



# AS MERKO EHITUS

## GROUP

### 2020 6 months and II quarter consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2020 – 30.06.2020
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Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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# BRIEF OVERVIEW OF THE GROUP

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



## BUSINESS SEGMENTS

### ESTONIA

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

### LATVIA

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

### LITHUANIA

General construction  
Residential real estate development and investments

### NORWAY

General construction

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

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

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

## SHARES

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

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

## 2019 KEY FIGURES

Revenue **326.8 million** euros

Net profit **16.3 million** euros

**694** employees



## VISION

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

## VALUES

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

## STRATEGY

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

# MANAGEMENT REPORT

## COMMENTARY FROM MANAGEMENT

Merko Ehitus posted revenue of EUR 74 million and a net profit of EUR 6.2 million in Q2 of 2020. The respective six month figures were EUR 130 million and EUR 8.2 million. In 6 months of 2020, Merko sold 369 apartments, and the 6-month revenue generated by the real estate development segment grew more than four times compared to the same period last year, making up 40 % of the group's revenue. During the first six months of the year, the group companies concluded new construction contracts worth EUR 175 million, which is twice as much as a year ago.

The sale of apartments in the second quarter exceeded the management's spring expectations, which due to the pandemic restrictions took a sudden turn for the negative. Yet the restrictions did not significantly impact the second-quarter delivery of apartments sold under preliminary contracts signed before the pandemic. Merko sold the most apartments in Vilnius and at the moment, the market for apartments in all three Baltic capitals is moderate. Activity levels are not as high as they were before the crisis but the price level has remained stable. The increase in revenue from real estate development had a positive impact on the growth of net profit in Q2 as well. The sale of apartments may vary significantly by quarter, depending on the time during which development projects were completed and authorisations for use were obtained.

The group's volume of construction contracts has grown 38% compared to a year ago, and over the first six months of the year, group signed 175 million euros worth of new construction contracts, which is approximately twice as much as a year ago. Based on the diminished economic outlook, a large share of orders from private sector customers has been postponed and public contracts are prevalent among new orders.

Despite the positive results in the second quarter, the impacts caused by the pandemic are gradually becoming more apparent in the construction and real estate sector, and because of this, the outlook for the market developments in the second half of the year and 2021 are likely to be moving in a negative direction. The group companies have implemented cost-cutting measures to ensure efficient and flexible operations during and after the crisis. The market as a whole has been supported by the response from banking in terms of payment moratoria and more broadly in ensuring availability of credit.

Over six months, Merko Ehitus Group sold 369 apartments and 4 commercial units (6 months 2019: 100 apartments and 6 commercial units). The revenue figure for the real estate development segment in the first half of 2020 saw fourfold growth year-over-year, making up 40.1% of the group's total revenue (6 months 2019: 7.9%). Merko's biggest projects in Tallinn are the Uus-Veerenni, Lahekalda and Pikaliiva residential projects; in Riga, the Gaiļezers and Viesturdārzs developments; and, in Vilnius, the Vilneles slenis and Rinktinės Urban developments. In spring, the group halted the launch of new development projects for three months due to risks related to the pandemic. At the end of the period, the third stage of construction and sales of the Uus-Veerenni project in Tallinn was started.

Merko Ehitus posted revenue of EUR 73.9 million in Q2 of 2020 (Q2 2019: EUR 77.4 million), an EBITDA of EUR 7.7 million (Q2 2019: EUR 5.3 million), and net profit of EUR 6.2 million (Q2 2019: EUR 1.7 million). In 6 months 2020, the group companies entered into new contracts totalling EUR 175.1 million and, for Q2 alone, EUR 87.8 million (Q2 2019: EUR 53.8 million).

As of 30 June 2020, the group had a secured order book balance of EUR 236.7 million (30 June 2019: EUR 172.1 million). The largest projects in progress in Q2 in Estonia were the construction of the Tallinn Music and Ballet School, the Arte Gymnasium, Terminal D parking house at the Tallinn passenger port, the high-voltage power cables in Tallinn, Türi Basic School, the reconstruction of Aaspere-Haljala road section, the public water supply and sewerage pipeline in Kohila Parish and a data centre in Harju County. In Latvia, the biggest projects in progress were construction of the school building and dormitory in Pinki, Lidl logistics centre and the renovation of the Riga Technical University Civil Engineering Faculty building. In Lithuania, the construction of Hotel Neringa and the Kaunas district police headquarter building were in progress.

**2020 6M**  
**REVENUE**  
**130 MILLION EUROS**

**PROFIT**  
**BEFORE TAX**  
**8.8 MILLION EUROS**

## OVERVIEW OF THE II QUARTER AND 6 MONTHS RESULTS

### PROFITABILITY

2020 6 months' profit before tax was EUR 8.8 million and Q2 2020 was EUR 6.7 million (6M 2019: EUR 7.5 million and Q2 2019 was EUR 4.5 million), which brought the profit before tax margin to 6.8% (6M 2019: 4.9%).

Net profit attributable to equity holders of the parent in 6 months 2020 was EUR 8.2 million (6M 2019: EUR 4.5 million) and Q2 2020 net profit attributable to equity holders of the parent was EUR 6.2 million (Q2 2019: EUR 1.7 million). 6 months net profit margin was 6.3% (6M 2019: 2.9%). Compared to 6 months 2020, the net profitability of 2019 was influenced by, among other things, a significantly increased income tax expense: in Q2, the group's income tax expense on paid dividends was EUR 2.7 million. In 2020, the group did not pay dividends.

### REVENUE

Q2 2020 revenue was EUR 73.9 million (Q2 2019: EUR 77.4 million) and 6 months' revenue was EUR 129.7 million (6M 2019: EUR 154.2 million). 6 months' revenue decreased by 15.9% compared to same period last year. The share of revenue earned outside Estonia in 6 months 2020 was 50.3% (6M 2019: 57.0%).

### SECURED ORDER BOOK

As at 30 June 2020, the group's secured order book was EUR 236.7 million (30 June 2019: EUR 172.1 million). In 6 months 2020, group companies signed new contracts in the amount of EUR 175.1 million (6M 2019: EUR 86.0 million). In Q2 2020, new contracts were signed in the amount of EUR 87.8 million (Q2 2019: EUR 53.8 million).

### REAL ESTATE DEVELOPMENT

In 6 months 2020, the group sold a total of 369 apartments (incl. 2 apartments in a joint venture); in 6 months 2019, the group sold 100 apartments (incl. 33 apartments in a joint venture). The group earned a revenue of EUR 46.0 million from sale of own developed apartments in 6 months 2020 and EUR 9.2 million in 6 months 2019. In Q2 of 2020 a total of 236 apartments (all in own developments) were sold, compared to 37 apartments (incl. 4 apartment in a joint venture) in Q2 2019, and earned a revenue of EUR 27.4 million from sale of own developed apartments (Q2 2019: EUR 4.7 million).

### CASH POSITION

At the end of the reporting period, the group had EUR 23.7 million in cash and cash equivalents, and equity of EUR 138.4 million (50.3% of total assets). Comparable figures as at 30 June 2019 were EUR 14.0 million and EUR 118.5 million (41.2% of total assets), respectively. As at 30 June 2020, the group's net debt stood at EUR 34.2 million (30 June 2019: EUR 48.7 million).

# OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

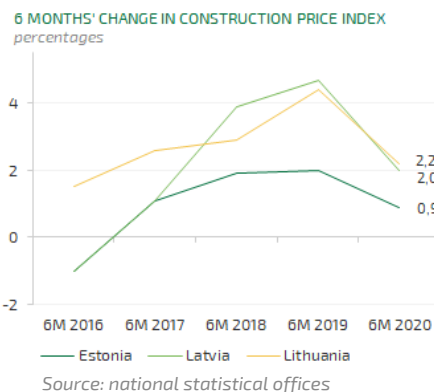
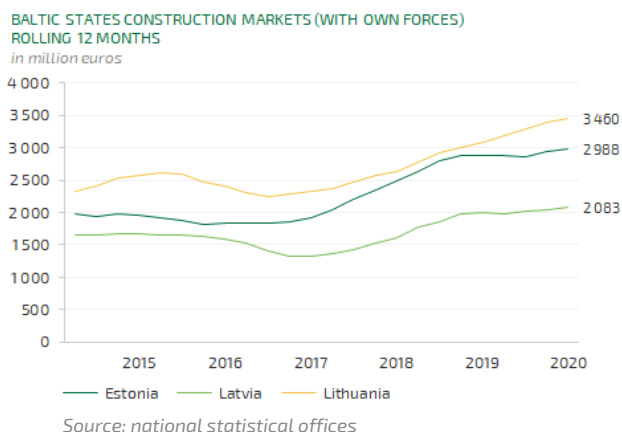
## CONSTRUCTION SERVICES

After the World Health Organization (WHO) had declared COVID-19 a pandemic in March and measures to limit the spread of the disease were established in the whole world, also the construction sector in both the Baltics and Norway prepared for the worse. The construction of ongoing projects was continued, but in order to safeguard the health of the employees changes were introduced to the organization of work, which slowed down the work processes somewhat. As larger outbreaks of the disease were avoided and the delays or break-downs in the supply chain of materials and equipment were kept under control, the on-time completion of construction objects was not in serious jeopardy. Looking back, there were fewer setbacks during the first half of the year to the work processes of the construction sector than could have been assumed during the most serious period of the crisis.

The construction sector reacts to the overall changes in the economy with an inherent delay, as the completion of any larger construction object takes a year or more. Consequently, due to such inertia, construction activities continue also during economic setbacks, at least initially. As such, the construction volumes have not yet decreased considerably during the first half of the year. If anything, additional growth was evident during the first quarter in all three Baltic states. However, already before the pandemic signs of market demand calming was evident: in Estonia and Latvia, in 2019, the construction volumes remained more or less the same, although Lithuania kept on a growing trend. As the private sector clients have become more cautious, new construction objects from them are entering the market in a slower pace, and the share of the public sector has increased. In order to counterbalance the economic setbacks to the construction sector and its employees it is very important that the public sector becomes active in ordering construction objects and that the previously drawn up plans for investments are realised with determination.

It was evident that the economic decline in second quarter will be unprecedented already before the official figures were published. The main global question is at which pace the economy will recover from the shock and what will the economic environment look like in the second half of the year, especially in the last quarter. All the different subsidies by the governments, which were established to soften the blow to both the companies as well as people from the first wave of the pandemic are gradually ending in autumn. Today it remains unknown how long the governments are able to continue with such subsidies, which would keep the unemployment rate, decrease of income and insolvency of companies under control. There was a cautious growth in optimism together with decreasing restrictions in June and July. Unfortunately, it seems that the second wave of the disease is gradually spreading in the third quarter all over the world, although for the time being mostly outside the Baltics and Norway. However, new restrictions have either already been established or at least considered also in these markets.

According to the statistics, there have been no real corrections in the construction prices. The price increase has slowed down, but it was still around 2% in Latvia and Lithuania, and 1% in Estonia.

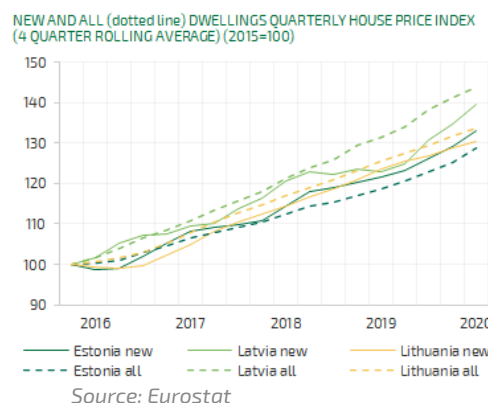


## DEVELOPMENT OF APARTMENTS

Restrictions set in March decreased the transaction activity of the apartment market considerably. Notarial contracts were still signed for the sale of apartments on both the primary and secondary market. Although the number of transactions might have been around half of the normal levels during the most difficult times, even that can be considered rather a good level considering the circumstances. After easing of restrictions the number of transactions has recovered, although not yet to pre-pandemic levels.

New sales of apartments on the primary market were subdued during the state of emergency and most of the notarial sales contracts were signed as finalizing of purchase decisions made before in the form of pre-agreements. The positive aspect is that buyers have not started to back down from the pre-agreements en masse and the price level has remained steady in Estonia, Latvia and Lithuania. The developers have become more ready to offer additional value as part of the apartment price (storage rooms, kitchen furniture, etc.), but at the same time they are accepting longer sales periods. Ongoing development projects have not been stopped, but in the near future, new projects are started only by developers with strong financial capability and long-term goals.

The activity of banks in issuing home loans continues to be important in the functioning of the apartment markets. It is understandable that in current situation also the banks need to operate with increased caution, including assessing the credit worthiness of loan applicants even more diligently. In general, however, the banks have continued with their lending activities and the lack of financing has not become a factor, which would hinder the apartment market substantially.



## BUSINESS ACTIVITIES

The group business reporting is divided into two business segments:

- construction service;
- real estate development.

### CONSTRUCTION SERVICE

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

million EUR

	6M 2020	6M 2019	VARIANCE	Q2 2020	Q2 2019	VARIANCE	12M 2019
Revenue	77.7	142.1	-45.3%	42.8	71.7	-40.3%	256.7
% of total revenue	59.9%	92.1%		57.9%	92.7%		78.6%
Operating profit	1.0	7.7	-87.1%	1.3	4.9	-72.5%	13.3
Operating profit margin	1.3%	5.4%		3.1%	6.8%		5.2%

In the 6 months of 2020, the revenue of the construction service segment was EUR 77.7 million (6M 2019: EUR 142.1 million). The sales revenue of construction service has decreased by 45.3% compared to the same period last year. The construction service segment revenue for 6 months 2020 made up 59.9% of the group's total revenue (6M 2019: 92.1%). In this segment, the group earned an operating profit of EUR 1.0 million for 6 months (6M 2019: EUR 7.7 million). The operating profit margin was 1.3% (6M 2019: 5.4%). Because of decrease in revenue, compared to the year before, fixed costs related to construction service ratio to revenue was higher than before, cutting into the operating profitability of the segment.

Although the revenue has decreased, the spread of the COVID-19 disease and the measures enforced to curb its spread have not had a significant impact on the results of the construction service during the first half of the year. The level of uncertainty on the construction market was the highest in the beginning of the second quarter. Although there was a general threat to the functioning of the work processes from the possibility of illness setting in or from the counter-measures themselves, and the proper functioning of cross-border supply chains seemed fragile, in the end, there were no major setbacks to the group's construction service business segment. Decreased revenue is rather a reflection of the fact that the group has already for some time been consciously selective in signing new construction contracts. The group has been willing to sign fewer contracts instead of signing them on ever riskier terms related to construction timelines, contractual penalties, etc.

In the second half of the year we are prepared for the so-called second wave of the virus. The experience of the first half of the year has given a valuable lesson on how to function during difficult times as an individual, an organization or a society as a whole. Also, the group companies have mapped the main risks, reviewed how the work is organized, determined possibilities to increase efficiency, and enacted measures to cut costs. This will enable the group to function flexibly and successfully also during times of considerable changes. Therefore, we can be hopeful that although the situation is serious, we will be able to ensure the functioning of the work process also during the second wave and the works on the ongoing construction projects will continue.

The probability that the most difficult period economically is yet to come, is unfortunately rather high. Much depends on whether and to what extent the economic activity needs to again be restricted on state level during a possible new outbreak of the disease. It is a question of how well the companies will cope with that in the long run and what the labour market will look like, which will depend also on the capability of governments to keep providing support to those who have fallen on hard times regarding employment. All of this will influence the confidence of the private sector and through that the general readiness to invest, including to new buildings and other facilities. Because of that, although we find that regarding the ongoing construction projects there should not be difficulties, which we cannot overcome, the more important question is what the overall level of new contracts on the market will be during the second half of this year and the whole of next year, and what impact will that have on our order book. This ties into another question of how active the public sector will be as a procurer of construction services while the private sector demand is in decline.

Larger projects in progress in the second quarter in construction service segment in Estonia included Tallinn School of Music and Ballet, data campus in Saue Parish, Tallinn Arte Gymnasium, Terminal D parking house at the Tallinn passenger port, Türi Basic School buildings, construction of electric power cables of Suur Väin straits, high-voltage power cables in Tallinn, construction works of water supply and sewerage piping in Metsanurme, Kasemetsa and Üksnurme area and as well in Kohila Parish, reconstruction of Aaspere-Haljala road section and construction works of the Republic of Estonia's southeast land border. In Latvia, larger ongoing projects in Q2 included the construction works of Lidl logistics centre and college building and dormitory in Pinki, as well as reconstruction of Riga Technical University Civil Engineering Faculty building. In Lithuania, larger projects were Neringa hotel, construction of wind farm balance of plant in Telšiai district and Kaunas district Police headquarters building. In Norway, the group worked in Q2 on the reconstruction of the Haakon VII's 5 office building in Oslo and other smaller scale contracts.



## REAL ESTATE DEVELOPMENT

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

million EUR

	6M 2020	6M 2019	VARIANCE	Q2 2020	Q2 2019	VARIANCE	12M 2019
Revenue	52.0	12.1	+329.4%	31.1	5.6	+451.0%	70.1
incl. sale of apartments	46.0	9.2		27.4	4.7		63.8
construction service to joint venture projects	0.6	1.7		0.3	0.7		2.1
sale of immovable properties	0.7	0.4		0.3	-		0.4
% of total revenue	40.1%	7.9%		42.1%	7.3%		21.4%
Operating profit	8.9	0.9	+889.2%	6.0	0.3	+1666.7%	8.1
Operating profit margin	17.1%	7.4%		19.3%	6.0%		11.6%

In 6 months 2020, the group sold a total of 369 apartments (incl. 2 apartments in a joint venture) and 4 commercial premises (all in own developments); in 6 months 2019, 100 apartments (incl. 33 apartments in a joint venture) and 6 commercial premises (all in a joint venture). The group earned a revenue of EUR 46.0 million (VAT not included) from sale of own developed apartments in 6 months 2020 and EUR 9.2 million (VAT not included) in 6 months 2019.

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

In 6 months of 2020, real estate development segment revenues increased more than four times compared to the same period last year and formed 40.1% of the group's total revenue (6 months of 2019: 7.9%). Compared to the same quarter of the previous year, 300 own developed apartments more were handed over to customers, which resulted in a significant increase in revenue. Higher sales during the first half of 2020 was expected as the group has been focusing more on the apartment development than couple of years before. Therefore the number of apartments being developed at the same time has been higher than previously. In the end of 2019 and in the first half of 2020, these larger development volumes have started to gradually become finished, which has then been reflected also in revenue and profit figures.

The segment's operating profit for the 6 months of 2020 amounted to EUR 8.9 million (6 months of 2019: EUR 0.9 million) and the operating profit margin was 17.1% (6 months of 2019: 7.4%). The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, including the land acquisition price. In 2020, the results have been influenced especially by the sale of own developed apartments.

At the end of the period, group's inventory comprised 292 apartments where a preliminary agreement had been signed (as at 30 June 2019: 403 such apartments): 13 completed apartments (9 in Estonia, 3 in Latvia and 1 in Lithuania) and 279 apartments under construction (148 in Estonia, 52 in Latvia and 79 in Lithuania). The sale of these apartments had not yet been finalised and they had not been delivered to customers, either because the development site was still under construction or the site was completed at the end of the reporting period and the sales transactions had not all been finalised yet.

As at 30 June 2020, the group had a total of 408 apartments for active sale (as at 30 June 2019: 753 apartments), for which there were no pre-sale agreements and of which 110 had been completed (27 in Estonia, 72 in Latvia and 11 in Lithuania) and 298 were under construction (150 in Estonia, 44 in Latvia and 104 in Lithuania).

During the first 6 months of 2020, the group did not launch any new apartment constructions in the Baltic states (6 months of 2019: 70 apartments). In the 6 months, the group invested a total of EUR 32.8 million (6 months of 2019: EUR 39.5 million) in the ongoing development projects.

The spread of COVID-19 disease and the measures taken to curb it had a clear impact on the apartment sales during the first half of the year. Especially, when it came to buyers' readiness to sign new pre-agreements. The pace of signing notarial final purchase and sale agreements based on pre-agreements entered into before the pandemic has been good. In general, buyers have not started backing down from the pre-agreements nor have they asked for considerable prolongations to finalize the notarial agreements. For the most part, they have been interested in closing the deals. This has been supported also by the general readiness of the banks to continue providing loan financing. Certainly, there have been cases in which buyers have had difficulties in signing the final real right contracts due to problems with the changed employment situation or the banks' increased scrutiny in analysing their creditworthiness. However, there have been only few such cases, and also for these mutually suitable solutions have been explored.

On 23 March, the group's management decided not to launch construction of new development projects effective until June, making a corresponding announcement on the stock exchange (<https://www.nasdaqbaltic.com/statistics/et/news/311917>). At the same time, the group continued construction activities until completion on projects that at the time were in the construction phase. After three months, on 2 July, the group announced starting the construction of the third stage of the Uus-Veerenni residential project (Uus-Veerenni Park) (<https://www.nasdaqbaltic.com/statistics/et/news/314456>).

In general, we see that the demand has recovered fast from the most difficult period and is continuing on an upward direction. However, the number of transactions is lower than before and during the following couple of quarters the demand might be impacted by new outbreaks of the disease, general weakness of the economy, and decreased confidence about the future. Unfortunately, the longer term visibility about the possible future developments is currently limited. Currently, the global, regional and local economic progress in each country is not governed so much by the laws of economics, but rather by public health and epidemiological factors, including the development of effective vaccines and treatments, as well as political decisions on prevention of the spread of the disease. Because of that the level of uncertainty is high today and in the immediate future. In such circumstances, those who have sufficient buffers to withstand also unforeseen developments have an advantage. As the group is standing on a strong capital base, it is in a good position to endure longer sales periods and to follow the long-term plans of the real estate development business segment. In the shorter term of 12 to 18 months, we acknowledge the fact that the market activity will remain lower than previously, and that the full impact of the pandemic to the economy is yet to manifest itself. Therefore, in the context of starting new real estate development projects we are going to take one step at a time, and as such the group's supply in the apartment development area will be impacted by the new reality for quite some time.

One of the group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As at 30 June 2020, the group's inventories included land plots with development potential, where the construction works have not started, in amount of EUR 69.4 million (30.06.2019: EUR 67.0 million).

#### GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	30.06.2020	30.06.2019	31.12.2019
Estonia	28.6	26.1	29.3
Latvia	26.9	26.9	26.9
Lithuania	13.9	14.0	14.0
<b>Total</b>	<b>69.4</b>	<b>67.0</b>	<b>70.2</b>

In the 6 months of 2020, the group has not purchased new land plots for real estate development purposes (6 months of 2019: EUR 13.1 million).

## SECURED ORDER BOOK

As at 30 June 2020, the group's secured order book amounted to EUR 236.7 million, compared to EUR 172.1 million as at 30 June 2019, having increased by 37.6% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 6 months of 2020, EUR 175.1 million worth of new contracts were signed, which is more than twice compared to the same period of the previous year (6 months of 2019: EUR 86.0 million). The value of new contracts signed in the second quarter of 2020 amounted to EUR 87.8 million; in the second quarter of 2019 the value of new contracts signed amounted to EUR 53.8 million.

#### LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE SECOND QUARTER OF 2020

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Construction contract for the construction of business complex Verde at Roberta Hirša street 1, Riga	Latvia	Q1 of 2022	31.0
Construction contract to design and construct the infrastructure of the Republic of Estonia's southeast land border	Estonia	April of 2023	14.7
Construction contract for the construction of wind farm balance of plant in Telšiai in Lithuania	Lithuania	December of 2021	13.0
Construction contract to perform reconstruction works of barracks in Kaunas, Lithuania	Lithuania	August of 2021	6.0
Construction contract for the reconstruction of an office building at Haakon VII's 5 in Oslo	Norway	October of 2020	4.3
Construction contract to perform construction works of water supply and sewerage piping in Kohila Parish, Rapla County	Estonia	March of 2022	3.4

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

- AS Merko Ehitus Eesti, part of AS Merko Ehitus group, entered into a contract with the North Estonia Medical Centre Foundation to design and construct the third stage of Mustamäe medical campus. The contract value is approximately EUR 33.8 million and works will be completed in July 2023.

As at 30 June 2020, the public sector orders accounted for approximately 59% of the total balance in the group's secured order book (30.06.2019: approximately 52%). The share of public sector in the secured order book has increased considerably already from the beginning of last year, i.e. well before the spread of COVID-19, and the level of private sector procurements has decreased. The private sector demand in the Baltics has decreased as there has been an ample supply of new commercial real estate on the market in the last few years and thus competition between developers has increased while construction prices have risen. Some of the development projects have been placed on hold. The pandemic has reduced demand from the private sector even further.

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

## CASH FLOWS

At the end of reporting period, the group had cash and cash equivalents in the amount of EUR 23.7 million (30.06.2019: EUR 14.0 million). As the group's cash position continues to be strong, the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As at the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 37.6 million, of which EUR 29.2 million was unused (30.06.2019: EUR 34.1 million of which EUR 15.3 was unused). In addition to the overdraft facilities, the company has a working capital loan facility with a limit of EUR 3.5 million (30.06.2019: EUR 3.5 million) from AS Riverito, which was not withdrawn at the end of current period (30.06.2019: not withdrawn).

The 6-month cash flow from operating activity was positive at EUR 7.2 million (6 months of 2019: negative EUR 23.9 million), cash flow from investing activity was negative at EUR 1.7 million (6 months of 2019: negative EUR 1.3 million) and the cash flow from financing activity was negative at EUR 6.4 million (6 months of 2019: negative EUR 0.8 million).

The cash flow from operating activities had positive effect from EBITDA of EUR 10.5 million (6 months of 2019: positive effect of EUR 8.8 million), from the changes in receivables and liabilities related to construction contracts of EUR 6.8 million (6 months 2019: negative effect of EUR 8.1 million) and from the change in inventories of EUR 5.0 million (6 months of 2019: negative effect of EUR 44.7 million). The cash flows from inventories are mainly affected by the construction and sales phases of own developed apartments. The negative effects to cash flow from operating activities came from change in the provisions of EUR 5.1 million (6 months of 2019: negative effect of EUR 3.1 million), from the changes in trade and other receivables related to operating activities of EUR 1.7 million (6 months of 2019: positive effect of EUR 5.6 million), change in trade and other payables related to operating activities of EUR 6.8 million (6 months of 2019: positive effect of EUR 18.7 million) and from the corporate income tax of EUR 0.6 million (6 months of 2019: EUR 0.2 million).

To support cash flows from operating activities, including raising the volumes in apartment development, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (21.1% as at 30.06.2020; 21.8% as at 30.06.2019; 22.6% as at 31.12.2019).

Cash flows from investing activities include negative effect from the acquisition of non-current assets in the amount of EUR 1.8 million, which is mainly related to the renewal of equipment in the field of road construction, (6 months of 2019 EUR 1.1 million) and positive effect from the sale of non-current assets in the amount of EUR 0.1 million (6 months of 2019: EUR 0.3 million).

In cash flows from financing, the larger negative factors were the net change in loans received and repaid in connection with development projects in the amount of EUR 6.4 million (6 months of 2019: net positive cash flow of EUR 13.3 million), repayments of lease liabilities in the amount of EUR 0.5 million (6 months of 2019: net negative cash flow of EUR 0.5 million) and net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 0.3 million (6 months of 2019: negative cash flow in the net amount of EUR 0.2 million). Positive cash flow from financing activity were gained from positive change in loans related to construction projects and other activities in the net amount of EUR 0.8 million (6 months of 2019: net positive cash flow of EUR 4.4 million).

The Q2 2020 cash flow from operating activity was negative at EUR 2.5 million (Q2 2019: negative EUR 20.1 million), cash flow from investing activity was negative at EUR 1.6 million (Q2 2019: negative EUR 0.6 million) and the cash flow from financing activity was negative at EUR 9.3 million (Q2 2019: positive EUR 1.8 million)

## RATIOS

(attributable to equity holders of the parent)

<b>INCOME STATEMENT SUMMARY</b>		<b>6M 2020</b>	<b>6M 2019</b>	<b>6M 2018</b>	<b>Q2 2020</b>	<b>Q2 2019</b>	<b>Q2 2018</b>	<b>12M 2019</b>
Revenue	million EUR	129.7	154.2	183.7	73.9	77.4	103.3	326.8
Gross profit	million EUR	16.5	14.7	13.0	11.0	8.5	8.9	34.8
Gross profit margin	%	12.7	9.5	7.1	14.9	10.9	8.7	10.7
Operating profit	million EUR	9.1	7.6	7.2	6.9	4.7	5.9	19.2
Operating profit margin	%	7.0	4.9	3.9	9.4	6.1	5.8	5.9
Profit before tax (PBT)	million EUR	8.8	7.5	7.1	6.7	4.5	5.8	20.3
PBT margin	%	6.8	4.9	3.8	9.1	5.9	5.6	6.2
Net profit	million EUR	8.0	4.6	6.9	6.1	1.7	5.7	16.5
attributable to equity holders of the parent	million EUR	8.2	4.5	6.7	6.2	1.7	5.6	16.3
attributable to non-controlling interest	million EUR	(0.2)	0.2	0.2	(0.1)	0.0	0.1	0.2
Net profit margin	%	6.3	2.9	3.6	8.3	2.2	5.4	5.0
<b>Other income statement indicators</b>		<b>6M 2020</b>	<b>6M 2019</b>	<b>6M 2018</b>	<b>Q2 2020</b>	<b>Q2 2019</b>	<b>Q2 2018</b>	<b>12M 2019</b>
EBITDA	million EUR	10.5	8.8	8.2	7.7	5.3	6.4	21.9
EBITDA margin	%	8.1	5.7	4.4	10.4	6.9	6.2	6.7
General expense ratio	%	5.6	5.2	4.0	4.8	5.2	3.6	5.3
Labour cost ratio	%	12.0	12.0	8.5	10.3	12.4	8.2	11.4
Revenue per employee	thousand EUR	195	213	248	111	107	139	461
<b>OTHER SIGNIFICANT INDICATORS</b>		<b>30.06.2020</b>	<b>30.06.2019</b>	<b>30.06.2018</b>	<b>31.12.2019</b>			
Return on equity	%	15.3	13.4	14.4	12.9			
Return on assets	%	6.9	6.1	6.6	5.6			
Return on invested capital	%	11.3	11.7	12.5	11.1			
Assets	million EUR	274.9	287.9	278.3	281.8			
Equity	million EUR	142.4	123.3	123.9	134.6			
Equity attributable to equity holders of the parent	million EUR	138.4	118.5	119.1	130.3			
Equity ratio	%	50.3	41.2	42.8	46.2			
Debt ratio	%	21.1	21.8	19.4	22.6			
Current ratio	times	2.3	1.9	2.1	2.4			
Quick ratio	times	0.7	0.7	1.0	0.8			
Accounts receivable turnover	days	43	42	41	45			
Accounts payable turnover	days	47	47	43	53			
Average number of employees	people	667	724	742	709			
Secured order book	million EUR	236.7	172.1	247.0	141.4			

Ratio definitions are provided on page 39 of the report.

## RISK MANAGEMENT

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

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

### *Legal risk*

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

As at 30 June 2020, a provision has been set up at the group in the amount of EUR 0.2 million (30.06.2019: EUR 0.1 million) for covering potential claims and legal costs.

Below an overview of the key legal disputes and proceedings, which have taken place or ended during 2020 or are ongoing as of 30 June 2020 and which concern group entities is presented:

### **Estonia**

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

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

### **Latvia**

#### Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. The object of the statement of claim is damage deliberately caused by project manager Rolands Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The court hearing, which was scheduled for 4 June 2020, was postponed. The new court hearing is expected to take place on 3 December 2020. The possible effect of the potential positive outcome of this claim has not been taken into account in the group's financial reporting.

#### Starptautiskā lidosta "Rīga"

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

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

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

#### Latvian Competition Council administrative proceeding

In August, 2019, the Latvian Competition Council (*Konkurences padome*) instituted administrative proceeding, the purpose of which, to the group's knowledge, is to ascertain whether there have been infringements of competition law in Latvia by construction companies. SIA Merks is among the construction companies involved in the proceeding. As of this report, the

management has no information about the future of the proceeding. To the knowledge of the group's Management Board, the Competition Council has extended the deadline for the proceeding until 1 August 2021. No provisions are recognised in relation to the effect of this proceeding.

#### SIA Ostas celtnieks

On 6 November 2019, SIA Merks filed an action against SIA "Ostas celtnieks" in an amount of EUR 230 thousand and additional EUR 21 thousand for late interests. The basis for this claim is the loss incurred from the construction of Ventspils music school and concert hall carried out as per consortium contract of which 35% is to be covered by SIA "Ostas celtnieks" according to its share in the contract. So far, SIA "Ostas celtnieks" has not covered its share of the loss. Due to the COVID-19 pandemic, the court hearing has been postponed until 24 August 2020. The impact of this claim has not been taken into account in the group's reporting.

#### **Lithuania**

##### UAB Vilniaus vandenys

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

##### UAB Axis power

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

## EMPLOYEES AND LABOUR COSTS

As of 30 June 2020, Merko Ehitus group employed 673 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees decreased by 61 (-8.3%). The number of employees has decreased in Estonia and Latvia and increased in Lithuania and Norway.

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

The group defines labour cost as salary (incl. fixed salary, additional pay, holiday pay, and performance pay), taxes based on salary, fringe benefits and taxes on fringe benefits. In 6 months 2020, the labour cost was EUR 15.5 million (6 months 2019: EUR 18.6 million), which decreased by 16.3% compared to the same period previous year. The labour cost ratio remained at 12.0% in comparable periods.

During 6 months of 2020, AS Merko Ehitus Eesti, one of the largest Estonian construction companies, part of AS Merko Ehitus group, paid EUR 4.3 million in labour taxes in Estonia, making it the largest labour tax payer in the construction sector (6 months 2019: EUR 4.3 million).

## ETHICAL BUSINESS PRACTICES

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

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

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

## SHARE AND SHAREHOLDERS

### INFORMATION ON SECURITY

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

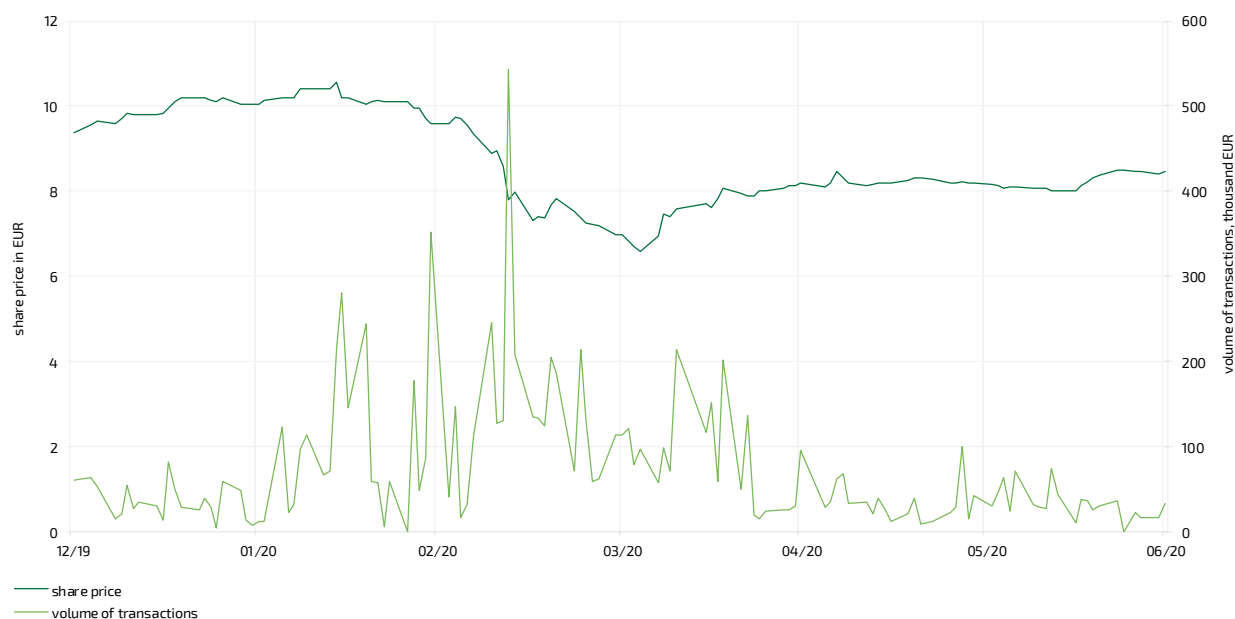
The shares of Merko Ehitus are listed in the Main List of Nasdaq Tallinn. As at 30 June 2020, the company has 17,700,000 shares. The number of shares has not changed during 2020.

A total of 13,115 transactions were conducted with the shares of Merko Ehitus in 6 months of 2020, with 1.09 million shares (6.1% of total shares) traded, generating a turnover of EUR 9.2 million (comparable figures in 6 months 2019 were accordingly: 5,580 transactions with 1.76 million shares traded (9.9% of total shares), generating a turnover of EUR 16.9 million). The lowest transaction was carried out with a price of EUR 6.56 and the highest with EUR 10.60 per share (6 months of 2019: EUR 8.90 and EUR 10.30, accordingly). On 30 June 2020, the closing price of the share was EUR 8.48 (30.06.2019: EUR 9.16). As at 30 June 2020, by the Nasdaq Baltic stock exchange, the market capitalisation of AS Merko Ehitus was EUR 150.1 million, down 7.4% compared to the end of the equivalent period of the prior year (30.06.2019: EUR 162.1 million).

	30.06.2020	30.06.2019	30.06.2018	31.12.2019
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.46	0.25	0.38	0.92
Equity per share, euros	7.37	7.20	7.10	7.13
P/B ratio	1.15	1.27	1.38	1.32
P/E ratio	7.51	9.47	9.56	10.20
Market value, million EUR	150.1	162.1	173.5	166.0

Ratio definitions are provided on page 39 of the report.

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



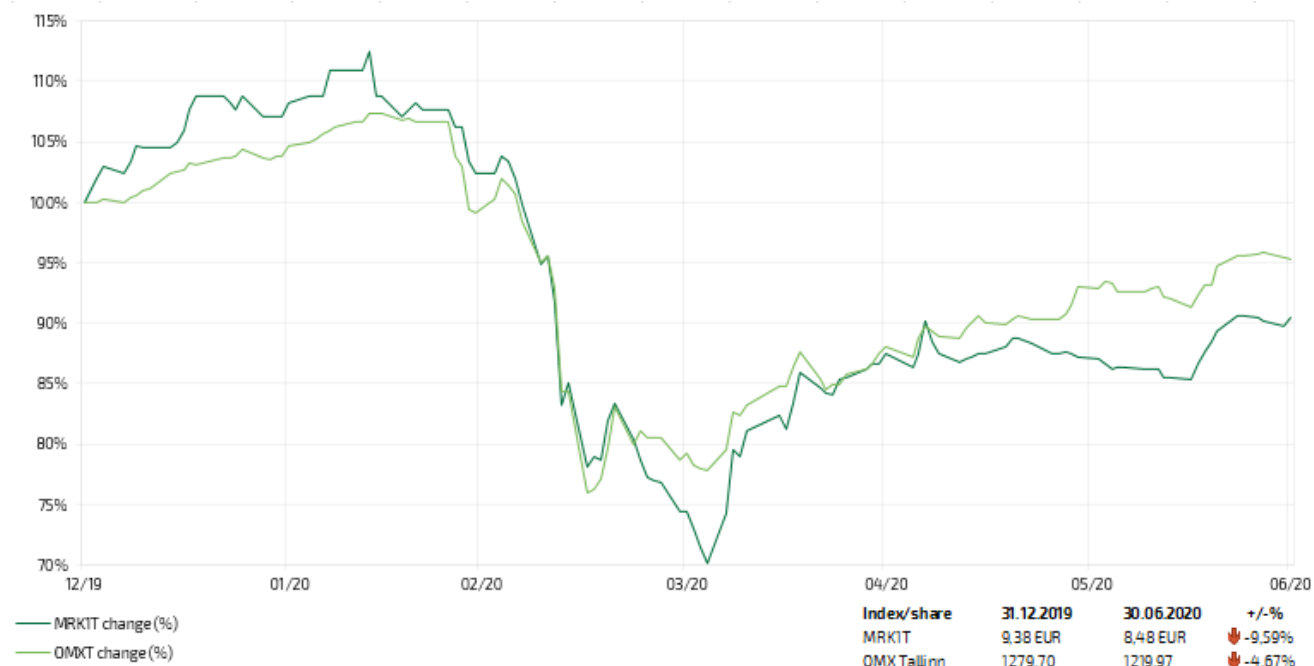
## STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 30.06.2020

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.02%	12,742,686	71.99%
100,001 – 1,000,000	9	0.17%	1,579,054	8.92%
10,001 – 100,000	45	0.84%	985,117	5.57%
1,001-10,000	526	9.86%	1,506,435	8.51%
101-1,000	2,124	39.80%	782,677	4.42%
1-100	2,632	49.31%	104,031	0.59%
<b>Total</b>	<b>5,337</b>	<b>100%</b>	<b>17,700,000</b>	<b>100%</b>

## SHAREHOLDERS OF AS MERKO EHITUS AS AT 30.06.2020 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 30.06.2020	% OF TOTAL 31.03.2020	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
Firebird Republics Fund Ltd	329,602	1.86%	1.86%	-
OÜ Midas Invest	317,000	1.79%	1.77%	3,900
Firebird Aurora Fund Ltd	185,777	1.05%	1.05%	-
Skandinaviska Enskilda Banken AB, Swedish customers	155,000	0.88%	0.88%	-
SEB Life and Pension Baltic SE Estonian Branch	148,787	0.84%	0.84%	-
Siseinfo OÜ	115,000	0.65%	0.65%	-
Clearstream Banking AG	111,453	0.63%	0.62%	1,951
Firebird Fund L.P.	111,435	0.63%	0.63%	-
Seitse Samuraid OÜ	105,000	0.59%	0.59%	1,000
<b>Total largest shareholders</b>	<b>14,321,740</b>	<b>80.91%</b>	<b>80.88%</b>	<b>6,851</b>
Total other shareholders	3,378,260	19.09%	19.12%	(6,851)
<b>Total</b>	<b>17,700,000</b>	<b>100%</b>	<b>100%</b>	<b>-</b>

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





## DIVIDENDS AND DIVIDEND POLICY

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

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

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

## CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE AND STRUCTURE

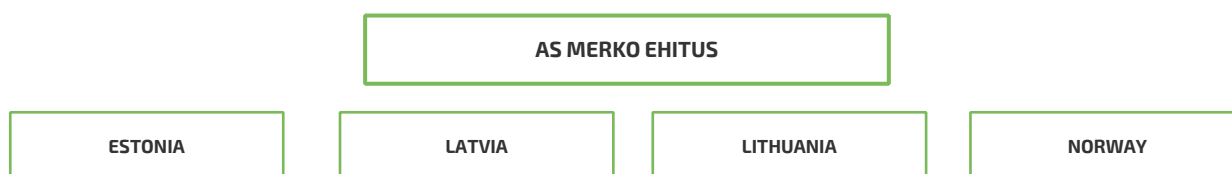
AS Merko Ehitus operates as a holding company to a group, the companies of which in Estonia, Latvia, Lithuania and Norway offer complete solutions in the field of construction and real estate development. The group's largest companies are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba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

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

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

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

As of 30 June 2020, the management structure is as follows:



### GROUP'S LEGAL STRUCTURE

As at 30 June 2020, the group comprises 32 companies (30.06.2019: 33). The group's legal structure is predominantly based on regulatory requirements and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Note 16 of the interim financial statements.

#### *Changes in the legal structure of the group*

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

On 27 December 2019, AS Merko Infra and OÜ Merko Kaevandused, fully owned subsidiaries of AS Merko Ehitus Eesti, signed a notarised division plan under which AS Merko Infra (company being divided) will divest the assets related to its quarry to OÜ Merko Kaevandused (recipient company). The balance sheet date of the division and transfer of assets was 1 January 2020. The final entry of the division in the Commercial Register was made on 18 June 2020.

### GENERAL MEETING OF SHAREHOLDERS

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

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

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

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

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

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

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

## SUPERVISORY BOARD

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

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

As at 30 June 2020, the Supervisory Board of AS Merko Ehitus had three members, of whom, in accordance with the requirements of the Corporate Governance Recommendations, Indrek Neivelt was an independent member.

## MANAGEMENT BOARD

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

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

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

## SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

Below are the supervisory boards and management boards of the significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 30 June 2020:

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

#### *Changes in the management of group subsidiaries*

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

The Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Member of the Management Board, Mr. Alar Lagus, until 31 December 2020. With this decision the duration of the powers of the Members of the Management Board are aligned. The Management Board of AS Merko Ehitus Eesti will continue in a four-member panel: Mr. Ivo Volkov (The Chairman), Mr. Jaan Mäe, Mr. Alar Lagus and Mr. Veljo Viitmann.

## MANAGEMENT BOARD'S DECLARATION

Members of the Management Board of AS Merko Ehitus declare and confirm that the consolidated unaudited interim report for the 6 months of 2020, which consists of the management report and the interim financial statements, prepared according to the current International Financial Reporting Standards as adopted by the European Union, provides, to the best of their knowledge, a true and fair view of the development of business operations, assets, liabilities, financial position, results of the operations, cash flows, and profit or loss of AS Merko Ehitus and the consolidated undertakings as a whole, includes a description of the principal risks and uncertainties, and reflects transactions with related parties. The parent company and the companies, which are part of the consolidation group, are going concerns.

Andres Trink	Chairman of the Management Board	06.08.2020
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Tõnu Toomik	Member of the Management Board	06.08.2020
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# INTERIM FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2020 6 months	2019 6 months	2020 II quarter	2019 II quarter	2019 12 months
Revenue	2	129,733	154,202	73,861	77,357	326,779
Cost of goods sold	3	(113,250)	(139,532)	(62,852)	(68,893)	(291,958)
<b>Gross profit</b>		<b>16,483</b>	<b>14,670</b>	<b>11,009</b>	<b>8,464</b>	<b>34,821</b>
Marketing expenses		(1,873)	(1,784)	(925)	(933)	(4,260)
General and administrative expenses		(5,393)	(6,241)	(2,588)	(3,117)	(12,988)
Other operating income		1,122	1,230	614	529	2,983
Other operating expenses		(1,252)	(253)	(1,189)	(218)	(1,318)
<b>Operating profit</b>		<b>9,087</b>	<b>7,622</b>	<b>6,921</b>	<b>4,725</b>	<b>19,238</b>
Finance income/costs		(310)	(97)	(211)	(180)	1,085
incl. finance income/costs from joint venture		92	203	2	(19)	1,766
interest expense		(330)	(286)	(158)	(151)	(656)
foreign exchange gain (loss)		(4)	(4)	(4)	(4)	-
other financial income (expenses)		(68)	(10)	(51)	(6)	(25)
<b>Profit before tax</b>		<b>8,777</b>	<b>7,525</b>	<b>6,710</b>	<b>4,545</b>	<b>20,323</b>
Corporate income tax expense		(786)	(2,888)	(648)	(2,813)	(3,833)
<b>Net profit for financial year</b>		<b>7,991</b>	<b>4,637</b>	<b>6,062</b>	<b>1,732</b>	<b>16,490</b>
incl. net profit attributable to equity holders of the parent		8,175	4,453	6,156	1,675	16,270
net profit attributable to non-controlling interest		(184)	184	(94)	57	220
<b>Other comprehensive income, which can subsequently be classified in the income statement</b>						
Currency translation differences of foreign entities		(128)	29	60	(3)	13
<b>Comprehensive income for the period</b>		<b>7,863</b>	<b>4,666</b>	<b>6,122</b>	<b>1,729</b>	<b>16,503</b>
incl. net profit attributable to equity holders of the parent		8,044	4,480	6,221	1,672	16,281
net profit attributable to non-controlling interest		(181)	186	(99)	57	222
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.46	0.25	0.35	0.09	0.92

The notes set out on pages 25-38 are an integral part of these interim financial statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	30.06.2020	30.06.2019	31.12.2019
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	5	23,728	13,980	24,749
Trade and other receivables	6	44,790	72,561	50,413
Prepaid corporate income tax		91	94	104
Inventories	7	161,534	162,829	166,226
		<b>230,143</b>	<b>249,464</b>	<b>241,492</b>
<b>Non-current assets</b>				
Investments in joint venture		2,590	935	2,498
Other long-term loans and receivables	8	14,504	11,418	11,094
Investment property	9	13,988	14,115	14,047
Property, plant and equipment	10	12,996	11,255	11,919
Intangible assets	11	686	727	777
		<b>44,764</b>	<b>38,450</b>	<b>40,335</b>
<b>TOTAL ASSETS</b>		<b>274,907</b>	<b>287,914</b>	<b>281,827</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Borrowings	12	28,011	31,786	20,725
Payables and prepayments	13	63,243	88,748	69,585
Income tax liability		912	2,854	812
Short-term provisions	14	5,915	6,276	7,976
		<b>98,081</b>	<b>129,664</b>	<b>99,098</b>
<b>Non-current liabilities</b>				
Long-term borrowings	12	29,900	30,921	43,001
Deferred income tax liability		1,650	1,556	1,682
Other long-term payables	15	2,858	2,473	3,491
		<b>34,408</b>	<b>34,950</b>	<b>48,174</b>
<b>TOTAL LIABILITIES</b>		<b>132,489</b>	<b>164,614</b>	<b>147,272</b>
<b>EQUITY</b>				
Non-controlling interests		4,036	4,763	4,217
<b>Equity attributable to equity holders of the parent</b>				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	793	793
Currency translation differences		(841)	(694)	(710)
Retained earnings		130,501	110,509	122,326
		<b>138,382</b>	<b>118,537</b>	<b>130,338</b>
<b>TOTAL EQUITY</b>		<b>142,418</b>	<b>123,300</b>	<b>134,555</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>274,907</b>	<b>287,914</b>	<b>281,827</b>

The notes set out on pages 25-38 are an integral part of these interim financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
<b>Balance as at 31.12.2018</b>	<b>7,929</b>	<b>793</b>	<b>(721)</b>	<b>123,756</b>	<b>131,757</b>	<b>4,577</b>	<b>136,334</b>
<b>Balance as at 01.01.2019</b>	<b>7,929</b>	<b>793</b>	<b>(721)</b>	<b>123,756</b>	<b>131,757</b>	<b>4,577</b>	<b>136,334</b>
Adjustment on the adoption of IFRS 16	-	-	-	-	-	-	-
<b>Balance as at 01.01.2019 restated</b>	<b>7,929</b>	<b>793</b>	<b>(721)</b>	<b>123,756</b>	<b>131,757</b>	<b>4,577</b>	<b>136,334</b>
Profit (loss) for the reporting period	-	-	-	4,453	4,453	184	4,637
Other comprehensive income	-	-	27	-	27	2	29
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>27</b>	<b>4,453</b>	<b>4,480</b>	<b>186</b>	<b>4,666</b>
<b>Transactions with owners</b>							
Option over shares relating to non-controlling interests	-	-	-	-	-	72	72
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	(72)	(17,772)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,700)</b>	<b>(17,700)</b>	<b>-</b>	<b>(17,700)</b>
<b>Balance as at 30.06.2019</b>	<b>7,929</b>	<b>793</b>	<b>(694)</b>	<b>110,509</b>	<b>118,537</b>	<b>4,763</b>	<b>123,300</b>
<b>Balance as at 31.12.2019</b>	<b>7,929</b>	<b>793</b>	<b>(710)</b>	<b>122,326</b>	<b>130,338</b>	<b>4,217</b>	<b>134,555</b>
Profit (loss) for the reporting period	-	-	-	8,175	8,175	(184)	7,991
Other comprehensive income	-	-	(131)	-	(131)	3	(128)
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>(131)</b>	<b>8,175</b>	<b>8,044</b>	<b>(181)</b>	<b>7,863</b>
<b>Transactions with owners</b>							
Option over shares relating to non-controlling interests	-	-	-	-	-	66	66
Dividends (Note 4)	-	-	-	-	-	(66)	(66)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance as at 30.06.2020</b>	<b>7,929</b>	<b>793</b>	<b>(841)</b>	<b>130,501</b>	<b>138,382</b>	<b>4,036</b>	<b>142,418</b>

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

*The notes set out on pages 25-38 are an integral part of these interim financial statements.*

## CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2020 6 months	2019 6 months	2019 12 months
<b>Cash flows from operating activities</b>				
Operating profit		9,087	7,622	19,238
Adjustments:				
Depreciation and impairment		1,413	1,170	2,707
(Profit)/loss from sale of non-current assets		(113)	(190)	(309)
Change in receivables and liabilities related to construction contracts		6,835	(8,123)	(10,697)
Interest income from operating activities		(709)	(895)	(2,190)
Change in provisions		(5,130)	(3,069)	282
Change in trade and other receivables related to operating activities		(1,686)	5,566	26,854
Change in inventories		4,976	(44,692)	(48,118)
Change in trade and other payables related to operating activities		(6,814)	18,706	1,811
Interest received		666	650	2,265
Interest paid		(603)	(390)	(1,039)
Other finance income (costs)		(69)	(38)	(129)
Corporate income tax paid		(648)	(216)	(3,093)
<b>Total cash flows from operating activities</b>		<b>7,205</b>	<b>(23,899)</b>	<b>(12,418)</b>
<b>Cash flows from investing activities</b>				
Purchase of investment property		(7)	(410)	(410)
Purchase of property, plant and equipment (excl. leased assets)		(1,802)	(1,143)	(2,199)
Proceeds from sale of property, plant and equipment		147	345	508
Purchase of intangible assets		(20)	(137)	(273)
Interest received		-	2	2
<b>Total cash flows from investing activities</b>		<b>(1,682)</b>	<b>(1,343)</b>	<b>(2,372)</b>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings		27,465	28,827	46,527
Repayments of borrowings		(33,345)	(11,338)	(28,211)
Repayments of lease liabilities		(486)	(518)	(1,006)
Dividends paid		(66)	(17,772)	(17,772)
<b>Total cash flows from financing activities</b>		<b>(6,432)</b>	<b>(801)</b>	<b>(462)</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>(909)</b>	<b>(26,043)</b>	<b>(15,252)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	5	<b>24,749</b>	<b>39,978</b>	<b>39,978</b>
<b>Effect of exchange rate changes</b>		<b>(112)</b>	<b>45</b>	<b>23</b>
<b>Cash and cash equivalents at the end of the period</b>	5	<b>23,728</b>	<b>13,980</b>	<b>24,749</b>

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 6 months 2020 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2019 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2019 audited annual report and 2019 6 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 6 months 2020 present a true and fair view of the group's economic results based on the principle of going concern. The influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

## NOTE 2 OPERATING SEGMENTS

in thousand euros

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

Reporting of the group's operations are segmented as:

- construction service,
- real estate development.

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

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

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

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

2020 6 months	Construction service	Real estate development	Total segments
Revenue	77,713	68,013	140,726
Inter-segment revenue	(11)	(10,982)	(10,993)
<b>Revenue from clients</b>	<b>77,702</b>	<b>52,031</b>	<b>129,733</b>
incl. timing of revenue recognition at a point in time	666	48,268	48,934
timing of revenue recognition over time	77,036	3,763	80,799
<b>Operating profit (loss)</b>	<b>993</b>	<b>8,889</b>	<b>9,882</b>
<b>Profit (loss) before tax</b>	<b>862</b>	<b>8,830</b>	<b>9,692</b>
incl. interest income from operating activities	13	696	709
depreciation	(1,164)	(249)	(1,413)
recognition of provisions	(608)	(271)	(879)
reversal of provisions	3	-	3
profit from joint venture	-	92	92

<b>2020 6 months</b>	<b>Construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
other finance income (costs)	(10)	(106)	(116)
incl. interest expenses	(10)	(89)	(99)
<b>Assets 30.06.2020</b>	<b>58,869</b>	<b>193,445</b>	<b>252,314</b>
incl. joint venture	-	2,590	2,590
<b>2019 6 months</b>	<b>Construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	142,100	24,753	166,853
Inter-segment revenue	(14)	(12,637)	(12,651)
<b>Revenue from clients</b>	<b>142,086</b>	<b>12,116</b>	<b>154,202</b>
incl. timing of revenue recognition at a point in time	884	9,785	10,669
timing of revenue recognition over time	141,202	2,331	143,533
<b>Operating profit (loss)</b>	<b>7,682</b>	<b>899</b>	<b>8,581</b>
<b>Profit (loss) before tax</b>	<b>7,574</b>	<b>988</b>	<b>8,562</b>
incl. interest income from operating activities	30	864	894
depreciation	(1,000)	(170)	(1,170)
impairment of inventories	(175)	-	(175)
recognition of provisions	(1,832)	(329)	(2,161)
profit from joint venture	-	203	203
other finance income (costs)	(5)	(107)	(112)
incl. interest expenses	(5)	(98)	(103)
<b>Assets 30. 06.2019</b>	<b>72,819</b>	<b>199,957</b>	<b>272,776</b>
incl. joint venture	-	935	935
<b>2020 II quarter</b>	<b>Construction service</b>	<b>Real estate development</b>	<b>Total segments</b>
Revenue	42,801	35,283	78,084
Inter-segment revenue	(6)	(4,217)	(4,223)
<b>Revenue from clients</b>	<b>42,795</b>	<b>31,066</b>	<b>73,861</b>
incl. timing of revenue recognition at a point in time	230	28,093	28,323
timing of revenue recognition over time	42,565	2,973	45,538
<b>Operating profit (loss)</b>	<b>1,346</b>	<b>6,007</b>	<b>7,353</b>
<b>Profit (loss) before tax</b>	<b>1,283</b>	<b>5,935</b>	<b>7,218</b>
incl. interest income from operating activities	6	333	339
depreciation	(617)	(124)	(741)
recognition of provisions	366	(109)	257
reversal of provisions	3	-	3
profit from joint venture	-	2	2
other finance income (costs)	(4)	(53)	(57)
incl. interest expenses	(4)	(44)	(48)
<b>Assets' change in II quarter</b>	<b>5,829</b>	<b>(5,030)</b>	<b>799</b>
incl. joint venture	-	2	2

2019 II quarter	Construction service	Real estate development	Total segments
Revenue	71,728	13,474	85,202
Inter-segment revenue	(8)	(7,837)	(7,845)
<b>Revenue from clients</b>	<b>71,720</b>	<b>5,637</b>	<b>77,357</b>
incl. timing of revenue recognition at a point in time	549	4,759	5,308
timing of revenue recognition over time	71,171	878	72,049
<b>Operating profit (loss)</b>	<b>4,901</b>	<b>340</b>	<b>5,241</b>
<b>Profit (loss) before tax</b>	<b>4,844</b>	<b>260</b>	<b>5,104</b>
incl. interest income from operating activities	9	428	437
depreciation	(509)	(87)	(596)
impairment of inventories	(175)	-	(175)
recognition of provisions	606	(317)	289
reversal of provisions	-	(63)	(63)
profit from joint venture	-	(19)	(19)
other finance income (costs)	(1)	(57)	(58)
incl. interest expenses	(1)	(52)	(53)
<b>Assets' change in II quarter</b>	<b>(919)</b>	<b>26,682</b>	<b>25,763</b>
incl. joint venture	-	(19)	(19)

2019 12 months	Construction service	Real estate development	Total segments
Revenue	256,749	99,863	356,612
Inter-segment revenue	(47)	(29,786)	(29,833)
<b>Revenue from clients</b>	<b>256,702</b>	<b>70,077</b>	<b>326,779</b>
incl. timing of revenue recognition at a point in time	2,155	66,384	68,539
timing of revenue recognition over time	254,547	3,693	258,240
<b>Operating profit (loss)</b>	<b>13,276</b>	<b>8,115</b>	<b>21,391</b>
<b>Profit (loss) before tax</b>	<b>13,053</b>	<b>9,607</b>	<b>22,660</b>
incl. interest income from operating activities	47	2,143	2,190
depreciation	(2,264)	(443)	(2,707)
impairment of inventories	(175)	-	(175)
recognition of provisions	(3,934)	(1,533)	(5,467)
reversal of provisions	257	-	257
profit from joint venture	-	1,766	1,766
other finance income (costs)	(13)	(256)	(269)
incl. interest expenses	(17)	(239)	(256)
<b>Assets 31.12.2019</b>	<b>54,944</b>	<b>195,073</b>	<b>250,017</b>
incl. joint venture	-	2,498	2,498

In addition to the segment assets, as at 30.06.2020 the group holds assets in the amount of EUR 22,593 thousand (30.06.2019: EUR 15,138 thousand; 31.12.2019: EUR 31,810 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	2020 6 months	2019 6 months	2020 II quarter	2019 II quarter	2019 12 months
<b>Pre-tax profit from reporting segments</b>	<b>9,692</b>	<b>8,562</b>	<b>7,218</b>	<b>5,104</b>	<b>22,660</b>
Other operating profit (loss)	(794)	(958)	(431)	(515)	(2,153)
incl. recognition of provisions	-	-	-	7	(9)
finance income (costs)	(121)	(79)	(77)	(44)	(184)
incl. interest expenses	(91)	(76)	(47)	(39)	(178)
<b>Total profit before tax</b>	<b>8,777</b>	<b>7,525</b>	<b>6,710</b>	<b>4,545</b>	<b>20,323</b>

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

### REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2020 6 months		2019 6 months		2020 II quarter		2019 II quarter		2019 12 months	
Estonia	64,430	50%	66,258	47%	38,433	52%	36,108	46%	168,825	52%
Latvia	25,248	19%	55,639	36%	8,451	11%	24,387	32%	92,772	28%
Lithuania	35,407	27%	18,572	12%	24,107	33%	9,043	12%	46,202	14%
Norway	4,648	4%	13,733	9%	2,870	4%	7,819	10%	18,980	6%
<b>Total</b>	<b>129,733</b>	<b>100%</b>	<b>154,202</b>	<b>100%</b>	<b>73,861</b>	<b>100%</b>	<b>77,357</b>	<b>100%</b>	<b>326,779</b>	<b>100%</b>

### CONTRACT ASSETS AND LIABILITIES

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
Accrued income from construction services (Note 6)	8,005	12,510	11,689
Prepayments for construction services (Note 13)	(11,265)	(11,445)	(8,058)
Advance payments received for construction contract works (Note 13)	(3,280)	(2,422)	(5,637)
Recognised provision for onerous construction contracts (Note 14)	(1,011)	(239)	(1,295)

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

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
Estonia	16,488	13,049	15,289
Latvia	13,177	13,477	13,333
Lithuania	472	382	476
Norway	123	124	143
<b>Total</b>	<b>30,260</b>	<b>27,032</b>	<b>29,241</b>

## NOTE 3 COST OF GOODS SOLD

in thousand euros

	2020 6 months	2019 6 months	2020 II quarter	2019 II quarter	2019 12 months
Construction services and properties purchased for resale	69,365	80,644	39,332	40,961	185,121
Materials	19,183	29,693	11,230	14,202	49,121
Labour costs	10,701	13,190	5,243	6,868	26,323
Construction mechanisms and transport	5,217	4,305	3,507	2,479	8,911
Design	2,460	2,051	1,317	881	4,394
Real estate management costs	151	207	66	87	401
Depreciation	945	732	505	364	1,835
Impairment of inventories	-	175	-	175	175
Provisions	876	2,161	(260)	(225)	4,939
Other expenses	4,352	6,374	1,912	3,101	10,738
<b>Total cost of goods sold</b>	<b>113,250</b>	<b>139,532</b>	<b>62,852</b>	<b>68,893</b>	<b>291,958</b>

## NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2020 6 months	2019 6 months	2020 II quarter	2019 II quarter	2019 12 months
Net profit (loss) attributable to shareholders ( <i>in thousand EUR</i> )	8,175	4,453	6,156	1,675	16,270
Weighted average number of ordinary shares ( <i>thousand pcs</i> )	17,700	17,700	17,700	17,700	17,700
<b>Earnings (loss) per share (<i>in euros</i>)</b>	<b>0.46</b>	<b>0.25</b>	<b>0.35</b>	<b>0.09</b>	<b>0.92</b>

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

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

As at 30.06.2020, the parent company AS Merko Ehitus has previously taxed dividends and income received from abroad in a sum of EUR 3,328 thousand (30.06.2019: EUR 0 thousand; 31.12.2019: EUR 1 thousand), on which income tax has been withheld.

As at 30.06.2020, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 104,634 thousand (30.06.2019: EUR 87,852 thousand; 31.12.2019: EUR 97,533 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 832 thousand (30.06.2019: EUR 0 thousand; 31.12.2019: EUR 0 thousand), the corresponding income tax on dividends would amount to EUR 25,026 thousand (30.06.2019: EUR 21,963 thousand; 31.12.2019: EUR 24,083 thousand). Regarding the additional income tax on dividends, the 14% tax rate on regularly payable dividends (14/86 on net dividends), which is applied on the average amount of the paid dividends taxed in Estonia during the previous 3 years, has been taken into consideration, including the fact that the income tax on regularly payable dividends is applied to dividends taxed in Estonia starting only from 2018, and therefore in 2020 the sum of dividends that shall be taxed using the 14% rate is one third of the total sum of dividends that have been taxed in Estonia during 2018 and 2019. Above that sum, a regular 20% tax rate is applied to the dividends (i.e. a 20/80 tax rate applied to the sum paid out as net dividends). The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

## NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
Cash on hand	1	-	6
Bank accounts	23,727	13,908	24,743
Overnight deposits	-	72	-
<b>Total cash and cash equivalents</b>	<b>23,728</b>	<b>13,980</b>	<b>24,749</b>

## NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
Trade receivables			
Accounts receivable	35,905	40,887	34,148
Allowance for doubtful receivables	(1,977)	(81)	(856)
	<b>33,928</b>	<b>40,806</b>	<b>33,292</b>
Tax prepayments excluding corporate income tax			
Value added tax	747	4,905	695
Other taxes	2	2	3
	<b>749</b>	<b>4,907</b>	<b>698</b>
Accrued income from construction services	8,005	12,510	11,689
Other short-term receivables			
Short-term loans	50	8,090	1,700
Interest receivables	10	344	3
Other short-term receivables	145	433	172
	<b>205</b>	<b>8,867</b>	<b>1,875</b>
Prepayments for services			
Prepayments for construction services	1,512	5,020	2,441
Prepaid insurance	116	112	117
Other prepaid expenses	275	339	301
	<b>1,903</b>	<b>5,471</b>	<b>2,859</b>
<b>Total trade and other receivables</b>	<b>44,790</b>	<b>72,561</b>	<b>50,413</b>
incl. short-term loan receivables from related parties (Note 16)	-	6,500	1,650
other short-term receivables and prepayments to related parties (Note 16)	551	521	89

During the reporting year accounts receivables in overdue have been written down in the amount of EUR 1,123 thousand (during 6 months of 2019: EUR 0 thousand; during 12 months of 2019: EUR 795 thousand).

## NOTE 7 INVENTORIES

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
Materials	544	1,095	236
Work-in-progress	70,953	75,631	65,550
Finished goods	17,753	15,927	28,252
Goods for resale			
Registered immovables purchased for resale/development	69,377	66,985	70,193
Other goods purchased for resale	133	518	133
	<b>69,510</b>	<b>67,503</b>	<b>70,326</b>
Prepayments for inventories			
Prepayments for other inventories	2,774	2,673	1,862
<b>Total inventories</b>	<b>161,534</b>	<b>162,829</b>	<b>166,226</b>

## NOTE 8 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
Long-term loans	1,115	-	-
Long-term bank deposit	2	-	-
Long-term receivables from customers of construction services	13,387	11,418	11,094
<b>Total other long-term loans and receivables</b>	<b>14,504</b>	<b>11,418</b>	<b>11,094</b>
incl. long-term loan receivables from related parties (Note 16)	1,115	-	-

## NOTE 9 INVESTMENT PROPERTY

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
Land	12,407	12,401	12,400
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(13)	(12)	(13)
	<b>16</b>	<b>17</b>	<b>16</b>
Buildings at carrying amount			
Cost	2,631	2,631	2,631
Accumulated depreciation	(1,066)	(934)	(1,000)
	<b>1,565</b>	<b>1,697</b>	<b>1,631</b>
<b>Total investment property</b>	<b>13,988</b>	<b>14,115</b>	<b>14,047</b>

## NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
Land	712	712	712
Buildings at carrying amount*			
Cost	6,386	6,535	6,558
Accumulated depreciation	(2,737)	(2,398)	(2,629)
	<b>3,649</b>	<b>4,137</b>	<b>3,929</b>
Machinery and equipment at carrying amount*			
Cost	14,321	14,000	14,371
Accumulated depreciation	(8,394)	(8,311)	(8,671)
	<b>5,927</b>	<b>5,689</b>	<b>5,700</b>
Other fixtures at carrying amount			
Cost	3,972	3,455	4,018
Accumulated depreciation	(3,060)	(2,876)	(2,942)
	<b>912</b>	<b>579</b>	<b>1,076</b>
Prepayments for property, plant and equipment	1,796	138	502
<b>Total property, plant and equipment</b>	<b>12,996</b>	<b>11,255</b>	<b>11,919</b>

\* As of 30 June 2020 the balance of buildings at carrying amount includes leased assets in a sum of EUR 398 thousand (30.06.2019: EUR 640 thousand; 31.12.2019: EUR 526 thousand). The balance of machinery and equipment at carrying amount includes leased assets in a sum of EUR 2,580 thousand (30.06.2019: EUR 2,213 thousand; 31.12.2019: EUR 2,456 thousand).

## NOTE 11 INTANGIBLE ASSETS

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
Goodwill			
Cost	66	75	73
	<b>66</b>	<b>75</b>	<b>73</b>
Software at carrying amount			
Cost	2,000	1,797	2,024
Accumulated depreciation	(1,395)	(1,237)	(1,320)
	<b>605</b>	<b>560</b>	<b>704</b>
Prepayments for intangible assets	15	92	-
<b>Total intangible assets</b>	<b>686</b>	<b>727</b>	<b>777</b>



## NOTE 12 BORROWINGS

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
<b>Lease liabilities*</b>			
Lease liabilities balance	2,958	2,700	2,891
incl. current portion	838	780	806
non-current portion 2...5 years	2,120	1,920	2,085
<b>Bank loans</b>			
Loan balance	48,953	54,007	54,835
incl. current portion	21,173	30,006	18,919
non-current portion 2...5 years	27,780	24,001	35,916
<b>Loans from entities under common control</b>			
Loan balance	6,000	6,000	6,000
incl. current portion (Note 16)	6,000	1,000	1,000
non-current portion 2...5 years (Note 16)	-	5,000	5,000
<b>Total loans</b>			
Loans balance	54,953	60,007	60,835
incl. current portion	27,173	31,006	19,919
non-current portion 2...5 years	27,780	29,001	40,916
<b>Total borrowings</b>			
incl. current portion	57,911	62,707	63,726
non-current portion 2...5 years	28,011	31,786	20,725
non-current portion 2...5 years	29,900	30,921	43,001

\* As of 30 June 2020 the lease liabilities include a balance of EUR 106 thousand to related parties (30.06.2019: EUR 148 thousand; 31.12.2019: EUR 124 thousand) (Note 16).

## NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
Trade payables	29,537	53,509	30,681
Payables to employees	7,610	9,169	10,647
Tax liabilities, except for corporate income tax			
Value added tax	2,244	261	4,270
Personal income tax	397	446	485
Social security tax	1,053	1,107	1,146
Unemployment insurance tax	37	44	48
Contributions to mandatory funded pension	26	27	33
Other taxes	296	249	205
	<b>4,053</b>	<b>2,134</b>	<b>6,187</b>
Prepayments for construction services	11,265	11,445	8,058
Other liabilities			
Interest liabilities	16	29	5
Dividends payables	196	-	-
Other liabilities	316	307	218
	<b>528</b>	<b>336</b>	<b>223</b>
Prepayments received *	10,250	12,155	13,789
<b>Total payables and prepayments</b>	<b>63,243</b>	<b>88,748</b>	<b>69,585</b>
incl. payables to related parties (Note 16)	220	232	12

\* As of 30 June 2020 the balance of prepayments received consists of prepayments received in connection with construction contracts (advance payments received for construction contract works) in a sum of EUR 3,280 thousand (30.06.2019: EUR 2,422 thousand; 31.12.2019: EUR 5,637 thousand) and of prepayments received in connection with residential properties (apartment buyers) in a sum of EUR 6,970 thousand (30.06.2019: EUR 9,733 thousand; 31.12.2019: EUR 8,152 thousand) (Note 2).

## NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
Provision for warranty obligation for construction	3,420	3,570	3,507
Provision for costs of projects sold and work-in-progress projects	1,282	2,244	2,894
Provision for onerous construction contracts	1,011	239	1,295
Provision for legal costs and claims filed	202	120	202
Other provisions	-	103	78
<b>Total short-term provisions</b>	<b>5,915</b>	<b>6,276</b>	<b>7,976</b>

## NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
Trade payables	2,202	2,028	2,476
Other long-term liabilities	656	445	1,015
<b>Other long-term payables total</b>	<b>2,858</b>	<b>2,473</b>	<b>3,491</b>
incl. other long-term payables to related parties (Note 16)	656	445	1,015

## NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 30.06.2020; 30.06.2019 and 31.12.2019, AS Riverito owned 71.99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr. Toomas Annus.

### AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	30.06.2020	30.06.2019	31.12.2019		
<b>Subsidiaries</b>					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
AS Merko Infra	100	100	100	Estonia, Tallinn	Construction
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
OÜ Vahi Lastehoid	100	100	100	Estonia, Tallinn	Real estate
OÜ Merko Kaevandused	100	-	100	Estonia, Tallinn	Mining
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Statinių priežiūra ir administravimas	100	100	100	Lithuania, Vilnius	Real estate
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 2	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP Projektas	100	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikšte	100	100	100	Lithuania, Vilnius	Real estate
UAB MB Projektas	100	100	100	Lithuania, Vilnius	Real estate
OÜ Kiviaia Kinnisvara	-	100	100	Estonia, Tallinn	Real estate
SIA Merko Investments	-	100	-	Latvia, Riga	Holding
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	100	Latvia, Riga	Real estate
SIA Industriālais Parks	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	75	Latvia, Riga	Real estate
PS Merks-Ostas celtnieks	65	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	100	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	100	Finland, Helsinki	Construction
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	56	Norway, Sofiemyr	Construction
<b>Joint venture</b>					
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate

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

**GOODS AND SERVICES**

in thousand euros

	2020 6 months	2019 6 months	2019 12 months
<b>Provided services and goods sold</b>			
Parent company	7	8	15
Joint venture	1,090	2,482	2,770
Entities under common control	280	-	847
Members of the management	179	415	2,441
<b>Total services provided and goods sold</b>	<b>1,556</b>	<b>2,905</b>	<b>6,073</b>
<b>Interest income</b>			
Joint venture	40	242	377
<b>Purchased services and goods</b>			
Parent company	45	45	90
Entities under common control	29	29	137
Members of the management	1	-	-
<b>Total purchased services and goods</b>	<b>75</b>	<b>74</b>	<b>227</b>
<b>Interest expense</b>			
Entities under common control	71	73	145
<b>Total interest expense</b>	<b>71</b>	<b>73</b>	<b>145</b>

**BALANCES WITH RELATED PARTIES**

in thousand euros

	30.06.2020	30.06.2019	31.12.2019
<b>Receivables from related parties</b>			
Loans granted (Note 6)			
Joint ventures	1,115	6,500	1,650
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Joint venture	383	510	64
Entities under common control	36	7	9
Members of the management	128	-	12
Total receivables and prepayments	<b>551</b>	<b>521</b>	<b>89</b>
<b>Total receivables from related parties</b>	<b>1,666</b>	<b>7,021</b>	<b>1,739</b>
<b>Payables to related parties</b>			
Lease liabilities (Note 12)			
Entities under common control	106	148	124
Short-term loans received (Note 12)			
Entities under common control	6,000	1,000	1,000
Payables and prepayments (Note 13)			
Parent company	9	9	9
Entities under common control	15	15	3
Members of the management	-	208	-
Other related parties	196	-	-
Total payables and prepayments	<b>220</b>	<b>232</b>	<b>12</b>

	30.06.2020	30.06.2019	31.12.2019
Long-term loans received (Note 12)			
Entities under common control	-	5,000	5,000
Other long-term payables (Note 15)			
Other related parties	656	445	1,015
<b>Total payables to related parties</b>	<b>6,982</b>	<b>6,825</b>	<b>7,151</b>

#### REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 6 months of 2020 was EUR 922 thousand (6 months of 2019: EUR 1,604 thousand; 12 months of 2019: EUR 3,212 thousand).

#### TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 6 months of 2020, the Management Board members of major subsidiaries received EUR 65 thousand in compensation (6 months of 2019: EUR 0 thousand; 12 months of 2019: EUR 0 thousand).

#### MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 30.06.2020:

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

\* Toomas Annus holds the majority of the votes represented by shares in AS Riverito directly and through holding companies (176,351 shares out of a total of 250,540 shares). With that the votes held by AS Riverito in AS Merko Ehitus (12,742,686 shares) are deemed to belong to Toomas Annus.

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

Shares held by members of the Management Board of AS Merko Ehitus as at 30.06.2020:

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

## NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	30.06.2020	30.06.2019	31.12.2019
Performance period's warranty to the customer	30,163	37,928	24,896
Tender warranty	752	1,565	916
Guarantee for warranty period	21,193	20,525	19,964
Prepayment guarantee	7,332	1,631	6,835
Contracts of surety	1,993	8,044	7,783
<b>Total contingent liabilities</b>	<b>61,433</b>	<b>69,693</b>	<b>60,394</b>

**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 (%)	=	$\frac{\text{Earnings before tax}}{\text{Revenue}}$
Net profit margin (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$
Return on equity, ROE (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Shareholders equity (average of the current 4 quarters)}}$
Return on assets, ROA (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Total assets (average of the current 4 quarters)}}$
Return on invested capital, ROIC (%)	=	$\frac{(\text{Profit before tax} + \text{interest expense} - \text{foreign exchange gain (loss)} + \text{other financial income}) \text{ of the current 4 quarters}}{(\text{Shareholders equity (average)} + \text{interest-bearing liabilities (average)}) \text{ of the current 4 quarters}}$
Equity ratio (%)	=	$\frac{\text{Shareholders' equity}}{\text{Total assets}}$
Debt ratio (%)	=	$\frac{\text{Interest-bearing liabilities}}{\text{Total assets}}$
Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	=	$\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$
Accounts receivable turnover(days)	=	$\frac{\text{Trade receivables of the current 4 quarters (average)} \times 365}{\text{Revenue of the current 4 quarters}}$
Accounts payable turnover (days)	=	$\frac{\text{Payables to suppliers of the current 4 quarters (average)} \times 365}{\text{Cost of goods sold of the current 4 quarters}}$
EBITDA (million EUR)	=	Operating profit + depreciation
EBITDA margin (%)	=	$\frac{\text{Operating profit} + \text{depreciation}}{\text{Revenue}}$
General expense ratio (%)	=	$\frac{\text{Marketing expenses} + \text{General and administrative expenses}}{\text{Revenue}}$
Labour cost ratio (%)	=	$\frac{\text{Labour costs}}{\text{Revenue}}$
Revenue per employee (EUR)	=	$\frac{\text{Revenue}}{\text{Number of employees (average)}}$
Earnings per share, EPS (EUR)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$
Equity/share (EUR)	=	$\frac{\text{Shareholders equity (average of the current 4 quarters)}}{\text{Number of shares}}$
Dividend per share (EUR)	=	$\frac{\text{Payable dividends}}{\text{Number of shares}}$
Dividend rate (%)	=	$\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$
Dividend yield (%)	=	$\frac{\text{Dividends payable per share}}{\text{Share price 31.12}}$
P/E	=	$\frac{\text{Share price 30.06}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 30.06}}{\text{Equity per share (average of the current 4 quarters)}}$
Market value	=	Share price 30.06 x Number of shares