



AS MERKO EHITUS

GROUP

2023 12 months and IV quarter consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Financial year:	01.01.2023 – 31.12.2023
Reporting period:	01.01.2023 – 31.12.2023
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Management Board:	Andres Trink, Tõnu Toomik, Urmas Somelar
Auditor:	AS PricewaterhouseCoopers

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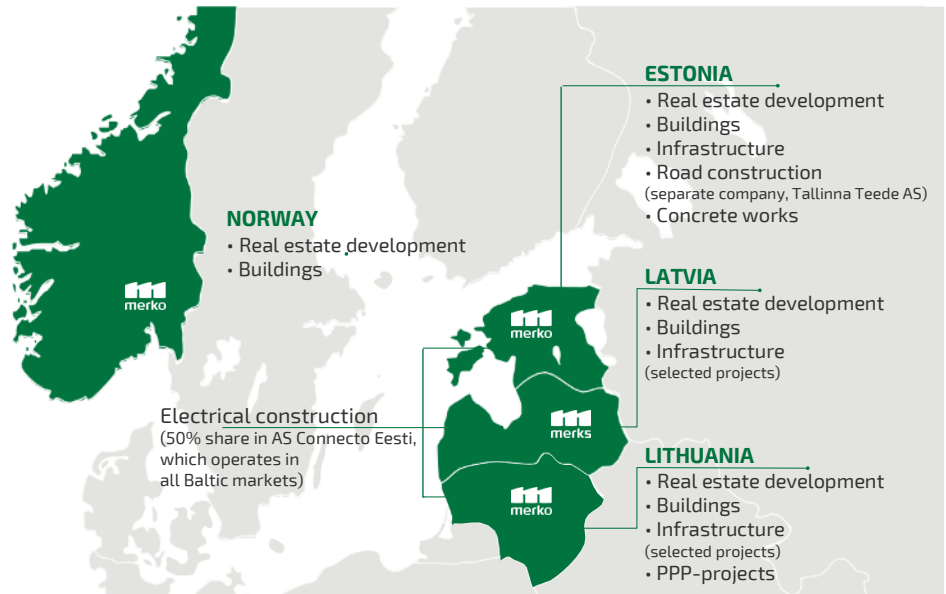
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BRIEF OVERVIEW OF THE GROUP

Companies in the Merko Ehitus group develop real estate, construct buildings and infrastructure. We operate in the Baltic states and Norway.

We create a better living environment and build the future.

Long-term experience, a wide scope of construction services, quality and reliability have made Merko the brand of the leading construction company and apartment developer in the Baltics.



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%**)

2023 KEY FIGURES

Revenue **466.3 million** euros Net profit **46.0 million** euros **638** employees





STRATEGY

AS Merko Ehitus subsidiaries provide construction services in the field of building and infrastructure construction and develop residential real estate in their 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

Merko Ehitus revenue was EUR 126 million in Q4 2023, and the revenue for 12 months amounted to EUR 466 million, while the respective figures for net profit were EUR 13.9 million and 12 months was EUR 46.0 million. Merko delivered 948 apartments and 27 commercial units to buyers in 12 months this year.

According to the management of Merko Ehitus, the solid results for 2023 were mainly delivered by Merko teams, who have made good decisions in the last few tumultuous years and adapted to market demand in the field of both construction service and real estate development. Construction and real estate development projects generally span more than one reporting period and the final results become evident at the end of the projects. The 12-month and Q4 results in 2023 show that several important factors coincided in the same time period. In the past few years, Merko group had the capability for launching large construction projects, of which the Kapitel's contracts are the most extensive, totalling more than EUR 200 million. The Kapitel contracts refer to two high-rise offices in Riga and the majority of the construction on three high-rise buildings in the Arter Quarter in central Tallinn, which Merko completed for Kapitel at the end of the year. The results were clearly supported by the real estate development business area, where in 2023, Merko companies handed over to the buyers nearly 1,000 apartments that had been presold during the last two years.

An era in real estate development is over – i.e. pre-sold apartments have been completed and delivered to customers, and now we are operating in a much more difficult market situation. The apartment market in the Baltics is uncertain, interest rates have risen and the pace of sales of new apartments has slowed significantly due to the new market situation. We have launched construction of a smaller number of apartment developments and in the near future there is no grounds for expecting results comparable to 2023 in real estate development. Over 12 months of 2023 the group has invested a total of EUR 86 million into ongoing development projects and acquisitions of new properties.

The group's secured order-book continued growth in Q4 and is exceeding previous expectations, which does partially counterbalance the negative impacts of the slumping apartment market on our construction volumes and revenue. Yet profitability of construction service is under constant strain and the risks continue – supply chains are seeing another price rise and macroeconomic problems have made private sector customers cautious about investments. Many defence and energy projects are in progress currently but these, too, will decline in volume in the medium to long term. Thus, risk management for the group companies – above all hedging price risks – is under continued scrutiny. In 2023, the group's companies signed new construction contracts worth 501 million euros, or 58% more than a year ago, and the secured orderbook increased by more than 60% compared to a year ago to 477 million euros.

In the 12 months of 2023, Merko delivered 948 apartments and 27 commercial units to buyers. As of year-end, the group's companies had 697 apartments on its balance sheet. At the end of the year, approximately 5% of the 393 apartments in the construction phase were covered by preliminary sale contracts. The largest apartment developments were Uus-Veerenni, Noblessner and Lahekalda in Tallinn, Erminurme in Tartu, Viesturdarzs, Mežpilseta and Magnolijas in Riga, and Vilneles Skverai in Vilnius.

In Q4 of 2023, the largest sites under construction in Estonia were the Rae state gymnasium, Hampton by Hilton and Hyatt hotel buildings, Arter Quarter, the logistics centre for Tallinn Kaubamaja Group, barracks at the Defence Forces' Ämari base, the infrastructure along the south-eastern border of the Republic of Estonia, the Rail Baltica road viaducts in Harjumaa, a tram line between Old City Harbour and Rail Baltica Ülemiste passenger terminal, as well the first phase of Ülemiste terminal. In Latvia, the Elemental Business Centre office buildings were in progress. Projects in Lithuania were wind farm infrastructure works in Kelme and Pagėgiai regions, and various buildings and infrastructure for NATO training centres.

2023 12M
REVENUE
466 MILLION EUROS

PROFIT
BEFORE TAX
52.0 MILLION EUROS

OVERVIEW OF THE IV QUARTER AND 12 MONTHS RESULTS

PROFITABILITY

2023 12 months' pre-tax profit was EUR 52.0 million and Q4 2023 was EUR 18.1 million (12M 2022: EUR 37.1 million and Q4 2022 was EUR 18.4 million), which brought the pre-tax profit margin to 11.1% (12M 2022: 9.1%).

Net profit attributable to shareholders for 12 months 2023 was EUR 46.0 million (12M 2022: EUR 34.6 million) and for Q4 2023 net profit attributable to shareholders was EUR 13.9 million (Q4 2022: EUR 17.6 million). 12 months net profit margin was 9.9% (12M 2022: 8.5%).

REVENUE

Q4 2023 revenue was EUR 126.5 million (Q4 2022: EUR 143.4 million) and 12 months' revenue was EUR 466.3 million (12M 2022: EUR 409.6 million). 12 months' revenue increased by 13.8% compared to same period last year. The share of revenue earned outside Estonia in 12 months 2023 was 39.3% (12M 2022: 50.1%).

SECURED ORDER BOOK

As of 31 December 2023, the group's secured order book was EUR 477.5 million (31 December 2022: EUR 297.2 million). In 12 months 2023, group companies signed contracts in the amount of EUR 500.8 million (12M 2022: EUR 317.9 million). In Q4 2023, new contracts were signed in the amount of EUR 121.4 million (Q4 2022: EUR 27.5 million).

REAL ESTATE DEVELOPMENT

In 12 months 2023, the group sold a total of 948 apartments; in 12 months 2022, the group sold 923 apartments. The group earned a revenue of EUR 137.5 million from sale of own developed apartments in 12 months 2023 and EUR 127.0 million in 12 months 2022. In Q4 of 2023 a total of 283 apartments were sold, compared to 467 apartments in Q4 2022, and earned a revenue of EUR 31.4 million from sale of own developed apartments (Q4 2022: EUR 70.2 million).

CASH POSITION

At the end of the reporting period, the group had EUR 77.3 million in cash and cash equivalents, and equity of EUR 212.1 million (49.9% of total assets). Comparable figures as of 31 December 2022 were EUR 17.7 million and EUR 184.2 million (47.5% of total assets), respectively. As of 31 December 2023, the group's net debt was negative EUR 22.5 million (31 December 2022: EUR 74.3 million).

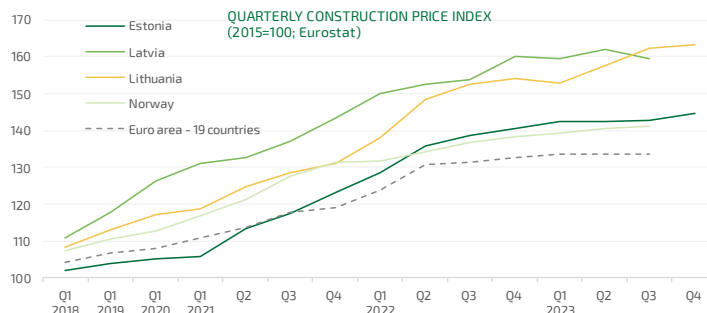
PROPOSAL FOR DISTRIBUTION OF PROFITS

The Management Board proposes to the Supervisory Board to distribute to shareholders EUR 17.7 million in dividends (1 euro per share) from retained earnings in 2024. This is equivalent to a 38% dividend rate for 2023.

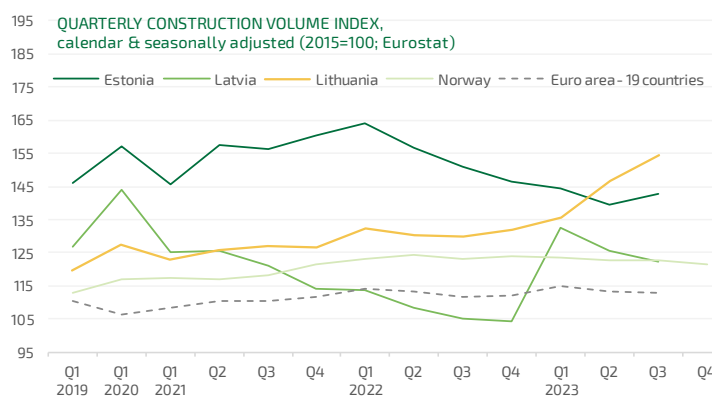
OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

CONSTRUCTION SERVICES

Construction prices remained relatively stable in 2023, and any growth has mainly been due to labour costs. We stand by our previous assessments that in the near future we will see mainly lateral movements within statistical error margins. In the longer term, we continue to expect that pressures driving prices up will remain prevalent. Expectations for lower interest rate expenses will not yet have a favourable effect on production costs of construction machinery and materials in the near future, nor is there a reason to expect workforce costs to drop. We continue to believe that the influence of various tax hikes will continue to be felt for all of 2024 and that this will keep construction companies' input costs from falling. The Carbon Border Adjustment Mechanism reports now in application have also convinced construction materials producers that price rises due to carbon trading should be spread out over a longer period and they are quietly nudging prices upward already now. Logistics prices for goods previously shipped via the Red Sea are also up because now the hostilities in the Middle East have forced a rerouting to Africa's southern tip.



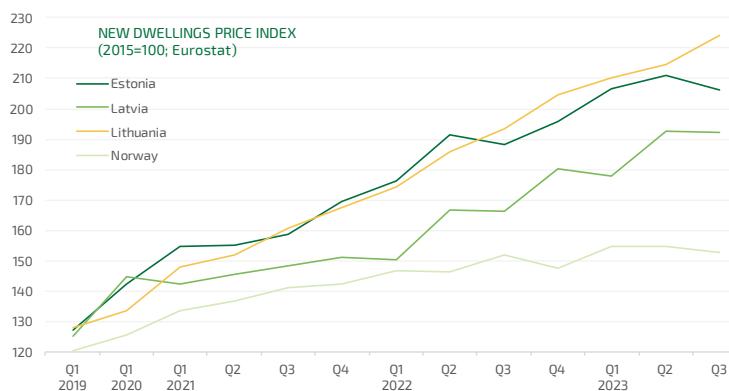
In spite of the large-scale Rail Baltica procurements in Estonia and Latvia, we project that the rise in construction volumes in the next few quarters will be scant, not exceeding a few percentage points. Yet we are looking with a positive attitude at the rise in construction volumes continuing in Lithuania, where a number of renewable energy infrastructure and military projects have made rapid progress and are keeping many construction companies in work. The Eurozone statistics for Q4 had not yet been released at the time when the report was prepared, but continuing or deepening of economic contraction in Scandinavia and Germany will also put limits on construction companies' export to these regions. In the Baltics, there is sufficient demand in terms of renewable energy, military projects and Rail Baltica, but the slump in residential and commercial construction caused by the weakness of the real estate market will continue to pull down the total volumes. We are still not expecting a drop in overall volumes, but without growth in volumes of road construction and real estate segments, there is no basis to hope for lasting or strong growth. The rise in some segments will simply offset the decline in others.



To sum up, we are somewhat conservative about the longer-term outlook, as no strong economic growth in 2024 is anticipated in our region and the probability of escalation of the Gaza conflict into a wider Middle East conflict has increased, which potentially drives further fragmentation of the world economy. The fact that geopolitical blocs are focusing on dividing spheres of influence is eroding investor confidence in investing in border regions, and the increasing categorization of countries into friendly and hostile puts a brake on free trade. The public sector's interest in investments related to ensuring vital services and defence capability is a welcome relief for the construction sector but its influence will have a limited duration, and without the return of private sector investments, it is hard to predict a stable growth in demand in the next 2-3 years.

DEVELOPMENT OF APARTMENTS

There were hopes for the recovery of the real estate market's activity after the steep drop in confidence after the Russian invasion of Ukraine, but these did not pan out in 2023. The volume of transactions continues to be low, above all due to the persistent shaken confidence. Lithuania has stood out from the other Baltic states: consumer confidence has staged a recovery, reflected by the continuing price rise, while Estonian and Latvian prices have stabilized. We reiterate our assessment that the period of rising prices for new housing is over and until the end of 2024 we will expect stable prices with insignificant statistical fluctuations. The volume of financing provided for renovating existing housing stock is limited in 2024; the public sector intervention in the form of renovation has been poorly planned and will not break through to influence the housing market. On the new housing market, developers are rather keeping a low profile, firmly controlling the entry of additional supply on the market and avoiding risks related to large volumes. We believe that the existing balance between demand and supply will be maintained during 2024 with the low market activity.



BUSINESS ACTIVITIES

The group business reporting is divided into two business segments:

- construction service;
- real estate development.

CONSTRUCTION SERVICE

The construction service in Baltic states consists of services in the fields of general construction, civil engineering and electrical construction, additionally in Estonia road construction and concrete works services and in Norway general construction.

million EUR

	12M 2023	12M 2022	VARIANCE	Q4 2023	Q4 2022	VARIANCE
Revenue	298.2	246.9	+20.7%	89.5	61.2	+46.3%
% of total revenue	63.9%	60.3%		70.8%	42.7%	
Operating profit	20.5	8.5	+141.3%	8.9	3.9	+127.6%
Operating profit margin	6.9%	3.4%		9.9%	6.4%	

In the 12 months of 2023, the revenue of the construction service segment was EUR 298.2 million (12M 2022: EUR 246.9 million). The sales revenue of construction service has increased by 20.7% compared to the same period last year. The construction service segment revenue for 12 months 2023 made up 63.9% of the group's total revenue (12M 2022: 60.3%). In this segment, the group earned an operating profit of EUR 20.5 million for 12 months (12M 2022: EUR 8.5 million). The operating profit margin was 6.9% (12M 2022: 3.4%). The operating profit was mainly affected by expiration of the old fixed-price contracts, the decrease of their share in turnover of the reporting period.

Larger projects in progress in the fourth quarter in construction service segment in Estonia included the Rae state gymnasium, logistics centre for Tallinna Kaubamaja Grupp, Hampton by Hilton and Hyatt hotel buildings, Arter Quarter, construction works of the Republic of Estonia's southeast land border, Defence Forces' barracks in the Ämari campus, tram line connecting Old Harbour and Rail Baltic's Ülemiste passenger terminal and the first phase of Ülemiste terminal as well as Rail Baltica road viaducts in Tõdva. In Latvia, larger ongoing project included the construction works of the Elemental Business Centre office buildings. In Lithuania, larger projects were construction of wind farm infrastructure works in Kelmė and Pagėgiai region and a substation in Kelmė as well as various NATO training centres buildings and infrastructures were underway. In Norway, the group worked on 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, Lithuania and Norway. To ensure the finest quality, as well as maximum convenience and assurance for apartment buyers, Merko handles all phases of development: acquisition of the real estate, planning, design of the development project, construction, marketing and sales, and warranty-period customer service.

million EUR

	12M 2023	12M 2022	VARIANCE	Q4 2023	Q4 2022	VARIANCE
Revenue	168.1	162.7	+3.3%	37.0	82.2	-55.1%
incl. revenue from sale of apartments	137.5	127.0		31.4	70.2	
incl. construction service to joint venture projects	24.7	32.0		4.7	10.4	
% of total revenue	36.1%	39.7%		29.2%	57.3%	
Operating profit	26.7	30.3	-11.9%	6.2	14.4	-56.7%
Operating profit margin	15.9%	18.6%		16.9%	17.5%	

In 12 months 2023, the group sold a total of 948 apartments (incl. 213 apartments in a joint venture) and 27 commercial premises (incl. 13 in a joint venture); in 12 months 2022, 923 apartments (incl. 46 apartments in a joint venture) and 9 commercial premises (incl. 2 in a joint venture). The group earned a revenue of EUR 137.5 million (VAT not included) from sale of developed apartments in 12 months 2023 and EUR 127.0 million (VAT not included) in 12 months 2022. In the revenue and operating profit of the real estate development segment also are reflected the sales of commercial premises and parking spaces of the real estate development projects and the result of public-private-partnership contracts, based on which the group companies provide property management services for earlier constructed buildings.

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

In 12 months of 2023, real estate development segment revenues increased by 3.3% compared to the same period last year and formed 36.1% of the group's total revenue (12 months of 2022: 39.7%).

The segment's operating profit for the 12 months of 2023 amounted to EUR 26.7 million (12 months of 2022: EUR 30.3 million) and the operating profit margin was 15.9% (12 months of 2022: 18.6%). The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, including the land acquisition price.

In 12 months of 2023, the group launched the construction of a total of 155 new apartments in the Baltic states (12 months of 2022: 581 apartments). In the 12 months, the group invested a total of EUR 80.2 million (12 months of 2022: EUR 130.1 million) in the ongoing development projects.

One of the group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As of 31 December 2023, the group's inventories included land plots with development potential, where the construction works have not started, in the amount of EUR 89.4 million (31.12.2022: EUR 84.1 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	31.12.2023	31.12.2022
Estonia	32.5	27.6
Latvia	23.9	23.6
Lithuania	31.5	31.3
Norway	1.5	1.6
Total	89.4	84.1

In 12 months of 2023, the group has obtained new land plots for real estate development purposes at acquisition cost of EUR 5.7 million (12 months of 2022: in the amount of EUR 25.8 million).

SECURED ORDER BOOK

As of 31 December 2023, the group's secured order book amounted to EUR 477.5 million, compared to EUR 297.2 million as of 31 December 2022, having increased by 60.7% 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 12 months of 2023, EUR 500.8 million worth of new contracts were signed, which is increased by 57.5% compared to the same period of the previous year (12 months of 2022: EUR 317.9 million). The value of new contracts signed in the fourth quarter of 2023 amounted to EUR 121.4 million; in the fourth quarter of 2022 the value of new contracts signed amounted to EUR 27.5 million.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FOURTH QUARTER OF 2023

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Construction contract to perform the construction of foundations for 28 wind turbines, electrical cables and roads in a windfarm located in the Kelmė district	Lithuania	Q2 of 2025	45.0
Construction contract for the construction of barracks in the Ämari military campus of the Defence Forces in Harju County	Estonia	December of 2024	25.0
Construction contract for the additional works of Arter Quarter	Estonia	Spring of 2025	20.0
Construction contract for the construction of second stage of Hyatt hotel and office building at Sadama 4 in Tallinn	Estonia	November of 2025	13.1
Construction contract for the construction of Rail Baltica road viaducts in Harju County	Estonia	Autumn of 2025	6.8

As of 31 December 2023, the private sector orders accounted for approximately 56% of the total balance in the group's secured order book (31.12.2022: approximately 61%). The private sector is rather taking a wait-and-see approach when making new investments, assessing the profitability of investments in the environment of higher interest rates and a weaker economy. Planned high-priority investments in the public sector will continue, as the budgetary financing is less affected by the rise in interest rates.

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.

CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 77.3 million (31.12.2022: EUR 17.7 million). As the group's cash position continues to be strong, the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As of the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 57.0 million, of which EUR 54.6 million was unused (31.12.2022: EUR 53.0 million, of which EUR 36.2 million was unused).

The 12-month cash flow from operating activity was positive at EUR 114.9 million (12 months of 2022: negative EUR 41.8 million), cash flow from investing activity was positive at EUR 1.0 million (12 months of 2022: negative EUR 3.3 million) and the cash flow from financing activity was negative at EUR 56.2 million (12 months of 2022: positive EUR 17.9 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 48.1 million (12 months of 2022: positive effect of EUR 37.9 million), from the changes in receivables and liabilities related to construction contracts of EUR 35.4 million (12 months 2022: negative effect of EUR 1.1 million), from the change in trade and other payables related to operating activities of EUR 30.9 million (12 months of 2022: positive effect of EUR 8.9 million), from the change in the provisions of EUR 3.9 million (12 months of 2022: positive effect of EUR 1.5 million) as well from the change in inventories of EUR 25.7 million (12 months of 2022: negative effect of EUR 62.4 million). The cash flows from inventories are mainly affected by the construction and sales cyclicity of developed apartments: 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 at the sale of the apartments. The negative effects to cash flow from operating activities came from the changes in trade and other receivables related to operating activities of EUR 20.7 million (12 months of 2022: negative effect of EUR 22.0 million). Interest was paid EUR 3.5 million (12 months of 2022: EUR 1.7 million) and corporate income tax was paid at EUR 3.6 million (12 months of 2022: EUR 2.5 million).

To support cash flows from operating activities, including increased volumes in apartment development, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (12.9% as of 31.12.2023, 23.7% as of 31.12.2022).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 1.4 million, which is mainly related to the renewal of equipment in the field of construction (12 months of 2022: EUR 1.3 million) and the positive effect came from the sale of non-current assets in the amount of EUR 1.2 million (12 months of 2022: EUR 0.3 million) and EUR 1.2 million from the dividends received from the joint venture (12 months of 2022: EUR 0.6).

In cash flows from financing, the larger negative factors were dividend payment of EUR 17.7 million (12 months of 2022: EUR 17.7 million), the repayments of lease liabilities in the amount of EUR 1.3 million (12 months of 2022: net negative cash flow of EUR 1.1 million) and 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 1.6 million (12 months of 2022: negative cash flow in the net amount of EUR 0.4 million) and from the net change in loans received and repaid in connection with development projects in the amount of EUR 13.2 million (12 months of 2022: net positive cash flow of EUR 14.1 million), which resulted from the repayment of loans taken for residential development projects, as well from the change in loans related to other activities in the amount of EUR 22.4 million (12 months of 2022: net positive cash flow of EUR 24.8 million).

The Q4 2023 cash flow from operating activity was positive at EUR 51.3 million (Q4 2022: positive EUR 14.1 million), cash flow from investing activity was positive at EUR 0.2 million (Q4 2022: positive EUR 0.1 million) and the cash flow from financing activity was negative at EUR 5.4 million (Q4 2022: negative EUR 18.7 million).

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		12M 2023	12M 2022	12M 2021	Q4 2023	Q4 2022	Q4 2021
Revenue	million EUR	466.3	409.6	339.4	126.5	143.4	112.8
Gross profit	million EUR	65.0	53.7	46.8	21.8	22.6	20.3
Gross profit margin	%	13.9	13.1	13.8	17.3	15.7	18.0
Operating profit	million EUR	44.5	35.0	32.2	14.4	16.5	15.3
Operating profit margin	%	9.5	8.6	9.5	11.4	11.5	13.5
Pre-tax profit	million EUR	52.0	37.1	32.1	18.1	18.4	15.6
Pre-tax profit margin	%	11.1	9.1	9.5	14.3	12.8	13.8
Net profit	million EUR	45.9	34.1	29.0	13.9	17.3	13.9
attributable to equity holders of the parent	million EUR	46.0	34.6	29.1	13.9	17.6	13.9
attributable to non-controlling interest	million EUR	(0.1)	(0.5)	(0.1)	(0.0)	(0.3)	0.0
Net profit margin	%	9.9	8.5	8.6	11.0	12.3	12.3
Other income statement indicators		12M 2023	12M 2022	12M 2021	Q4 2023	Q4 2022	Q4 2021
EBITDA	million EUR	48.1	37.9	34.8	15.7	17.3	16.0
EBITDA margin	%	10.3	9.3	10.3	12.5	12.0	14.2
General expense ratio	%	5.1	4.9	5.2	6.2	3.9	5.1
Labour cost ratio	%	10.8	10.3	11.3	12.4	8.0	10.3
Revenue per employee	thousand EUR	718	623	521	195	218	173

OTHER SIGNIFICANT INDICATORS		31.12.2023	31.12.2022	31.12.2021
Return on equity	%	23.4	20.4	18.8
Return on assets	%	11.8	9.2	10.0
Return on invested capital	%	20.6	15.1	16.9
Assets	million EUR	425.3	387.4	324.4
Equity	million EUR	211.9	183.7	167.0
Equity attributable to equity holders of the parent	million EUR	212.1	184.2	167.2
Equity ratio	%	49.9	47.5	51.6
Debt ratio	%	12.9	23.7	16.2
Current ratio	times	2.0	2.0	2.4
Quick ratio	times	0.9	0.6	0.9
Accounts receivable turnover	days	38	33	31
Accounts payable turnover	days	40	55	39
Average number of employees	people	649	657	651
Secured order book	million EUR	477.5	297.2	257.3

Ratio definitions are provided on page 38 of the report.

RISK MANAGEMENT

Risk management is part of strategic management and is inseparable from daily operations of the group. In managing risks, the main objective of the group is to determine most significant risks and to manage these risks in a balanced way so that the group achieves its strategic and financial objectives.

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

Legal risk

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

As of 31 December 2023, a provision has been set up at the group in the amount of EUR 1.7 million for covering potential claims and legal costs (31.12.2022: EUR 1.2 million).

Below is presented an overview of the key legal disputes and proceedings, which have taken place or ended during 2023 or are ongoing as of 31 December 2023 and which concern group entities is presented:

Estonia

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

The court cases in connection with Minister of the Environment regulation No 22 of 27 March 2015, which redrew the boundaries of species protection sites to exclude properties on Paekalda street owned by AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ (now merged with AS Merko Ehitus Eesti, part of AS Merko Ehitus group). On 2 February 2016, AS Merko Ehitus group companies filed a complaint in Tallinn Administrative Court for compensation of damage. The claims consist of direct patrimonial damage (reduction in the value of immovable property and expenditures made on development activity) and claims for revenue foregone (failed development activity in 2005-2007). On 22 April 2019 the Tallinn Administrative Court partially satisfied the appeal and ordered the Republic of Estonia to pay AS Merko Ehitus Eesti EUR 760 thousand and late interest until the principal claim is duly discharged. The court also ordered that procedural costs of EUR 12 thousand be paid to AS Merko Ehitus Eesti. Both sides filed an appeal to the Tallinn District Court, which partially annulled the decision of the Tallinn Administrative Court and sent the case back to Administrative Court to determine the amount of compensation. Both parties to the dispute filed cassation appeals with the Supreme Court. By a decision of 5 March 2021, the Supreme Court dismissed the cassation appeal of AS Merko Ehitus Eesti, but sent the appeal regarding the claim for compensation for direct property damage caused by the lawful activities of the Republic of Estonia to the Tallinn Administrative Court for reconsideration. The Tallinn Administrative Court suspended the proceedings in the administrative case until the procedure for the detailed planning of the properties has been completed. The court renewed the proceedings of the administrative case with the court order of 15 November 2023 and set procedural deadlines for the parties. The court hearing will take place on 27 February 2024. The impact of this claim has not been taken into account in the group's reporting.

Latvia

Latvian Competition Council administrative proceeding

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

On 13 September 2021, SIA Merks and AS Merko Ehitus contested the decision of the Latvian Competition Council in the Latvian administrative court. Before the court decision comes into effect, the fine of EUR 2.7 million levied by the Competition Council will not become payable and the possible claims for damages of third persons will not be subject to review nor other possible consequences arising from law will be applicable before the court decision enters into force. Currently it has not been possible to assess reliably the impact of potential damage claims on the company due to the large number of inputs open to change, the lack of practice of implementing joint and several liability and the ambiguity of other legal aspects.

The last court session to discuss the content of the appeal claim took place on 26 September 2023. In its judgement, announced on January 25, 2024, the court of appeal upheld the decision of the Competition Council. SIA Merks and AS Merko Ehitus will decide on the appeal at the cassation stage within one month of the announcement of the judgement.

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

Considering that judicial proceedings have reached the stage of substantive discussions and based on the principle of conservatism, the group formed in fiscal year 2022 a provision of 1/3 of the potential fine claim, i.e. EUR 900 thousand. Given the timing of the announcement of the court of appeal's decision, the subsequent decisions regarding provisions will be made in 2024 and will be reflected in the 2024 results.

SIA Ostas Celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas Celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas Celtnieks" according to its share in

the consortium. So far, SIA "Ostas Celtnieks" has not covered its share of the loss. In July 2022, the court dismissed the claim on the ground that the claim had been submitted by an incorrect person (a formal legal person of the consortium). On 25 October 2022, SIA Merks lodged an appeal which was accepted. In July 2023, SIA Merks received a positive judgment from the regional court, and it has entered into force. Simultaneously SIA "Ostas Celtnieks" has been declared insolvent and liquidation sale of its assets is in process. SIA Merks was recognized as a creditor in the insolvency proceeding of SIA "Ostas Celtnieks". The claim is reflected in the balance sheet with a value of approximately 54 thousand euros.

Salaspils County Council

On 29 July 2022, SIA Merks filed a lawsuit against the Salaspils county government in the Court of Economic Affairs in order to find a solution to the disagreements arising from the interpretation of the Salaspils kindergarten construction contract. At the end of 2022, SIA Merks signed the Delivery-acceptance deed and based on the expert decision, submitted a claim to the court against the Salaspils county government in the amount of EUR 1,892 thousand (EUR 1,304 thousand being the principal claim and EUR 588 thousand penalty interest). Salaspils County government has filed a counterclaim in the amount of 1,003 thousand euros. The next court hearing is scheduled for 14 March 2024. The group has not made any provisions as of the date of the report.

SIA Hanza 14

In August 2022, the Arbitration Institute of the Stockholm Chamber of Commerce (Stockholm Arbitration) accepted SIA Hanza 14's application for annulment of the non-entry into force of the construction contract signed on 16 June 2020 and for SIA Merks to fulfil its contractual obligations. The non-entry into force of the construction contract was announced by Merko Ehitus with a [stock exchange announcement](#) on 28 August 2020. Stockholm arbitration issued a decision on 11 January 2024, the rejecting SIA Hanza's 14 claims in full and ordering it to pay the costs of the proceedings incurred by SIA Merks.

Impact of the war in Ukraine

Almost two years have passed since the start of Russia's war of aggression in Ukraine. Merko Ehitus Group has assessed the direct effects of the war to remain below the threshold of significance. However, in the absence of direct effects, indirect effects continue to occur. Sanctions, inflation triggered by the price increase of energy carriers and logistics chains led to a general increase in input prices by approximately 35-40%. It should be noted that a complete distinction between the effects of the Covid pandemic and the effects of war is not possible. At the same time, the group has been able to transfer this price increase to the buyers of services and products for the most part, and no permanent impact on the group's business activities or pre-tax profit has been observed. The war and the resulting uncertainty among consumers, local entrepreneurs and international investors, continue to negatively affect the group's economic environment, both through the lasting uncertainty of private sector customers and the decrease in the pace of housing sales. The negative effect caused by the market contraction cannot be passed on to anyone. At the same time, the group considers that it is not appropriate to present the overall negative net effect as an effect of the war in Ukraine.

EMPLOYEES AND LABOUR COSTS

As of 31 December 2023, Merko Ehitus group employed 638 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 23 (-3.5%). The number of employees decreased in Latvia and Estonia and increased in Lithuania.

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

The group defines labour cost as salary (incl. fixed salary, additional pay, holiday pay, and performance pay), taxes based on salary, fringe benefits and taxes on fringe benefits. In 12 months 2023, the labour cost was EUR 50.2 million (12 months 2022: EUR 42.3 million), which increased by 18.8% compared to the same period previous year and the labour cost ratio increased by 0.5 pp from 10.3% to 10.8% in comparable periods.

During 12 months of 2023, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 9.8 million in labour taxes in Estonia, being one of the largest labour tax payer in the construction sector (12 months 2022: EUR 8.9 million).

ETHICAL BUSINESS PRACTICES

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

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

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

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

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

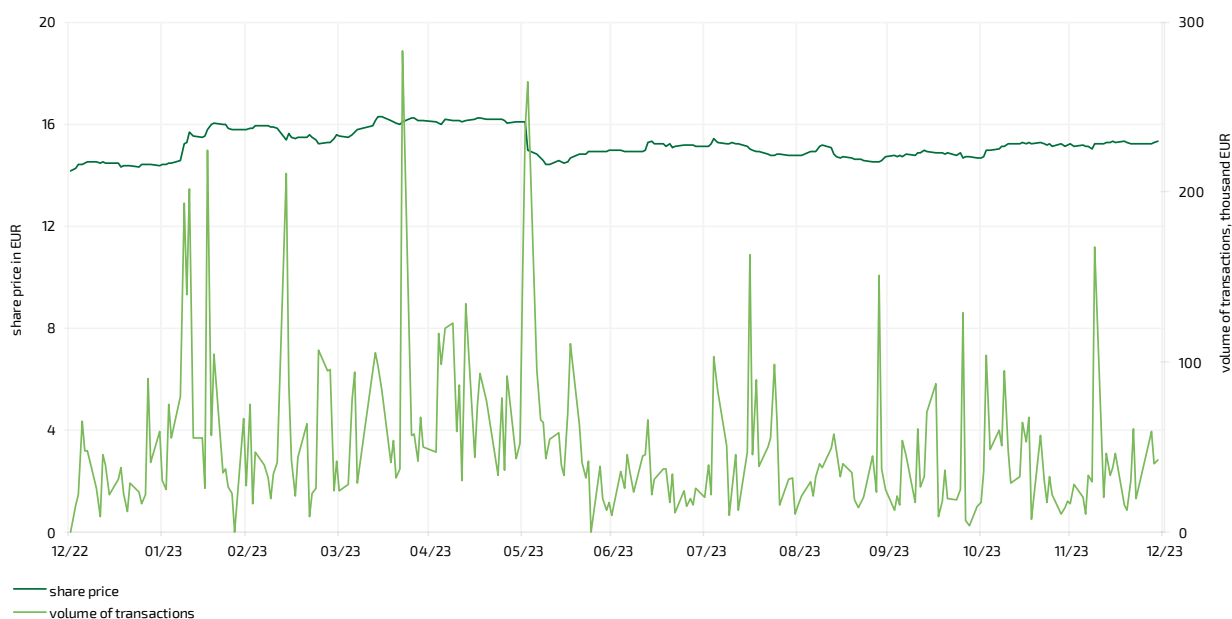
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As of 31 December 2023, the company has 17,700,000 shares. The number of shares has not changed during 2023.

A total of 28,455 transactions were conducted with the shares of Merko Ehitus in 12 months of 2023, with 0.84 million shares (4.7% of total shares) traded, generating a turnover of EUR 12.8 million (comparable figures in 12 months 2022 were accordingly: 40,602 transactions with 1.22 million shares traded (6.9% of total shares), generating a turnover of EUR 18.2 million). The lowest value-per-share transaction was recorded at the price of EUR 14.14 and the highest at EUR 16.36 per share (12 months of 2022: EUR 11.60 and EUR 16.96, accordingly). On 31 December 2023, the closing price of the share was EUR 15.30 (31.12.2022: EUR 14.16). As of 31 December 2023, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 270.8 million, which has increased by 8.1% compared to the end of the equivalent period of the prior year (31.12.2022: EUR 250.6 million).

	31.12.2023	31.12.2022	31.12.2021
Number of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	2.60	1.96	1.65
Equity per share, euros	11.11	9.57	8.76
P/B ratio	1.38	1.48	1.74
P/E ratio	5.88	7.24	9.24
Market value, million EUR	270.8	250.6	269.4

Ratio definitions are provided on page 38 of the report.

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2023



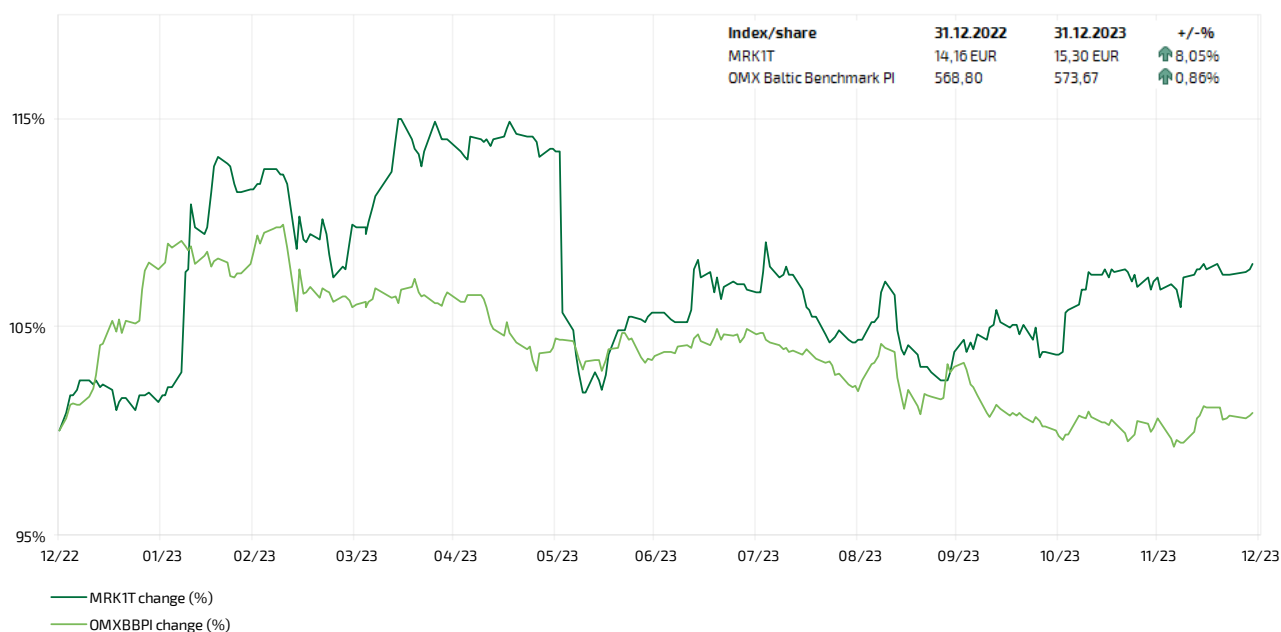
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS OF 31.12.2023

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.01%	12,742,686	71.99%
100,001 – 1,000,000	6	0.05%	1,291,555	7.30%
10,001 – 100,000	44	0.34%	918,896	5.19%
1,001-10,000	552	4.29%	1,514,635	8.56%
101-1,000	2,940	22.83%	980,252	5.54%
1-100	9,333	72.48%	251,976	1.42%
Total	12,876	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS OF 31.12.2023 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.12.2023	% OF TOTAL 30.09.2023	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
OÜ Midas Invest	428,500	2.42%	2.41%	1,250
Firebird Republics Fund Ltd	319,586	1.81%	1.81%	-
Firebird Avrora Fund Ltd	190,117	1.07%	1.07%	-
OÜ Alar Invest	136,000	0.77%	0.77%	-
Clearstream Banking AG	113,631	0.64%	0.64%	671
Firebird Fund L.P.	103,721	0.59%	0.59%	-
Siseinfo OÜ	100,000	0.56%	0.56%	-
Hans Palla	61,000	0.34%	0.31%	7,000
Alforme OÜ	50,000	0.28%	0.28%	-
Total largest shareholders	14,245,241	80.47%	80.43%	8,921
Total other shareholders	3,454,759	19.53%	19.57%	(8,921)
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX BALTIC BENCHMARK PRICE INDEX IN 2023



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 4 May 2023, 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 51% dividend rate and a 7.1% dividend yield for the year 2022 (using the share price as of 31 December 2022). Comparable figures in 2022 were accordingly: EUR 17.7 million (EUR 1.00 per share) as dividends, which is equivalent to a 61% dividend rate and a 6.6% dividend yield for the year 2021 (using the share price as at 31 December 2021).

The Management Board will propose to the Supervisory Board to pay the shareholders EUR 17.7 million as dividends from retained profits (EUR 1.00 per share) in 2024, which, if confirmed, would make the 2023 dividend rate 38% and a 6.5% dividend yield for the year 2023 (using the share price as at 31 December 2023). The Management Board's proposal, which would leave dividends falling short of the goal of the dividend policy, is motivated by the desire to use free financial resources primarily to reduce interest-bearing debt obligations and to keep the group in an exemplary financial position, to ensure that the lasting economic downturn will be overcome with as few negative effects as possible. The Supervisory Board will make its decision and proposal to the shareholders' meeting after the review of the 2023 annual report in April 2024.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

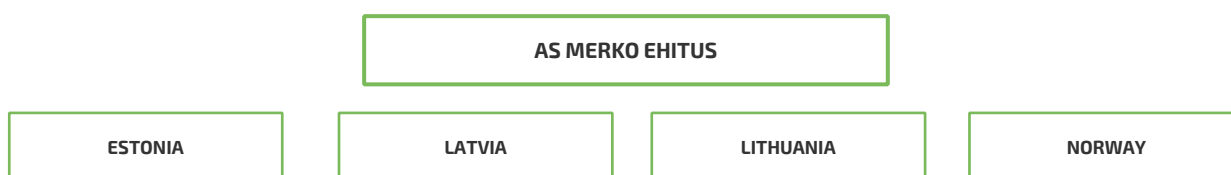
AS Merko Ehitus operates as a holding company for group of companies in Estonia, Latvia, Lithuania and Norway that offer complete solutions in the field of construction and real estate development. The group's largest companies are AS Merko Ehitus Eesti (100%), Tallinna Teede AS (100%), SIA Merks (100%),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

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

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 December 2023, the management structure is as follows:



**In Estonia, the sister companies Merko Ehitus Eesti AS and Tallinna Teede AS are from the group's point of view managed based on the same principles, but have their executive management formed completely independent from each other.*

GROUP'S LEGAL STRUCTURE

The group's legal structure is predominantly based on economic and legal rationality and does not in all cases conform one-to-one to the group's management structure. The detailed list of group companies is provided in Note 16 of the interim financial statements.

Changes in the legal structure of the group

On 22 December 2022, AS Merko Ehitus management board decided to start liquidation procedures of 100% owned subsidiaries OY Merko Finland (Finland, construction and development) and PS "Merko Merks" (Latvia, joint offers for construction), due to the lack of activity in those companies. PS "Merko Merks" was liquidated and deleted from the Latvian business register on 10 March 2023. OY Merko Finland was deleted from business register on 29 September 2023.

At the same time, it was decided to establish construction company Merko Būve in Latvia, a subsidiary owned 100% by the group, in order to strengthen specialisation and brand unification. On 13 January 2023, SIA Merko Būve was registered in Latvian Business Register.

On 26 April 2023, UAB Merko Bustas, fully owned subsidiary of AS Merko Ehitus in Lithuania, established a 100% subsidiary UAB MB 4 Projektas.

On 28 April 2023, UAB MN Projektas, fully owned subsidiary of AS Merko Ehitus in Lithuania, established a 100% subsidiary UAB MN 2 Projektas.

On 1 July 2023, OÜ Merko Investments, fully owned subsidiary of AS Merko Ehitus, acquired a 100% stake in the company SIA Merks Mājas from the Latvian subsidiary SIA Merks through intra-group transactions. The change of ownership was registered on 19 July 2023.

On 1 July 2023, OÜ Merko Investments, fully owned subsidiary of AS Merko Ehitus, acquired a 100% stake in the company SIA SK Viesturdārzs from the Latvian subsidiary SIA Merks through intra-group transaction. The change of ownership was registered on 14 July 2023.

On 14 July 2023, Merko Investments AS, fully owned subsidiary of AS Merko Ehitus, acquired a 100% stake in Merko Bygg AS through recapitalization, in which the minority shareholders renounced their participation. The corresponding entry was made in the register on 6 October 2023.

On 27 July 2023, OÜ Merko Kaevandused and OÜ Metsara-Metspere Kinnisvara, both belonging to AS Merko Ehitus group, signed a merger agreement. The merging company is OÜ Merko Kaevandused, as a result of the merger, the merged company OÜ Metsara-Metspere Kinnisvara ends without liquidation proceedings. The merger date is 1st of January 2024, after which all transactions of the acquired company will be deemed to be made on the account of OÜ Merko Kaevandused. The Commercial Register made the final entry in its registers on 11 January 2024.

On 14 August 2023, AS Merko Ehitus established a 100% subsidiary OÜ Merko Kodud in apartment development segment.

On 5 October 2023 AS Merko Ehitus' 100% subsidiaries AS Merko Ehitus Eesti and OÜ Merko Kodud signed a notarised division agreement, according to which AS Merko Ehitus Eesti transfers the assets and liabilities related to property development activities to OÜ Merko Kodud. The purpose of the division is to align legal structure with structure of the business segments of the AS Merko Ehitus group and harmonize the structure across the home markets of Merko Ehitus. The balance sheet date of the division is 1 January 2024. The division is expected to enter into force during Q1 2024 with an entry in the business register.

GENERAL MEETING OF SHAREHOLDERS

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

The annual general meeting of shareholders was held on 4 May 2023. The general meeting resolved to approve the annual report and the profit allocation proposal for 2022. The dividends in the sum of EUR 17.7 million (EUR 1 per share) was paid out to the shareholders on 16 June 2023.

The general meeting confirmed three-member Supervisory Board until 06.05.2025 and elected Toomas Annus and Indrek Neivelt as the members of the Supervisory Board, for a term of office from 5 May 2023 to 6 May 2026 (inclusive), i.e. for three years. In addition, the shareholders decided to appoint the audit firm AS PricewaterhouseCoopers as the auditor of AS Merko Ehitus for the financial years of 2023 through 2025 and to remunerate the audit firm for auditing as per contract to be entered into with AS PricewaterhouseCoopers.

The Management Board made a presentation on the company's financial results and future prospects.

In accordance with the Commercial Code, its Articles of Association and Good Governance Code, AS Merko Ehitus calls the annual and extraordinary general meeting of shareholders by notifying the shareholders through the Tallinn Stock Exchange and by publishing a meeting call in one national daily newspaper at least 3 weeks in advance. The general meeting shall be held at the place shown in the notice, on a working day and between 9 a.m. and 6 p.m., enabling most of the shareholders to participate in the General Meeting of Shareholders.

Before their publication, agendas of annual and extraordinary general meetings of the company's shareholders are approved by the Supervisory Board that shall also present to the general meeting subjects for discussion and voting. Agenda items of the general meeting, recommendations of the Supervisory Board with relevant explanations, procedural guidance for participation in the general meeting and how and when new agenda items can be proposed are published together with the notice on calling the general meeting.

General meetings can be attended by any shareholder or their authorised representative. AS Merko Ehitus does not allow participation in general meetings by electronic means of communication equipment, since the deployment of reliable solutions for the identification of shareholders, some of whom live abroad, while ensuring the privacy of participating shareholders, would be too complicated and costly. No picture taking or filming is allowed at the general meeting, because it may disturb the privacy of shareholders.

Annual and extraordinary general meeting of shareholders shall be chaired by an independent person. In 2023, the general meeting was chaired by attorney-at-law Vesse Võhma who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board and Supervisory Board about the company's activities.

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

The annual general meeting of shareholders of AS Merko Ehitus held in 2023 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Urmas Somelar (Head of Finance) and Kristiina Veermäe (Auditor).

SUPERVISORY BOARD

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

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

By the resolution of the general meeting of 04.05.2023, Toomas Annus and Indrek Neivelt were elected the members of the Supervisory Board with a term of office of up to 6 May 2026 (inclusive). According to the same resolution, the Supervisory Board AS Merko Ehitus has three-member at least until 06.05.2025. The Supervisory Board of AS Merko Ehitus will continue with three members: Toomas Annus (The Chairman), Indrek Neivelt and Kristina Siimar.

As of 31 December 2023, the Supervisory Board of AS Merko Ehitus had three members, of whom, in accordance with the requirements of the Corporate Governance Recommendations, Kristina Siimar and Indrek Neivelt were independent members.

MANAGEMENT BOARD

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

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

The Supervisory Board of AS Merko Ehitus decided to appoint Mr. Urmas Somelar as a Member of the Management Board of the company for the three-year period, starting from 1 June 2023.

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. Urmas Somelar is responsible for the financial management, investor relations and compliance.

The Supervisory Board of AS Merko Ehitus appointed current Chairman of the Management Board of group's subsidiary AS Merko Ehitus Eesti Mr. Ivo Volkov as the Chairman of the Management Board of AS Merko Ehitus for the three-year period, starting from 1 January 2024. As of 1 January 2024, the Management Board of AS Merko Ehitus will continue with three members: Mr. Ivo Volkov (Chairman), Mr. Tõnu Toomik and Mr. Urmas Somelar.

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

extended. The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board.

Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as of 31 December 2023:

COMPANY	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti	Andres Trink (Chairman), Tõnu Toomik, Martin Rebane, Urmas Somelar	Ivo Volkov (Chairman), Jaan Mäe, Veljo Viitmann
OÜ Merko Investments	-	Andres Trink, Urmas Somelar
SIA Merks	-	Andris Bišmeistars (Chairman), Jānis Zilgme
SIA Merks Mājas	-	Andris Bišmeistars (Chairman), Mikus Freimanis
UAB Merko Statyba	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Chairman) Jaanus Rästas
UAB Merko Bustas	Andres Trink (Chairman), Tõnu Toomik, Urmas Somelar	Saulius Putrimas (Manager)

Changes in the management of group subsidiaries

The sole shareholder of AS Merko Ehitus Eesti decided to appoint Mr. Urmas Somelar as a Member of the Supervisory Board of the company for the three-year period, starting from 1 June 2023. The Supervisory Board of AS Merko Ehitus Eesti will continue with four members: Mr. Andres Trink (Chairman), Mr. Tõnu Toomik, Mr. Martin Rebane and Mr. Urmas Somelar.

The sole shareholder of SIA Merks, part of AS Merko Ehitus group, decided to appoint Mr. Jānis Zilgme as a Member of the Management Board of the company, starting from 4 July 2023, with the areas of responsibility in management, planning and control of construction projects in SIA Merks. The Management Board of SIA Merks will continue with two members: Mr. Andris Bišmeistars and Mr. Jānis Zilgme.

The Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Members of the Management Board, Mr. Jaan Mäe and Mr. Veljo Viitmann from 1 January 2024 for three years. As of 1 January 2024, the Management Board of AS Merko Ehitus Eesti will continue with two members: Mr. Jaan Mäe (Chairman) and Mr. Veljo Viitmann.

AS Merko Ehitus appointed Mr. Ivo Volkov as a Member of the Supervisory Board of AS Merko Ehitus Eesti for the three-year period, starting from 1 January 2024. With the same decision, the powers of the current council member Tõnu Toomik were extended until December 31, 2026. The Supervisory Board of AS Merko Ehitus Eesti will continue with four members: Mr. Ivo Volkov (Chairman), Mr. Tõnu Toomik, Mr. Martin Rebane and Mr. Urmas Somelar.

MANAGEMENT BOARD'S DECLARATION

Members of the Management Board of AS Merko Ehitus declare and confirm that the consolidated unaudited interim report for the 12 months of 2023, 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.

Ivo Volkov	Chairman of the Management Board	08.02.2024
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Tõnu Toomik	Member of the Management Board	08.02.2024
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Urmas Somelar	Member of the Management Board	08.02.2024
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INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2023 12 months	2022 12 months	2023 IV quarter	2022 IV quarter
Revenue	2	466,304	409,633	126,466	143,427
Cost of goods sold	3	(401,267)	(355,975)	(104,625)	(120,852)
Gross profit		65,037	53,658	21,841	22,575
Marketing expenses		(4,312)	(4,077)	(1,299)	(1,132)
General and administrative expenses		(19,423)	(15,860)	(6,527)	(4,449)
Other operating income		4,171	3,144	772	718
Other operating expenses		(991)	(1,834)	(377)	(1,187)
Operating profit		44,482	35,031	14,410	16,525
Finance income/costs		7,500	2,067	3,735	1,899
incl. finance income/costs from joint ventures		10,220	3,516	4,159	2,423
interest expense		(2,697)	(1,180)	(686)	(510)
foreign exchange gain (loss)		(153)	(138)	39	14
other financial income (expenses)		130	(131)	223	(28)
Profit before tax		51,982	37,098	18,145	18,424
Corporate income tax expense		(6,081)	(2,995)	(4,254)	(1,084)
Net profit for financial year		45,901	34,103	13,891	17,340
incl. net profit attributable to equity holders of the parent		46,048	34,640	13,900	17,617
net profit attributable to non-controlling interest		(147)	(537)	(9)	(277)
Other comprehensive income, which can subsequently be classified in the income statement					
Currency translation differences of foreign entities		(41)	30	(25)	19
Comprehensive income for the period		45,860	34,133	13,866	17,359
incl. net profit attributable to equity holders of the parent		45,993	34,648	13,877	17,628
net profit attributable to non-controlling interest		(133)	(515)	(11)	(269)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	2.60	1.96	0.79	1.00

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.12.2023	31.12.2022
ASSETS			
Current assets			
Cash and cash equivalents	5	77,330	17,665
Trade and other receivables	6	68,754	77,959
Prepaid corporate income tax		2	38
Inventories	7	195,435	225,661
		341,521	321,323
Non-current assets			
Investments in joint ventures		21,915	12,895
Other shares and securities		80	-
Other long-term loans and receivables	8	24,490	22,982
Deferred income tax assets		3,298	693
Investment property	9	16,823	11,485
Property, plant and equipment	10	16,613	17,452
Intangible assets	11	520	582
		83,739	66,089
TOTAL ASSETS		425,260	387,412
LIABILITIES			
Current liabilities			
Borrowings	12	19,673	49,687
Payables and prepayments	13	133,898	96,248
Income tax liability		4,260	1,241
Short-term provisions	14	10,451	9,820
		168,282	156,996
Non-current liabilities			
Long-term borrowings	12	35,142	42,236
Deferred income tax liability		4,441	2,355
Other long-term payables	15	5,495	2,133
		45,078	46,724
TOTAL LIABILITIES		213,360	203,720
EQUITY			
Non-controlling interests		(155)	(495)
Equity attributable to equity holders of the parent			
Share capital		7,929	7,929
Statutory reserve capital		793	793
Currency translation differences		(838)	(783)
Retained earnings		204,171	176,248
		212,055	184,187
TOTAL EQUITY		211,900	183,692
TOTAL LIABILITIES AND EQUITY		425,260	387,412

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings	Total		
Balance as at 31.12.2021	7,929	793	(791)	159,308	167,239	(227)	167,012
Profit (loss) for the reporting period	-	-	-	34,640	34,640	(537)	34,103
Other comprehensive income	-	-	8	-	8	22	30
Total comprehensive income (loss) for the reporting period	-	-	8	34,640	34,648	(515)	34,133
Option over shares relating to non-controlling interests	-	-	-	-	-	247	247
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	-	-	-	(17,700)	(17,700)	247	(17,453)
Balance as of 31.12.2022	7,929	793	(783)	176,248	184,187	(495)	183,692
Balance as at 31.12.2022	7,929	793	(783)	176,248	184,187	(495)	183,692
Profit (loss) for the reporting period	-	-	-	46,048	46,048	(147)	45,901
Other comprehensive income	-	-	(55)	-	(55)	14	(41)
Total comprehensive income (loss) for the reporting period	-	-	(55)	46,048	45,993	(133)	45,860
Increase of share capital by non-monetary contribution and buyout of non-controlling interest (Note 16)	-	-	-	(189)	(189)	237	48
Liquidation of non-controlling interest	-	-	-	(236)	(236)	236	-
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	-	-	-	(18,125)	(18,125)	473	(17,652)
Balance as at 31.12.2023	7,929	793	(838)	204,171	212,055	(155)	211,900

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

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

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2023 12 months	2022 12 months
Cash flows from operating activities			
Operating profit		44,482	35,031
Adjustments:			
Depreciation and impairment		3,658	2,880
(Profit)/loss from sale of non-current assets		(960)	(313)
Change in receivables and liabilities related to construction contracts		35,359	(1,066)
Interest income from operating activities		(2,146)	(2,260)
Change in provisions		3,878	1,540
Change in trade and other receivables related to operating activities		(20,723)	(22,024)
Change in inventories		25,713	(62,360)
Change in trade and other payables related to operating activities		30,879	8,911
Interest received		2,145	2,188
Interest paid		(3,524)	(1,652)
Other finance income (costs)		(268)	(133)
Corporate income tax paid		(3,550)	(2,529)
Total cash flows from operating activities		114,943	(41,787)
Cash flows from investing activities			
Acquisition of subsidiaries		-	(695)
Acquisition of joint venture		-	(2,236)
Purchase of investment property		(357)	-
Purchase of property, plant and equipment (excl. leased assets)		(1,204)	(1,117)
Proceeds from sale of property, plant and equipment		1,232	343
Purchase of intangible assets		(194)	(141)
Interest received		297	1
Dividends received		1,200	560
Total cash flows from investing activities		974	(3,285)
-			
Cash flows from financing activities			
Proceeds from borrowings		48,160	147,990
Repayments of borrowings		(85,364)	(109,484)
Repayments of lease liabilities		(1,312)	(1,108)
Buyout of non-controlling interest		-	(1,886)
Dividends paid		(17,679)	(17,661)
Total cash flows from financing activities		(56,195)	17,851
Net increase/decrease in cash and cash equivalents		59,722	(27,221)
Cash and cash equivalents at the beginning of the period	5	17,665	44,930
Effect of exchange rate changes		(57)	(44)
Cash and cash equivalents at the end of the period	5	77,330	17,665

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

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 12 months 2023 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 2022 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. 2022 audited annual report and 2022 12 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 12 months 2023 presents a true and fair view of the group's economic results based on the principle of going concern. The influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 2 OPERATING SEGMENTS

in thousand euros

The top 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 in Baltic states the services in the fields of general construction, civil engineering and electrical construction, additionally in Estonia road construction and concrete works services and in Norway general construction. Other operating areas (managerial services, supervision service, etc.) are insignificant to the group and they are reported within the construction service segment. The real estate development segment primarily consists of the group's own real estate development – construction and sale; to a lesser degree, it also includes real estate maintenance and leasing.

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

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

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

2023 12 months	Construction service	Real estate development	Total segments
Revenue	299,338	208,332	507,670
Inter-segment revenue	(1,168)	(40,198)	(41,366)
Revenue from clients	298,170	168,134	466,304
incl. timing of revenue recognition at a point in time	2,418	141,098	143,516
timing of revenue recognition over time	295,752	27,036	322,788
Operating profit (loss)	20,504	26,731	47,235
Profit (loss) before tax	26,200	29,344	55,544
incl. interest income from operating activities	-	2,146	2,146
depreciation	(2,805)	(853)	(3,658)
impairment of inventories	-	(2,200)	(2,200)
recognition of provisions	(5,659)	(1,128)	(6,787)
reversal of provisions	144	156	300
profit from joint ventures	5,771	4,449	10,220
other finance income (costs)	113	(1,743)	(1,630)
incl. interest income	259	-	259
interest expenses	(101)	(1,531)	(1,632)
Assets 31.12.2023	96,111	249,513	345,624
incl. joint ventures	14,238	7,677	21,915

2022 12 months	Construction service	Real estate development	Total segments
Revenue	248,052	221,537	469,589
Inter-segment revenue	(1,112)	(58,844)	(59,956)
Revenue from clients	246,940	162,693	409,633
incl. timing of revenue recognition at a point in time	1,118	129,022	130,140
timing of revenue recognition over time	245,822	33,671	279,493
Operating profit (loss)	8,496	30,338	38,834
Profit (loss) before tax	10,904	30,386	41,290
incl. interest income from operating activities	21	2,239	2,260
depreciation	(2,229)	(651)	(2,880)
impairment of inventories	(8)	(3,400)	(3,408)
recognition of provisions	(6,616)	(4,833)	(11,449)
reversal of provisions	26	56	82
profit from joint ventures	2,614	902	3,516
other finance income (costs)	(89)	(787)	(876)
incl. interest expenses	(51)	(607)	(658)
Assets 31.12.2022	73,579	283,687	357,266
incl. joint ventures	9,667	3,228	12,895

2023 IV quarter	Construction service	Real estate development	Total segments
Revenue	89,808	44,575	134,383
Inter-segment revenue	(310)	(7,607)	(7,917)
Revenue from clients	89,498	36,968	126,466
incl. timing of revenue recognition at a point in time	1,688	31,606	33,294

2023 IV quarter	Construction service	Real estate development	Total segments
timing of revenue recognition over time	87,810	5,362	93,172
Operating profit (loss)	8,886	6,231	15,117
Profit (loss) before tax	11,753	7,272	19,025
incl. interest income from operating activities	-	504	504
depreciation	(1,027)	(309)	(1,336)
recognition of provisions	(2,139)	(576)	(2,715)
reversal of provisions	144	156	300
profit from joint ventures	2,616	1,543	4,159
other finance income (costs)	247	(463)	(216)
incl. interest income	242	-	242
interest expenses	(28)	(438)	(466)
Assets' change in IV quarter	(11,085)	(7,985)	(19,070)
incl. joint ventures	2,617	1,542	4,159

2022 IV quarter	Construction service	Real estate development	Total segments
Revenue	61,504	97,702	159,206
Inter-segment revenue	(323)	(15,456)	(15,779)
Revenue from clients	61,181	82,246	143,427
incl. timing of revenue recognition at a point in time	235	71,449	71,684
timing of revenue recognition over time	60,946	10,797	71,743
Operating profit (loss)	3,904	14,388	18,292
Profit (loss) before tax	5,349	15,006	20,355
incl. interest income from operating activities	-	581	581
depreciation	(2,229)	(651)	(2,880)
impairment of inventories	(8)	(3,400)	(3,408)
recognition of provisions	(1,322)	(4,130)	(5,452)
reversal of provisions	26	56	82
profit from joint ventures	1,487	936	2,423
other finance income (costs)	(16)	(270)	(286)
incl. interest expenses	(15)	(264)	(279)
Assets' change in IV quarter	(6,591)	(5,623)	(12,214)
incl. joint ventures	1,487	936	2,423

In addition to the segment assets, as at 31.12.2023 the group holds assets in the amount of EUR 79,636 thousand (31.12.2022: EUR 30,146 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

	2023 12 months	2022 12 months	2023 IV quarter	2022 IV quarter
Pre-tax profit from reporting segments	55,544	41,290	19,025	20,355
Other operating profit (loss)	(2,752)	(3,801)	(706)	(1,765)
incl. recognition of provisions	(238)	(925)	(238)	(925)
reversal of provisions	900	-	900	
finance income (costs)	(810)	(391)	(174)	(166)
incl. interest expenses	(735)	(341)	(154)	(156)
Total profit before tax	51,982	37,098	18,145	18,424

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

	2023 12 months		2022 12 months		2023 IV quarter		2022 IV quarter	
Estonia	283,147	61%	204,480	50%	60,496	48%	80,349	56%
Latvia	61,843	13%	113,163	27%	13,762	11%	50,496	35%
Lithuania	115,232	25%	84,564	21%	51,397	40%	11,782	8%
Norway	6,082	1%	7,426	2%	811	1%	800	1%
Total	466,304	100%	409,633	100%	126,466	100%	143,427	100%

CONTRACT ASSETS AND LIABILITIES

in thousand euros

	31.12.2023	31.12.2022
Accrued income from construction services (Note 6)	8,305	15,378
Prepayments for construction services (Note 13)	(34,584)	(6,298)
Advance payments received for construction contract works (Notes 13, 15)	(33,727)	(5,184)
Recognised provision for onerous construction contracts (Note 14)	(8)	(8)

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

in thousand euros

	31.12.2023	31.12.2022
Estonia	42,317	30,314
Latvia	10,837	10,786
Lithuania	2,762	1,199
Norway	35	115
Total	55,951	42,414

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2023 12 months	2022 12 months	2023 IV quarter	2022 IV quarter
Construction services and properties purchased for resale	279,421	215,323	77,191	79,012
Materials	47,970	63,665	7,271	15,474
Labour costs	32,999	28,652	9,775	8,164
Construction mechanisms and transport	8,881	9,199	1,636	2,249
Design	7,703	8,561	2,483	2,857
Real estate management costs	1,105	827	303	262
Depreciation	2,599	1,973	946	505
Impairment of inventories	2,200	3,408	-	3,408
Provisions	5,296	11,291	1,796	5,294
Other expenses	13,093	13,076	3,224	3,627
Total cost of goods sold	401,267	355,975	104,625	120,852

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.

	2023 12 months	2022 12 months	2023 IV quarter	2022 IV quarter
Net profit (loss) attributable to shareholders <i>(in thousand EUR)</i>	46,048	34,640	13,900	17,617
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17,700	17,700	17,700	17,700
Earnings (loss) per share <i>(in euros)</i>	2.60	1.96	0.79	1.00

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 2023 the parent company AS Merko Ehitus will pay dividends of EUR 17,700 thousand, i.e. EUR 1.00 per share (in 2022 were paid EUR 17,700 thousand). The income tax expense related to the payment of dividends, 496 thousand euros, which was recognised as deferred tax expense in the group in 2022, paid in third quarter. The group withheld an additional 7% income tax, 21 thousand euros, on the part of the dividends paid to private shareholders taxable at 14/86 income tax rate.

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

As at 31.12.2023 the balance of deferred income tax liability includes deferred income tax on dividends in the amount of 2,894 thousand euros (31.12.2022: EUR 742 thousand euros).

As of 31.12.2023, the parent company AS Merko Ehitus has EUR 1,513 thousand (31.12.2022: EUR 1660 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 31.12.2023, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 162,969 thousand (31.12.2022: EUR 140,704 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 378 thousand (31.12.2022: EUR 415 thousand), the corresponding income tax on dividends would amount to EUR 40,364 thousand (31.12.2022: EUR 34,761 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 amount, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out as net dividends). The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.12.2023	31.12.2022
Bank accounts	61,545	17,665
Overnight deposits	15,785	-
Total cash and cash equivalents	77,330	17,665

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.12.2023	31.12.2022
Trade receivables		
Accounts receivable	54,692	52,746
Allowance for doubtful receivables	(134)	(3,285)
	54,558	49,461
Tax prepayments excluding corporate income tax		
Value added tax	661	795
Other taxes	-	3
	661	798
Accrued income from construction services	8,305	15,378
Other short-term receivables		
Short-term loans	-	5,000
Other short-term receivables	1,029	124

	31.12.2023	31.12.2022
	1,029	5,124
Prepayments for services		
Prepayments for construction services	2,922	6,386
Prepaid insurance	1,137	642
Other prepaid expenses	142	170
	4,201	7,198
Total trade and other receivables	68,754	77,959
incl. short-term loan receivables from related parties (Note 16)	-	5,000
other short-term receivables and prepayments to related parties (Note 16)	10,743	8,049

NOTE 7 INVENTORIES

in thousand euros

	31.12.2023	31.12.2022
Materials	358	503
Work-in-progress	60,244	92,049
Finished goods	43,357	43,414
Goods for resale		
Registered immovables purchased for resale/development	89,434	84,133
Other goods purchased for resale	1,558	4,249
	90,992	88,382
Prepayments for inventories		
Prepayments for real estate properties	-	517
Prepayments for other inventories	484	796
Total inventories	195,435	225,661

NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	31.12.2023	31.12.2022
Long-term receivables from customers of construction services	24,490	22,982
Total other long-term loans and receivables	24,490	22,982

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.12.2023	31.12.2022
Land	10,172	10,172
Right of superficies at carrying amount		
Cost	29	29
Accumulated depreciation	(15)	(15)
	14	14
Buildings at carrying amount		
Cost	8,012	2,455
Accumulated depreciation	(1,375)	(1,156)
	6,637	1,299
Total investment property	16,823	11,485

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.12.2023	31.12.2022
Land	1,266	1,266
Buildings at carrying amount*		
Cost	8,322	8,251
Accumulated depreciation	(3,997)	(3,211)
	4,325	5,040
Machinery and equipment at carrying amount*		
Cost	18,588	19,177
Accumulated depreciation	(9,639)	(10,521)
	8,949	8,656
Other fixtures at carrying amount		
Cost	4,526	4,814
Accumulated depreciation	(3,085)	(3,230)
	1,441	1,584
Prepayments for property, plant and equipment	632	906
Total property, plant and equipment	16,613	17,452

* As of 31 December 2023, the balance of buildings at carrying amount includes leased assets in a sum of EUR 561 thousand (31.12.2022: EUR 662 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 3,708 thousand (31.12.2022: EUR 3,459 thousand).

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.12.2023	31.12.2022
Goodwill		
Cost	65	69
Impairment	(64)	-
	1	69
Software at carrying amount		
Cost	1,431	1,500
Accumulated depreciation	(1,097)	(1,099)
	334	401
Prepayments for intangible assets	185	112
Total intangible assets	520	582

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NOTE 12 BORROWINGS

in thousand euros

	31.12.2023	31.12.2022
Lease liabilities*		
Lease liabilities balance	4,402	4,302
incl. current portion	1,092	1,198
non-current portion 2...5 years	3,310	3,104
Bank loans		
Loan balance	44,356	73,560
incl. current portion	12,524	40,428
non-current portion 2...5 years	31,832	33,132
Loan from parent company		
Loan balance (Note 16)	-	8,000
incl. current portion	-	8,000
Loans from entities under common control		
Loan balance (Note 16)	6,000	6,000
incl. current portion	6,000	-
non-current portion 2...5 years	-	6,000
Loans from other related parties		
Loan balance (Note 16)	-	61
incl. current portion	-	61
Loans from other entities		
Loan balance	57	-
incl. current portion	57	-
Total loans		
Loans balance	50,413	87,621
incl. current portion	18,581	48,489
non-current portion 2...5 years	31,832	39,132
Total borrowings	54,815	91,923
incl. current portion	19,673	49,687
non-current portion 2...5 years	35,142	42,236

* As of 31 December 2023, the lease liabilities include a balance of EUR 216 thousand to related parties (31.12.2022: EUR 254 thousand) (Note 16).

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.12.2023	31.12.2022
Trade payables	42,472	46,020
Payables to employees	14,846	11,638
Tax liabilities, except for corporate income tax		
Value added tax	4,258	6,587
Personal income tax	769	615
Social security tax	2,075	1,680
Unemployment insurance tax	70	65
Contributions to mandatory funded pension	48	33
Other taxes	113	143
	7,333	9,123
Prepayments for construction services	34,584	6,298
Other liabilities		
Interest liabilities	98	113
Other liabilities	537	961
	635	1,074
Prepayments received *	34,028	22,095
Total payables and prepayments	133,898	96,248
incl. payables to related parties (Note 16)	173	2,519

* As of 31 December 2023, 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 31,360 thousand (31.12.2022: EUR 5,184 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 2,668 thousand (31.12.2022: EUR 16,911 thousand) (Note 2).

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.12.2023	31.12.2022
Provision for warranty obligation for construction	5,954	4,425
Provision for costs of projects sold and work-in-progress projects	2,460	4,086
Provision for onerous construction contracts	8	8
Provision for legal costs and claims filed	1,706	1,200
Other provisions	323	101
Total short-term provisions	10,451	9,820

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.12.2023	31.12.2022
Trade payables	3,128	2,133
Prepayments received *	2,367	-
Other long-term payables total	5,495	2,133

* As of 31 December 2023, 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 2,367 thousand (31.12.2022: EUR 0) (Note 2).

NOTE 16 RELATED PARTY TRANSACTIONS

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

- parent company AS Riverito;
- shareholders of AS Riverito with significant influence over AS Merko Ehitus through AS Riverito;
- other shareholders with significant influence;
- other subsidiaries under control of AS Riverito shareholders 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 31.12.2023 and 31.12.2022, 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
	31.12.2023	31.12.2022		
Subsidiaries				
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	100	Estonia, Tallinn	Mining
OÜ Metsara-Metspere Kinnisvara	100	100	Estonia, Tallinn	Mining
Tallinna Teede AS	100	100	Estonia, Tallinn	Road construction
OÜ Merko Kodud	100	-	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
UAB Timana	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektai	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	Estonia, Tallinn	Real estate
UAB Balsiu Mokyklos SPV	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	Lithuania, Vilnius	Real estate
UAB MN 2 Projektas	100	-	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Statinių Priežiūra ir Administravimas	100	100	Lithuania, Vilnius	Real estate
UAB MB 4 Projektas	100	-	Lithuania, Vilnius	Real estate
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Latvia, Riga	Construction
SIA Merko Management Latvia (ex-SIA SK Viesturdarzs)	-	100	Latvia, Riga	Real estate
SIA Industrialais Parks	100	100	Latvia, Riga	Real estate
SIA Merks Mājas	-	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	-	100	Latvia, Riga	Real estate
SIA Zakusala Estates	-	100	Latvia, Riga	Real estate
PS Merko-Merks	-	100	Latvia, Riga	Construction
PS Merks-Ostas Celnieks	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	Latvia, Riga	Construction
SIA Merks Mājas	100	-	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	-	Latvia, Riga	Real estate
SIA Zakusala Estates	100	-	Latvia, Riga	Real estate
SIA Merko Būve	100	100	Latvia, Riga	Construction
SIA Merko Management Latvia (ex-SIA SK Viesturdarzs)	100	-	Latvia, Riga	Real estate
Merko Finland Oy	-	100	Finland, Helsinki	Construction
Merko Investments AS	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS (ex-Merko Bygg AS)	100	56	Norway, Sofiemyr	Construction

	Ownership and voting rights %		Location	Area of operation
	31.12.2023	31.12.2022		
Løvenskogen Bolig AS	62	62	Norway, Sofiemyr	Real estate
Joint ventures				
Kodusadam OÜ	50	50	Estonia, Tallinn	Real estate
AS Connecto Eesti	50	50	Estonia, Tallinn	Construction

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

GOODS AND SERVICES

in thousand euros

	2023 12 months	2022 12 months
Provided services and goods sold		
Parent company	6	15
Joint ventures	26,708	30,116
Entities under common control	82,058	44,941
Members of the management	161	186
Total services provided and goods sold	108,933	75,258
Interest income		
Joint ventures	215	196
Purchased services and goods		
Parent company	49	104
Joint ventures	268	203
Entities under common control	75	73
Total purchased services and goods	392	380
Interest expense		
Parent company	30	73
Entities under common control	362	153
Other related parties	1	1
Total interest expense	393	227

BALANCES WITH RELATED PARTIES

in thousand euros

	31.12.2023	31.12.2022
Receivables from related parties		
Loans granted (Notes 6,8)		
Joint venture	-	5,000
Receivables and prepayments (Note 6)		
Parent company	-	5
Joint ventures	1,852	3,239
Entities under common control	8,862	4,805
Members of the management	29	-
Total receivables and prepayments	10,743	8,049
Total receivables from related parties	10,743	13,049

	31.12.2023	31.12.2022
Payables to related parties		
Lease liabilities (Note 12)		
Entities under common control	216	254
Short-term loans received (Note 12)		
Parent company	-	8,000
Entities under common control	6,000	-
Other related parties	-	61
Total Short-term loans received	6,000	8,061
Payables and prepayments (Note 13)		
Parent company	-	-
Joint ventures	142	35
Entities under common control	31	2,444
Members of the management	-	40
Total payables and prepayments	173	2,519
Long-term loans received (Note 12)		
Entities under common control	-	6,000
Other long-term payables (Note 15)		
Other related parties	-	-
Total payables to related parties	6,389	16,834

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The cost of remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus incl. basic salaries and performance pay, as well as taxes and changes in reserves for the 12 months of 2023 were EUR 1,843 thousand (12 months of 2022: EUR 1,363 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been concluded with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 12 months of 2023, the Management Board members of AS Merko Ehitus received EUR 120 thousand in compensation (12 months of 2022: EUR 0).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as of 31.12.2023:

		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%
Kristina Siimar	Member of the Supervisory Board	-	-
		12,774,321	72.17%

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

The Management Board of the holding company AS Merko Ehitus has three members: Andres Trink, Tõnu Toomik and Urmas Somelar.

Shares held by members of the Management Board of AS Merko Ehitus as of 31.12.2023:

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

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	31.12.2023	31.12.2022
Performance period's warranty to the customer	39,359	28,235
Tender warranty	32	10
Guarantee for warranty period	27,194	22,796
Prepayment guarantee	31,466	4,504
Contracts of surety	500	500
Total contingent liabilities	98,551	56,045

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

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

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

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

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

DEFINITION OF RATIOS

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