>10,584</b>

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

#### REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2021 12 months		2020 12 months		2021 IV quarter		2020 IV quarter	
Estonia	212,405	62%	177,344	56%	73,863	66%	67,671	64%
Latvia	52,825	16%	49,735	16%	15,132	13%	9,652	9%
Lithuania	63,905	19%	77,173	24%	20,202	18%	25,597	24%
Norway	10,240	3%	11,666	4%	3,645	3%	3,518	3%
<b>Total</b>	<b>339,375</b>	<b>100%</b>	<b>315,918</b>	<b>100%</b>	<b>112,842</b>	<b>100%</b>	<b>106,438</b>	<b>100%</b>

#### CONTRACT ASSETS AND LIABILITIES

in thousand euros

	31.12.2021	31.12.2020
Accrued income from construction services (Note 6)	15,050	7,741
Prepayments for construction services (Note 13)	(7,024)	(6,926)
Advance payments received for construction contract works (Notes 13, 15)	(12,963)	(8,576)
Recognised provision for onerous construction contracts (Note 14)	(582)	(312)

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

in thousand euros

	31.12.2021	31.12.2020
Estonia	24,175	17,896
Latvia	13,202	13,096
Lithuania	1,039	383
Norway	134	133
<b>Total</b>	<b>38,550</b>	<b>31,508</b>

## NOTE 3 COST OF GOODS SOLD

in thousand euros

	2021 12 months	2020 12 months	2021 IV quarter	2020 IV quarter
Construction services and properties purchased for resale	181,370	174,208	60,367	64,821
Materials	49,647	42,526	12,625	7,509
Labour costs	26,313	24,509	7,827	7,887
Construction mechanisms and transport	10,027	11,687	2,456	2,134
Design	5,022	5,103	1,857	1,245
Real estate management costs	385	323	117	84
Depreciation	1,731	1,815	465	412
Impairment of inventories	-	604	-	604
Provisions	7,565	3,100	3,806	1,392
Other expenses	10,503	8,294	2,979	1,813
<b>Total cost of goods sold</b>	<b>292,563</b>	<b>272,169</b>	<b>92,499</b>	<b>87,901</b>

## NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2021 12 months	2020 12 months	2021 IV quarter	2020 IV quarter
Net profit (loss) attributable to shareholders (in thousand EUR)	29,140	22,994	13,863	9,923
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700	17,700
<b>Earnings (loss) per share (in euros)</b>	<b>1.65</b>	<b>1.30</b>	<b>0.78</b>	<b>0.56</b>

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

Dividends payable are recognised after the approval of profit allocation by the shareholders. In accordance with the profit allocation decision, in 2021 the parent company AS Merko Ehitus paid dividends of EUR 17,700 thousand, i.e. EUR 1.00 per share (no dividends were paid in 2020). The income tax expense related to payment of dividends, 1,334 thousand euros, of which 1,368 thousand euros was recognized as the group's deferred tax expense in 2020, paid in third quarter. The group withheld an additional 7% income tax, 14 thousand euros, on the part of the dividends paid to private shareholders taxable at 14/86 income tax rate.

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

As of 31.12.2021 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 1,519 thousand euros (31.12.2020: EUR 1,368 thousand euros).

As of 31.12.2021, the parent company AS Merko Ehitus has no previously taxed dividends and income received from abroad on which income tax has been withheld (31.12.2020: EUR 3,507 thousand), on which income tax has been withheld.

As of 31.12.2021, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 126,814 thousand (31.12.2020: EUR 116,547 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 0 (31.12.2020: EUR 877 thousand), the corresponding income tax on dividends would amount to EUR 31,703 thousand (31.12.2020: EUR 27,959 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration. Above that sum, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out as net dividends). The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

## NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.12.2021	31.12.2020
Bank accounts	44,930	47,480
<b>Total cash and cash equivalents</b>	<b>44,930</b>	<b>47,480</b>

## NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.12.2021	31.12.2020
Trade receivables		
Accounts receivable	35,444	25,391
Allowance for doubtful receivables	(3,347)	(3,525)
	<b>32,097</b>	<b>21,866</b>
Tax prepayments excluding corporate income tax		
Value added tax	1,021	585
Other taxes	50	35
	<b>1,071</b>	<b>620</b>
Accrued income from construction services	15,050	7,741
Other short-term receivables		
Short-term loans	1,115	371
Interest receivables	-	1
Other short-term receivables	195	118
	<b>1,310</b>	<b>490</b>
Prepayments for services		
Prepayments for construction services	5,547	1,570
Prepaid insurance	158	137
Other prepaid expenses	251	233
	<b>5,956</b>	<b>1,940</b>
<b>Total trade and other receivables</b>	<b>55,484</b>	<b>32,657</b>
incl short-term loans to related parties (Note 16)	1,115	-
other short-term receivables and prepayments to related parties (Note 16)	3,573	369

## NOTE 7 INVENTORIES

in thousand euros

	31.12.2021	31.12.2020
Materials	347	351
Work-in-progress	82,953	38,626
Finished goods	6,819	25,210
Goods for resale		
Registered immovables purchased for resale/development	66,160	60,667
Other goods purchased for resale	149	87
	<b>66,309</b>	<b>60,754</b>
Prepayments for inventories		
Prepayments for real estate properties	4,109	-
Prepayments for other inventories	56	1,391
<b>Total inventories</b>	<b>160,593</b>	<b>126,332</b>

## NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	31.12.2021	31.12.2020
Long-term loans	-	1,115
Long-term bank deposit	5	2
Long-term receivables from customers of construction services	24,074	16,862
<b>Total other long-term loans and receivables</b>	<b>24,079</b>	<b>17,979</b>
incl. long-term loan receivables from related parties (Note 16)	-	1,115

## NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.12.2021	31.12.2020
Land	12,414	12,407
Right of superficies at carrying amount		
Cost	29	29
Accumulated depreciation	(14)	(13)
	<b>15</b>	<b>16</b>
Buildings at carrying amount		
Cost	2,631	2,631
Accumulated depreciation	(1,232)	(1,132)
	<b>1,399</b>	<b>1,499</b>
<b>Total investment property</b>	<b>13,828</b>	<b>13,922</b>

## NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.12.2021	31.12.2020
Land	712	712
Buildings at carrying amount*		
Cost	8,184	6,040
Accumulated depreciation	(3,048)	(2,689)
	<b>5,136</b>	<b>3,351</b>
Machinery and equipment at carrying amount*		
Cost	17,920	14,377
Accumulated depreciation	(9,636)	(8,760)
	<b>8,284</b>	<b>5,617</b>
Other fixtures at carrying amount		
Cost	4,523	4,027
Accumulated depreciation	(3,049)	(3,145)
	<b>1,474</b>	<b>882</b>
Prepayments for property, plant and equipment	744	3,959
<b>Total property, plant and equipment</b>	<b>16,350</b>	<b>14,521</b>

\* As of 31 December 2021 the balance of buildings at carrying amount includes leased assets in a sum of EUR 543 thousand (31.12.2020: EUR 186 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 2,881 thousand (31.12.2020: EUR 2,487 thousand).

## NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.12.2021	31.12.2020
<b>Goodwill</b>		
Cost	73	69
	<b>73</b>	<b>69</b>
<b>Software at carrying amount</b>		
Cost	1,401	2,122
Accumulated depreciation	(877)	(1,495)
	<b>524</b>	<b>627</b>
Prepayments for intangible assets	72	15
<b>Total intangible assets</b>	<b>669</b>	<b>711</b>

## NOTE 12 BORROWINGS

in thousand euros

	31.12.2021	31.12.2020
<b>Lease liabilities*</b>		
Lease liabilities balance	<b>3,519</b>	<b>2,703</b>
incl. current portion	868	790
non-current portion 2...5 years	2,651	1,913
<b>Bank loans</b>		
Loan balance	<b>43,062</b>	<b>20,299</b>
incl. current portion	10,712	6,859
non-current portion 2...5 years	32,350	13,440
<b>Loans from entities under common control</b>		
Loan balance (Note 16)	<b>6,000</b>	<b>6,000</b>
incl. current portion	-	6,000
non-current portion 2...5 years	6,000	-
<b>Loans from other entities</b>		
Loan balance (Note 16)	<b>56</b>	<b>56</b>
incl. current portion	56	-
non-current portion 2...5 years	-	56
<b>Total loans</b>		
Loans balance	<b>49,118</b>	<b>26,355</b>
incl. current portion	10,768	12,859
non-current portion 2...5 years	38,350	13,496
<b>Total borrowings</b>	<b>52,637</b>	<b>29,058</b>
incl. current portion	11,636	13,649
non-current portion 2...5 years	41,001	15,409

\* As of 31 December 2021 the lease liabilities include a balance of EUR 31 thousand to related parties (31.12.2020: EUR 82 thousand) (Note 16).

## NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.12.2021	31.12.2020
Trade payables	29,413	20,948
Payables to employees	11,640	11,788
Tax liabilities, except for corporate income tax		
Value added tax	3,119	3,199
Personal income tax	546	470
Social security tax	1,270	1,180
Unemployment insurance tax	58	50
Contributions to mandatory funded pension	39	36
Other taxes	124	98
	<b>5,156</b>	<b>5,033</b>
Prepayments for construction services	7,024	6,926
Other liabilities		
Interest liabilities	20	1
Dividends payables	-	-
Other liabilities	2,338	592
	<b>2,358</b>	<b>593</b>
Prepayments received *	34,463	10,558
<b>Total payables and prepayments</b>	<b>90,054</b>	<b>55,846</b>
incl. payables to related parties (Note 16)	2,503	3

\* As of 31 December 2021, 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 12,435 thousand (31.12.2020: EUR 6,997 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 22,028 thousand (31.12.2020: EUR 3,561 thousand) (Note 2).

## NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.12.2021	31.12.2020
Provision for warranty obligation for construction	3,771	3,448
Provision for costs of projects sold and work-in-progress projects	3,537	2,319
Provision for onerous construction contracts	582	312
Provision for legal costs and claims filed	-	202
Other provisions	86	66
<b>Total short-term provisions</b>	<b>7,976</b>	<b>6,347</b>

## NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.12.2021	31.12.2020
Trade payables	2,110	2,120
Prepayments received *	528	1,579
Other long-term liabilities	262	327
<b>Other long-term payables total</b>	<b>2,900</b>	<b>4,026</b>
incl. other long-term payables to related parties (Note 16)	262	327

\* As of 31 December 2021, 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 528 thousand (31.12.2020: EUR 1,579 thousand) (Note 2).

## NOTE 16 RELATED PARTY TRANSACTIONS

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As of 31.12.2021 and 31.12.2020, AS Riverito owned 71.99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr. Toomas Annus.

### AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting		Location	Area of operation
	31.12.2021	31.12.2020		
<b>Subsidiaries</b>				
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	-	100	Estonia, Tallinn	Road construction
AS Merko Infra	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	Estonia, Tallinn	Mining
Tallinna Teede AS	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	-	Latvia, Riga	Real estate
SIA Merks Mājas	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	-	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	-	Latvia, Riga	Real estate
SIA Zakusala Estates	100	-	Latvia, Riga	Real estate
SIA Ropažu Priedes	-	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	-	75	Latvia, Riga	Real estate
PS Merks-Ostas Celtnieks	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	Finland, Helsinki	Construction
Merko Investments AS	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	Norway, Sofiemyr	Construction
Løkenskogen Bolig AS	62	-	Norway, Sofiemyr	Real estate
<b>Associate</b>				
Connecto Eesti AS	35	-	Estonia, Tallinn	Construction
<b>Joint venture</b>				
Kodusadam OÜ	50	50	Estonia, Tallinn	Real estate

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

## ACQUISITION OF ASSOCIATE

Name of company acquired	Connecto Eesti AS
Share %	35
Acquisition date	01.07.2021
in thousand euros	
	<b>Fair value</b>
Cash	1,363
Receivables	3,347
Non-current assets	1,009
Borrowings	(482)
Other liabilities	(2,970)
<b>Fair value of net assets</b>	<b>2,267</b>
<b>Acquisition cost</b>	<b>4,550</b>
<b>Goodwill</b>	<b>2,283</b>
Paid for share of associate in cash	(4,550)
Received from sale of Merko Infra electrical unit in cash	500
<b>Net outflow of cash – investing activities</b>	<b>(4,050)</b>

The investment into the associated company includes a goodwill of EUR 2,283 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 associated company is initially recorded at acquisition cost, and from July using the equity method.

## GOODS AND SERVICES

in thousand euros

	2021 12 months	2020 12 months
<b>Provided services and goods sold</b>		
Parent company	13	13
Associate and joint venture	6,307	1,494
Entities under common control	15,729	844
Members of the management	399	838
<b>Total services provided and goods sold</b>	<b>22,448</b>	<b>3,189</b>
<b>Interest income</b>		
Joint venture	68	74
<b>Purchased services and goods</b>		
Parent company	90	90
Associate	145	-
Entities under common control	64	68
Members of the management	1	3
<b>Total purchased services and goods</b>	<b>300</b>	<b>161</b>
<b>Interest expense</b>		
Entities under common control	130	142
Other related parties	1	-
<b>Total interest expense</b>	<b>131</b>	<b>142</b>

**BALANCES WITH RELATED PARTIES**

in thousand euros

	31.12.2021	31.12.2020
<b>Receivables from related parties</b>		
Loans granted (Notes 6,8)		
Joint ventures	1,115	1,115
Receivables and prepayments (Note 6)		
Parent company	4	4
Associate and joint venture	1,924	25
Entities under common control	1,616	340
Members of the management	29	-
Total receivables and prepayments	<b>3,573</b>	<b>369</b>
<b>Total receivables from related parties</b>	<b>4,688</b>	<b>1,484</b>
<b>Payables to related parties</b>		
Lease liabilities (Note 12)		
Entities under common control	31	82
Short-term loans received (Note 12)		
Entities under common control	-	6,000
Other related parties	56	-
Total short-term loans received	<b>56</b>	<b>6,000</b>
Payables and prepayments (Note 13)		
Parent company	9	-
Associate and joint venture	8	-
Entities under common control	2,446	3
Members of the management	40	-
Other related parties	-	-
Total payables and prepayments	<b>2,503</b>	<b>3</b>
Long-term loans received (Note 12)		
Entities under common control	6,000	-
Other related parties	-	56
Total long-term loans received	<b>6,000</b>	<b>56</b>
Other long-term payables (Note 15)		
Other related parties	262	327
<b>Total payables to related parties</b>	<b>8,852</b>	<b>6,468</b>

**REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS**

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 12 months of 2021 was EUR 2,937 thousand (12 months of 2020: EUR 3,857 thousand).

**TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS**

Authorization agreements have been entered into with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 12 months of 2021, the Management Board members of major subsidiaries received EUR 141 thousand in compensation (12 months of 2020: EUR 157 thousand).

**MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD**

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as of 31.12.2021:

		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	-	-
		<b>12,774,321</b>	<b>72.17%</b>

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

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

Shares held by members of the Management Board of AS Merko Ehitus as of 31.12.2021:

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

## NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	31.12.2021	31.12.2020
Performance period's warranty to the customer	28,573	24,901
Tender warranty	31	669
Guarantee for warranty period	19,639	22,253
Prepayment guarantee	15,026	11,589
Payment guarantee	0	516
Contracts of surety	1,466	1,834
<b>Total contingent liabilities</b>	<b>64,735</b>	<b>61,762</b>

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

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

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

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

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

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

## DEFINITION OF RATIOS

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