

Company AS MERKO EHITUS
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Attachments:

- Merko_Ehitus_2022_6M_interim_report.pdf (<http://oam.fi.ee/en/download?id=6661>)
- Merko_Ehitus_2022_6k_vahearuanne.pdf (<http://oam.fi.ee/en/download?id=6662>)

Currency

Title 2022 6 months and II quarter consolidated unaudited interim report

COMMENTARY FROM MANAGEMENT

Merko Ehitus revenue was EUR 88 million in Q2 2022, and EUR 156 million in H1 2022, while the respective figures for net profit were EUR 4.2 million and EUR 7.2 million. This year, Merko has delivered 214 apartments to buyers and a number of development projects will be completed in the second half of the year.

According to the management of Merko Ehitus, the results met expectations, considering the current market situation and the adaptation of all participants in the construction sector to the rapid rise in construction prices. Net profit in the second quarter was also influenced by a EUR 0.3 million donation to Ukrainian support projects and income tax expense that is EUR 0.3 million higher than a year ago.

The influence of inflation and rising input prices in the group's sector of construction service continues to be high, yet the implementation of all the construction projects in progress has continued according to plan. The situation is complicated in all construction sectors, yet most critical in road construction where the rise in input prices has been the highest and new investment plans have been put on hold. We share the concern of sector leaders as to the sustainability of the sector.

In H1, the group companies entered into new construction contracts worth EUR 193 million and the secured order book balance stood at EUR 323 million as of the end of June. According to the management, the group's secured order book is currently strong, yet there is little business real estate and new infrastructure construction orders on the market as a whole. Considering the energy crisis and green transition policy, it is somewhat surprising that only a few major renewable energy and high energy efficient building designs have come on to the market. The faster customers adapt to the higher input prices and



supply chain problems that construction companies are facing, the faster the planned projects will reach construction. It is necessary to find solutions for sharing the risks with project owners and continue to invest regardless of faster inflation.

In the first six months of this year, Merko delivered 214 new apartments and one commercial unit to buyers and a number of apartment developments in progress are expected to be completed on schedule in H2. Merko new sales of apartments have continued even after the price rise caused by rising input prices, which shows that the market is gradually adapting to the new prices. The supply of new apartments on the market as a whole has decreased. Residential construction is for Merko a business area with a long perspective and we have continued investing into new development projects, although at a more moderate pace.

During H1, the group launched construction of 186 new apartments and four commercial units in Riga. As of the end of the quarter, over 1700 apartments were under construction in the three Baltic states, over half of which have preliminary sale contracts concluded and will be completed in 2022 and 2023. The largest apartment developments were Uus-Veerenni, Noblessneri and Lahekald in Tallinn, Erminurme in Tartu, Viesturdarzs, Mezhpils?ta and Magnolijas in Riga, and Vilneles Skverai in Vilnius.

In the second quarter of 2022, the largest objects in operation 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, St John's School, Pelgulinna State gymnasium and the Arter quarter, and also the construction of infrastructure segments of the Republic of Estonia's southeast land border and reconstruction of Rannamõisa tee. In Latvia, the Orkla wafer and biscuit production plant, GUSTAVS business centre, Elemental Skanste office buildings, NATO facilities in ?dazhi and the Kauguri city park and youth house were in progress; and in Lithuania, infrastructure for a number of wind farms, and a car service centre in Vilnius.

OVERVIEW OF THE II QUARTER AND 6 MONTHS RESULTS

PROFITABILITY

2022 6 months' pre-tax profit was EUR 8.4 million and Q2 2022 was EUR 4.9 million (6M 2021: EUR 10.5 million and Q2 2021 was EUR 6.7 million), which brought the pre-tax profit margin to 5.4% (6M 2021: 7.2%).

Net profit attributable to shareholders for 6 months 2022 was EUR 7.2 million (6M 2021: EUR 9.8 million) and for Q2 2022 net profit attributable to shareholders was EUR 4.2 million (Q2 2021: EUR 6.4 million). 6 months net profit margin was 4.6% (6M 2021: 6.7%).

REVENUE

Q2 2022 revenue was EUR 87.8 million (Q2 2021: EUR 85.8 million) and 6 months' revenue was EUR 156.2 million (6M 2021: EUR 145.9 million). 6 months' revenue increased by 7.2% compared to same period last year. The share of revenue earned outside Estonia in 6 months 2022 was 53.8% (6M 2021: 38.0%).



SECURED ORDER BOOK

As of 30 June 2022, the group's secured order book was EUR 322.9 million (30 June 2021: EUR 249.8 million). In 6 months 2022, group companies signed contracts in the amount of EUR 193.3 million (6M 2021: EUR 135.1 million). In Q2 2022, new contracts were signed in the amount of EUR 22.1 million (Q2 2021: EUR 37.8 million).

REAL ESTATE DEVELOPMENT

In 6 months 2022, the group sold a total of 214 apartments; in 6 months 2021, the group sold 145 apartments. The group earned a revenue of EUR 27.1 million from sale of own developed apartments in 6 months 2022 and EUR 25.8 million in 6 months 2021. In Q2 of 2022 a total of 88 apartments were sold, compared to 55 apartments in Q2 2021, and earned a revenue of EUR 11.6 million from sale of own developed apartments (Q2 2021: EUR 11.0 million).

CASH POSITION

At the end of the reporting period, the group had EUR 16.8 million in cash and cash equivalents, and equity of EUR 156.7 million (41.5% of total assets). Comparable figures as of 30 June 2021 were EUR 21.7 million and EUR 145.3 million (52.5% of total assets), respectively. As of 30 June 2022, the group's net debt was EUR 73.2 million (30 June 2021: EUR 16.1 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	2022 6 months	2021 6 months	2022 II quarter	2021 II quarter	2021 12 months
Revenue	156,198	145,860	87,772	85,753	339,375
Cost of goods sold	(138,917)	(128,622)	(78,363)	(75 489)	(292,563)
Gross profit	17,281	17,238	9,409	10 264	46,812
Marketing expenses	(2,169)	(1,830)	(1,054)	(883)	(3,611)
General and administrative expenses	(7,522)	(5,706)	(3,799)	(2,991)	(13,925)
Other operating income	1,422	1,314	736	639	3,508
Other operating expenses	(455)	(93)	(394)	(39)	(582)
Operating profit	8,557	10,923	4,898	6,990	32,202



Finance income/costs	(193)	(441)	(33)	(257)	(75)
incl. finance income/costs from associates and joint ventures	328	3	330	(4)	799
interest expense	(374)	(316)	(212)	(170)	(681)
foreign exchange gain (loss)	(67)	(39)	(119)	(39)	(8)
other financial income (expenses)	(80)	(89)	(32)	(44)	(185)
Profit before tax	8,364	10,482	4,865	6,733	32,127
Corporate income tax expense	(1,176)	(856)	(755)	(427)	(3,104)
Net profit for financial year	7,188	9,626	4,110	6,306	29,023
incl. net profit attributable to equity holders of the parent	7,202	9,763	4,196	6,395	29,140
net profit attributable to non-controlling interest	(14)	(137)	(86)	(89)	(117)
Other comprehensive income, which can subsequently be classified in the income statement					
Currency translation differences of foreign entities	(12)	16	(28)	(7)	33



Comprehensive income for the period	7,176	9,642	4,082	6,299	29,056
incl. net profit attributable to equity holders of the parent	7,189	9,779	4,169	6,387	29,163
net profit attributable to non-controlling interest	(13)	(137)	(87)	(88)	(107)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	0.41	0.55	0.24	0.36	1.65

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited
in thousand euros

30.06.2022 30.06.2021 31.12.2021

ASSETS

Current assets

Cash and cash equivalents	16,773	21,713	44,930
Trade and other receivables	68,317	62,902	55,484
Prepaid corporate income tax	36	315	114
Inventories	228,240	136,605	160,593
	313,366	221,535	261,121

Non-current assets

Investments in associates and joint ventures	9,707	2,357	7,703
Other long-term loans and receivables	23,616	22,797	24,079
Deferred income tax assets	1,115	842	622
Investment property	11,536	13,872	13,828



Property, plant and equipment	17,347	14,611	16,350
Intangible assets	635	733	669
	63,956	55,212	63,251
 TOTAL ASSETS	 377,322	 276,747	 324,372
 LIABILITIES			
Current liabilities			
Borrowings	48,854	9,279	11,636
Payables and prepayments	117,702	77,814	90,054
Income tax liability	2,275	731	681
Short-term provisions	6,879	5,720	7,976
	175,710	93,544	110,347
Non-current liabilities			
Long-term borrowings	41,153	28,493	41,001
Deferred income tax liability	1,649	1,739	3,112
Other long-term payables	2,322	3,586	2,900
	45,124	33,818	47,013
 TOTAL LIABILITIES	 220,834	 127,362	 157,360
 EQUITY			
Non-controlling interests	(240)	4,078	(227)
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	(804)	(798)	(791)
Retained earnings	148,810	137,383	159,308
	156,728	145,307	167,239
TOTAL EQUITY	156,488	149,385	167,012
TOTAL LIABILITIES AND EQUITY	377,322	276,747	324,372

The interim report is attached to the announcement and is also published on NASDAQ Tallinn and Merko's web page (group.merko.ee (https://group.merko.ee/en/)).

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AS Merko Ehitus (group.merko.ee (https://group.merko.ee/en/)) group companies develop real estate and construct buildings and infrastructure. We create a better living environment and build the future. We operate in Estonia, Latvia, Lithuania and Norway. As at the end of 2021, the group employed 670 people, and the group's revenue for 2021 was EUR 339 million.

