



AS MERKO EHITUS

GROUP

2021 3 months consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Financial year:	01.01.2021 – 31.12.2021
Reporting period:	01.01.2021 – 31.03.2021
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

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

LATVIA

General construction
Civil engineering
Residential real estate development and investments

LITHUANIA

General construction
Residential real estate development and investments

NORWAY

General construction

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

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

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

SHARES

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

The main shareholder is AS Riverito (72%)

2020 KEY FIGURES

Revenue **315.9 million** euros

Net profit **23.0 million** euros

666 employees





STRATEGY

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



MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

In Q1 2021, Merko Ehitus posted revenue of EUR 60 million and net profit of EUR 3.4 million, increasing by 7% and 67%, respectively, compared to the previous year. In three months, Merko sold 90 apartments and started construction of more than 560 apartments. The volume of the new construction contracts and secured order book also increased in the first quarter.

The management of Merko Ehitus is satisfied with the financial results of the first quarter. Despite the lack of new commercial real estate projects, the construction market in the Baltic Republics is currently quite active. At the same time, prospects remain unclear due to the continuing pandemic and the global rise in material prices.

In the first quarter, Merko sold 90 apartments in Tallinn, Tartu, Riga and Vilnius. The apartment market is relatively active in all three Baltic capitals. In the first quarter Merko group launched construction work on six development projects with a total of 567 apartments and 20 commercial premises. Most of the apartments under construction and for sale today will be completed in 2022. Merko's largest apartment development projects were Noblessner, Uus-Veerenni, Metsatuka, Lahekalda and Pikaliiva, in Tallinn; Gaiļezers and Viesturdārzs, in Riga; and Vilneles Skverai, in Vilnius.

In Q1 2021, Merko entered into new contracts worth 97 million euros, the largest of which were for the construction of the second development phase of Noblessner and the Liivalaia Quarter, in Estonia, and for the construction of Tondiraba Park. The group's companies signed in Latvia a contract for the construction of Kauguri City Park and Youth House, as well as in Lithuania a production building in Kaunas and a car maintenance centre in Vilnius. As at the end of the first quarter, the secured order book increased by 45% year-on-year to 281 million euros.

In the first quarter, the largest objects in Estonia were the third development phase of the Mustamäe medical campus of the North-Estonia Medical Centre, the Tallinn School of Music and Ballet, the renovation of the Nordic Hotel Forum and Tallink City Hotel, and the design and construction of infrastructure of the Republic of Estonia's southeast land border. In Latvia, the construction of the Orkla waffle and biscuit factory, in Ādaži, and the reconstruction of the Riga University of Technology faculty building were in progress; in Lithuania, construction of wind farm infrastructure facilities in the Telšiai district, the Kaunas district police headquarters building, and NATO barracks were in progress.

2021 3M
REVENUE
60 MILLION EUROS

PROFIT
BEFORE TAX
3.7 MILLION EUROS

OVERVIEW OF THE 3 MONTHS RESULTS

PROFITABILITY

2021 3 months' profit before tax was EUR 3.7 million (3M 2020: EUR 2.1 million), which brought the profit before tax margin to 6.2% (3M 2020: 3.7%).

Net profit attributable to equity holders of the parent in 3 months 2021 was EUR 3.4 million (3M 2020: EUR 2.0 million) and 3 months net profit margin was 5.6% (3M 2020: 3.6%).

REVENUE

2021 3 months' revenue was EUR 60.1 million (3M 2020: EUR 55.9 million). 3 months' revenue increased by 7.6% compared to same period last year. The share of revenue earned outside Estonia in 3 months 2021 was 36.9% (3M 2020: 53.5%).

SECURED ORDER BOOK

As at 31 March 2021, the group's secured order book was EUR 281.2 million (31 March 2020: EUR 193.0 million). In 3 months 2021, group companies signed new contracts in the amount of EUR 97.4 million (3M 2020: EUR 87.2 million).

REAL ESTATE DEVELOPMENT

In 3 months 2021, the group sold a total of 90 apartments (incl. 1 apartments in a joint venture); in 3 months 2020, the group sold 133 apartments (incl. 2 apartments in a joint venture). The group earned a revenue of EUR 14.8 million from sale of own developed apartments in 3 months 2021 and EUR 18.6 million in 3 months 2020.

CASH POSITION

At the end of the reporting period, the group had EUR 54.8 million in cash and cash equivalents, and equity of EUR 156.6 million (58.1% of total assets). Comparable figures as at 31 March 2020 were EUR 37.1 million and EUR 132.2 million (45.7% of total assets), respectively. As at 31 March 2021, the group's net debt was EUR -22.4 million (negative) (31 March 2020: EUR 29.8 million).

OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

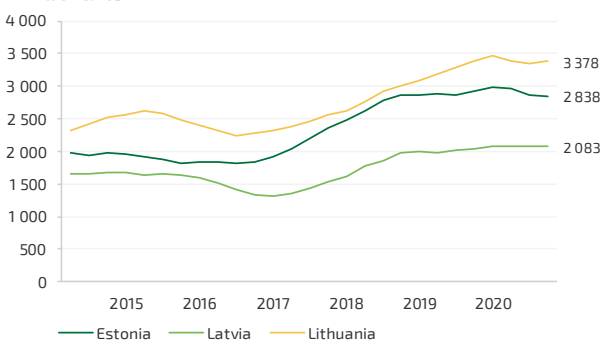
CONSTRUCTION SERVICES

The construction volumes in the Baltic states have remained stable. Direct impact of the pandemic is difficult to bring out. Rather, the developments have been influenced by the rapid growth of past years, after which a calmer period has been as expected. Private sector demand was declining already before 2020, the pandemic will probably leave a mark on its recovery.

Further market developments are difficult to forecast as there are opposite market forces at play at the same time. On the one hand the economic outlook remains unclear due to the spread of the virus, which forces investments to be postponed. On the other hand the so-called money-printing has been massive all over the world, which directs market participants towards capital investments and has created a wide-spread expectation of inflation. Therefore, it is difficult to say which of these forces is stronger in which point in time, i.e. in which direction the market will be moving. There will probably be a lot of uncertainty and volatility, before the markets will find a new balance. Public sector demand will continue to be important for the construction sector. This might grant some relative stability.

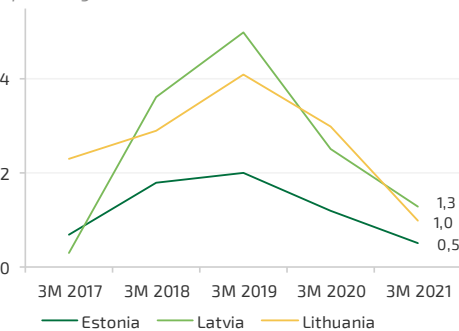
In construction costs decrease of growth in the official statistics was evident already in 2020 as well as in the first quarter of 2021 (although prices did not decrease). As such, construction prices in the Baltics have increased only around 1% compared to the same period last year. At the same time it is known that as the global demand is recovering and the supply of commodities has decreased due to pandemic influence, the prices of commodities have started to rise rapidly. This has a direct impact also on construction input prices. At the same time this shortage has increased time of delivery for construction materials and building products. Therefore, while during the time in the pandemic when economic activity was suppressed, there were no major problems with supply chains, then now that the economic activity is breaking free of its shackles, such problems with deliveries might start to occur.

BALTIC STATES CONSTRUCTION MARKETS (WITH OWN FORCES)
ROLLING 12 MONTHS
in million euros



Source: national statistical offices

3 MONTHS' CHANGE IN CONSTRUCTION PRICE INDEX
percentages



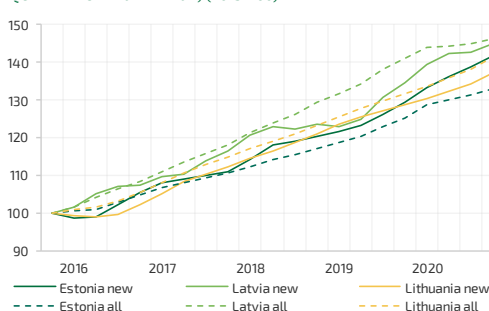
Source: national statistical offices

DEVELOPMENT OF APARTMENTS

In the first quarter a strong activity on the new apartments' market continued in the whole of the Baltics. The recovery of demand, which took place in the second half of last year, has not subsided in 2021 either. As the developers put new projects on hold in the spring of 2020, market demand is now clearly surpassing supply. The developers have gradually started new projects since the second half of 2020, but these apartments will be ready for sales only in 2022. Therefore, public demand will surpass sales possibilities for some time still. Unfortunately, it is quite unknown how long such heightened demand should continue and how broad-based it actually is.

Apartment prices have more or less continued on their growth course. At the beginning of the pandemic there might have been expectations that the developers will be forced to decrease prices during difficult times, but it became apparent quite quickly that this is not going to happen. The developers had sufficient financial capability to wait and see what is actually going to transpire. Now, however, the market has turned around completely, so that at least for short-term there can be no talk of prices decreasing. Rather, the question is whether and how much the imbalance of demand and supply will force the prices higher, and whether the new price levels will be sustainable once the developers manage to catch up with the demand.

NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX
(4 QUARTER ROLLING AVERAGE) (2015=100)



Source: Eurostat

BUSINESS ACTIVITIES

The group business reporting is divided into two business segments:

- construction service;
- real estate development.

CONSTRUCTION SERVICE

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

million EUR

	3M 2021	3M 2020	VARIANCE	12M 2020
Revenue	39.0	34.9	+11.6%	186.8
% of total revenue	64.8%	62.5%		59.1%
Operating profit (loss)	0.0	(0.4)	-107.7%	4.6
Operating profit margin	0.1%	-1.0%		2.4%

In the 3 months of 2021, the revenue of the construction service segment was EUR 39.0 million (3M 2020: EUR 34.9 million). The sales revenue of construction service has increased by 11.6% compared to the same period last year. The construction service segment revenue for 3 months 2021 made up 64.8% of the group's total revenue (3M 2020: 62.5%). In this segment, the group earned an operating profit of EUR 0.0 million for 3 months (3M 2020: operating loss EUR -0.4 million). The operating profit margin was 0.1% (3M 2020: -1.0%). In the first quarter the construction volumes, compared to the rest of the year, are lower. Because of fixed costs, the operating profit margin of the business segment in this period is minimal.

The COVID-19 pandemic has not had direct substantial impact on the group's construction volumes. Still, the group continues to be prepared for possible negative developments, which may be related to further developments of the pandemic. Maintaining operational supply chains has become an important factor. While a large part of the world is recuperating from the pandemic developments so far and economic activity is recovering demand for commodities has grown rapidly. This has brought about increase in prices of construction materials and at times also decrease in their availability. Deliveries need to be planned ahead more, which could pose a challenge in keeping with the deadlines in the construction contracts. Cost buffers need to be worked in new contracts in order to assure that while prices are increasing, construction works do not end up making losses for the main contractor.

Larger projects in progress in the first quarter in construction service segment in Estonia included the third development stage of the Mustamäe medical campus of the North Estonia Medical Centre, Tallinn School of Music and Ballet, data centre in Harju County, Tallinn Arte Gymnasium, construction works of water supply and sewerage piping in Kohila Parish, construction works of the Republic of Estonia's southeast land border as well as the renovation of Nordic Hotel Forum and Tallink City Hotel. In Latvia, larger ongoing projects in the first quarter included the construction works of reconstruction of Riga Technical University Civil Engineering Faculty building as well as the constructions of the Orkla wafer and biscuits production plant and NATO base in Ādaži and kindergarten in Salaspils. In Lithuania, larger projects were construction of wind farm balance of plant in Telšiai district, and, in Kaunas, the district Police headquarters building and NATO barracks. In Norway, the group worked on the reconstruction of smaller scale contracts.

REAL ESTATE DEVELOPMENT

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

million EUR

	3M 2021	3M 2020	VARIANCE	12M 2020
Revenue	21.1	21.0	+0.8%	129.1
incl. revenue from sale of apartments	14.8	18.6		116.6
incl. construction service from public-private-partnerships	2.6	0.1		6.4
incl. construction service to joint venture projects	0.2	0.3		1.6
incl. revenue from immovable properties	2.6	0.5		1.0
% of total revenue	35.2%	37.5%		40.9%
Operating profit	4.3	2.9	+50.7%	23.7
Operating profit margin	20.6%	13.7%		18.4%

In 3 months 2021, the group sold a total of 90 apartments (incl. 1 apartment in a joint venture) and 2 commercial premises (all in own developments); in 3 months 2020, 133 apartments (incl. 2 apartments in a joint venture) and 3 commercial premises (all in own developments). The group earned a revenue of EUR 14.8 million (VAT not included) from sale of own developed apartments in 3 months 2021 and EUR 18.6 million (VAT not included) in 3 months 2020. In the revenue and operating profit of the real estate development segment also the sale of commercial premises and parking spaces of the real estate development projects and the result of public-private-partnership contracts, based on which the group companies provide construction service and property management services, are reflected.

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 2021, real estate development segment revenues remained at the same level compared to the same period last year and formed 35.2% of the group's total revenue (3 months of 2020: 37.5%).

The segment's operating profit for the 3 months of 2021 amounted to EUR 4.3 million (3 months of 2020: EUR 2.9 million) and the operating profit margin was 20.6% (3 months of 2020: 13.7%). 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.

At the end of the period, group's inventory comprised 415 apartments where a preliminary agreement had been signed (as at 31 March 2020: 435 such apartments): 17 completed apartments (10 in Estonia, 3 in Latvia and 4 in Lithuania) and 398 apartments under construction (249 in Estonia, 45 in Latvia and 104 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 2021, the group had a total of 933 apartments for active sale (as at 31 March 2020: 502 apartments) for which there were no pre-sale agreements and of which 51 had been completed (11 in Estonia, 38 in Latvia and 2 in Lithuania) and 882 were under construction (488 in Estonia, 239 in Latvia and 155 in Lithuania).

In 3 months of 2021, the group launched the construction of a total of 567 new apartments in the Baltic states (3 months of 2020: the group did not launch apartment construction). In the 3 months, the group invested a total of EUR 10.9 million (3 months of 2020: EUR 18.8 million) in the ongoing development projects.

After the reporting date, the group has started the construction of 48 apartments in the third phase of the Lahekalda residential development project in Tallinn and the construction of 84 apartments in the Merks Dantes Ziles residential development project in Riga.

In the first quarter, the sale of apartments continued to progress at a good pace. The revenue from sale of apartments was lower than during the same period last year, which was mainly due to the fact that the group had more apartments ready for sale last year. The market has recovered from the pandemic quickly, demand is running high, supply, however, is relatively low as new developments were put on hold for some time last year.

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 2021, the group's inventories included land plots with development potential, where the construction works have not started, in the amount of EUR 60.6 million (31.03.2020: EUR 69.5 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	31.03.2021	31.03.2020	31.12.2020
Estonia	22.4	28.6	24.9
Latvia	25.0	26.9	25.4
Lithuania	13.2	14.0	10.4
Total	60.6	69.5	60.7

In the 3 months of 2021, the group purchased new land plots at an acquisition cost of EUR 3.7 million (3 months of 2020: the group did not purchase new land plots for real estate development purposes).

SECURED ORDER BOOK

As at 31 March 2021, the group's secured order book amounted to EUR 281.2 million, compared to EUR 193.0 million as at 31 March 2020, having increased by 45.7% 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 2021, EUR 97.4 million worth of new contracts were signed, which is increased by 11,6% compared to the same period of the previous year (3 months of 2020: EUR 87.2 million).

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FIRST QUARTER OF 2021

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Design-build contract with the groups 50% joint venture Kodusadam OÜ for construction of a new real estate development project in the Noblessner seafront quarter in Tallinn *	Estonia	First half of 2023	31.4
Construction contract for the construction of Liivalaia business and residential complex in Tallinn	Estonia	First half of 2022	14.0
Construction contract for the construction of a production building in Kaunas district	Lithuania	First half of 2022	10.0
Construction contract for the construction of a car service building in Vilnius	Lithuania	February of 2022	7.5
Construction contract for the construction of a city park and youth house in Kauguri	Latvia	Summer of 2022	6.7
Construction contract for the construction of Tondiraba Park in Lasnamäe district in Tallinn	Estonia	Autumn of 2021	5.5
Construction contract to perform the wind farm balance of plant construction works in Anykščiai district	Lithuania	September of 2021	4.0
Construction contract for conducting concrete works of Tehnopol office building and parking house in Tallinn	Estonia	November of 2021	3.9

*The sales revenue and profit from Kodusadam OÜ contract will be realised in the real estate development segment pursuant to provision of construction service.

As at 31 March 2021, the public sector orders accounted for approximately 53% of the total balance in the group's secured order book (31.03.2020: approximately 74%). The share of private sector in the secured order book increased rapidly in the first quarter thanks to couple of larger projects (see table above). A wide-spread increase in private sector demand is still difficult to forecast. In addition to questions of what the economic developments will be as the pandemic progresses on, investments are held back by unpredictably rising input prices. The market is searching for a new balance. In these conditions, the group continues to be selective in signing new contracts in order to ensure a proper risk and reward ratio.

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

CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 54.8 million (31.03.2020: EUR 37.1 million). As the group's cash position continues to be strong, the group has not utilised its credit lines of existing overdrafts and loan agreements within reporting period. As at the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 44.1 million, which was almost entirely unused at the end of current period (31.03.2020: EUR 37.6 million of which EUR 29.3 was unused). In addition to the overdraft facilities, the company has a working capital loan facility with a limit of EUR 3.5 million (31.03.2020: EUR 3.5 million) from AS Riverito, which was not withdrawn at the end of current period (31.03.2020: not withdrawn).

The 3-month cash flow from operating activity was positive at EUR 4.5 million (3 months of 2020: positive EUR 9.7 million), cash flow from investing activity was negative at EUR 0.4 million (3 months of 2020: negative EUR 0.1 million) and the cash flow from financing activity was positive at EUR 3.2 million (3 months of 2020: positive EUR 2.9 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 4.6 million (3 months of 2020: positive effect of EUR 2.8 million) and change in trade and other payables related to operating activities of EUR 8.1 million (3 months of 2020: positive effect of EUR 2.0 million). The negative effects to cash flow from operating activities came from the changes in receivables and liabilities related to construction contracts of EUR 3.9 million (3 months 2020: positive effect of EUR 7.6 million), from the changes in trade and other receivables related to operating activities of EUR 1.6 million (3 months of 2020: positive effect of EUR 3.5 million), from change in the provisions of EUR 1.9 million (3 months of 2020: negative effect of EUR 3.1 million) and from the change in inventories of EUR 0.4 million (3 months of 2020: negative effect of EUR 2.5 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments, while the negative cash flow is due to the increase in the volume of inventories related to the construction of apartments, then the positive cash flow is due to the decrease in inventories in the sale of the apartments. Interest was paid EUR 0.1 million (3 months of 2020: EUR 0.3 million) and corporate income tax was paid at EUR 0.1 million (3 months of 2020: EUR 0.1 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 (12,0% as at 31.03.2021; 23.1% as at 31.03.2020; 11.3% as at 31.12.2020).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 0.4 million, which is mainly related to the renewal of equipment in the field of road construction, (3 months of 2020 EUR 0.2 million) and positive effect from the sale of non-current assets in the amount of EUR 0.0 million (3 months of 2020: 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 2020: net negative cash flow of EUR 0.2 million) and the net change in loans received and repaid in connection with development projects in the amount of EUR 0.4 million (3 months of 2020: net positive cash flow of EUR 2.5 million). Positive cash flow from financing activity was gained from the change in loans related to net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 3.8 million (3 months of 2020: negative cash flow in the net amount of EUR 0.1 million).

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		3M 2021	3M 2020	3M 2019	12M 2020
Revenue	million EUR	60.1	55.9	76.8	315.9
Gross profit	million EUR	7.0	5.5	6.2	43.7
Gross profit margin	%	11.6	9.8	8.1	13.8
Operating profit	million EUR	3.9	2.2	2.9	25.5
Operating profit margin	%	6.5	3.9	3.8	8.1
Profit before tax (PBT)	million EUR	3.7	2.1	3.0	24.5
PBT margin	%	6.2	3.7	3.9	7.7
Net profit	million EUR	3.3	1.9	2.9	22.5
attributable to equity holders of the parent	million EUR	3.4	2.0	2.8	23.0
attributable to non-controlling interest	million EUR	(0.1)	(0.1)	0.1	(0.5)
Net profit margin	%	5.6	3.6	3.6	7.3
Other income statement indicators		3M 2021	3M 2020	3M 2019	12M 2020
EBITDA	million EUR	4.6	2.8	3.5	28.2
EBITDA margin	%	7.6	5.1	4.5	8.9
General expense ratio	%	6.1	6.7	5.2	5.6
Labour cost ratio	%	14.3	14.2	11.7	11.5
Revenue per employee	thousand EUR	92	82	106	478
OTHER SIGNIFICANT INDICATORS		31.03.2021	31.03.2020	31.03.2019	31.12.2020
Return on equity	%	16.5	12.4	16.5	16.2
Return on assets	%	9.1	5.3	7.5	8.4
Return on invested capital	%	14.2	10.3	12.6	13.1
Assets	million EUR	269.8	289.1	276.2	256.9
Equity	million EUR	160.8	136.3	139.3	157.4
Equity attributable to equity holders of the parent	million EUR	156.6	132.2	134.6	153.2
Equity ratio	%	58.1	45.7	48.7	59.6
Debt ratio	%	12.0	23.1	15.5	11.3
Current ratio	times	2.6	2.4	2.3	2.7
Quick ratio	times	1.1	0.8	1.0	1.0
Accounts receivable turnover	days	31	45	41	35
Accounts payable turnover	days	33	54	42	37
Average number of employees	people	654	682	727	661
Secured order book	million EUR	281.2	193.0	190.0	225.1

Ratio definitions are provided on page 37 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 2021, a provision has been set up at the group in the amount of EUR 0.2 million (31.03.2020: EUR 0.2 million) for covering potential claims and legal costs.

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

Estonia

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

The court cases in connection with Minister of the Environment regulation No 22 of 27 March 2015, which redrew the boundaries of species protection sites to exclude properties on Paekalda street owned by AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ (now merged with AS Merko Ehitus Eesti, part of AS Merko Ehitus group). On 2 February 2016, AS Merko Ehitus group companies, 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. Both parties to the dispute filed cassation appeals with the Supreme Court. By a decision of 5 March 2021, the Supreme Court dismissed the cassation appeal of AS Merko Ehitus Eesti, but sent the appeal regarding the claim for compensation for direct property damage caused by the lawful activities of the Republic of Estonia to the Tallinn Administrative Court for reconsideration. The impact of this claim has not been taken into account in the group's reporting.

Latvia

Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The court hearing, which was scheduled for 3 December 2020, was cancelled due to the COVID-19 pandemic, a new hearing will take place on 25 August 2021. 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. Due to the restrictions related to the COVID-19 pandemic, the work process was extended, but by the end of 2020, SIA Merks had performed the agreed works and the parties submitted a new settlement to the court, which was approved by the court on 8 March 2021. At the time of this report, the claims of the parties have been satisfied and the amounts withheld by Riga International Airport as security during the warranty period have been paid to SIA Merks.

Latvian Competition Council administrative proceeding

In August, 2019, the Latvian Competition Council (*Konkurences padome*) instituted administrative proceeding, the purpose of which, to the group's knowledge, 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. To the knowledge of the group's Management Board, the Competition Council has extended the deadline for the proceeding until 1 August 2021. 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. The court took the evidence of both parties to the proceedings and advised the parties to enter into a suitable arrangement for both parties. The next hearing will take place on 25 May 2021. The impact of this claim has not been taken into account in the group's reporting.

Lithuania

UAB Axis Power

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 was submitted to the court on 15 October 2020. After the hearing on 15 February 2021, the parties entered into an agreement that was approved by the court and the dispute has been resolved by the time of this report. Under the agreement, the group did not need additional provisions for this action.

EMPLOYEES AND LABOUR COSTS

As of 31 March 2021, Merko Ehitus group employed 683 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 10 (-1.4%). The number of employees has decreased in Latvia and Norway and increased in Lithuania and Estonia.

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 2021, the labour cost was EUR 8.6 million (3 months 2020: EUR 7.9 million), which increased by 8.6% compared to the same period previous year. The labour cost ratio increased by 0.1 pp from 14.2% to 14.3% in comparable periods.

During 3 months of 2021, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 1.9 million in labour taxes in Estonia, being one of the largest labour tax payer in the construction sector (3 months 2020: EUR 2.0 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-responsibility/.

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

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

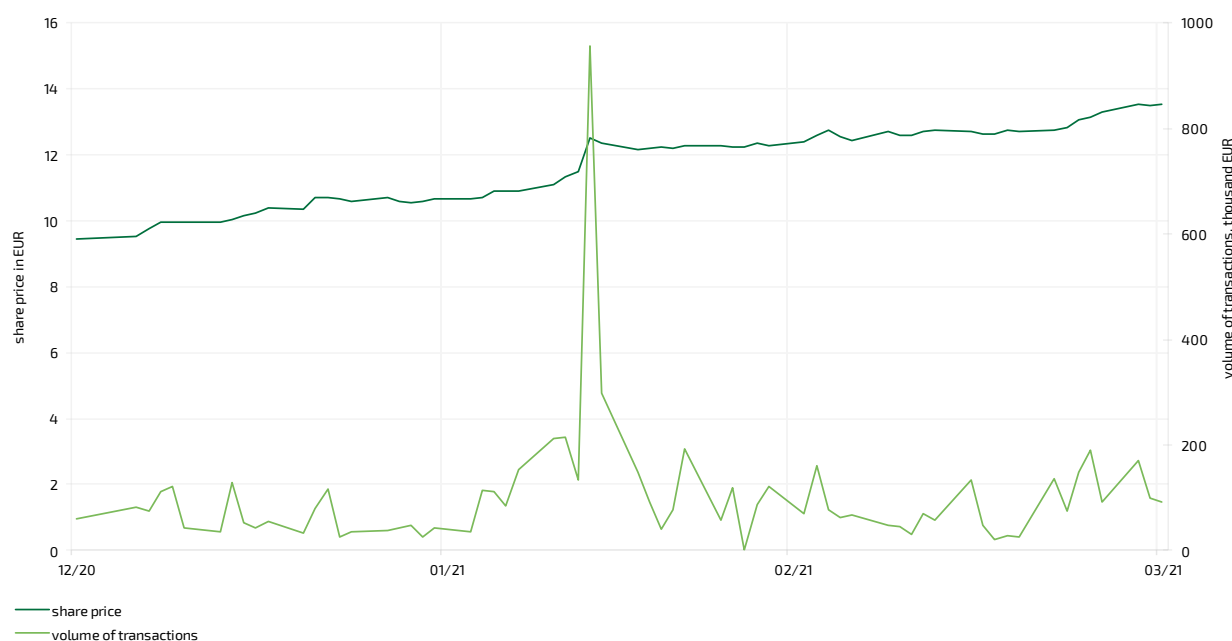
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As at 31 March 2021, the company has 17,700,000 shares. The number of shares has not changed during 2021.

A total of 8,413 transactions were conducted with the shares of Merko Ehitus in 3 months of 2021, with 0.55 million shares (3.1% of total shares) traded, generating a turnover of EUR 6.4 million (comparable figures in 3 months 2020 were accordingly: 7,089 transactions with 0.70 million shares traded (3.9% of total shares), generating a turnover of EUR 6.1 million). The lowest transaction was carried out with a price of EUR 9.48 and the highest with EUR 13.65 per share (3 months of 2020: EUR 6.90 and EUR 10.60, accordingly). On 31 March 2021, the closing price of the share was EUR 13.55 (31.03.2020: EUR 6.98). As at 31 March 2021, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 239.8 million, up 94.1% compared to the end of the equivalent period of the prior year (31.03.2020: EUR 123.5 million).

	31.03.2021	31.03.2020	31.03.2019	31.12.2020
Number of shares	17 700 000	17 700 000	17 700 000	17,700,000
Earnings per share (EPS), euros	0.19	0.11	0.16	1.30
Equity per share, euros	8.35	7.09	7.21	8.01
P/B ratio	1.62	0.98	1.39	1.18
P/E ratio	9.85	7.97	8.42	7.28
Market value, million EUR	239.8	123.5	177.0	167.4

Ratio definitions are provided on page 37 of the report.

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



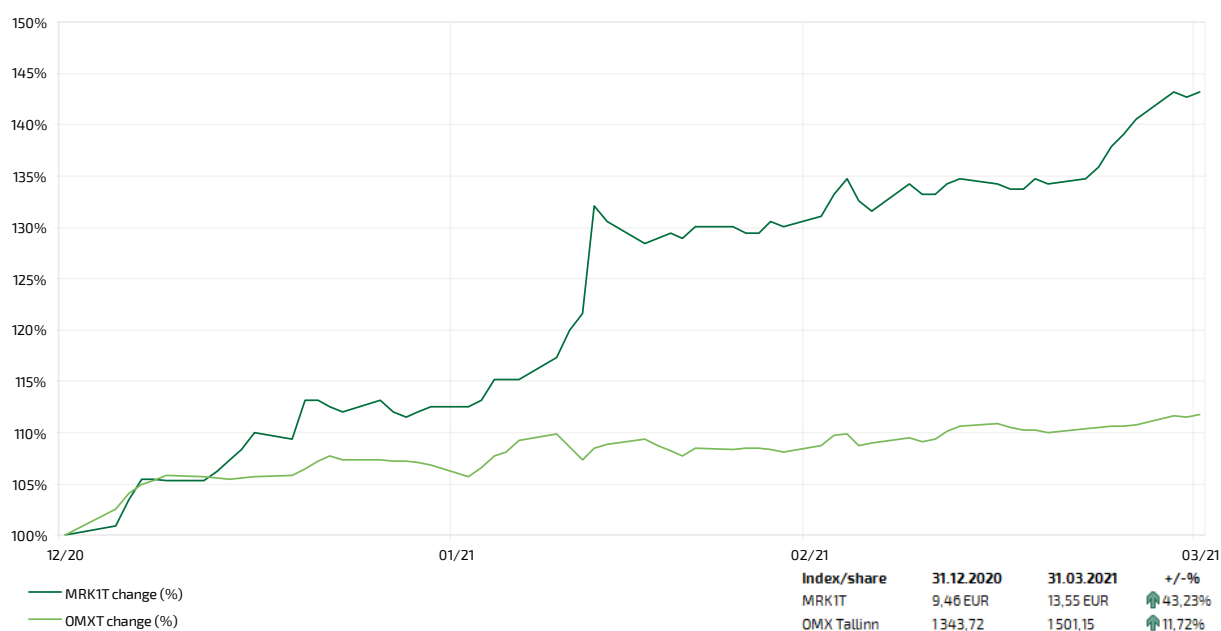
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.03.2021

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	7	0.11%	1,347,605	7.61%
10,001 – 100,000	49	0.77%	1,210,348	6.84%
1,001-10,000	512	8.00%	1,449,064	8.19%
101-1,000	2,224	34.76%	823,629	4.65%
1-100	3,605	56.34%	126,668	0.72%
Total	6,398	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.03.2021 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.03.2021	% OF TOTAL 31.12.2020	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	351,500	1.99%	1.87%	21,500
Firebird Republics Fund Ltd	323,300	1.83%	1.83%	-
Firebird Avrora Fund Ltd	178,067	1.01%	1.01%	-
SEB Life and Pension Baltic SE Estonian Branch	148,787	0.84%	0.84%	-
Siseinfo OÜ	130,000	0.73%	0.71%	4,129
Clearstream Banking AG	112,230	0.63%	0.63%	289
Firebird Fund L.P.	103,721	0.59%	0.59%	-
Seitse Samuraid OÜ	100,000	0.56%	0.56%	-
Sven Einar Stefan Andersson	96,410	0.54%	0.54%	-
Total largest shareholders	14,286,701	80.71%	80.57%	25,918
Total other shareholders	3,413,299	19.29%	19.43%	(25,918)
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2021



DIVIDENDS AND DIVIDEND POLICY

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

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

On 5 May 2021, the shareholders of AS Merko Ehitus approved the Supervisory Board's proposal to the shareholders to pay out the total amount of EUR 17.7 million (EUR 1.00 per share) as dividends from net profit brought forward, which is equivalent to a 77% dividend rate and a 10.6% dividend yield for the year 2020 (using the share price as at 31 December 2020). No comparable data for 2020 were available since the general meeting of shareholders held on 6 May 2020 confirmed the Supervisory Board's proposal not to pay dividends from net profit brought forward to shareholders.

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

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

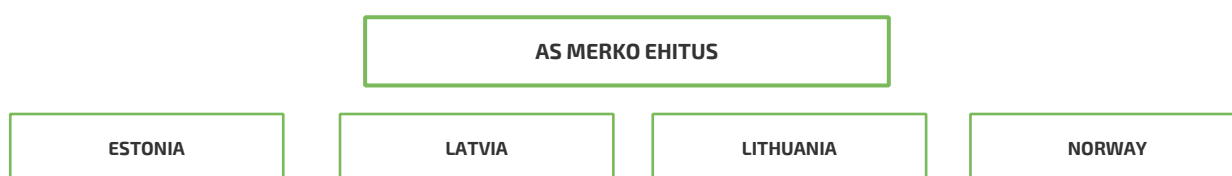
AS Merko Ehitus operates as a holding company to a group, the companies of which in Estonia, Latvia, Lithuania and Norway offer complete solutions in the field of construction and real estate development. The group's largest companies are AS Merko Ehitus Eesti (100%), Tallinna Teede AS (100%), SIA Merks (100%), UAB Merko Statyba (100%), UAB Merko Bustas (100%), Peritus Entreprenør AS (56%) and the company belonging to the AS Merko Ehitus Eesti group: 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 2021, the management structure is as follows:



GROUP'S LEGAL STRUCTURE

As at 31 March 2021, the group comprises 32 companies (31.03.2020: 32). 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 6 November 2020, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas. Under the restructuring plan, UAB Merko Bustas's 100% owned subsidiary UAB Jurininku Aikštele was merged into its parent. It is planned to complete the restructuring and make the respective entry into the Commercial Register during the 2021.

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

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

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.

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

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

SUPERVISORY BOARD

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

MANAGEMENT BOARD

The Management Board is a governing body, which represents and manages AS Merko Ehitus in its daily activities in accordance with the law and the Articles of Association. The Management Board has to act in the most economically purposeful manner, taking into consideration the best interests of the company and all shareholders, while ensuring the company's sustainable development in accordance with set objectives and strategy. To ensure that the company's interests are met in the best way possible, the Management and Supervisory Boards shall extensively collaborate. At least once a quarter, a joint meeting of the 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.

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

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

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

COMPANY	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti	Andres Trink (Chairman), Tõnu Toomik, Martin Rebane	Ivo Volkov (Chairman), Jaan Mäe, Veljo Viitmann
Tallinna Teede AS	Tõnu Toomik (Chairman), Ivo Volkov, Andres Trink	Jüri Läll (Chairman), Marek Rand
OÜ Merko Investments	-	Andres Trink, Priit Roosimägi
SIA Merks	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Andris Bišmeistars (Manager)
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

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

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

Andres Trink	Chairman of the Management Board	06.05.2021
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Tõnu Toomik	Member of the Management Board	06.05.2021
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INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2021 3 months	2020 3 months	2020 12 months
Revenue	2	60,107	55,872	315,918
Cost of goods sold	3	(53,133)	(50,398)	(272,169)
Gross profit		6,974	5,474	43,749
Marketing expenses		(947)	(948)	(4,212)
General and administrative expenses		(2,715)	(2,805)	(13,412)
Other operating income		675	508	2,320
Other operating expenses		(54)	(63)	(2,979)
Operating profit		3,933	2,166	25,466
Finance income/costs		(184)	(99)	(1,009)
incl. finance income/costs from joint venture		7	90	(144)
interest expense		(146)	(172)	(719)
foreign exchange gain (loss)		-	-	(7)
other financial income (expenses)		(45)	(17)	(139)
Profit before tax		3,749	2,067	24,457
Corporate income tax expense		(429)	(138)	(1,954)
Net profit for financial year		3,320	1,929	22,503
incl. net profit attributable to equity holders of the parent		3,368	2,019	22,994
net profit attributable to non-controlling interest		(48)	(90)	(491)
Other comprehensive income, which can subsequently be classified in the income statement				
Currency translation differences of foreign entities		23	(188)	(115)
Comprehensive income for the period		3,343	1,741	22,388
incl. net profit attributable to equity holders of the parent		3,392	1,823	22,890
net profit attributable to non-controlling interest		(49)	(82)	(502)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.19	0.11	1.30

The notes set out on pages 25-36 are an integral part of these interim financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.03.2021	31.03.2020	31.12.2020
ASSETS				
Current assets				
Cash and cash equivalents	5	54,792	37,056	47,480
Trade and other receivables	6	35,362	42,133	32,657
Prepaid corporate income tax		320	91	306
Inventories	7	126,748	168,833	126,332
		217,222	248,113	206,775
Non-current assets				
Investments in joint venture		2,361	2,588	2,354
Other long-term loans and receivables	8	20,457	11,991	17,979
Deferred income tax assets		623	-	653
Investment property	9	13,897	14,021	13,922
Property, plant and equipment	10	14,484	11,699	14,521
Intangible assets	11	721	724	711
		52,543	41,023	50,140
TOTAL ASSETS		269,765	289,136	256,915
LIABILITIES				
Current liabilities				
Borrowings	12	13,626	21,496	13,649
Payables and prepayments	13	63,196	73,488	55,846
Income tax liability		1,429	816	1,202
Short-term provisions	14	5,366	6,866	6,347
		83,617	102,666	77,044
Non-current liabilities				
Long-term borrowings	12	18,767	45,355	15,409
Deferred income tax liability		3,032	1,655	3,001
Other long-term payables	15	3,570	3,164	4,026
		25,369	50,174	22,436
TOTAL LIABILITIES		108,986	152,840	99,480
EQUITY				
Non-controlling interests		4,159	4,135	4,207
Equity attributable to equity holders of the parent				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	793	793
Currency translation differences		(790)	(906)	(814)
Retained earnings		148,688	124,345	145,320
		156,620	132,161	153,228
TOTAL EQUITY		160,779	136,296	157,435
TOTAL LIABILITIES AND EQUITY		269,765	289,136	256,915

The notes set out on pages 25-36 are an integral part of these interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
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
Balance as at 31.12.2020	7,929	793	(814)	145,320	153,228	4,207	157,435
Profit (loss) for the reporting period	-	-	-	3,368	3,368	(48)	3,320
Other comprehensive income	-	-	24	-	24	(1)	23
Total comprehensive income (loss) for the reporting period	-	-	24	3,368	3,392	(49)	3,343
Transactions with owners							
Non-controlling interests of purchased subsidiary	-	-	-	-	-	1	1
Total transactions with owners	-	-	-	-	-	1	1
Balance as at 31.03.2021	7,929	793	(790)	148,688	156,620	4,159	160,779

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

The notes set out on pages 25-36 are an integral part of these interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2021 3 months	2020 3 months	2020 12 months
Cash flows from operating activities				
Operating profit		3,933	2,166	25,466
Adjustments:				
Depreciation and impairment		619	672	2,751
(Profit)/loss from sale of non-current assets		(25)	(62)	(250)
Change in receivables and liabilities related to construction contracts		(3,884)	7,616	2,794
Interest income from operating activities		(473)	(370)	(1,499)
Change in provisions		(1,868)	(3,147)	(1,072)
Change in trade and other receivables related to operating activities		(1,557)	3,482	7,017
Change in inventories		(404)	(2,459)	40,231
Change in trade and other payables related to operating activities		8,148	1,953	(11,937)
Interest received		337	333	1 349
Interest paid		(147)	(301)	(1,068)
Other finance income (costs)		(46)	(28)	(139)
Corporate income tax paid		(147)	(106)	(1,132)
Total cash flows from operating activities		4,486	9,749	62,511
Cash flows from investing activities				
Acquisition of subsidiaries		(1)	-	-
Purchase of investment property		-	(7)	(7)
Purchase of property, plant and equipment (excl. leased assets)		(354)	(155)	(4,321)
Proceeds from sale of property, plant and equipment		22	78	289
Purchase of intangible assets		(58)	(9)	(143)
Interest received		1	-	1
Total cash flows from investing activities		(390)	(93)	(4,181)
Cash flows from financing activities				
Proceeds from borrowings		3,973	13,118	20,433
Repayments of borrowings		(578)	(9,991)	(54,911)
Repayments of lease liabilities		(206)	(239)	(922)
Dividends paid		-	-	(133)
Total cash flows from financing activities		3,189	2,888	(35,533)
Net increase/decrease in cash and cash equivalents		7,285	12,544	22,797
Cash and cash equivalents at the beginning of the period	5	47,480	24,749	24,749
Effect of exchange rate changes		27	(237)	(66)
Cash and cash equivalents at the end of the period	5	54,792	37,056	47,480

The notes set out on pages 25-36 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 2021 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2020 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2020 audited annual report and 2020 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 2021 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.

2021 3 months	Construction service	Real estate development	Total segments
Revenue	39,244	23,790	63,034
Inter-segment revenue	(271)	(2,656)	(2,927)
Revenue from clients	38,973	21,134	60,107
incl. timing of revenue recognition at a point in time	262	18,150	18,412
timing of revenue recognition over time	38,711	2,984	41,695
Operating profit (loss)	28	4,344	4,372
Profit (loss) before tax	(8)	4,246	4,238
incl. interest income from operating activities	15	458	473
depreciation	(501)	(118)	(619)
recognition of provisions	(454)	(3)	(457)
profit (loss) from joint venture	-	7	7
other finance income (costs)	(6)	(91)	(97)
incl. interest expenses	(6)	(65)	(71)
Assets 31.03.2021	53,553	167,144	220,697
incl. joint venture	-	2,361	2,361
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)
incl. interest expenses	(6)	(45)	(51)
Assets 31. 03.2020	53,040	198,475	251,515
incl. joint venture	-	2,588	2,588

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

In addition to the segment assets, as at 31.03.2021 the group holds assets in the amount of EUR 49,068 thousand (31.03.2020: EUR 37,621 thousand; 31.12.2020: EUR 41,593 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	2021 3 months	2020 3 months	2020 12 months
Pre-tax profit from reporting segments	4,238	2,474	27,507
Other operating profit (loss)	(438)	(363)	(2,805)
incl. recognition of provisions	-	-	(9)
finance income (costs)	(51)	(44)	(245)
incl. interest expenses	(32)	(44)	(176)
Total profit before tax	3,749	2,067	24,457

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

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2021 3 months		2020 3 months		2020 12 months	
Estonia	37,940	63%	25,997	47%	177,344	56%
Latvia	8,640	14%	16,797	30%	49,735	16%
Lithuania	10,838	18%	11,300	20%	77,173	24%
Norway	2,689	5%	1,778	3%	11,666	4%
Total	60,107	100%	55,872	100%	315,918	100%

CONTRACT ASSETS AND LIABILITIES

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Accrued income from construction services (Note 6)	11,164	8,036	7,741
Prepayments for construction services (Note 13)	(6,423)	(12,100)	(6,926)
Advance payments received for construction contract works (Notes 13, 15)	(10,006)	(4,377)	(8,576)
Recognised provision for onerous construction contracts (Note 14)	(242)	(1,190)	(312)

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

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Estonia	17,816	15,147	17,896
Latvia	13,140	13,277	13,096
Lithuania	363	487	383
Norway	144	122	133
Total	31,463	29,033	31,508

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2021 3 months	2020 3 months	2020 12 months
Construction services and properties purchased for resale	31,953	30,033	174,208
Materials	9,474	7,953	42,526
Labour costs	6,114	5,458	24,509
Construction mechanisms and transport	1,484	1,710	11,687
Design	884	1,143	5,103
Real estate management costs	90	85	323
Depreciation	415	440	1,815
Impairment of inventories	-	-	604
Provisions	456	1,136	3,100
Other expenses	2,263	2,440	8,294
Total cost of goods sold	53,133	50,398	272,169

NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2021 3 months	2020 3 months	2020 12 months
Net profit (loss) attributable to shareholders (in thousand EUR)	3,368	2,019	22,994
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700
Earnings (loss) per share (in euros)	0.19	0.11	1.30

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

Dividends payable are recognised after the approval of profit allocation by the shareholders. In accordance with the profit allocation decision, in 2021 the parent company AS Merko Ehitus will pay dividends of EUR 17,700 thousand, i.e. EUR 1.00 per share (no dividends were paid in 2020). The income tax expense of EUR 1,387 thousand related to the payment of dividends is due in 2021, of which EUR 1,368 thousand was recognised as deferred tax expense in the group in 2020.

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

As at 31.03.2021 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 1,384 thousand euros (31.03.2020: EUR 0 thousand euros; 31.12.2020: EUR 1,368 thousand euros).

As at 31.03.2021, the parent company AS Merko Ehitus has previously taxed dividends and income received from abroad in a sum of EUR 3,507 thousand (31.03.2020: EUR 1 thousand; 31.12.2020: EUR 3,507 thousand), on which income tax has been withheld.

As at 31.03.2021, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 119,260 thousand (31.03.2020: EUR 98,992; 31.12.2020: EUR 116,547 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 877 thousand (31.03.2020: EUR 0 thousand; 31.12.2020: EUR 877 thousand), the corresponding income tax on dividends would amount to EUR 28,638 thousand (31.03.2020: EUR 24,447 thousand; 31.12.2020: EUR 27,959 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration. Above that sum, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out as net dividends). The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Cash on hand	-	4	-
Bank accounts	54,792	37,052	47,480
Total cash and cash equivalents	54,792	37,056	47,480

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Trade receivables			
Accounts receivable	22,122	30,122	25,391
Allowance for doubtful receivables	(3,518)	(854)	(3,525)
	18,604	29,268	21,866
Tax prepayments excluding corporate income tax			
Value added tax	923	899	585
Other taxes	20	2	35
	943	901	620
Accrued income from construction services	11,164	8,036	7,741
Other short-term receivables			
Short-term loans	1,417	1,000	371
Interest receivables	17	29	1
Other short-term receivables	179	271	118
	1,613	1,300	490
Prepayments for services			
Prepayments for construction services	2,602	2,200	1,570
Prepaid insurance	178	114	137
Other prepaid expenses	258	314	233
	3,038	2,628	1,940
Total trade and other receivables	35,362	42,133	32,657
incl. short-term loan receivables from related parties (Note 16)	-	950	-
other short-term receivables and prepayments to related parties (Note 16)	1,493	716	369

NOTE 7 INVENTORIES

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Materials	386	346	351
Work-in-progress	49,050	74,684	38,626
Finished goods	15,158	21,541	25,210
Goods for resale			
Registered immovables purchased for resale/development	60,590	69,527	60,667
Other goods purchased for resale	87	133	87
	60,677	69,660	60,754
Prepayments for inventories			
Prepayments for other inventories	1,477	2,602	1,391
Total inventories	126,748	168,833	126,332

NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Long-term loans	1,115	-	1,115
Long-term bank deposit	2	-	2
Long-term receivables from customers of construction services	19,340	11,991	16,862
Total other long-term loans and receivables	20,457	11,991	17,979
incl. long-term loan receivables from related parties (Note 16)	1,115	-	1,115

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Land	12,407	12,407	12,407
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(13)	(13)	(13)
	16	16	16
Buildings at carrying amount			
Cost	2,631	2,631	2,631
Accumulated depreciation	(1,157)	(1,033)	(1,132)
	1,474	1,598	1,499
Total investment property	13,897	14,021	13,922

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Land	712	712	712
Buildings at carrying amount*			
Cost	7,378	6,564	6,040
Accumulated depreciation	(2,771)	(2,740)	(2,689)
	4,607	3,824	3,351
Machinery and equipment at carrying amount*			
Cost	14,470	14,331	14,377
Accumulated depreciation	(9,078)	(8,638)	(8,760)
	5,392	5,693	5,617
Other fixtures at carrying amount			
Cost	4,275	3,987	4,027
Accumulated depreciation	(3,209)	(2,989)	(3,145)
	1,066	998	882
Prepayments for property, plant and equipment	2,707	472	3,959
Total property, plant and equipment	14,484	11,699	14,521

* As of 31 March 2021 the balance of buildings at carrying amount includes leased assets in a sum of EUR 146 thousand (31.03.2020: 465 thousand; 31.12.2020: EUR 186 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 2,426 thousand (31.03.2020: EUR 2,472 thousand; 31.12.2020: EUR 2,487 thousand).

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Goodwill			
Cost	73	63	69
	73	63	69
Software at carrying amount			
Cost	2,136	1,996	2,122
Accumulated depreciation	(1,550)	(1,343)	(1,495)
	586	653	627
Prepayments for intangible assets	62	8	15
Total intangible assets	721	724	711

NOTE 12 BORROWINGS

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Lease liabilities*			
Lease liabilities balance	2,643	2,891	2,703
incl. current portion	771	818	790
non-current portion 2...5 years	1,872	2,073	1,913
Bank loans			
Loan balance	23,694	57,960	20,299
incl. current portion	6,855	19,678	6,859
non-current portion 2...5 years	16,839	38,282	13,440
Loans from entities under common control			
Loan balance	6,000	6,000	6,000
incl. current portion (Note 16)	6,000	1,000	6,000
non-current portion 2...5 years (Note 16)	-	5,000	-
Loans from other entities			
Loan balance	56	-	56
incl. non-current portion 2...5 years (Note 16)	56	-	56
Total loans			
Loans balance	29,750	63,960	26,355
incl. current portion	12,855	20,678	12,859
non-current portion 2...5 years	16,895	43,282	13,496
Total borrowings	32,393	66,851	29,058
incl. current portion	13,626	21,496	13,649
non-current portion 2...5 years	18,767	45,355	15,409

* As of 31 March 2021 the lease liabilities include a balance of EUR 69 thousand to related parties (31.03.2020: EUR 119 thousand; 31.12.2020: EUR 82 thousand) (Note 16).

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Trade payables	24,965	33,882	20,948
Payables to employees	11,122	9,518	11,788
Tax liabilities, except for corporate income tax			
Value added tax	1,646	1,530	3,199
Personal income tax	550	364	470
Social security tax	1,374	1,285	1,180
Unemployment insurance tax	43	43	50
Contributions to mandatory funded pension	33	25	36
Other taxes	120	219	98
	3,766	3,466	5,033
Prepayments for construction services	6,423	12,100	6,926
Other liabilities			
Interest liabilities	12	15	1
Other liabilities	570	331	592
	582	346	593
Prepayments received *	16,338	14,176	10,558
Total payables and prepayments	63,196	73,488	55,846
incl. payables to related parties (Note 16)	23	24	3

* As of 31 March 2021, the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 8,524 thousand (31.03.2020: EUR 4,377 thousand; 31.12.2020: EUR 6,997 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 7,814 thousand (31.03.2020: EUR 9,799 thousand; 31.12.2020: EUR 3,561 thousand) (Note 2).

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Provision for warranty obligation for construction	3,419	3,498	3,448
Provision for costs of projects sold and work-in-progress projects	1,485	1,954	2,319
Provision for onerous construction contracts	242	1,190	312
Provision for legal costs and claims filed	202	202	202
Other provisions	18	22	66
Total short-term provisions	5,366	6,866	6,347

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Trade payables	1,744	2,294	2,120
Prepayments received *	1,482	-	1,579
Interest liabilities	1	-	-
Other long-term liabilities	343	870	327
Other long-term payables total	3,570	3,164	4,026
incl. other long-term payables to related parties (Note 16)	344	870	327

* As of 31 March 2021, the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 1,482 thousand (31.03.2020: EUR 0 thousand; 31.12.2020: EUR 1,579 thousand) (Note 2).

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 31.03.2021; 31.03.2020 and 31.12.2020, AS Riverito owned 71.99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr. Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	31.03.2021	31.03.2020	31.12.2020		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	-	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	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	100	Estonia, Tallinn	Mining
Tallinna Teede AS	100	-	-	Estonia, Tallinn	Road construction
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Statinių Priežiūra ir Administravimas	-	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	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 Aikštele	-	100	-	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	-	100	Lithuania, Vilnius	Real estate
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 Industrialais 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
Løkenskogen Bolig AS	56	-	-	Norway, Sofiemyr	Real estate
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

	2021 3 months	2020 3 months	2020 12 months
Provided services and goods sold			
Parent company	3	3	13
Joint venture	359	581	1,494
Entities under common control	2,583	16	844
Members of the management	127	15	838
Total services provided and goods sold	3,072	615	3,189
Interest income			
Joint venture	17	25	74
Purchased services and goods			
Parent company	23	23	90
Entities under common control	15	15	68
Members of the management	1	1	3
Total purchased services and goods	39	39	161
Interest expense			
Entities under common control	32	35	142
Other related parties	1	-	-
Total interest expense	33	35	142

BALANCES WITH RELATED PARTIES

in thousand euros

	31.03.2021	31.03.2020	31.12.2020
Receivables from related parties			
Loans granted (Notes 6,8)			
Joint ventures	1,115	950	1,115
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Joint venture	28	695	25
Entities under common control	1,461	-	340
Members of the management	-	17	-
Total receivables and prepayments	1,493	716	369
Total receivables from related parties	2,608	1,666	1,484
Payables to related parties			
Lease liabilities (Note 12)			
Entities under common control	69	119	82
Short-term loans received (Note 12)			
Entities under common control	6,000	1,000	6,000
Payables and prepayments (Note 13)			
Parent company	9	9	-
Entities under common control	14	15	3
Total payables and prepayments	23	24	3

	31.03.2021	31.03.2020	31.12.2020
Long-term loans received (Note 12)			
Entities under common control	-	5,000	-
Other related parties	56	-	56
Other long-term payables (Note 15)			
Other related parties	344	870	327
Total payables to related parties	6,492	7,013	6,468

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 3 months of 2021 was EUR 379 thousand (3 months of 2020: EUR 422; 12 months of 2020: EUR 3,857 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 3 months of 2021, the Management Board members of major subsidiaries received EUR 32 thousand in compensation (3 months of 2020: EUR 20 thousand; 12 months of 2020: EUR 157 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31.03.2021:

		NO OF SHARES	% OF SHARES
Toomas Annus (AS Riverito) *	Chairman of the Supervisory Board	12,742,686	71.99%
Indrek Neivelt (OÜ Trust IN)	Member of the Supervisory Board	31,635	0.18%
Teet Roopalü	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. 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 31.03.2021:

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

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

The group has 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.

	31.03.2021	31.03.2020	31.12.2020
Performance period's warranty to the customer	27,448	30,246	24,901
Tender warranty	1,509	699	669
Guarantee for warranty period	22,057	21,724	22,253
Prepayment guarantee	14,492	6,835	11,589
Payment guarantee	1,332	-	516
Contracts of surety	1,693	2,130	1,834
Total contingent liabilities	68,531	61,634	61,762

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

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

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

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

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

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

DEFINITION OF RATIOS

Gross profit margin (%)	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
Operating profit margin (%)	=	$\frac{\text{Operating profit}}{\text{Revenue}}$
EBT margin (%)	=	$\frac{\text{Earnings before tax}}{\text{Revenue}}$
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