



AS MERKO EHITUS

GROUP

2021 9 months and III quarter
consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2021 – 30.09.2021
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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	LATVIA	LITHUANIA	NORWAY
General construction	General construction	General construction	General construction
Civil engineering	Civil engineering	Residential real estate development and investments	
Road construction	Residential real estate development and investments		
Residential real estate development and investments			

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

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

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

SHARES

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

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

2020 KEY FIGURES

Revenue **315.9 million euros**

Net profit **23.0 million euros**

666 employees





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

Third-quarter revenue for Merko Ehitus was EUR 81 million and net profit for the same period was EUR 5.5 million. The revenue for the first nine months of 2021 grew by 8% to EUR 227 million and net profit by 17% to over EUR 15 million. This year in the three Baltics, Merko has launched construction of more than 1,300 apartments due to be completed in the next two years.

According to the management of Merko Ehitus, the situation on the general construction contracting market continues to be complicated due to global supply chain problems. There has also been a jump in the prices of materials and there is a major shortage of qualified workforce. The risks to on-time completion of projects and staying within budget are quite sizeable today and unfortunately we are also seeing them be realized on some sites. There are fewer new projects and actual orders on the market, since customers have not managed to adapt to the changes and higher prices on the construction market. These problems are more manageable in the apartment development sector, where we have greater control of the development and construction process.

The share of apartment developments in the group's nine-month revenue is, as expected, lower because of the timing of the completion of projects and delivery to buyers. The delivery of pre-sold apartments to buyers continues in the following quarters, which is also reflected in the group's financial result. New sales of apartments are going according to plan – most of the finished apartments have been sold and a large part of the apartments under construction are reserved under preliminary contracts of sale.

In the first nine months of 2021, Merko delivered 197 apartments and 7 commercial units to buyers and launched construction of 1,300 apartments expected to 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.

Considering the changes that have taken place in the last few years on the construction and real estate market, it can be said that the group's companies have adjusted rapidly. Merko group companies have been able to maintain and even increase profitability despite the supply chain problems and rise in input prices. A greater strategic focus on residential real estate development has also paid off so far. Many thanks to the company's employees and all partners who have to contend with the extremely fraught situation. Unfortunately, the latest developments regarding the coronavirus in the Baltic countries are very negative, and the group must be prepared that high morbidity and restrictions will pose new obstacles to the normal course of processes in construction and real estate development in the coming months.

The Merko group's secured order-book balance grew to EUR 314 million as of the end of Q3. In Q3 of 2021, Merko entered into new contracts worth EUR 138 million of which the biggest were a contract for the construction of the Elemental Skanste office buildings and GUSTAVS business centre in Riga and construction of wind farm infrastructure in the Akmenė and Šilalė region in Lithuania.

In the third quarter, Merko had under construction in Estonia the third development phase of the Mustamäe medical campus of the North-Estonia Medical Centre, the Tallinn School of Music and Ballet, the Liivalaia business and residential complex and the construction of infrastructure segments of the Republic of Estonia's southeast land border. In Latvia, the works in progress were the Orkla wafer and biscuit production plant and NATO facilities in Ādaži, and the Kauguri city park and youth house. 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.

**2021 9M
REVENUE
227 MILLION EUROS**

**PROFIT
BEFORE TAX
16.6 MILLION EUROS**

OVERVIEW OF THE III QUARTER AND 9 MONTHS RESULTS

PROFITABILITY

2021 9 months' pre-tax profit was EUR 16.6 million and Q3 2021 was EUR 6.1 million (9M 2020: EUR 13.9 million and Q3 2020 was EUR 5.1 million), which brought the pre-tax profit margin to 7.3% (9M 2020: 6.6%).

Net profit attributable to shareholders for 9 months 2021 was EUR 15.3 million (9M 2020: EUR 13.1 million) and for Q3 2021 net profit attributable to shareholders was EUR 5.5 million (Q3 2020: EUR 4.9 million). 9 months net profit margin was 6.7% (9M 2020: 6.2%).

REVENUE

Q3 2021 revenue was EUR 80.7 million (Q3 2020: EUR 79.7 million) and 9 months' revenue was EUR 226.5 million (9M 2020: EUR 209.5 million). 9 months' revenue increased by 8.1% compared to same period last year. The share of revenue earned outside Estonia in 9 months 2021 was 38.8% (9M 2020: 47.6%).

SECURED ORDER BOOK

As of 30 September 2021, the group's secured order book was EUR 314.4 million (30 September 2020: EUR 251.2 million). In 9 months 2021, group companies signed new contracts in the amount of EUR 272.9 million (9M 2020: EUR 248.0 million). In Q3 2021, new contracts were signed in the amount of EUR 137.7 million (Q3 2020: EUR 72.9 million).

REAL ESTATE DEVELOPMENT

In 9 months 2021, the group sold a total of 197 apartments; in 9 months 2020, the group sold 534 apartments. The group earned a revenue of EUR 33.3 million from sale of own developed apartments in 9 months 2021 and EUR 67.0 million in 9 months 2020. In Q3 of 2021 a total of 52 apartments were sold, compared to 165 apartments in Q3 2020, and earned a revenue of EUR 7.5 million from sale of own developed apartments (Q3 2020: EUR 21.0 million).

CASH POSITION

At the end of the reporting period, the group had EUR 19.6 million in cash and cash equivalents, and equity of EUR 150.8 million (50.9% of total assets). Comparable figures as of 30 September 2020 were EUR 25.4 million and EUR 143.3 million (53.0% of total assets), respectively. As of 30 September 2021, the group's net debt was EUR 20.6 million (30 September 2020: EUR 25.2 million).

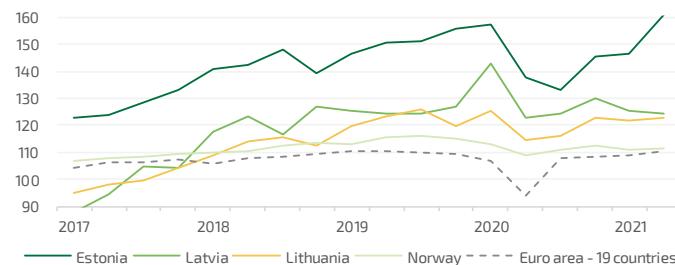
OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

CONSTRUCTION SERVICES

Construction volumes in the Baltic countries remained on an upward trend from the end of 2016 until the arrival of the pandemic. The restrictions put in place significantly affected the first three quarters of 2020, but construction volumes started to recover from the 4th quarter of 2020. The decline was the steepest in Estonia and the post-restriction rise the fastest, raising construction volumes even higher than before the pandemic. In Latvia, the decline was the smallest, without taking into account the extraordinarily high volume in the 1st quarter of 2020. Lithuania is noteworthy for the fact that in the first half of 2021, construction volumes still remained below the peak achieved in the 3rd quarter of 2019, and the volumes had already started declining before the beginning of the pandemic. It is not very likely that after the majority of working-age people have been vaccinated any future restrictions affecting significantly construction activities will be established. Positive effect of the stimulus measures of the EU recovery package is expected to stimulate further growth in construction volumes.

Current construction activities are being mainly influenced by the sudden increases in the prices of construction services that began in the 2nd quarter of 2021, as well as the uncertainty of delivery of supplies. Although the results for the 3rd quarter are not yet reflected in the statistics of all the groups' home markets, the available data show a continued price increase. Experts expect the price increase and supply chain problems to continue, which will cause many clients to critically review the feasibility calculations of their planned investments. A broad-based inflation expectation and the recent decisions of the central banks of several countries to start to reduce money printing and increase the base interest rates have created an expectation for similar developments in the euro area. Such an expectation will reduce the possibility of the input prices of construction activities falling to their former levels in the foreseeable future. Uncertainty and volatility will definitely last for some time in the markets. In such an environment, public sector demand and the volume of own developments will continue to be important for the construction sector, offering relative stability and protection from the increased volatility.

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

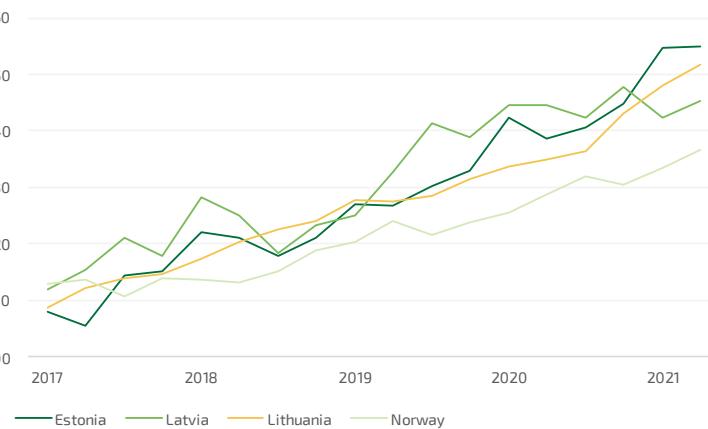


DEVELOPMENT OF APARTMENTS

The economic activities of Merko Ehitus group continue to be influenced the most by the high activity of the new apartments market in the entire Baltic region. This is in spite of the opinion of many experts that a further price increase is not sustainable and will reduce the affordability of new apartments for people. The apartments of the new projects launched in 2021 will be reflected in statistics as reach real right contracts in 2022 and 2023, so it is expected that the positive growth of both sales volume and prices will continue for some time. The heightened inflation expectations and the related interest of investors in increasing the proportion of a secure asset class in their portfolios may keep the market of new apartments active for a long time.

In 2017-2021, the prices of apartments have unwaveringly remained on an upward trend, with quarterly fluctuations within the bounds of statistical error. The increase in construction prices that started from materials will definitely shift the sales prices of new developments upwards at an advanced pace, and the prices will probably remain at the new levels. The average salary increase may not necessarily seem equivalent, but as inflation expectations grow, it would be appropriate to assume that salary levels will grow in the coming periods rather than the price levels of new apartments fall.

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



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

	9M 2021	9M 2020	VARIANCE	Q3 2021	Q3 2020	VARIANCE	12M 2020
Revenue	175.9	134.1	+31.1%	70.4	56.4	+24.8%	186.8
% of total revenue	77.6%	64.0%		87.3%	70.8%		59.1%
Operating profit	6.9	3.1	+119.5%	4.1	2.1	+91.5%	4.6
Operating profit margin	3.9%	2.3%		5.8%	3.8%		2.4%

In the 9 months of 2021, the revenue of the construction service segment was EUR 175.9 million (9M 2020: EUR 134.1 million). The sales revenue of construction service has increased by 31.1% compared to the same period last year. The construction service segment revenue for 9 months 2021 made up 77.6% of the group's total revenue (9M 2020: 64.0%). In this segment, the group earned an operating profit of EUR 6.9 million for 9 months (9M 2020: EUR 3.1 million). The operating profit margin was 3.9% (9M 2020: 2.3%).

Larger projects in progress in the third 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 business and residential complex 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 third quarter included the construction works of reconstruction of Riga Technical University Civil Engineering Faculty building as well as the constructions of the Orkla wafer and biscuits production plant and NATO base in Ādaži and kindergarten in Salaspils. In Lithuania, larger projects were construction of wind farm balance of plants in Mažeikiai 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

	9M 2021	9M 2020	VARIANCE	Q3 2021	Q3 2020	VARIANCE	12M 2020
Revenue	50.6	75.3	-32.8%	10.3	23.3	-56.0%	129.1
incl. revenue from sale of apartments	33.3	67.0		7.5	21.0		116.6
incl. construction service from public-private-partnerships	6.6	4.2		0.2	1.7		6.4
incl. construction service to joint venture projects	3.5	1.0		2.1	0.3		1.6
incl. revenue from immovable properties	4.2	0.7		-	-		1.0
% of total revenue	22.4%	36.0%		12.7%	29.2%		40.9%
Operating profit	11.5	12.8	-10.0%	2.4	3.9	-39.2%	23.7
Operating profit margin	22.8%	17.0%		23.3%	16.9%		18.4%

In 9 months 2021, the group sold a total of 197 apartments and 7 commercial premises; in 9 months 2020, 534 apartments and 5 commercial premises. The group earned a revenue of EUR 33.3 million (VAT not included) from sale of developed apartments in 9 months 2021 and EUR 67.0 million (VAT not included) in 9 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 9 months of 2021, real estate development segment revenues decreased by 32.8% compared to the same period last year and formed 22.4% of the group's total revenue (9 months of 2020: 36.0%).

The segment's operating profit for the 9 months of 2021 amounted to EUR 11.5 million (9 months of 2020: EUR 12.8 million) and the operating profit margin was 22.8% (9 months of 2020: 17.0%). The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, including the land acquisition price.

In 9 months of 2021, the group launched the construction of a total of 1,365 new apartments in the Baltic states (9 months of 2020: 109 apartments). In the 9 months, the group invested a total of EUR 47.2 million (9 months of 2020: EUR 43.0 million) in the ongoing development projects.

After the reporting date, the group has started the construction of 98 apartments in the fourth phase of the Lahekalda residential development project in Tallinn.

Revenue from apartment sales came in lower compared to the same period of previous year mainly because last year 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 30 September 2021, the group's inventories included land plots with development potential, where the construction works have not started, in the amount of EUR 58.9 million (30.09.2020: EUR 69.4 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	30.09.2021	30.09.2020	31.12.2020
Estonia	19.7	28.6	24.9
Latvia	25.0	26.9	25.4
Lithuania	12.6	13.9	10.4
Norway	1.6	-	-
Total	58.9	69.4	60.7

In the 9 months of 2021, the group purchased new land plots at the acquisition cost of EUR 7.7 million (9 months of 2020: the group did not purchase new land plots for real estate development purposes).

SECURED ORDER BOOK

As of 30 September 2021, the group's secured order book amounted to EUR 314.4 million, compared to EUR 251.2 million as of 30. September 2020, having increased by 25.2% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 9 months of 2021, EUR 272.9 million worth of new contracts were signed, which is increased by 10.0% compared to the same period of the previous year (9 months of 2020: EUR 248.0 million). The value of new contracts signed in the third quarter of 2021 amounted to EUR 137.7 million; in the third quarter of 2020 the value of new contracts signed amounted to EUR 72.9 million.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE THIRD QUARTER OF 2021

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Construction contract to perform construction works of Elemental Skanste office buildings in Riga	Latvia	Spring of 2023	49.0
Construction contract for construction of GUSTAVS business center in Riga	Latvia	December of 2022	22.0
Construction contract to perform the wind farm balance of plant construction works in Akmenė district	Lithuania	Q3 of 2022	19.0
Construction contract to perform the wind farm balance of plant construction works in Šilalė district	Lithuania	Q1 of 2023	15.0
Construction contract to perform wind farm foundation construction works in Mažeikiai district	Lithuania	Q1 of 2022	7.0
Construction contract to design and construct the second stage of a Tesla service centre in Oslo	Norway	February of 2022	4.1
Construction contract to perform the construction of wind farm foundations in Jonava district	Lithuania	December of 2021	4.0

As of 30 September 2021, the private sector orders accounted for approximately 72% of the total balance in the group's secured order book (30.09.2020: approximately 39%). 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 19.6 million (30.09.2020: EUR 25.4 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 53.1 million, which was almost entirely unused at the end of current period (30.09.2020: EUR 37.6 million of which EUR 29.8 was unused).

The 9-month cash flow from operating activity was negative at EUR 14.4 million (9 months of 2020: positive EUR 17.0 million), cash flow from investing activity was negative at EUR 5.5 million (9 months of 2020: negative EUR 2.3 million) and the cash flow from financing activity was negative at EUR 8.0 million (9 months of 2020: negative EUR 13.9 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 18.8 million (9 months of 2020: positive effect of EUR 16.4 million) and change in trade and other payables related to operating activities of EUR 32.4 million (9 months of 2020: negative effect of EUR 9.1 million). The negative effects to cash flow from operating activities came from the changes in receivables and liabilities related to construction contracts of EUR 8.2 million (9 months 2020: positive effect of EUR 7.6 million), from the changes in trade and other receivables related to operating activities of EUR 22.5 million (9 months of 2020: negative effect of EUR 4.1 million), from change in the provisions of EUR 1.9 million (9 months of 2020: negative effect of EUR 5.0 million) and from the change in inventories of EUR 28.3 million (9 months of 2020: positive effect of EUR 13.1 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 0.6 million (9 months of 2020: EUR 0.8 million) and corporate income tax was paid at EUR 2.8 million (9 months of 2020: EUR 0.9 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 (13.6% as of 30.09.2021; 18.7% as of 30.09.2020; 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 1.5 million, which is mainly related to the renewal of equipment in the field of construction (9 months of 2020 EUR 2.5 million), and the acquisition of an associated company in the net amount of EUR 4.1 million (9 months of 2020: no acquisitions) and positive effect from the sale of non-current assets in the amount of EUR 0.1 million (9 months of 2020: EUR 0.2 million).

In cash flows from financing, the larger negative factors were dividend payment of EUR 17.7 million (9 months of 2020: EUR 0.1 million), repayments of lease liabilities in the amount of EUR 0.7 million (9 months of 2020: net negative cash flow of EUR 0.7 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 9.1 million (9 months of 2020: negative cash flow in the net amount of EUR 0.4 million) and the net change in loans received and repaid in connection with development projects in the amount of EUR 1.3 million (9 months of 2020: net negative cash flow of EUR 12.9 million).

The Q3 2021 cash flow from operating activity was positive at EUR 1.1 million (Q3 2020: positive EUR 9.8 million), cash flow from investing activity was negative at EUR 4.7 million (Q3 2020: negative EUR 0.7 million) and the cash flow from financing activity was positive at EUR 1.4 million (Q3 2020: negative EUR 7.5 million).

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		9M 2021	9M 2020	9M 2019	Q3 2021	Q3 2020	Q3 2019	12M 2020
Revenue	million EUR	226.5	209.5	227.6	80.7	79.7	73.4	315.9
Gross profit	million EUR	26.5	25.2	20.9	9.2	8.7	6.2	43.7
Gross profit margin	%	11.7	12.0	9.2	11.4	10.9	8.5	13.8
Operating profit	million EUR	16.9	14.3	9.9	6.0	5.2	2.3	25.5
Operating profit margin	%	7.5	6.8	4.4	7.4	6.5	3.2	8.1
Pre-tax profit	million EUR	16.6	13.9	10.3	6.1	5.1	2.8	24.5
Pre-tax profit margin	%	7.3	6.6	4.5	7.5	6.4	3.8	7.7
Net profit	million EUR	15.2	12.6	7.3	5.5	4.7	2.7	22.5
attributable to equity holders of the parent	million EUR	15.3	13.1	7.0	5.5	4.9	2.5	23.0
attributable to non-controlling interest	million EUR	(0.1)	(0.4)	0.3	0.0	(0.2)	0.1	(0.5)
Net profit margin	%	6.7	6.2	3.1	6.8	6.1	3.5	7.3
Other income statement indicators		9M 2021	9M 2020	9M 2019	Q3 2021	Q3 2020	Q3 2019	12M 2020
EBITDA	million EUR	18.8	16.4	11.7	6.6	5.9	2.9	28.2
EBITDA margin	%	8.3	7.8	5.2	8.2	7.4	4.0	8.9
General expense ratio	%	5.2	5.4	5.0	5.2	5.1	4.7	5.6
Labour cost ratio	%	11.8	11.4	12.0	11.3	10.5	11.9	11.5
Revenue per employee	thousand EUR	347	316	318	124	120	102	478

OTHER SIGNIFICANT INDICATORS		30.09.2021	30.09.2020	30.09.2019	31.12.2020
Return on equity	%	16.6	16.4	11.1	16.2
Return on assets	%	9.2	8.0	4.9	8.4
Return on invested capital	%	15.1	12.6	9.8	13.1
Assets	million EUR	296.3	270.1	307.1	256.9
Equity	million EUR	154.9	147.1	126.0	157.4
Equity attributable to equity holders of the parent	million EUR	150.8	143.3	121.1	153.2
Equity ratio	%	50.9	53.0	39.4	59.6
Debt ratio	%	13.6	18.7	27.5	11.3
Current ratio	times	2.2	2.4	2.0	2.7
Quick ratio	times	0.8	0.8	0.6	1.0
Accounts receivable turnover	days	29	39	45	35
Accounts payable turnover	days	37	40	52	37
Average number of employees	people	652	663	717	661
Secured order book	million EUR	314.4	251.2	152.2	225.1

Ratio definitions are provided on page 40 of the report.

RISK MANAGEMENT

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

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

Legal risk

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

As of 30 September 2021, no provision has been formed (30.09.2020: 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 30 September 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 impact of this claim has not been taken into account in the group's reporting.

Latvia

Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The court hearing, which was scheduled for 3 December 2020, was cancelled due to the COVID-19 pandemic. In August 2021, the parties submitted a request to the court to postpone the next hearing, as the parties are trying to reach an out-of-court settlement by 31 December 2021. The possible effect of the potential positive outcome of this claim has not been taken into account in the group's financial reporting.

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://leumumi.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. The extension of the process terms means that no court sessions will be held and no timetable will be set for hearing the appeal in court in 2021.

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 application was satisfied and the court session scheduled for 7 September was transferred to 1 December 2021. The impact of this claim has not been taken into account in the group's reporting.

EMPLOYEES AND LABOUR COSTS

As of 30 September 2021, Merko Ehitus group employed 673 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 4 (-0.6%). 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 9 months 2021, the labour cost was EUR 26.8 million (9 months 2020: EUR 23.9 million), which increased by 12.3% compared to the same period previous year. The labour cost ratio increased by 0.4 pp from 11.4% to 11.8% in comparable periods.

During 9 months of 2021, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 5.6 million in labour taxes in Estonia, being one of the largest labour tax payer in the construction sector (9 months 2020: EUR 5.8 million).

ETHICAL BUSINESS PRACTICES

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

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

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

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

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

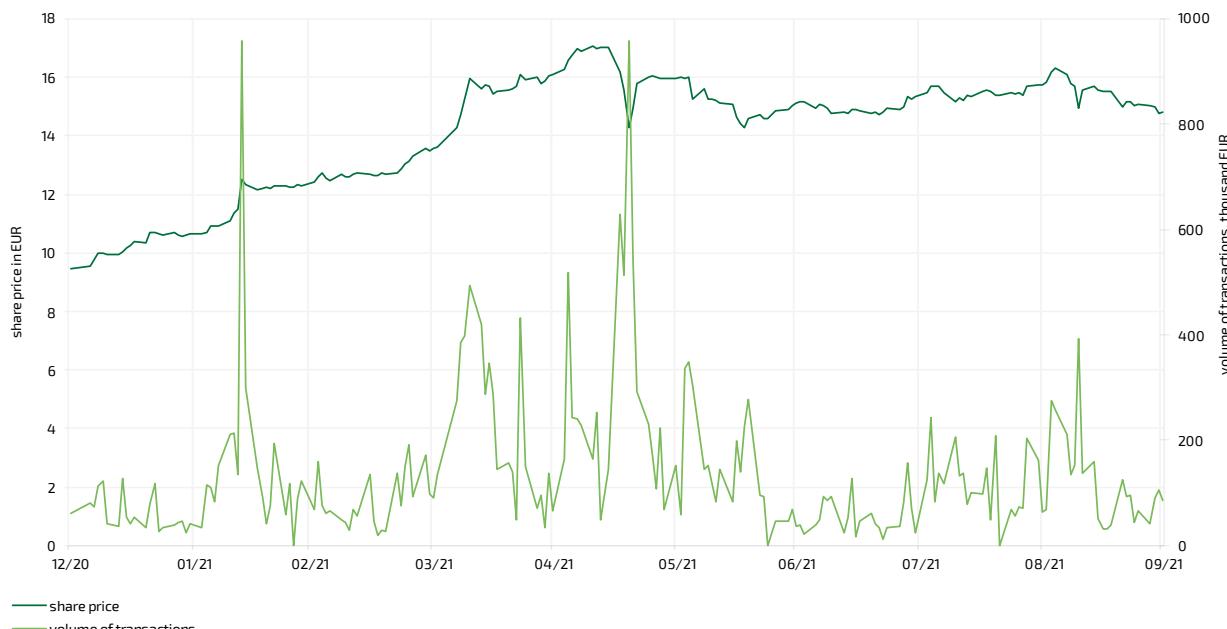
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As of 30 September 2021, the company has 17,700,000 shares. The number of shares has not changed during 2021.

A total of 38,554 transactions were conducted with the shares of Merko Ehitus in 9 months of 2021, with 1.83 million shares (10.3% of total shares) traded, generating a turnover of EUR 26.3 million (comparable figures in 9 months 2020 were accordingly: 17,335 transactions with 1.32 million shares traded (7.4% of total shares), generating a turnover of EUR 11.2 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 (9 months of 2020: EUR 6.56 and EUR 10.60, accordingly). On 30 September 2021, the closing price of the share was EUR 14.80 (30.09.2020: EUR 8.62). As of 30 September 2021, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 262.0 million, up 71.7% compared to the end of the equivalent period of the prior year (30.09.2020: EUR 152.6 million).

	30.09.2021	30.09.2020	30.09.2019	31.12.2020
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.86	0.74	0.40	1.30
Equity per share, euros	8.56	7.69	7.15	8.01
P/B ratio	1.73	1.12	1.28	1.18
P/E ratio	10.40	6.83	11.58	7.28
Market value, million EUR	262.0	152.6	162.5	167.4

Ratio definitions are provided on page 40 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 30.09.2021

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	0.08%	1,357,537	7.67%
10,001 – 100,000	51	0.59%	1,113,166	6.29%
1,001-10,000	518	5.98%	1,482,498	8.38%
101-1,000	2,359	27.21%	835,741	4.72%
1-100	5,732	66.13%	168,372	0.95%
Total	8,668	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS OF 30.09.2021 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 30.09.2021	% OF TOTAL 30.06.2021	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	370,250	2.09%	2.07%	4,250
Firebird Republics Fund Ltd	315,056	1.78%	1.79%	(1,944)
Firebird Avrora Fund Ltd	176,043	0.99%	1.01%	(2,024)
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	113,680	0.64%	0.64%	(350)
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%	-
Total largest shareholders	14,280,223	80.68%	80.67%	(68)
Total other shareholders	3,419,777	19.32%	19.33%	68
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN 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.

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/.

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

As of 30 September 2021, the management structure is as follows:



GROUP'S LEGAL STRUCTURE

As of 30 September 2021, in addition to AS Merko Ehitus, the group comprises 32 companies (30.09.2020: 32). 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 Aikštė was merged into its parent. It is planned to complete the restructuring and make the respective entry into the Commercial Register during the 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 Investicijas, 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 Zakušala 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.

After the balance sheet date, 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.

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 30 September 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 30 September 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 Büstas 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 9 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

04.11.2021

Tõnu Toomik

Member of the Management Board

04.11.2021

INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2021 9 months	2020 9 months	2021 III quarter	2020 III quarter	2020 12 months
Revenue	2	226,533	209,480	80,673	79,747	315,918
Cost of goods sold	3	(200,064)	(184,268)	(71,442)	(71,018)	(272,169)
Gross profit		26,469	25,212	9,231	8,729	43,749
Marketing expenses		(2,632)	(3,157)	(802)	(1,284)	(4,212)
General and administrative expenses		(9,098)	(8,148)	(3,392)	(2,755)	(13,412)
Other operating income		2,511	1,714	1,197	592	2,320
Other operating expenses		(328)	(1,316)	(235)	(64)	(2,979)
Operating profit		16,922	14,305	5,999	5,218	25,466
Finance income/costs		(351)	(432)	90	(122)	(1,009)
incl. finance income/costs from associate and joint venture		384	204	381	112	(144)
interest expense		(548)	(530)	(232)	(200)	(719)
foreign exchange gain (loss)		(39)	(12)	-	(8)	(7)
other financial income (expenses)		(148)	(94)	(59)	(26)	(139)
Profit before tax		16,571	13,873	6,089	5,096	24,457
Corporate income tax expense		(1,426)	(1,227)	(570)	(441)	(1,954)
Net profit for financial year		15,145	12,646	5,519	4,655	22,503
incl. net profit attributable to equity holders of the parent		15,277	13,071	5,514	4,896	22,994
net profit attributable to non-controlling interest		(132)	(425)	5	(241)	(491)
Other comprehensive income, which can subsequently be classified in the income statement						
Currency translation differences of foreign entities		14	(117)	(2)	11	(115)
Comprehensive income for the period		15,159	12,529	5,517	4,666	22,388
incl. net profit attributable to equity holders of the parent		15,292	12,939	5,513	4,895	22,890
net profit attributable to non-controlling interest		(133)	(410)	4	(229)	(502)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.86	0.74	0.31	0.28	1.30

The notes set out on pages 25-39 are an integral part of these interim financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	30.09.2021	30.09.2020	31.12.2020
ASSETS				
Current assets				
Cash and cash equivalents	5	19,581	25,353	47,480
Trade and other receivables	6	59,665	44,518	32,657
Prepaid corporate income tax		3	91	306
Inventories	7	154,688	153,433	126,332
		233,937	223,395	206,775
Non-current assets				
Investments in associates and joint ventures		7,288	2,702	2,354
Other long-term loans and receivables	8	23,832	16,238	17,979
Deferred income tax assets		1,120	-	653
Investment property	9	13,847	13,955	13,922
Property, plant and equipment	10	15,624	13,152	14,521
Intangible assets	11	684	664	711
		62,395	46,711	50,140
TOTAL ASSETS		296,332	270,106	256,915
LIABILITIES				
Current liabilities				
Borrowings	12	9,355	24,221	13,649
Payables and prepayments	13	88,394	60,916	55,846
Income tax liability		997	1,325	1,202
Short-term provisions	14	6,318	5,775	6,347
		105,064	92,237	77,044
Non-current liabilities				
Long-term borrowings	12	30,826	26,365	15,409
Deferred income tax liability		1,986	1,635	3,001
Other long-term payables	15	3,553	2,785	4,026
		36,365	30,785	22,436
TOTAL LIABILITIES		141,429	123,022	99,480
EQUITY				
Non-controlling interests		4,083	3,807	4,207
Equity attributable to equity holders of the parent				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	793	793
Currency translation differences		(799)	(842)	(814)
Retained earnings		142,897	135,397	145,320
		150,820	143,277	153,228
TOTAL EQUITY		154,903	147,084	157,435
TOTAL LIABILITIES AND EQUITY		296,332	270,106	256,915

The notes set out on pages 25-39 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					Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings	Total		
Balance as of 31.12.2019	7,929	793	(710)	122,326	130,338	4,217	134,555
Profit (loss) for the reporting period	-	-	-	13,071	13,071	(425)	12,646
Other comprehensive income	-	-	(132)	-	(132)	15	(117)
Total comprehensive income (loss) for the reporting period	-	-	(132)	13,071	12,939	(410)	12,529
Transactions with owners							
Option over shares relating to non-controlling interests	-	-	-	-	-	133	133
Dividends (Note 4)	-	-	-	-	-	(133)	(133)
Total transactions with owners	-	-	-	-	-	-	-
Balance as of 30.09.2020	7,929	793	(842)	135,397	143,277	3,807	147,084
Balance as of 31.12.2020	7,929	793	(814)	145,320	153,228	4,207	157,435
Profit (loss) for the reporting period	-	-	-	15,277	15,277	(132)	15,145
Other comprehensive income	-	-	15	-	15	(1)	14
Total comprehensive income (loss) for the reporting period	-	-	15	15,277	15,292	(133)	15,159
Transactions with owners							
Non-controlling interests of purchased subsidiary	-	-	-	-	-	1	1
Contribution to subsidiary's share capital	-	-	-	-	-	8	8
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	-	-	-	(17,700)	(17,700)	9	(17,691)
Balance as of 30.09.2021	7,929	793	(799)	142,897	150,820	4,083	154,903

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

The notes set out on pages 25-39 are an integral part of these interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2021 9 months	2020 9 months	2020 12 months
Cash flows from operating activities				
Operating profit		16,922	14,305	25,466
Adjustments:				
Depreciation and impairment		1,898	2,103	2,751
(Profit)/loss from sale of non-current assets		(85)	(165)	(250)
(Profit)/loss from sale of a business unit		(500)	-	-
Change in receivables and liabilities related to construction contracts		(8,152)	7,588	2,794
Interest income from operating activities		(1,578)	(1,085)	(1,499)
Change in provisions		(1,903)	(4,963)	(1,072)
Change in trade and other receivables related to operating activities		(22,505)	(4,098)	7,017
Change in inventories		(28,302)	13,109	40,231
Change in trade and other payables related to operating activities		32,371	(9,075)	(11,937)
Interest received		994	1,058	1,349
Interest paid		(581)	(832)	(1,068)
Other finance income (costs)		(168)	(95)	(139)
Corporate income tax paid		(2,807)	(868)	(1,132)
Total cash flows from operating activities		(14,396)	16,982	62,511
Cash flows from investing activities				
Acquisition of subsidiaries		(1)	-	-
Acquisition of associate		(4,550)	-	-
Purchase of investment property		(1)	(7)	(7)
Purchase of property, plant and equipment (excl. leased assets)		(1,359)	(2,482)	(4,321)
Proceeds from sale of property, plant and equipment		100	206	289
Purchase of intangible assets		(167)	(49)	(143)
Sale of business unit		500	-	-
Interest received		11	-	1
Total cash flows from investing activities		(5,467)	(2,332)	(4,181)
Cash flows from financing activities				
Proceeds from borrowings		12,302	29,205	20,433
Repayments of borrowings		(1,965)	(42,275)	(54,911)
Repayments of lease liabilities		(679)	(713)	(922)
Contributions to the subsidiary's share capital from non-controlling shareholder		8	-	-
Dividends paid		(17,686)	(133)	(133)
Total cash flows from financing activities		(8,020)	(13,916)	(35,533)
Net increase/decrease in cash and cash equivalents		(27,883)	734	22,797
Cash and cash equivalents at the beginning of the period	5	47,480	24,749	24,749
Effect of exchange rate changes		(16)	(130)	(66)
Cash and cash equivalents at the end of the period	5	19,581	25,353	47,480

The notes set out on pages 25-39 are an integral part of these interim financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 9 months 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 9 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 9 months 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.

2021 9 months	Construction service	Real estate development	Total segments
Revenue	178,145	79,899	258,044
Inter-segment revenue	(2,258)	(29,253)	(31,511)
Revenue from clients	175,887	50,646	226,533
incl. timing of revenue recognition at a point in time	1,384	39,806	41,190
timing of revenue recognition over time	174,503	10,840	185,343
Operating profit (loss)	6,878	11,531	18,409
Profit (loss) before tax	7,109	11,109	18,218
incl. interest income from operating activities	97	1,481	1,578
depreciation	(1,571)	(327)	(1,898)
recognition of provisions	(3,559)	(200)	(3,759)
reversal of provisions	101	101	202
profit (loss) from associate and joint venture	390	(6)	384
other finance income (costs)	(34)	(374)	(408)
incl. interest expenses	(25)	(248)	(273)
Assets 30.09.2021	69,912	198,204	268,116
incl. associate and joint venture	4,940	2,348	7,288
2020 9 months	Construction service	Real estate development	Total segments
Revenue	134,688	89,956	224,644
Inter-segment revenue	(544)	(14,620)	(15,164)
Revenue from clients	134,144	75,336	209,480
incl. timing of revenue recognition at a point in time	1,018	69,306	70,324
timing of revenue recognition over time	133,126	6,030	139,156
Operating profit (loss)	3,134	12,817	15,951
Profit (loss) before tax	2,981	12,730	15,711
incl. interest income from operating activities	18	1,067	1,085
depreciation	(1,766)	(337)	(2,103)
recognition of provisions	(1,396)	(315)	(1,711)
reversal of provisions	3	-	3
profit from joint venture	-	204	204
other finance income (costs)	(17)	(209)	(226)
incl. interest expenses	(17)	(169)	(186)
Assets 30.09.2020	55,573	189,190	244,763
incl. joint venture	-	2,702	2,702

2021 III quarter	Construction service	Real estate development	Total segments
Revenue	70,989	19,616	90,605
Inter-segment revenue	(572)	(9,360)	(9,932)
Revenue from clients	70,417	10,256	80,673
incl. timing of revenue recognition at a point in time	465	7,762	8,227
timing of revenue recognition over time	69,952	2,494	72,446
Operating profit (loss)	4,100	2,390	6,490
Profit (loss) before tax	4,399	2,230	6,629
incl. interest income from operating activities	44	529	573
depreciation	(525)	(111)	(636)
recognition of provisions	(1,788)	(192)	(1,980)
reversal of provisions	-	-	-
profit from associate and joint venture	390	(9)	381
other finance income (costs)	(19)	(137)	(156)
incl. interest expenses	(16)	(97)	(113)
Assets' change in III quarter	523	20,193	20,716
incl. associate and joint venture	4,940	(9)	4,931

2020 III quarter	Construction service	Real estate development	Total segments
Revenue	56,975	26,943	83,918
Inter-segment revenue	(533)	(3,638)	(4,171)
Revenue from clients	56,442	23,305	79,747
incl. timing of revenue recognition at a point in time	352	21,038	21,390
timing of revenue recognition over time	56,090	2,267	58,357
Operating profit (loss)	2,141	3,928	6,069
Profit (loss) before tax	2,119	3,900	6,019
incl. interest income from operating activities	5	371	376
depreciation	(602)	(88)	(690)
recognition of provisions	(788)	(44)	(832)
reversal of provisions	-	-	-
profit from joint venture	-	112	112
other finance income (costs)	(7)	(103)	(110)
incl. interest expenses	(7)	(80)	(87)
Assets' change in III quarter	(3,296)	(4,255)	(7,551)
incl. joint venture	-	112	112

2020 12 months	Construction service	Real estate development	Total segments
Revenue	188,735	147,891	336,626
Inter-segment revenue	(1,888)	(18,820)	(20,708)
Revenue from clients	186,847	129,071	315,918
incl. timing of revenue recognition at a point in time	1,381	119,915	121,296
timing of revenue recognition over time	185,466	9,156	194,622
Operating profit (loss)	4,561	23,710	28,271
Profit (loss) before tax	4,385	23,122	27,507
incl. interest income from operating activities	23	1,476	1,499
depreciation	(2,245)	(506)	(2,751)
impairment of inventories	(382)	(222)	(604)
recognition of provisions	(1,806)	(1,430)	(3,236)
reversal of provisions	79	-	79
profit (loss) from joint venture	-	(144)	(144)
other finance income (costs)	(27)	(353)	(380)
incl. interest expenses	(29)	(288)	(317)
Assets 31.12.2020	52,239	163,083	215,322
incl. joint venture	-	2,354	2,354

In addition to the segment assets, as of 30.09.2021 the group holds assets in the amount of EUR 28,216 thousand (30.09.2020: EUR 25,343 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 9 months	2020 9 months	2021 III quarter	2020 III quarter	2020 12 months
Pre-tax profit from reporting segments	18,218	15,711	6,629	6,019	27,507
Other operating profit (loss)	(1,487)	(1,645)	(491)	(851)	(2,805)
incl. recognition of provisions	-	-	-	-	(9)
finance income (costs)	(160)	(193)	(49)	(72)	(245)
incl. interest expenses	(98)	(138)	(33)	(47)	(176)
Total profit before tax	16,571	13,873	6,089	5,096	24,457

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 9 months	2020 9 months	2021 III quarter	2020 III quarter	2020 12 months	
Estonia	138,542	61%	109,673	52%	48,039	60%
Latvia	37,693	17%	40,083	19%	15,606	18%
Lithuania	43,703	19%	51,576	25%	14,931	19%
Norway	6,595	3%	8,148	4%	2,097	3%
Total	226,533	100%	209,480	100%	80,673	100%
					79,747	100%
					315,918	100%

CONTRACT ASSETS AND LIABILITIES

in thousand euros

	30.09.2021	30.09.2020	31.12.2020
Accrued income from construction services (Note 6)	17,477	7,034	7,741
Prepayments for construction services (Note 13)	(8,481)	(11,023)	(6,926)
Advance payments received for construction contract works (Notes 13, 15)	(14,064)	(3,661)	(8,576)
Recognised provision for onerous construction contracts (Note 14)	(288)	(779)	(312)

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

in thousand euros

	30.09.2021	30.09.2020	31.12.2020
Estonia	23,169	16,832	17,896
Latvia	13,141	13,095	13,096
Lithuania	997	429	383
Norway	136	117	133
Total	37,443	30,473	31,508

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2021 9 months	2020 9 months	2021 III quarter	2020 III quarter	2020 12 months
Construction services and properties purchased for resale	121,003	109,387	43,294	40,022	174,208
Materials	37,022	35,017	12,541	15,834	42,526
Labour costs	18,486	16,622	6,145	5,921	24,509
Construction mechanisms and transport	7,571	9,553	3,125	4,336	11,687
Design	3,165	3,858	1,037	1,398	5,103
Real estate management costs	268	239	100	88	323
Depreciation	1,266	1,403	419	458	1,815
Impairment of inventories	-	-	-	-	604
Provisions	3,759	1,708	1,980	832	3,100
Other expenses	7,524	6,481	2,801	2,129	8,294
Total cost of goods sold	200,064	184,268	71,442	71,018	272,169

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 9 months	2020 9 months	2021 III quarter	2020 III quarter	2020 12 months
Net profit (loss) attributable to shareholders (<i>in thousand EUR</i>)	15,277	13,071	5,514	4,896	22,994
Weighted average number of ordinary shares (<i>thousand pcs</i>)	17,700	17,700	17,700	17,700	17,700
Earnings (loss) per share (<i>in euros</i>)	0.86	0.74	0.31	0.28	1.30

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 30.09.2021 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 307 thousand euros (30.09.2020: EUR 0 euros; 31.12.2020: EUR 1,368 thousand euros).

As of 30.09.2021, the parent company AS Merko Ehitus has no previously taxed dividends and income received from abroad on which income tax has been withheld (30.09.2020: EUR 3,507 thousand; 31.12.2020: EUR 3,507 thousand), on which income tax has been withheld.

As of 30.09.2021, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 113,678 thousand (30.09.2020: EUR 108,586; 31.12.2020: EUR 116,547 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 0 (30.09.2020: EUR 877 thousand; 31.12.2020: EUR 877 thousand), the corresponding income tax on dividends would amount to EUR 28,420 thousand (30.09.2020: EUR 25,969 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

	30.09.2021	30.09.2020	31.12.2020
Bank accounts	19,581	25,353	47,480
Total cash and cash equivalents	19,581	25,353	47,480

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	30.09.2021	30.09.2020	31.12.2020
Trade receivables			
Accounts receivable	38,061	36,965	25,391
Allowance for doubtful receivables	(3,461)	(1,979)	(3,525)
	34,600	34,986	21,866
Tax prepayments excluding corporate income tax			
Value added tax	862	683	585
Other taxes	12	26	35
	874	709	620
Accrued income form construction services	17,477	7,034	7,741
Other short-term receivables			
Short-term loans	-	51	371
Interest receivables	51	23	1
Other short-term receivables	189	121	118
	240	195	490
Prepayments for services			
Prepayments for construction services	5,830	1,258	1,570
Prepaid insurance	196	143	137
Other prepaid expenses	448	193	233
	6,474	1,594	1,940
Total trade and other receivables	59,665	44,518	32,657
incl. other short-term receivables and prepayments to related parties (Note 16)	1,716	283	369

NOTE 7 INVENTORIES

in thousand euros

	30.09.2021	30.09.2020	31.12.2020
Materials	330	350	351
Work-in-progress	83,018	49,366	38,626
Finished goods	8,225	32,610	25,210
Goods for resale			
Registered immovables purchased for resale/development	58,945	69,439	60,667
Other goods purchased for resale	114	133	87
	59,059	69,572	60,754
Prepayments for inventories			
Prepayments for real estate properties	3,900	-	-
Prepayments for other inventories	156	1,535	1,391
Total inventories	154,688	153,433	126,332

NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	30.09.2021	30.09.2020	31.12.2020
Long-term loans	1,115	1,115	1,115
Long-term bank deposit	2	2	2
Long-term receivables from customers of construction services	22,715	15,121	16,862
Total other long-term loans and receivables	23,832	16,238	17,979
incl. long-term loan receivables from related parties (Note 16)	1,115	1,115	1,115

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	30.09.2021	30.09.2020	31.12.2020
Land	12,408	12,407	12,407
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(14)	(13)	(13)
	15	16	16
Buildings at carrying amount			
Cost	2,631	2,631	2,631
Accumulated depreciation	(1,207)	(1,099)	(1,132)
	1,424	1,532	1,499
Total investment property	13,847	13,955	13,922

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	30.09.2021	30.09.2020	31.12.2020
Land	712	712	712
Buildings at carrying amount*			
Cost	7,951	6,386	6,040
Accumulated depreciation	(2,952)	(2,845)	(2,689)
	4,999	3,541	3,351
Machinery and equipment at carrying amount*			
Cost	14,918	14,344	14,377
Accumulated depreciation	(9,256)	(8,560)	(8,760)
	5,662	5,784	5,617
Other fixtures at carrying amount			
Cost	4,228	4,011	4,027
Accumulated depreciation	(3,231)	(3,167)	(3,145)
	997	844	882
Prepayments for property, plant and equipment	3,254	2,271	3,959
Total property, plant and equipment	15,624	13,152	14,521

* As of 30 September 2021 the balance of buildings at carrying amount includes leased assets in a sum of EUR 585 thousand (30.09.2020: 333 thousand; 31.12.2020: EUR 186 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 2,828 thousand (30.09.2020: EUR 2,505 thousand; 31.12.2020: EUR 2,487 thousand).

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	30.09.2021	30.09.2020	31.12.2020
Goodwill			
Cost	72	65	69
	72	65	69
Software at carrying amount			
Cost	2,032	2,000	2,122
Accumulated depreciation	(1,568)	(1,446)	(1,495)
	464	554	627
Prepayments for intangible assets	148	45	15
Total intangible assets	684	664	711

NOTE 12 BORROWINGS

in thousand euros

	30.09.2021	30.09.2020	31.12.2020
Lease liabilities*			
Lease liabilities balance	3,488	2,822	2,703
incl. current portion	888	857	790
non-current portion 2...5 years	2,600	1,965	1,913
Bank loans			
Loan balance	30,613	41,764	20,299
incl. current portion	8,443	17,364	6,859
non-current portion 2...5 years	22,170	24,400	13,440
Loans from entities under common control			
Loan balance (Note 16)	6,000	6,000	6,000
incl. current portion	-	6,000	6,000
non-current portion 2...5 years	6,000	-	-
Loans from other entities			
Loan balance (Note 16)	80	-	56
incl. current portion	24	-	-
non-current portion 2...5 years	56	-	56
Total loans			
Loans balance	36,693	47,764	26,355
incl. current portion	8,467	23,364	12,859
non-current portion 2...5 years	28,226	24,400	13,496
Total borrowings			
incl. current portion	9,355	24,221	13,649
non-current portion 2...5 years	30,826	26,365	15,409

* As of 30 September 2021 the lease liabilities include a balance of EUR 44 thousand to related parties (30.09.2020: EUR 95 thousand; 31.12.2020: EUR 82 thousand) (Note 16).

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	30.09.2021	30.09.2020	31.12.2020
Trade payables	35,704	25,151	20,948
Payables to employees	9,641	7,940	11,788
Tax liabilities, except for corporate income tax			
Value added tax	1,567	2,556	3,199
Personal income tax	415	408	470
Social security tax	1,113	1,090	1,180
Unemployment insurance tax	45	37	50
Contributions to mandatory funded pension	26	28	36
Other taxes	127	277	98
	3,293	4,396	5,033
Prepayments for construction services	8,481	11,023	6,926
Other liabilities			
Interest liabilities	11	19	1
Dividends payables	-	128	-
Other liabilities	480	432	592
	491	579	593
Prepayments received *	30,784	11,827	10,558
Total payables and prepayments	88,394	60,916	55,846
incl. payables to related parties (Note 16)	2,569	152	3

* As of 30 September 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 12,777 thousand (30.09.2020: EUR 3,661 thousand; 31.12.2020: EUR 6,997 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 18,007 thousand (30.09.2020: EUR 8,166 thousand; 31.12.2020: EUR 3,561 thousand) (Note 2).

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	30.09.2021	30.09.2020	31.12.2020
Provision for warranty obligation for construction	3,323	3,620	3,448
Provision for costs of projects sold and work-in-progress projects	2,707	1,174	2,319
Provision for onerous construction contracts	288	779	312
Provision for legal costs and claims filed	-	202	202
Other provisions	-	-	66
Total short-term provisions	6,318	5,775	6,347

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	30.09.2021	30.09.2020	31.12.2020
Trade payables	1,927	2,140	2,120
Prepayments received *	1,287	-	1,579
Interest liabilities	2	-	-
Other long-term liabilities	337	645	327
Other long-term payables total	3,553	2,785	4,026
incl. other long-term payables to related parties (Note 16)	339	645	327

* As of 30 September 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 1,287 thousand (30.09.2020: EUR 0; 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 30.09.2021; 30.09.2020 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 rights %			Location	Area of operation
	30.09.2021	30.09.2020	31.12.2020		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia,	Construction
Tallinna Teede AS	-	100	100	Estonia,	Road construction
AS Merko Infra	100	100	100	Estonia,	Construction
OÜ Tähelinna Kinnisvara	100	100	100	Estonia,	Real estate
OÜ Vahi Lastehoid	100	100	100	Estonia,	Real estate
OÜ Merko Kaevandused	100	100	100	Estonia,	Mining
Tallinna Teede AS	100	-	-	Estonia,	Road construction
UAB Merko Statyba	100	100	100	Lithuania,	Construction
UAB Statinių Priežiūra ir Administravimas	-	100	-	Lithuania, Vilniu	Real estate
UAB Timana	100	100	100	Lithuania, Vilniu	Real estate
UAB VPSP 2	100	100	100	Lithuania, Vilniu	Real estate
UAB VPSP Projektas	100	100	100	Lithuania, Vilniu	Real estate
OÜ Merko Property	100	100	100	Estonia,	Real estate
UAB Balsiu Mokyklos SPV	100	100	100	Lithuania,	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilniu	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilniu	Real estate
UAB Jurininku Aikštėle	-	100	-	Lithuania, Vilniu	Real estate (merged with UAB Merko Bustas, in process of deletion from the commercial register)
UAB MB Projektas	100	100	100	Lithuania, Vilniu	Real estate
UAB Statinių Priežiūra ir Administravimas	100	-	100	Lithuania, Vilniu	Real estate
OÜ Merko Investments	100	100	100	Estonia,	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate
SIA Merks Mājas	100	100	100	Latvia, Riga	Real estate
SIA Industrialais Parks	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	-	-	Latvia, Riga	Real estate
SIA Zakusala Estates	75	-	-	Latvia, Riga	Real estate
SIA Ropažu Priedes	-	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	-	75	75	Latvia, Riga	Real estate
PS Merks-Ostas Celtnieks	65	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	100	Finland,	Construction
Merko Investments AS	100	100	100	Norway,	Holding
Peritus Entreprenør AS	56	56	56	Norway,	Construction
Løkenskogen Bolig AS	56	-	-	Norway,	Real estate
Associate					
Connecto Eesti AS	35	-	-	Estonia, Tallinn	Construction

	Ownership and voting rights %			Location	Area of operation
	30.09.2021	30.09.2020	31.12.2020		
Joint venture					
Kodusadam OÜ	50	50	50	Estonia,	Real estate

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

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. The transfer of shares and completion of the transactions took place in July 2021. Upon the acquisition of the holding, the electrical construction business area of AS Merko Infra, a 100% subsidiary of AS Merko Ehitus, was sold to Connecto Eesti AS. 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.

ACQUISITION OF ASSOCIATE

Name of company acquired	Connecto Eesti AS
Share %	35
Acquisition date	01.07.2021
in thousand euros	
Cash	1,373
Receivables	3,528
Non-current assets	987
Borrowings	(482)
Other liabilities	(3,062)
Fair value of net assets	2,344
Acquisition cost	4,550
Goodwill	2,206
Paid for share of associate in cash	(4,550)
Received from sale of Merko Infra electrical unit in cash	500
Net outflow of cash – investing activities	(4,050)

The investment into the associated company includes a goodwill of EUR 2,206 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 9 months	2020 9 months	2020 12 months
Provided services and goods sold			
Parent company	10	10	13
Associate and joint venture	2,886	1,275	1,494
Entities under common control	12,187	342	844
Members of the management	164	549	838
Total services provided and goods sold	15,247	2,176	3,189
Interest income			
Joint venture	51	57	74

	2021 9 months	2020 9 months	2020 12 months
Purchased services and goods			
Parent company	68	68	90
Associate	82	-	-
Entities under common control	46	43	68
Members of the management	1	2	3
Total purchased services and goods	197	113	161
Interest expense			
Entities under common control	97	106	142
Other related parties	11	-	-
Total interest expense	108	106	142
BALANCES WITH RELATED PARTIES			
in thousand euros			
	30.09.2021	30.09.2020	31.12.2020
Receivables from related parties			
Loans granted (Notes 6,8)			
Joint ventures	1,115	1,115	1,115
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Associate and joint venture	978	22	25
Entities under common control	734	-	340
Members of the management	-	257	-
Total receivables and prepayments	1,716	283	369
Total receivables from related parties	2,831	1,398	1,484
Payables to related parties			
Lease liabilities (Note 12)			
Entities under common control	44	95	82
Short-term loans received (Note 12)			
Entities under common control	-	6,000	6,000
Other related parties	24	-	-
Total short-term loans received	24	6,000	6,000
Payables and prepayments (Note 13)			
Parent company	9	9	-
Associate and joint venture	28	-	-
Entities under common control	2,476	15	3
Members of the management	56	-	-
Other related parties	-	128	-
Total payables and prepayments	2,569	152	3
Long-term loans received (Note 12)			
Entities under common control	6,000	-	-
Other related parties	56	-	56
Total long-term loans received	6,056	-	56
Other long-term payables (Note 15)			
Other related parties	339	645	327
Total payables to related parties	9,032	6,892	6,468

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 9 months of 2021 was EUR 1,831 thousand (9 months of 2020: EUR 1,518 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 9 months of 2021, the Management Board members of major subsidiaries received EUR 105 thousand in compensation (9 months of 2020: EUR 131 thousand; 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/.

Shares held by members of the Supervisory Board of AS Merko Ehitus as of 30.09.2021:

		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	-	-
12,774,321			72.17%

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

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

Shares held by members of the Management Board of AS Merko Ehitus as of 30.09.2021:

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

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	30.09.2021	30.09.2020	31.12.2020
Performance period's warranty to the customer	27,292	24,725	24,901
Tender warranty	55	1,563	669
Guarantee for warranty period	19,945	22,435	22,253
Prepayment guarantee	11,819	9,752	11,589
Payment guarantee	817	-	516
Contracts of surety	1,466	1,945	1,834
Total contingent liabilities	61,394	60,420	61,762

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	=	$\frac{\text{Current assets - inventories}}{\text{Current liabilities}}$
Accounts receivable turnover(days)	=	$\frac{\text{Trade receivables of the current 4 quarters (average)} \times 365}{\text{Revenue of the current 4 quarters}}$
Accounts payable turnover (days)	=	$\frac{\text{Payables to suppliers of the current 4 quarters (average)} \times 365}{\text{Cost of goods sold of the current 4 quarters}}$
EBITDA (million EUR)	=	Operating profit + depreciation
EBITDA margin (%)	=	$\frac{\text{Operating profit} + \text{depreciation}}{\text{Revenue}}$
General expense ratio (%)	=	$\frac{\text{Marketing expenses} + \text{General and administrative expenses}}{\text{Revenue}}$
Labour cost ratio (%)	=	$\frac{\text{Labour costs}}{\text{Revenue}}$
Revenue per employee (EUR)	=	$\frac{\text{Revenue}}{\text{Number of employees (average)}}$
Earnings per share, EPS (EUR)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$
Equity/share (EUR)	=	$\frac{\text{Shareholders equity (average of the current 4 quarters)}}{\text{Number of shares}}$
Dividend per share (EUR)	=	$\frac{\text{Payable dividends}}{\text{Number of shares}}$
Dividend rate (%)	=	$\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$
Dividend yield (%)	=	$\frac{\text{Dividends payable per share}}{\text{Share price 31.12}}$
P/E	=	$\frac{\text{Share price 30.09}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 30.09}}{\text{Equity per share (average of the current 4 quarters)}}$
Market value	=	Share price 30.09 x Number of shares