

Company AS MERKO EHITUS
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Attachments:

- Merko_Ehitus_2023_12M_interim_report.pdf (<http://oam.fi.ee/en/download?id=7977>)
- Merko_Ehitus_2023_12k_vahearuanne.pdf (<http://oam.fi.ee/en/download?id=7978>)

Currency

Title 2023 12 months and IV quarter consolidated unaudited interim report

COMMENTARY FROM MANAGEMENT

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

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

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



Over 12 months of 2023 the group has invested a total of EUR 86 million into ongoing development projects and acquisitions of new properties.

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

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

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

OVERVIEW OF THE IV QUARTER AND 12 MONTHS RESULTS

PROFITABILITY

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

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

REVENUE

Q4 2023 revenue was EUR 126.5 million (Q4 2022: EUR 143.4 million) and 12 months' revenue was EUR 466.3 million (12M 2022: EUR 409.6 million). 12 months'



revenue increased by 13.8% compared to same period last year. The share of revenue earned outside Estonia in 12 months 2023 was 39.3% (12M 2022: 50.1%).

SECURED ORDER BOOK

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

REAL ESTATE DEVELOPMENT

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

CASH POSITION

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

PROPOSAL FOR DISTRIBUTION OF PROFITS

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	2023 12 months	2022 12 months	2023 IV quarter	2022 IV quarter
Revenue	466,304	409,633	126,466	143,427
Cost of goods sold	(401,267)	(355,975)	(104,625)	(120,852)
Gross profit	65,037	53,658	21,841	22,575
Marketing expenses	(4,312)	(4,077)	(1,299)	(1,132)
General and administrative expenses	(19,423)	(15,860)	(6,527)	(4,449)



Other operating income	4,171	3,144	772	718
Other operating expenses	(991)	(1,834)	(377)	(1,187)
Operating profit	44,482	35,031	14,410	16,525
Finance income/costs	7,500	2,067	3,735	1,899
incl. finance income/costs from joint ventures	10,220	3,516	4,159	2,423
interest expense	(2,697)	(1,180)	(686)	(510)
foreign exchange gain (loss)	(153)	(138)	39	14
other financial income (expenses)	130	(131)	223	(28)
Profit before tax	51,982	37,098	18,145	18,424
Corporate income tax expense	(6,081)	(2,995)	(4,254)	(1,084)
Net profit for financial year	45,901	34,103	13,891	17,340
incl. net profit attributable to equity holders of the parent	46,048	34,640	13,900	17,617
net profit attributable to non-controlling interest	(147)	(537)	(9)	(277)
Other comprehensive income, which can subsequently be classified in the income statement				
Currency translation differences of foreign entities	(41)	30	(25)	19
Comprehensive income for the period	45,860	34,133	13,866	17,359
incl. net profit attributable to equity holders of the parent	45,993	34,648	13,877	17,628
net profit attributable to non-				



controlling interest	(133)	(515)	(11)	(269)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	2.60	1.96	0.79	1.00

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
unaudited
in thousand euros

	31.12.2023	31.12.2022
ASSETS		
Current assets		
Cash and cash equivalents	77,330	17,665
Trade and other receivables	68,754	77,959
Prepaid corporate income tax	2	38
Inventories	195,435	225,661
	341,521	321,323
Non-current assets		
Investments in joint ventures	21,915	12,895
Other shares and securities	80	-
Other long-term loans and receivables	24,490	22,982
Deferred income tax assets	3,298	693
Investment property	16,823	11,485
Property, plant and equipment	16,613	17,452
Intangible assets	520	582
	83,739	66,089
TOTAL ASSETS	425,260	387,412



LIABILITIES

Current liabilities

Borrowings	19,673	49,687
Payables and prepayments	133,898	96,248
Income tax liability	4,260	1,241
Short-term provisions	10,451	9,820
	168,282	156,996

Non-current liabilities

Long-term borrowings	35,142	42,236
Deferred income tax liability	4,441	2,355
Other long-term payables	5,495	2,133
	45,078	46,724

TOTAL LIABILITIES	213,360	203,720
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EQUITY

Non-controlling interests	(155)	(495)
Equity attributable to equity holders of the parent		
Share capital	7,929	7,929
Statutory reserve capital	793	793
Currency translation differences	(838)	(783)
Retained earnings	204,171	176,248
	212,055	184,187
TOTAL EQUITY	211,900	183,692



TOTAL LIABILITIES AND EQUITY

425,260

387,412

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

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AS Merko Ehitus (group.merko.ee (<https://group.merko.ee/en/>)) group companies develop real estate and construct buildings and infrastructure. We create a better living environment and build the future. We operate in Estonia, Latvia, Lithuania and Norway. As at the end of 2023, the group employed 638 people, and the group's revenue for 2023 was EUR 466 million.

