



AS MERKO EHITUS

GROUP

2020 3 months consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
Commercial Register No.:	11520257
Address:	Järvevana tee 9G, 11314 Tallinn
Postal address:	Pärnu mnt 141, 11314 Tallinn
Phone:	+372 650 1250
Fax:	+372 650 1251
E-mail:	group@merko.ee
Web site:	group.merko.ee
Financial year:	01.01.2020 – 31.12.2020
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Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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BRIEF OVERVIEW OF THE GROUP

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



BUSINESS SEGMENTS

ESTONIA	LATVIA	LITHUANIA	NORWAY
General construction Civil engineering Electrical construction Road construction Residential real estate development and investments	General construction Civil engineering Electrical construction Residential real estate development and investments	General construction Residential real estate development and investments	General construction

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

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

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

SHARES

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

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

2019 KEY FIGURES

Revenue **326.8 million** euros

Net profit **16.3 million** euros

694 employees



VISION

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

VALUES

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

STRATEGY

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

MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

Merko Ehitus posted revenue of EUR 56 million and net profit of EUR 2.0 million in Q1 of 2020. Construction services made up 62% and real estate development 38% of the group's revenue. New construction contracts worth EUR 87 million in total were signed, and the volume of the secured order-book at the end of the quarter was EUR 193 million, of which close to three-quarters were public sector contracts. In Q1, 133 apartments were handed over to apartment buyers.

The decrease in revenue by about a quarter compared to the same period last year was to be expected – there were fewer major projects in progress and the construction market was seeing a cooling trend. Starting from March, business activity began to be affected by pandemic related restrictions, but the impact of the pandemic on the group's operations and results will start to show up more extensively in the quarters ahead.

The outlook for the construction and real estate sector in all of group's home markets became negative in March, and the possibility that the impact of the economic crisis will be long in duration. Due to that, the group cancelled its initial dividend proposal and suspended the launch of new apartment developments at first for three months until there is greater clarity on further developments. Therefore, the supply of group's apartments will decrease from the planned level for both 2020 and 2021. The group's companies have started gradually implementing cost control measures to ensure efficient functioning and strong capability for operating both during and after the crisis.

Most of the commercial real estate projects have been placed on hold. Private sector clients have practically disappeared from the construction market and public sector procurements will play a commanding role in new construction tenders. It will definitely take time for private sector clients' confidence to recover and adjust to the new conditions. Management hopes that state investments into buildings and infrastructure will continue and project preparations will speed up to support the vitality of the construction sector and prevent job losses. Due to the projected drop in construction volumes, price competition in construction tenders has become even more aggressive. A positive aspect is that work is continuing on the group's construction sites and new construction contracts worth EUR 87 million were signed in the first quarter. Owing to that the volume of secured order-book at the end of the quarter was even slightly greater than a year ago.

In Q1 of 2020, Merko Ehitus handed over 133 apartments to home buyers (Q1 2019: 63 apartments) and 3 commercial premises. Merko's biggest projects in Tallinn are Uus-Veerenni and Pikaliiva residential projects, Gaiļezers and Viesturdārzs developments in Riga and Vilneles slenis and Rinktinės Urban developments in Vilnius.

In connection with the pandemic, the sales of new apartments slowed down starting in March in Estonia, Latvia and Lithuania. The number of applications for home loans is down; the number of apartments to rent is up, and unemployment has increased in the economic sectors hit hardest by the pandemic. As the apartment market was fairly well balanced before the beginning of the crisis – supply, price level, purchasing power and loan burden were at a reasonable level – going through the current crisis may turn out to be less of an ordeal than the one that started in 2008. Considering the nature of the current economic crisis, it is essential not only that government support measures arrive quickly, but that banks do not overreact in terms of tightening financing conditions, including issuing home loans.

People and companies must quickly learn to operate in conditions of higher health risks and restrictions on everyday activities. Group's companies are taking the necessary safety measures in the apartment sale process and use digital channels to execute transactions. In current situation, home buyers put even more importance on a trustworthy developer and integrally developed living environments. The group will complete the developments in progress and assess possibilities of launching new projects based on the market situation. The management also analyses how the current crisis could impact the real estate market in the future.

Merko Ehitus posted revenue of EUR 56 million in Q1 2020 (Q1 2019: EUR 77 million), an EBITDA of EUR 2.8 million (Q1 2019: EUR 3.5 million), and net profit of EUR 2.0 million (Q1 2019: EUR 2.8 million). In the first quarter of this year, new construction contracts worth EUR 87 million were signed (Q1 2019: EUR 32 million), the largest of these being the construction of Tallinn Music and Ballet School, Tallinn Arte Gymnasium, new public water supply and sewerage pipeline in Kohila Parish and a data centre in Harju County.

The largest projects in progress for Merko in Q1 in Estonia were the construction of Terminal D parking house at the Tallinn passenger port, Türi Basic School, the commercial building at Pärnu mnt 186 and high-voltage power cables in Tallinn, and the reconstruction of Aaspere-Haljälä road section. In Latvia, the largest projects in progress were the construction of the school building and dormitory in Pinki, Lidl's logistics centre and Laima chocolate factory, as well as the reconstruction of the Riga Technical University Civil Engineering Faculty building. In Lithuania, projects in progress were the construction of Hotel Neringa and Kaunas district police headquarters building.

2020 3M
REVENUE
56 MILLION EUROS

PROFIT
BEFORE TAX
2.1 MILLION EUROS

OVERVIEW OF THE 3 MONTHS RESULTS

PROFITABILITY

2020 3 months' profit before tax was EUR 2.1 million (3M 2019: EUR 3.0 million), which brought the profit before tax margin to 3.7% (3M 2019: 3.9%).

Net profit attributable to equity holders of the parent in 3 months 2020 was EUR 2.0 million (3M 2019: EUR 2.8 million) and 3 months' net profit margin was 3.6% (3M 2019: 3.6%).

REVENUE

2020 3 months' revenue was EUR 55.9 million (3M 2019: EUR 76.8 million). 3 months' revenue decreased by 27.3% compared to same period last year. The share of revenue earned outside Estonia in 3 months 2020 was 53.5% (3M 2019: 60.8%).

SECURED ORDER BOOK

As at 31 March 2020, the group's secured order book was EUR 193.0 million (31 March 2019: EUR 190.0 million). In 3 months 2020, group companies signed new contracts in the amount of EUR 87.2 million (3M 2019: EUR 32.2 million).

REAL ESTATE DEVELOPMENT

In 3 months 2020, the group sold a total of 133 apartments (incl. 2 apartments in a joint venture); in 3 months 2019, the group sold 63 apartments (incl. 29 apartments in a joint venture). The group earned a revenue of EUR 18.6 million from sale of own developed apartments in 3 months 2020 and EUR 4.6 million in 3 months 2019.

CASH POSITION

At the end of the reporting period, the group had EUR 37.1 million in cash and cash equivalents, and equity of EUR 132.2 million (45.7% of total assets). Comparable figures as at 31 March 2019 were EUR 33.0 million and EUR 134.6 million (48.7% of total assets), respectively. As at 31 March 2020, the group's net debt stood at EUR 29.8 million (31 March 2019: EUR 9.9 million).

OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

CONSTRUCTION SERVICES

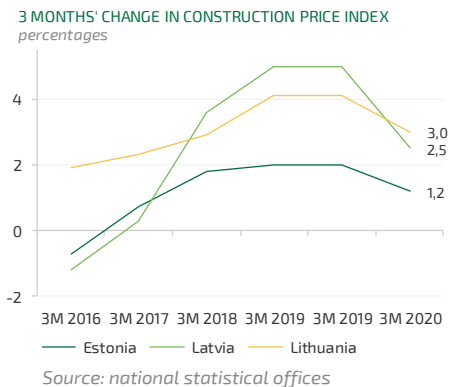
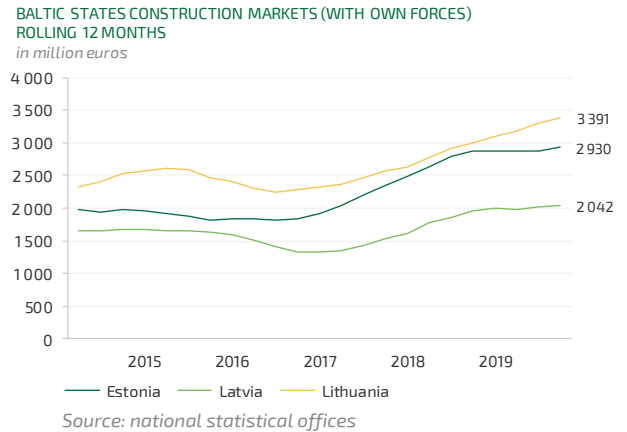
On 11 March 2020, the World Health Organization declared a global COVID-19 pandemic. The measures established worldwide to mitigate the impact, including in the Baltics and Norway, have significantly curtailed ordinary economic activities. The most direct impact has been felt in sectors that depend on freedom of movement and providing services – transport, accommodation, entertainment, the restaurant industry, and trade.

The crisis impacts the construction sector more indirectly with a certain lag time. The general lower economic activity and uncertainty exerts an impact, by reducing the number of private sector investments. In the first quarter, the impact of the measures was moderate for the construction sector – work continued on sites in progress and despite the risk that the activity on construction sites might be affected by illnesses and difficulties with supply lines, significant stoppages in the Baltics were avoided. The influence will start to show up more in future quarters, when the number of new construction objects starts to shrink and the public sector's demand will start to play an increasingly important role.

As to how deep and prolonged the downturn on the construction market will be, that will depend on the developments in containing the virus and on government measures. Above all, the construction market would be positively influenced by a rapid and decisive increase in the volume of public procurements. The launch of large-scale infrastructure projects and construction of buildings on the basis of public sector orders would ensure that during economic depression people would still have jobs in construction and in related fields.

A general stabilisation of demand on the Estonian and Latvian market could be noticed also earlier – construction volumes measured in current prices remained flat throughout 2019. In Lithuania, the growth that started in the second half of 2016 continued. According to the construction volume index, the Estonian construction market outstripped the peak of the boom of the late 2000s by about 15% while in Latvia and Lithuania volumes were still about 15-20% below the peak.

The impact of the pandemic did not yet show up significantly in construction prices in the first quarter, but compared to the same period in the previous year, the growth of prices was more moderate in all three Baltic countries, ranging from one to three per cent. A drop in prices is likely in the subsequent quarters. This will remain so at least as long as the public sector demand is unable to completely make up that of the missing private sector.



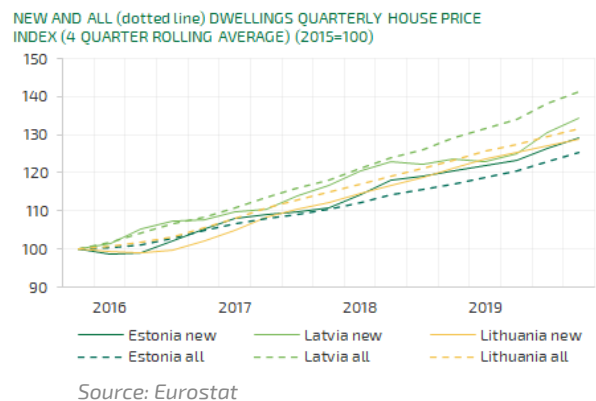
DEVELOPMENT OF APARTMENTS

Until the impact of the measures taken to control the virus outbreak emerged in March, Baltic apartment development remained quite active. This was especially the case in Estonia and Lithuania, but the Latvian market was also seeing an increase in activity. In Estonia, the growth of the last eight years seen in the volume of permits for use of residential buildings continued at a 10% annual rate. In Lithuania, for the last two years, the volume remained stable at a level higher than the peak achieved during the last boom. The volumes of use permits in Latvia remained relatively low, but saw brisk growth in the last two years at an approximately 20% rate.

The sale of apartments decelerated starting in March as a result of the measures taken to contain the outbreak. In general, the development projects in progress are planned to be completed, at least there are no clear signals to the contrary. The launch of new developments, however, has been placed on hold for now.

Demand for apartments depends on the general health of the economy, above all on consumers' incomes, level of unemployment and confidence about the future, but also on investors' expectations. The sooner the near-normal functioning of the economy and overall trust in the normalization of day-to-day life is restored, with societal changes and governmental support measures, the less severe the setbacks will also be for the apartment development sector. Commercial banks will also have an important role to play in this, in order to ensure reasonable financing for companies and home buyers.

The last years have seen a relatively stable rise in apartment prices in all three Baltic states, which has gone hand in hand with rising incomes. Compared to the last crisis more than 10 years ago, the apartment prices today do not represent a bubble. Thus, it is to be hoped that even in the most negative scenario, there is currently no reason to presume that prices will crater as they did during the last crisis.



BUSINESS ACTIVITIES

The group business reporting is divided into two business segments:

- construction service;
- real estate development.

CONSTRUCTION SERVICE

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

million EUR

	3M 2020	3M 2019	VARIANCE	12M 2019
Revenue	34.9	70.3	-50.4%	256.7
% of total revenue	62.5%	91.6%		78.6%
Operating profit (loss)	(0.4)	2.8	-112.7%	13.3
Operating profit margin	-1.0%	4.0%		5.2%

In the 3 months of 2020, the revenue of the construction service segment was EUR 34.9 million (3M 2019: EUR 70.3 million). The sales revenue of construction service has decreased by half compared to the same period last year. The construction service segment revenue for 3 months 2020 made up 62.5% of the group's total revenue (3M 2019: 91.6%). In this segment, the group earned an operating loss of EUR -0.4 million for 3 months (3M 2019: operating profit EUR 2.8 million). The operating profit margin was -1.0% (3M 2019: 4.0%). Because of decrease in revenue, fixed costs related to construction service ratio to revenue was higher than before, cutting into the operating profitability of the segment. The realisation of contracts in the field of construction service is a longer-term process, as a result of which the quarterly results reflect decisions and actions that occurred in the course of entering into contracts in previous periods.

The spread of COVID-19 and measures taken to contain it have thus far not had a significant impact on the group's results in the construction service segment. Construction activity on sites in progress has continued at close to the usual pace; difficulties with supply lines and stoppages related to illnesses have not created significant obstacles. To minimise the spread of the virus and illnesses, the group companies have adopted the necessary measures in both offices and construction sites including distancing, disinfection of hands and premises, use of protective gear, and where possible, remote work. In their general contracting role, the group companies have fulfilled the necessary requirements and demanded that subcontractors do so as well. The subcontractors are offered appropriate training, and, if necessary, are provided support for ensuring availability of personal protective equipment. The measures and procedures developed by the group companies have also been shared with partners and professional associations.

If the virus continues to spread, further restrictions and stoppages of construction sites cannot unfortunately be ruled out. Illnesses among employees and various delays in deliveries of materials may also affect completion deadlines. The group companies have mapped the main risks and analysed alternatives; the situations that arise are handled case by case. To ensure that the outcome of construction activity meets the expectations of all parties as well as possible, it is very important to maintain constructive cooperation between the client, the general contractor, subcontractors and financiers.

Considering the expected seriousness of the economic downturn related to the pandemic in terms of scope and duration, all group companies are currently reviewing their working procedures to find ways of saving on costs and to implement cost control measures for operating efficiently amidst decreasing demand.

Larger projects in progress in the first quarter in construction service segment in Estonia included Tallinn School of Music and Ballet, data campus in Saue Parish, Tallinn Arte Gymnasium, commercial building at Pärnu mnt 186, Terminal D parking house at the Tallinn passenger port, Türi Basic School buildings, construction of electric power cables of Suur Väin straits, high-voltage power cables in Tallinn, construction works of water supply and sewerage piping in Metsanurme, Kasemetsa and Üksnurme area, reconstruction of Aaspere-Haljala road section, and road repair and maintenance works in Tallinn. In Latvia, larger ongoing projects in Q1 included the construction works of Lidl logistics centre, Laima chocolate factory, college building and dormitory in Pinki, as well as reconstruction of Riga Technical University Civil Engineering Faculty building. In Lithuania, larger projects were Neringa hotel and Kaunas district Police headquarters building. In Norway, mostly smaller scale contracts were in the works for the group in the first quarter.

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

	3M 2020	3M 2019	VARIANCE	12M 2019
Revenue	21.0	6.5	+223.6%	70.1
incl. sale of apartments	18.6	4.6		63.8
construction service to joint venture projects	0.3	1.0		2.1
sale of immovable properties	0.5	0.4		0.4
% of total revenue	37.5%	8.4%		21.4%
Operating profit	2.9	0.6	+416.0%	8.1
Operating profit margin	13.7%	8.6%		11.6%

In 3 months 2020, the group sold a total of 133 apartments (incl. 2 apartments in a joint venture) and 3 commercial premises (all in own developments); in 3 months 2019, 63 apartments (incl. 29 apartments in a joint venture) and 2 commercial premises (all in a joint venture). The group earned a revenue of EUR 18.6 million (VAT not included) from sale of own developed apartments in 3 months 2020 and EUR 4.6 million (VAT not included) in 3 months 2019.

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

In 3 months of 2020, real estate development segment revenues increased more than three times compared to the same period last year and formed 37.5% of the group's total revenue (3 months of 2019: 8.4%). Compared to the same quarter of the previous year, 97 own developed apartments more were handed over to customers, which resulted in a significant increase in revenue. The increase in sales in Q1 of this year was expected, due to the timing of the development projects, which foresaw reaching completion in Q4 of 2019 and in Q1 of 2020.

The segment's operating profit for the 3 months of 2020 amounted to EUR 2.9 million (3 months of 2019: EUR 0.6 million) and the operating profit margin was 13.7% (3 months of 2019: 8.6%). The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, including the land acquisition price. In 2020, the tone was set by increased sales of own developed apartments.

At the end of the period, group's inventory comprised 435 apartments where a preliminary agreement had been signed (as at 31 March 2019: 288 such apartments): 12 completed apartments (3 in Estonia, 5 in Latvia and 4 in Lithuania) and 423 apartments under construction (173 in Estonia, 47 in Latvia and 203 in Lithuania). The sale of these apartments had not yet been finalised and they had not been delivered to customers, either because the development site was still under construction or the site was completed at the end of the reporting period and the sales transactions had not all been finalised yet.

As at 31 March 2020, the group had a total of 502 apartments for active sale (as at 31 March 2019: 855 apartments), for which there were no pre-sale agreements and of which 139 had been completed (34 in Estonia, 92 in Latvia and 13 in Lithuania) and 363 were under construction (175 in Estonia, 49 in Latvia and 139 in Lithuania).

During the first 3 months of 2020, the group did not launch any new apartment constructions in the Baltic states (3 months of 2019: 20 apartments). In the 3 months, the group invested a total of EUR 18.8 million (3 months of 2019: EUR 15.9 million) in new development projects in progress.

The spread of COVID-19 and containment measures had only a limited impact on real estate development results in the first quarter, as the restrictions on the economy were established at the very end of the period. However, the process of entering into new preliminary contracts and real right contracts was slowed down significantly starting from mid-March. Given these conditions, the group's management decided on 23 March not to launch construction of new development projects effective until June, and made a corresponding announcement on the stock exchange (<https://www.nasdaqbaltic.com/statistics/et/news/311917>). The group does, however, continue construction activities until completion on projects currently in the construction phase.

Apartment sales have also been curtailed by general restrictions on movement. No official restrictions on apartment sales have been established in the Baltics, but as a general precautionary measure, people are limiting their public movement and contact with others. Thus, it is natural that there is a lower readiness among the public for face-to-face meetings and in-person apartment showings. The group companies have however not halted the active apartment sale process. Additional safety measures have been instituted for containing the spread of the virus, with the health of customers and group personnel in mind. All discussions that do not require face-to-face meetings are held remotely. Where possible – for example, in Estonia, where such a possibility

was added to legislation during the state of emergency – we also use digital channels to formalise transactions. When showing apartments to customers, sales staff are equipped with personal protective equipment (masks, eye protection and gloves) and customers are also provided with these items. Use of hand sanitizers and disinfectants to ensure that sales brochures and apartment surfaces are clean has now become a new norm.

It is highly likely that the pandemic and measures taken to contain it will have a significant impact on the results of the real estate development segment in quarters to come. Although a rapid recovery of the economy and demand for apartments cannot yet be ruled out, it should be presumed that apartment sales will remain muted for a longer period. Owing to strong capitalisation, the group is in a good position to cope with a longer sales period. The management of the group and its companies are keeping a close eye on market developments in all three Baltic states and stand prepared to respond to market changes rapidly, if possible, also taking pre-emptive steps.

One of the group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As at 31 March 2020, the group's inventories included land plots with development potential, where the construction works have not started, in amount of EUR 69.5 million (31.03.2019: EUR 54.2 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	31.03.2020	31.03.2019	31.12.2019
Estonia	28.6	26.3	29.3
Latvia	26.9	26.9	26.9
Lithuania	14.0	1.0	14.0
Total	69.5	54.2	70.2

In the 3 months of 2020, the group has not purchased new land plots for real estate development purposes (3 months of 2019: EUR 0.1 million).

SECURED ORDER BOOK

As at 31 March 2020, the group's secured order book amounted to EUR 193.0 million, compared to EUR 190.0 million as at 31 March 2019, having increased by 1.6% 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 3 months of 2020, EUR 87.2 million worth of new contracts were signed, while EUR 32.2 million were signed during the same period in 2019. Thus, the volume of new construction contracts concluded in the first 3 months of 2020 was 170.8% higher than in the same period of the previous year.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FIRST QUARTER OF 2020

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Construction contract for the construction of Tallinn School of Music and Ballet located at Pärnu mnt 59, Tallinn	Estonia	March of 2022	34.7
Construction contract to perform construction works of water supply and sewerage piping in Kohila Parish, Rapla County	Estonia	December of 2021	14.3
Construction contract for the construction of first stage of data campus in Saue Parish, Harju County	Estonia	May of 2021	9.0
Construction contract for the construction of a hotel building located at Tartu mnt 49, Tallinn	Estonia	December of 2021	8.9
Construction contract for the reconstruction of Tallinn Arte Gymnasium located at E. Vilde tee 62, Tallinn	Estonia	May of 2021	7.7
Construction contract for conducting concrete works of Saustinõmme viaduct in Saku Parish, Harju County	Estonia	End of 2020	2.3

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

- AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and OÜ Kohila Maja entered into a contract to perform construction works of water supply and sewerage piping in Kohila Parish, Rapla County. The contract value is approximately EUR 3.4 million and works will be completed in March 2022.
- Peritus Entreprenør AS, part of AS Merko Ehitus group, and Haakon VII's gt 5 Holding AS entered into a contract for the reconstruction of an office building located at Haakon VII's 5 in Oslo's Vika district. The contract value is approximately EUR 4.3 million and works are scheduled to be completed in October 2020.

As at 31 March 2020, the public sector orders accounted for approximately 74% of the total balance in the group's secured order book (31.03.2019: approximately 39%). The share of public sector in the secured order book has increased considerably and the

level of private sector procurements has decreased. Such developments were already in motion well ahead of the COVID-19 outbreak. Demand from the private sector in the Baltics has abated, as there has been an ample supply of new commercial real estate on the market in the last few years and thus competition between developers has increased while construction prices have risen. Some of the development projects have been placed on hold. The pandemic has reduced demand from the private sector even further.

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

CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 37.1 million (31.03.2019: EUR 33.0 million). As the group's cash position continues to be strong, the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As at the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 37.6 million, of which EUR 29.3 million was unused (31.03.2019: EUR 35.6 million of which EUR 30.7 was unused). In addition to the overdraft facilities, the company has a working capital loan facility with a limit of EUR 3.5 million (31.03.2019: EUR 3.5 million) from AS Riverito, which was not withdrawn at the end of current period (31.03.2019: not withdrawn).

The 3-month cash flow from operating activity was positive at EUR 9.7 million (3 months of 2019: negative EUR 3.7 million), cash flow from investing activity was negative at EUR 0.1 million (3 months of 2019: negative EUR 0.8 million) and the cash flow from financing activity was positive at EUR 2.9 million (3 months of 2019: negative EUR 2.6 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 2.8 million (3 months of 2019: positive effect of EUR 3.5 million), from the changes in trade and other receivables related to operating activities of EUR 3.5 million (3 months of 2019: positive effect of EUR 2.9 million), change in trade and other payables related to operating activities of EUR 2.0 million (3 months of 2019: positive effect of EUR 7.8 million) and changes in receivables and liabilities related to construction contracts of EUR 7.6 million (3 months 2019: negative effect of EUR 3.7 million). The negative effects to cash flow from operating activities came from change in the provisions of EUR 3.1 million (3 months of 2019: negative effect of EUR 1.8 million), change in inventories of EUR 2.5 million (3 months of 2019: negative effect of EUR 12.0 million) and from the corporate income tax of EUR 0.1 million (3 months of 2019: EUR 0.0 million).

To support cash flows from operating activities, including raising the volumes in apartment development, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (23.1% as at 31.03.2020; 15.5% as at 31.03.2019; 22.6% as at 31.12.2019).

Cash flows from investing activities include negative effect from the acquisition of non-current assets and investment property in the amount of less than EUR 0.1 million (3 months of 2019 EUR 0.9 million) and positive effect from the sale of non-current assets in the amount of EUR 0.1 million (3 months of 2019: EUR 0.1 million).

In cash flows from financing, the larger negative factors were repayments of lease liabilities in the amount of EUR 0.2 million (3 months of 2019: net negative cash flow of EUR 0.3 million) and net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 0.1 million (3 months of 2019: negative cash flow in the net amount of EUR 0.1 million). Positive cash flow from financing activity was gained from net amount of loans received and repaid in connection with development projects in the amount of EUR 2.5 million (3 months of 2019: net positive cash flow of EUR 2.7 million) as well as from positive change in loans related to construction projects and other activities in the net amount of EUR 0.7 million (3 months of 2019: net negative cash flow of EUR 4.9 million).

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		3M 2020	3M 2019	3M 2018	12M 2019
Revenue	million EUR	55.9	76.8	80.3	326.8
Gross profit	million EUR	5.5	6.2	4.1	34.8
Gross profit margin	%	9.8	8.1	5.1	10.7
Operating profit	million EUR	2.2	2.9	1.3	19.2
Operating profit margin	%	3.9	3.8	1.6	5.9
Profit before tax (PBT)	million EUR	2.1	3.0	1.3	20.3
PBT margin	%	3.7	3.9	1.6	6.2
Net profit	million EUR	1.9	2.9	1.2	16.5
attributable to equity holders of the parent	million EUR	2.0	2.8	1.1	16.3
attributable to non-controlling interest	million EUR	(0.1)	0.1	0.1	0.2
Net profit margin	%	3.6	3.6	1.4	5.0
Other income statement indicators		3M 2020	3M 2019	3M 2018	12M 2019
EBITDA	million EUR	2.8	3.5	1.8	21.9
EBITDA margin	%	5.1	4.5	2.2	6.7
General expense ratio	%	6.7	5.2	4.5	5.3
Labour cost ratio	%	14.2	11.7	9.0	11.4
Revenue per employee	thousand EUR	82	106	109	461
OTHER SIGNIFICANT INDICATORS		31.03.2020	31.03.2019	31.03.2018	31.12.2019
Return on equity	%	12.4	16.5	11.8	12.9
Return on assets	%	5.3	7.5	5.6	5.6
Return on invested capital	%	10.3	12.6	11.2	11.1
Assets	million EUR	289.1	276.2	275.7	281.8
Equity	million EUR	136.3	139.3	135.9	134.6
Equity attributable to equity holders of the parent	million EUR	132.2	134.6	131.3	130.3
Equity ratio	%	45.7	48.7	47.6	46.2
Debt ratio	%	23.1	15.5	18.4	22.6
Current ratio	times	2.4	2.3	2.3	2.4
Quick ratio	times	0.8	1.0	1.1	0.8
Accounts receivable turnover	days	45	41	43	45
Accounts payable turnover	days	54	42	42	53
Average number of employees	people	682	727	737	709
Secured order book	million EUR	193.0	190.0	291.9	141.4

Ratio definitions are provided on page 38 of the report.

RISK MANAGEMENT

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

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

Legal risk

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

As at 31 March 2020, a provision has been set up at the group in the amount of EUR 0.2 million (31.03.2019: EUR 0.1 million) for covering potential claims and legal costs.

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

Estonia

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

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

Latvia

Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The court hearing, scheduled for 27 February 2020, was postponed due to the COVID-19 pandemic. A new court hearing is expected to take place on 4 June 2020. The possible effect of the potential positive outcome of this claim has not been taken into account in the group's financial reporting.

Starptautiskā lidosta "Rīga"

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

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

On 8 June 2018, Riga International Airport paid partly the claim submitted on September 21, 2017, therefore SIA Merks reduced the claim to EUR 248 thousand (EUR 76 thousand being the principal claim and EUR 172 thousand late interest). The parties reached a settlement, which provided that SIA Merks would deliver negotiated works to Riga International Airport by 31 March 2020, after which Riga International Airport would sign the final acceptance act. Deriving from the settlement, the parties asked the court to suspend the case, and the next court hearing was scheduled for 7 May 2020. Due to the extension of the work process deriving from the restrictions imposed in connection with the COVID-19 pandemic, the hearing has been postponed to 9 September 2020. No additional provisions are recognised in relation to the potential outcome of this claim.

Latvian Competition Council administrative proceeding

On 3 September 2019, Latvian Competition Council (*Konkurences padome*) officials carried out administrative proceeding activities in the office of SIA Merks. As part of the activities the Chairman of SIA Merks's Management Board was interviewed by the officials. To the group's knowledge, the purpose of the on-going proceeding is to ascertain whether there have been infringements of

competition law in Latvia by construction companies. SIA Merks is among the construction companies involved in the proceeding. As of this report, the management has no information about the future of the proceeding. To the knowledge of the group's Management Board, the Competition Council has extended the deadline for the proceedings until 1 August 2020, and according to the law, the Council has the right to extend the proceedings by another year after that. No provisions are recognised in relation to the effect of this proceeding.

SIA Ostas celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas celtnieks" according to its share in the contract. So far, SIA "Ostas celtnieks" has not covered its share of the loss. Due to the COVID-19 pandemic, the court hearing has been postponed and is expected to take place in the third quarter of 2020. The impact of this claim has not been taken into account in the group's reporting.

Lithuania

UAB Vilniaus vandenys

On 18 May 2016, AS Merko Ehitus and UAB Merko Statyba, acting pursuant to the joint venture agreement, filed an action against UAB Vilniaus vandenys in the total amount of EUR 183 thousand. The plaintiffs maintain that due to the actions of UAB Vilniaus vandenys, both the construction period became longer and also additional works were carried out – works that the customer later refused to pay for. By decision of 9 January 2018, the court appointed an expertise, the result of which was submitted to the court on 14 December 2018. By the decision of 7 June 2019 the court dismissed the claim. On 5 July 2019 an appeal was presented to the higher court. By judgment of the Court of Appeal of Lithuania of 16 April 2020, the judgment at first instance was amended and an amount of EUR 140 thousand was awarded to AS Merko Ehitus and UAB Merko Statyba for additional work, default interest and court costs. Both parties can file a cassation complaint within three months. The potential positive outcome of this claim is not recognised in the group's financial reporting.

UAB Axis

On 3 September 2018, UAB Axis power (sub-contractor) filed an action against UAB Merko Statyba (main contractor), part of AS Merko Ehitus group, in a total amount of EUR 846 thousand as compensation for carrying out concrete works, which were more complicated than foreseen at the signing of the contract. By the decision of 18 August 2019 the court appointed court expertise, the expected term of which was up to 6 months. The expertise ordered by UAB Merko Statyba has been submitted to the court, the expertise of the other party has not yet been completed. The group finds the claim unsubstantiated and has not recognised provisions in relation to this claim.

EMPLOYEES AND LABOUR COSTS

As of 31 March 2020, Merko Ehitus group employed 693 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 47 (-6.4%). The number of employees has decreased in Estonia, Latvia and Lithuania and increased in Norway.

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

The group defines labour cost as salary (incl. fixed salary, additional pay, holiday pay, and performance pay), taxes based on salary, fringe benefits and taxes on fringe benefits. In 3 months 2020, the labour cost was EUR 7.9 million (3 months 2019: EUR 9.0 million), which decreased by 11.6% compared to the same period previous year. The labour cost ratio increased by 2.5 pp from 11.7% to 14.2%.

During 3 months of 2020, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 2.0 million in labour taxes in Estonia, making it the largest labour tax payer in the construction sector (3 months 2019: EUR 1.9 million).

ETHICAL BUSINESS PRACTICES

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

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

The topic of business ethics has been thoroughly covered on the group's website:
group.merko.ee/en/corporate-governance-2/responsibility/ethical-business-practices/.

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

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

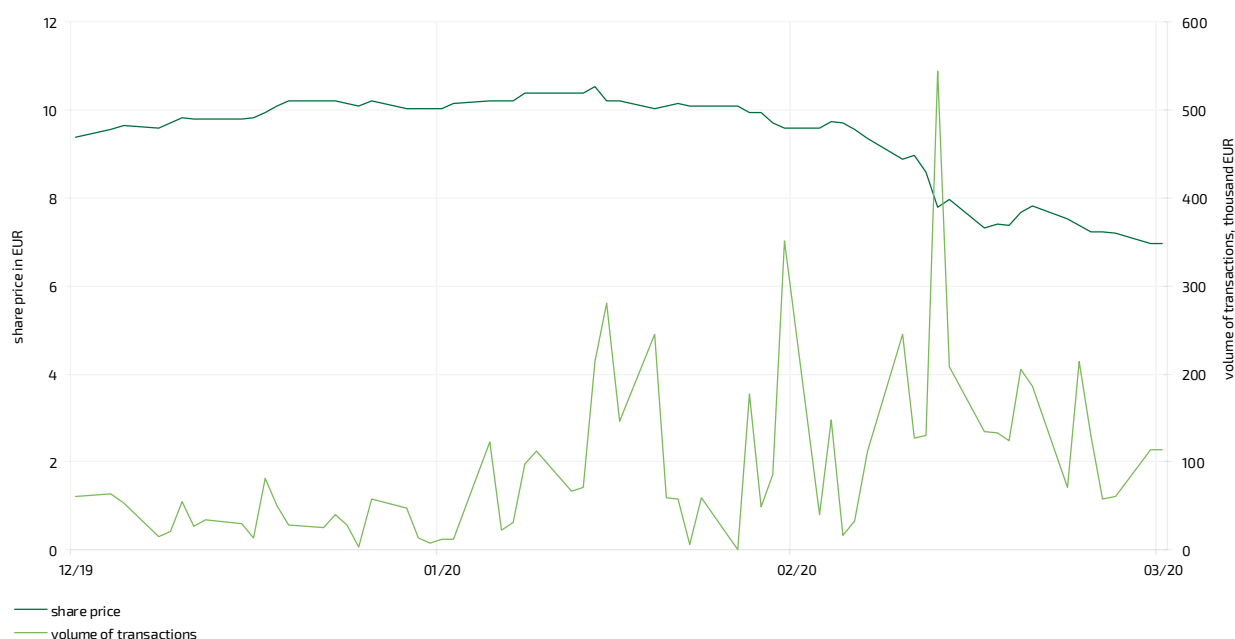
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As at 31 March 2020, the company has 17,700,000 shares. The number of shares has not changed during 2020.

A total of 7,089 transactions were conducted with the shares of Merko Ehitus in 3 months of 2020, with 0.70 million shares (3.9% of total shares) traded, generating a turnover of EUR 6.1 million (comparable figures in 3 months 2019 were accordingly: 3,644 transactions with 1.32 million shares traded (7.5% of total shares), generating a turnover of EUR 12.5 million). The lowest transaction was carried out with a price of EUR 6.90 and the highest with EUR 10.60 per share (3 months of 2019: EUR 9.10 and EUR 10.30, accordingly). On 31 March 2020, the closing price of the share was EUR 6.98 (31.03.2019: EUR 10.00). As at 31 March 2020, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 123.5 million, down 30.2% compared to the end of the equivalent period of the prior year (31.03.2019: EUR 177.0 million).

	31.03.2020	31.03.2019	31.03.2018	31.12.2019
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.11	0.16	0.06	0.92
Equity per share, euros	7.09	7.21	7.09	7.13
P/B ratio	0.98	1.39	1.62	1.32
P/E ratio	7.97	8.42	13.78	10.20
Market value, million EUR	123.5	177.0	203.6	166.0

Ratio definitions are provided on page 38 of the report.

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



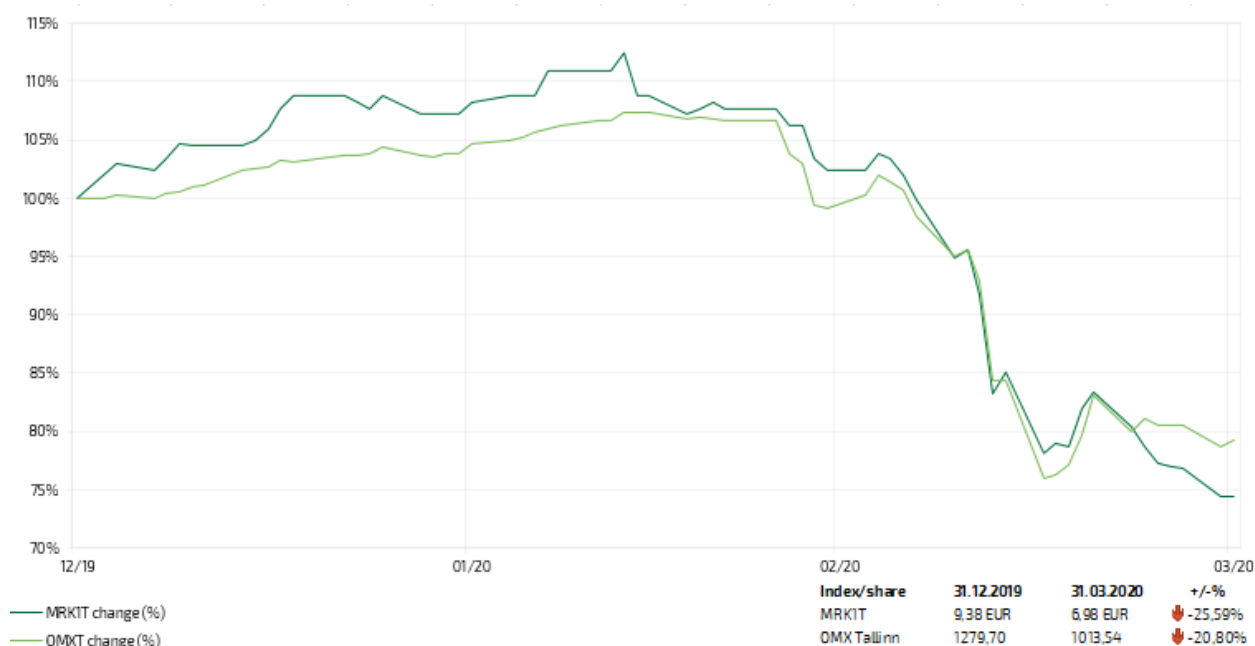
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.03.2020

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.02%	12,742,686	71.99%
100,001 – 1,000,000	10	0.21%	1,720,211	9.72%
10,001 – 100,000	44	0.93%	945,054	5.34%
1,001-10,000	512	10.88%	1,452,464	8.21%
101-1,000	1,989	42.26%	747,391	4.22%
1-100	2,151	45.70%	92,194	0.52%
Total	4,707	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.03.2020 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.03.2020	% OF TOTAL 31.12.2019	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
Firebird Republics Fund Ltd	329,602	1.86%	1.86%	-
OÜ Midas Invest	313,100	1.77%	1.67%	17,000
Firebird Avrora Fund Ltd	185,777	1.05%	1.07%	(3,150)
Skandinaviska Enskilda Banken AB, Swedish customers	155,000	0.87%	0.92%	(6,438)
SEB Elu- ja Pensionikindlustus AS	148,787	0.84%	0.84%	-
State Street Bank and Trust Omnibus Account a Fund No OM01	148,008	0.84%	0.86%	(5,010)
Siseinfo OÜ	115,000	0.65%	0.65%	-
Firebird Fund L.P.	111,435	0.63%	0.65%	(3,150)
Clearstream Banking AG	109,502	0.62%	0.61%	1,274
Total largest shareholders	14,358,3897	81.12%	81.12%	526
Total other shareholders	3,341,103	18.88%	18.88%	(526)
Total	17,700,000	100%	100%	-

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



DIVIDENDS AND DIVIDEND POLICY

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

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

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

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

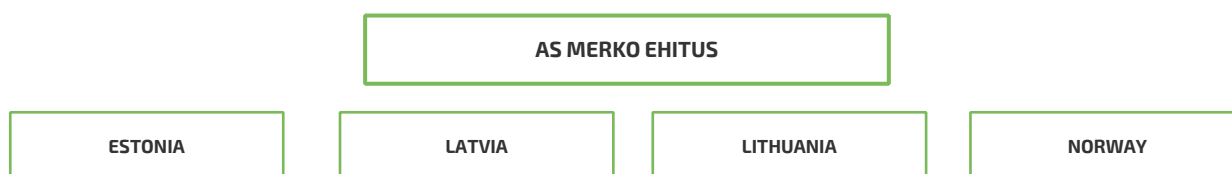
AS Merko Ehitus operates as a holding company to a group, the companies of which in Estonia, Latvia, Lithuania and Norway offer complete solutions in the field of construction and real estate development. The group's largest companies are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba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

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

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

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

As of 31 March 2020, the management structure is as follows:



GROUP'S LEGAL STRUCTURE

As at 31 March 2020, the group comprises 32 companies (31.03.2019: 30). The group's legal structure is predominantly based on regulatory requirements and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Note 16 of the interim financial statements.

Changes in the legal structure of the group

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

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

GENERAL MEETING OF SHAREHOLDERS

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

The annual general meeting of shareholders was held on 6 May 2020. In order to minimize the number of participants in the physical meeting during the novel coronavirus caused COVID-19 pandemic situation, the management board enabled shareholders to vote on the draft resolutions prepared in respect to the items on the agenda of the general meeting using electronic means prior

to the general meeting. The general meeting resolved to approve the annual report and the profit allocation proposal for 2019. It was decided not to pay dividends to shareholders for 2019.

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

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

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

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

SUPERVISORY BOARD

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

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

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

MANAGEMENT BOARD

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

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

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

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

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

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

Changes in the management of group subsidiaries

On 23 January 2020, the Management Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to make the following changes in the Supervisory Board of subsidiary Tallinna Teede AS: to remove Mr. Keit Paal as a member; to appoint Mr. Ivo Volkov as a member for a three years' period starting from 23 January 2020, and to extend the powers of the member Mr. Tõnu Toomik for three years starting from 23 January 2020. The Supervisory Board of Tallinna Teede AS will continue with four members: Mr. Tõnu Toomik (The Chairman), Mr. Ivo Volkov, Mr. Veljo Viitmann and Mr. Alar Lagus.

On 30 January 2020, the Supervisory Board of Tallinna Teede AS – the subsidiary of AS Merko Ehitus Eesti, part of AS Merko Ehitus group – decided to extend the powers of the Chairman of the Management Board, Mr. Jüri Läll, from 31 January 2020 until 30 January 2023. The Management Board of Tallinna Teede AS will continue in the current two-member panel: Mr. Jüri Läll (The Chairman) and Mr. Jüri Helila.

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

MANAGEMENT BOARD'S DECLARATION

Members of the Management Board of AS Merko Ehitus declare and confirm that the consolidated unaudited interim report for the 3 months of 2020, which consists of the management report and the interim financial statements, prepared according to the current International Financial Reporting Standards as adopted by the European Union, provides, to the best of their knowledge, a true and fair view of the development of business operations, assets, liabilities, financial position, results of the operations, cash flows, and profit or loss of AS Merko Ehitus and the consolidated undertakings as a whole, includes a description of the principal risks and uncertainties, and reflects transactions with related parties. The parent company and the companies, which are part of the consolidation group, are going concerns.

Andres Trink	Chairman of the Management Board	07.05.2020
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Tõnu Toomik	Member of the Management Board	07.05.2020
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INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2020 3 months	2019 3 months	2019 12 months
Revenue	2	55,872	76,845	326,779
Cost of goods sold	3	(50,398)	(70,639)	(291,958)
Gross profit		5,474	6,206	34,821
Marketing expenses		(948)	(851)	(4,260)
General and administrative expenses		(2,805)	(3,124)	(12,988)
Other operating income		508	701	2,983
Other operating expenses		(63)	(35)	(1,318)
Operating profit		2,166	2,897	19,238
Finance income/costs		(99)	83	1,085
incl. finance income/costs from joint venture		90	222	1,766
interest expense		(172)	(135)	(656)
other financial income (expenses)		(17)	(4)	(25)
Profit before tax		2,067	2,980	20,323
Corporate income tax expense		(138)	(75)	(3,833)
Net profit for financial year		1,929	2,905	16,490
incl. net profit attributable to equity holders of the parent		2,019	2,778	16,270
net profit attributable to non-controlling interest		(90)	127	220
Other comprehensive income, which can subsequently be classified in the income statement				
Currency translation differences of foreign entities		(188)	32	13
Comprehensive income for the period		1,741	2,937	16,503
incl. net profit attributable to equity holders of the parent		1,823	2,808	16,281
net profit attributable to non-controlling interest		(82)	129	222
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.11	0.16	0.92

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.03.2020	31.03.2019	31.12.2019
ASSETS				
Current assets				
Cash and cash equivalents	5	37,056	32,970	24,749
Trade and other receivables	6	42,133	75,297	50,413
Prepaid corporate income tax		91	224	104
Inventories	7	168,833	130,019	166,226
		248,113	238,510	241,492
Non-current assets				
Investments in joint venture		2,588	954	2,498
Other long-term loans and receivables	8	11,991	11,043	11,094
Investment property	9	14,021	14,140	14,047
Property, plant and equipment	10	11,699	10,853	11,919
Intangible assets	11	724	700	777
		41,023	37,690	40,335
TOTAL ASSETS		289,136	276,200	281,827
LIABILITIES				
Current liabilities				
Borrowings	12	21,496	15,624	20,725
Payables and prepayments	13	73,488	82,764	69,585
Income tax liability		816	420	812
Short-term provisions	14	6,866	7,081	7,976
		102,666	105,889	99,098
Non-current liabilities				
Long-term borrowings	12	45,355	27,220	43,001
Deferred income tax liability		1,655	1,521	1,682
Other long-term payables	15	3,164	2,299	3,491
		50,174	31,040	48,174
TOTAL LIABILITIES		152,840	136,929	147,272
EQUITY				
Non-controlling interests		4,135	4,706	4,217
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		(906)	(691)	(710)
Retained earnings		124,345	126,534	122,326
		132,161	134,565	130,338
TOTAL EQUITY		136,296	139,271	134,555
TOTAL LIABILITIES AND EQUITY		289,136	276,200	281,827

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non- control- ling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
Balance as at 31.12.2018	7,929	793	(721)	123,756	131,757	4,577	136,334
Profit (loss) for the reporting period	-	-	-	2,778	2,778	127	2,905
Other comprehensive income	-	-	30	-	30	2	32
Total comprehensive income (loss) for the reporting period	-	-	30	2,778	2,808	129	2,937
Balance as at 31.03.2019	7,929	793	(691)	126,534	134,565	4,706	139,271
Balance as at 31.12.2019	7,929	793	(710)	122,326	130,338	4,217	134,555
Profit (loss) for the reporting period	-	-	-	2,019	2,019	(90)	1,929
Other comprehensive income	-	-	(196)	-	(196)	8	(188)
Total comprehensive income (loss) for the reporting period	-	-	(196)	2,019	1,823	(82)	1,741
Balance as at 31.03.2020	7,929	793	(906)	124,345	132,161	4,135	136,296

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

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

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2020 3 months	2019 3 months	2019 12 months
Cash flows from operating activities				
Operating profit		2,166	2,897	19,238
Adjustments:				
Depreciation and impairment		672	574	2,707
(Profit)/loss from sale of non-current assets		(62)	(116)	(309)
Change in receivables and liabilities related to construction contracts		7,616	(3,710)	(10,697)
Interest income from operating activities		(370)	(482)	(2,190)
Change in provisions		(3,147)	(1,788)	282
Change in trade and other receivables related to operating activities		3,482	2,869	26,854
Change in inventories		(2,459)	(11,953)	(48,118)
Change in trade and other payables related to operating activities		1,953	7,815	1,811
Interest received		333	354	2,265
Interest paid		(301)	(188)	(1,039)
Other finance income (costs)		(28)	(24)	(129)
Corporate income tax paid		(106)	(3)	(3,093)
Total cash flows from operating activities		9,749	(3,755)	(12,418)
Cash flows from investing activities				
Purchase of investment property		(7)	(402)	(410)
Purchase of property, plant and equipment (excl. leased assets)		(155)	(432)	(2,199)
Proceeds from sale of property, plant and equipment		78	145	508
Purchase of intangible assets		(9)	(68)	(273)
Interest received		-	1	2
Total cash flows from investing activities		(93)	(756)	(2,372)
Cash flows from financing activities				
Proceeds from borrowings		13,118	4,751	46,527
Repayments of borrowings		(9,991)	(7,045)	(28,211)
Repayments of lease liabilities		(239)	(263)	(1,006)
Dividends paid		-	-	(17,772)
Total cash flows from financing activities		2,888	(2,557)	(462)
Net increase/decrease in cash and cash equivalents		12,544	(7,068)	(15,252)
Cash and cash equivalents at the beginning of the period	5	24,749	39,978	39,978
Effect of exchange rate changes		(237)	60	23
Cash and cash equivalents at the end of the period	5	37,056	32,970	24,749

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

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 3 months 2020 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2019 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2019 audited annual report and 2019 3 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 3 months 2020 present a true and fair view of the group's economic results based on the principle of going concern. The influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 2 OPERATING SEGMENTS

in thousand euros

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

Reporting of the group's operations are segmented as:

- construction service,
- real estate development.

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

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

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

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

2020 3 months	Construction service	Real estate development	Total segments
Revenue	34,912	27,730	62,642
Inter-segment revenue	(5)	(6,765)	(6,770)
Revenue from clients	34,907	20,965	55,872
incl. timing of revenue recognition at a point in time	436	20,175	20,611
timing of revenue recognition over time	34,471	790	35,261
Operating profit (loss)	(353)	2,882	2,529
Profit (loss) before tax	(421)	2,895	2,474
incl. interest income from operating activities	7	363	370
depreciation	(547)	(125)	(672)
recognition of provisions	(974)	(162)	(1,136)
profit from joint venture	-	90	90
other finance income (costs)	(6)	(53)	(59)

2020 3 months	Construction service	Real estate development	Total segments
incl. interest expenses	(6)	(45)	(51)
Assets 31.03.2020	53,040	198,475	251,515
incl. joint venture	-	2,588	2,588
2019 3 months	Construction service	Real estate development	Total segments
Revenue	70,372	11,279	81,651
Inter-segment revenue	(6)	(4,800)	(4,806)
Revenue from clients	70,366	6,479	76,845
incl. timing of revenue recognition at a point in time	335	5,026	5,361
timing of revenue recognition over time	70,031	1,453	71,484
Operating profit (loss)	2,781	559	3,340
Profit (loss) before tax	2,730	728	3,458
incl. interest income from operating activities	21	436	457
depreciation	(491)	(83)	(574)
recognition of provisions	(2,438)	(12)	(2,450)
reversal of provisions	-	63	63
profit from joint venture	-	222	222
other finance income (costs)	(4)	(50)	(54)
incl. interest expenses	(4)	(46)	(50)
Assets 31. 03.2019	73,738	173,275	247,013
incl. joint venture	-	954	954
2019 12 months	Construction service	Real estate development	Total segments
Revenue	256,749	99,863	356,612
Inter-segment revenue	(47)	(29,786)	(29,833)
Revenue from clients	256,702	70,077	326,779
incl. timing of revenue recognition at a point in time	2,155	66,384	68,539
timing of revenue recognition over time	254,547	3,693	258,240
Operating profit (loss)	13,276	8,115	21,391
Profit (loss) before tax	13,053	9,607	22,660
incl. interest income from operating activities	47	2,143	2,190
depreciation	(2,264)	(443)	(2,707)
impairment of inventories	(175)	-	(175)
recognition of provisions	(3,934)	(1,533)	(5,467)
reversal of provisions	257	-	257
profit from joint venture	-	1,766	1,766
other finance income (costs)	(13)	(256)	(269)
incl. interest expenses	(17)	(239)	(256)
Assets 31.12.2019	54,944	195,073	250,017
incl. joint venture	-	2,498	2,498

In addition to the segment assets, as at 31.03.2020 the group holds assets in the amount of EUR 37,621 thousand (31.03.2019: EUR 29,187 thousand; 31.12.2019: EUR 31,810 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	2020 3 months	2019 3 months	2019 12 months
Pre-tax profit from reporting segments	2,474	3,458	22,660
Other operating profit (loss)	(363)	(443)	(2,153)
incl. recognition of provisions	-	(7)	(9)
finance income (costs)	(44)	(35)	(184)
incl. interest expenses	(44)	(37)	(178)
Total profit before tax	2,067	2,980	20,323

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

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2020 3 months		2019 3 months		2019 12 months	
Estonia	25,997	47%	30,150	39%	168,825	52%
Latvia	16,797	30%	31,252	41%	92,772	28%
Lithuania	11,300	20%	9,529	12%	46,202	14%
Norway	1,778	3%	5,914	8%	18,980	6%
Total	55,872	100%	76,845	100%	326,779	100%

CONTRACT ASSETS AND LIABILITIES

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Accrued income from construction services (Note 6)	8,036	12,263	11,689
Prepayments for construction services (Note 13)	(12,100)	(15,622)	(8,058)
Advance payments received for construction contract works (Note 13)	(4,377)	(2,793)	(5,637)
Recognised provision for onerous construction contracts (Note 14)	(1,190)	(254)	(1,295)

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

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Estonia	15,147	12,612	15,289
Latvia	13,277	13,514	13,333
Lithuania	487	391	476
Norway	122	130	143
Total	29,033	26,647	29,241

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2020 3 months	2019 3 months	2019 12 months
Construction services and properties purchased for resale	30,033	39,683	185,121
Materials	7,953	15,491	49,121
Labour costs	5,458	6,322	26,323
Construction mechanisms and transport	1,710	1,826	8,911
Design	1,143	1,170	4,394
Real estate management costs	85	120	401
Depreciation	440	368	1,835
Impairment of inventories	-	-	175
Provisions	1,136	2,386	4,939
Other expenses	2,440	3,273	10,738
Total cost of goods sold	50,398	70,639	291,958

NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2020 3 months	2019 3 months	2019 12 months
Net profit (loss) attributable to shareholders <i>(in thousand EUR)</i>	2,019	2,778	16,270
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17,700	17,700	17,700
Earnings (loss) per share <i>(in euros)</i>	0.11	0.16	0.92

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

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

As at 31.03.2020, the parent company AS Merko Ehitus has previously taxed dividends and income received from abroad in a sum of EUR 1 thousand (31.03.2019: EUR 2,879 thousand; 31.12.2019: EUR 1 thousand), on which income tax has been withheld.

As at 31.03.2020, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 98,992 thousand (31.03.2019: EUR 101,250 thousand; 31.12.2019: EUR 97,533 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 0 thousand (31.03.2019: EUR 720 thousand; 31.12.2019: EUR 0 thousand), the corresponding income tax on dividends would amount to EUR 24,447 thousand (31.03.2019: EUR 24,593 thousand; 31.12.2019: EUR 24,083 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration, including the fact that the income tax on regularly payable dividends is applied to dividends taxed in Estonia starting only from 2018, and therefore in 2020 the sum of dividends that shall be taxed using the 14% rate is one third of the total sum of dividends that have been taxed in Estonia during 2018 and 2019. Above that sum, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out as net dividends). The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Cash on hand	4	-	6
Bank accounts	37,052	32,929	24,743
Overnight deposits	-	41	-
Total cash and cash equivalents	37,056	32,970	24,749

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Trade receivables			
Accounts receivable	30,122	42,654	34,148
Allowance for doubtful receivables	(854)	(81)	(856)
	29,268	42,573	33,292
Tax prepayments excluding corporate income tax			
Value added tax	899	2,245	695
Other taxes	2	2	3
	901	2,247	698
Accrued income from construction services	8,036	12,263	11,689
Other short-term receivables			
Short-term loans	1,000	10,590	1,700
Interest receivables	29	237	3
Other short-term receivables	271	680	172
	1,300	11,507	1,875
Prepayments for services			
Prepayments for construction services	2,200	6,224	2,441
Prepaid insurance	114	129	117
Other prepaid expenses	314	354	301
	2,628	6,707	2,859
Total trade and other receivables	42,133	75,297	50,413
incl. short-term loan receivables from related parties (Note 16)	950	9,000	1,650
other short-term receivables and prepayments to related parties (Note 16)	716	669	89

NOTE 7 INVENTORIES

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Materials	346	789	236
Work-in-progress	74,684	58,884	65,550
Finished goods	21,541	12,539	28,252
Goods for resale			
Registered immovables purchased for resale/development	69,527	54,224	70,193
Other goods purchased for resale	133	702	133
	69,660	54,926	70,326
Prepayments for inventories			
Prepayments for real estate properties	-	1,300	-
Prepayments for other inventories	2,602	1,581	1,862
	2,602	2,881	1,862
Total inventories	168,833	130,019	166,226

NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Long-term receivables from customers of construction services	11,991	11,043	11,094
Total other long-term loans and receivables	11,991	11,043	11,094

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Land	12,407	11,991	12,400
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(13)	(12)	(13)
	16	17	16
Buildings at carrying amount			
Cost	2,631	2,631	2,631
Accumulated depreciation	(1,033)	(901)	(1,000)
	1,598	1,730	1,631
Prepayments for investment property	-	402	
Total investment property	14,021	14,140	14,047

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Land	712	743	712
Buildings at carrying amount*			
Cost	6,564	6,535	6,558
Accumulated depreciation	(2,740)	(2,289)	(2,629)
	3,824	4,246	3,929
Machinery and equipment at carrying amount*			
Cost	14,331	14,039	14,371
Accumulated depreciation	(8,638)	(8,975)	(8,671)
	5,693	5,064	5,700
Other fixtures at carrying amount			
Cost	3,987	5,377	4,018
Accumulated depreciation	(2,989)	(4,792)	(2,942)
	998	585	1,076
Prepayments for property, plant and equipment	472	215	502
Total property, plant and equipment	11,699	10,853	11,919

* As of 31 March 2020 the balance of buildings at carrying amount includes leased assets in a sum of EUR 465 thousand (31.03.2019: EUR 705 thousand; 31.12.2019: EUR 526 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 2,472 thousand (31.03.2019: EUR 2,051 thousand; 31.12.2019: EUR 2,456 thousand).

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Goodwill			
Cost	63	75	73
	63	75	73
Software at carrying amount			
Cost	1,996	1,775	2,024
Accumulated depreciation	(1,343)	(1,196)	(1,320)
	653	579	704
Prepayments for intangible assets	8	46	-
Total intangible assets	724	700	777

NOTE 12 BORROWINGS

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Lease liabilities*			
Lease liabilities balance	2,891	2,618	2,891
incl. current portion	818	781	806
non-current portion 2...5 years	2,073	1,837	2,085
Bank loans			
Loan balance	57,960	29,701	54,835
incl. current portion	19,678	9,318	18,919
non-current portion 2...5 years	38,282	20,383	35,916
Loans from entities under common control			
Loan balance	6,000	6,000	6,000
incl. current portion (Note 16)	1,000	1,000	1,000
non-current portion 2...5 years (Note 16)	5,000	5,000	5,000
Loans from other entities			
Loan balance	-	4,525	-
incl. current portion	-	4,525	-
Total loans			
Loans balance	63,960	40,226	60,835
incl. current portion	20,678	14,843	19,919
non-current portion 2...5 years	43,282	25,383	40,916
Total borrowings	66,851	42,844	63,726
incl. current portion	21,496	15,624	20,725
non-current portion 2...5 years	45,355	27,220	43,001

* As of 31 March 2020 the lease liabilities include a balance of EUR 119 thousand to related parties (31.03.2019: EUR 160 thousand; 31.12.2019: EUR 124 thousand) (Note 16).

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Trade payables	33,882	43,587	30,681
Payables to employees	9,518	10,409	10,647
Tax liabilities, except for corporate income tax			
Value added tax	1,530	653	4,270
Personal income tax	364	552	485
Social security tax	1,285	1,293	1,146
Unemployment insurance tax	43	46	48
Contributions to mandatory funded pension	25	26	33
Other taxes	219	373	205
	3,466	2,943	6,187
Prepayments for construction services	12,100	15,622	8,058
Other liabilities			
Interest liabilities	15	16	5
Dividends payables	-	73	-
Other liabilities	331	124	218
	346	213	223
Prepayments received *	14,176	9,990	13,789
Total payables and prepayments	73,488	82,764	69,585
incl. payables to related parties (Note 16)	24	294	12

* As of 31 March 2020 the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 4,377 thousand (31.03.2019: EUR 2,793 thousand; 31.12.2019: EUR 5,637 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 9,799 thousand (31.03.2019: EUR 7,197 thousand; 31.12.2019: EUR 8,152 thousand) (Note 2).

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Provision for warranty obligation for construction	3,498	3,522	3,507
Provision for costs of projects sold and work-in-progress projects	1,954	3,180	2,894
Provision for onerous construction contracts	1,190	254	1,295
Provision for legal costs and claims filed	202	120	202
Other provisions	22	5	78
Total short-term provisions	6,866	7,081	7,976

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Trade payables	2,294	1,853	2,476
Other long-term liabilities	870	446	1,015
Other long-term payables total	3,164	2,299	3,491
incl. other long-term payables to related parties (Note 16)	870	446	1,015

NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.03.2020; 31.03.2019 and 31.12.2019, AS Riverito owned 71.99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr. Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	31.03.2020	31.03.2019	31.12.2019		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
AS Merko Infra	100	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	-	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	-	100	Estonia, Tallinn	Mining
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Statinių priežiūra ir administravimas	100	100	100	Lithuania, Vilnius	Real estate
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektas	100	-	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikšte	100	100	100	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	-	100	Lithuania, Vilnius	Real estate
OÜ Kiviaia Kinnisvara	-	100	100	Estonia, Tallinn	Real estate
SIA Merko Investments	-	100	-	Latvia, Riga	Holding
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	100	Latvia, Riga	Real estate
SIA Industriālais Parks	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	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, Helsinki	Construction
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	56	Norway, Sofiemyr	Construction
Joint venture					
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate

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

GOODS AND SERVICES

in thousand euros

	2020 3 months	2019 3 months	2019 12 months
Provided services and goods sold			
Parent company	3	4	15
Joint venture	581	2,071	2,770
Entities under common control	16	-	847
Members of the management	15	-	2,441
Total services provided and goods sold	615	2,075	6,073
Interest income			
Joint venture	25	135	377
Purchased services and goods			
Parent company	23	23	90
Entities under common control	15	15	137
Members of the management	1	-	-
Total purchased services and goods	39	38	227
Interest expense			
Entities under common control	35	36	145
Total interest expense	35	36	145

BALANCES WITH RELATED PARTIES

in thousand euros

	31.03.2020	31.03.2019	31.12.2019
Receivables from related parties			
Loans granted (Note 6)			
Joint ventures	950	9,000	1,650
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Joint venture	695	577	64
Entities under common control	-	88	9
Members of the management	17	-	12
Total receivables and prepayments	716	669	89
Total receivables from related parties	1,666	9,669	1,739
Payables to related parties			
Lease liabilities (Note 12)			
Entities under common control	119	160	124
Short-term loans received (Note 12)			
Entities under common control	1,000	1,000	1,000
Payables and prepayments (Note 13)			
Parent company	9	9	9
Entities under common control	15	14	3
Members of the management	-	271	-
Total payables and prepayments	24	294	12

	31.03.2020	31.03.2019	31.12.2019
Long-term loans received (Note 12)			
Entities under common control	5,000	5,000	5,000
Other long-term payables (Note 15)			
Other related parties	870	446	1,015
Total payables to related parties	7,013	6,900	7,151

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 3 months of 2020 was EUR 422 thousand (3 months of 2019: EUR 645 thousand; 12 months of 2019: EUR 3,212 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 3 months of 2020, the Management Board members of major subsidiaries received EUR 20 thousand in compensation (3 months of 2019: EUR 0 thousand; 12 months of 2019: EUR 0 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

Track record and photographs of the members of the Supervisory Board can be found on AS Merko Ehitus website at group.merko.ee/en/corporate-governance-2/supervisory-council/.

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31.03.2020:

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

* Toomas Annus holds the majority of the votes represented by shares in AS Riverito directly and through holding companies (176,351 shares out of a total of 270,000 shares). With that the votes held by AS Riverito in AS Merko Ehitus (12,742,686 shares) are deemed to belong to Toomas Annus.

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31.03.2020:

		NO OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	600	0.00%
Tõnu Toomik	Member of the Management Board	-	-
		600	0.00%

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	31.03.2020	31.03.2019	31.12.2019
Performance period's warranty to the customer	30,246	21,168	24,896
Tender warranty	699	1,431	916
Guarantee for warranty period	21,724	15,018	19,964
Prepayment guarantee	6,835	1,131	6,835
Contracts of surety	2,130	8,105	7,783
Letter of credit	-	428	-
Total contingent liabilities	61,634	47,281	60,394

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

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

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

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

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).

Letter of credit – a letter of credit is the obligation of the buyer (i.e. the bank opening the letter of credit) to pay the seller (i.e. the receiver of the letter of credit) the amount of the letter of credit, if the seller fulfils and presents documentation to the bank regarding the fulfilment of the conditions fixed with the letter of credit.

DEFINITION OF RATIOS

Gross profit margin (%)	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
Operating profit margin (%)	=	$\frac{\text{Operating profit}}{\text{Revenue}}$
EBT margin (%)	=	$\frac{\text{Earnings before tax}}{\text{Revenue}}$
Net profit margin (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$
Return on equity, ROE (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Shareholders equity (average of the current 4 quarters)}}$
Return on assets, ROA (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Total assets (average of the current 4 quarters)}}$
Return on invested capital, ROIC (%)	=	$\frac{(\text{Profit before tax} + \text{interest expense} - \text{foreign exchange gain (loss)} + \text{other financial income}) \text{ of the current 4 quarters}}{(\text{Shareholders equity (average)} + \text{interest-bearing liabilities (average)}) \text{ of the current 4 quarters}}$
Equity ratio (%)	=	$\frac{\text{Shareholders' equity}}{\text{Total assets}}$
Debt ratio (%)	=	$\frac{\text{Interest-bearing liabilities}}{\text{Total assets}}$
Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	=	$\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$
Accounts receivable turnover (days)	=	$\frac{\text{Trade receivables of the current 4 quarters (average)} \times 365}{\text{Revenue of the current 4 quarters}}$
Accounts payable turnover (days)	=	$\frac{\text{Payables to suppliers of the current 4 quarters (average)} \times 365}{\text{Cost of goods sold of the current 4 quarters}}$
EBITDA (million EUR)	=	Operating profit + depreciation
EBITDA margin (%)	=	$\frac{\text{Operating profit} + \text{depreciation}}{\text{Revenue}}$
General expense ratio (%)	=	$\frac{\text{Marketing expenses} + \text{General and administrative expenses}}{\text{Revenue}}$
Labour cost ratio (%)	=	$\frac{\text{Labour costs}}{\text{Revenue}}$
Revenue per employee (EUR)	=	$\frac{\text{Revenue}}{\text{Number of employees (average)}}$
Earnings per share, EPS (EUR)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$
Equity/share (EUR)	=	$\frac{\text{Shareholders equity (average of the current 4 quarters)}}{\text{Number of shares}}$
Dividend per share (EUR)	=	$\frac{\text{Payable dividends}}{\text{Number of shares}}$
Dividend rate (%)	=	$\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$
Dividend yield (%)	=	$\frac{\text{Dividends payable per share}}{\text{Share price 31.12}}$
P/E	=	$\frac{\text{Share price 31.03}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 31.03}}{\text{Equity per share (average of the current 4 quarters)}}$
Market value	=	Share price 31.03 x Number of shares