

AS MERKO EHITUS

9 months and Q3 2018 interim report

08 November 2018



Tõrva central square in Estonia

1. Key Highlights
2. Business Review
3. Financial Position

4. Stock Exchange Overview
5. Market Outlook
6. Strategic Directions



Uus-Veerenni residential development in Estonia

Merko Group Key Highlights

- ❑ Q3 2018 revenue EUR 115m and in 9M EUR 299m, up 39% compared to 9M 2017
- ❑ More than half of revenue (52%) in 9 months earned outside Estonia; greatest growth in Latvia, supported by large contracts in progress
- ❑ Net profit of 2018 Q3 at EUR 5.6m and in 9M EUR 12.3m
- ❑ Secured order book at EUR 239m
- ❑ In Q3 2018 87 apartments sold, in 9M 2018 255 apartments sold
- ❑ The group continued to implement its long-term apartment development strategy by investing a total of EUR 23.7m in this field, including EUR 1.7m in new land plots.
- ❑ In 9 months nine new development projects with 840 apartments were started



Rinktinės Urban 1st stage in Lithuania

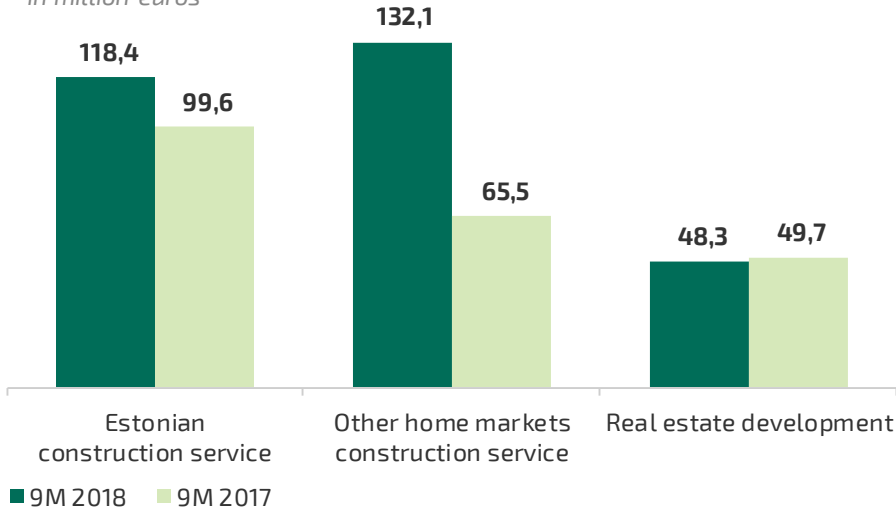
Merko Group Key Financial Highlights

<i>EUR million</i>	9M 2018	9M 2017	Variance *	Q3 2018	Q3 2017	Variance *
Revenue	298.8	214.8	+39.1%	115.1	86.0	+33.9%
EBITDA	14.3	11.0	+30.3%	6.2	5.0	+24.4%
EBITDA margin (%)	4.8	5.1		5.4	5.8	
Operating profit	12.9	8.8	+46.6%	5.7	4.1	+39.1%
Operating profit margin (%)	4.3	4.1		4.9	4.8	
Profit before tax	12.6	8.2	+53.9%	5.6	3.9	+44.8%
Net profit, attributable to equity holders of the parent	12.3	6.6	+87.6%	5.6	3.4	+68.4%
Earnings per share (EPS), in euros	0.70	0.37	+87.6%	0.32	0.19	+68.4%
Secured order book	239.4	396.4	-39.6%	239.4	396.4	-39.6%
Employees	773	770	+0.4%	773	770	+0.4%

* Variance calculated based on consolidated financial statements of interim reports

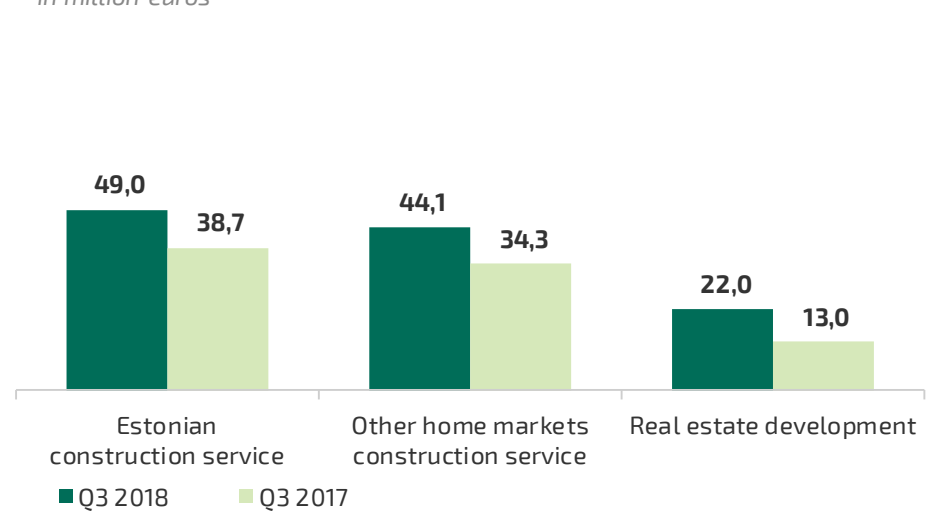
GROUP 9 MONTHS' REVENUE BY SEGMENTS

in million euros



GROUP QUARTERLY REVENUE BY SEGMENTS

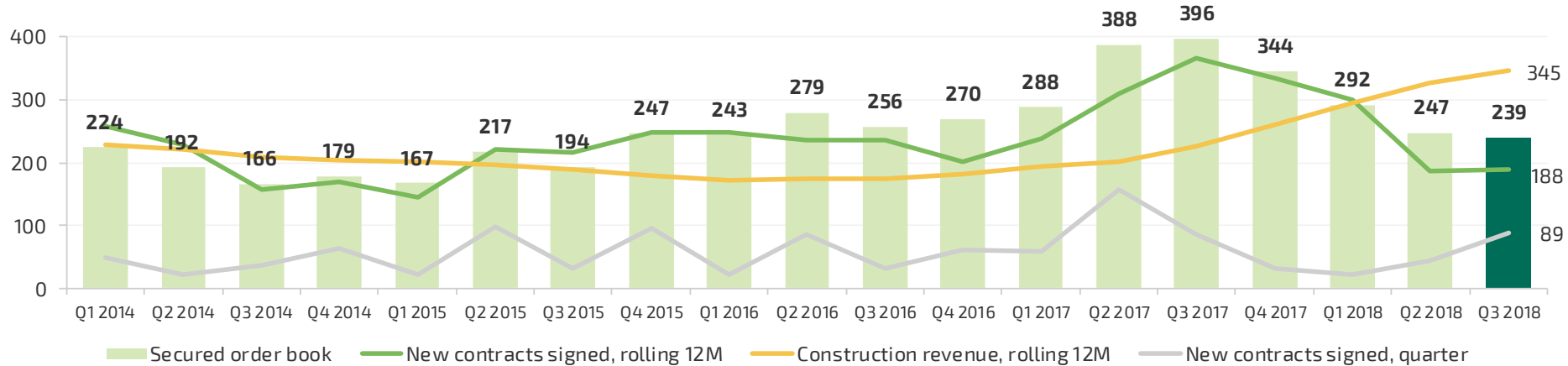
in million euros



- ❑ Other home markets' revenue increased by EUR 67m (+102%), compared to 9 months of 2017
- ❑ Competition in main contracting in general construction remains strong; construction activity on the market is very high, especially in Estonia
- ❑ Main contractors need to balance between tight construction schedules, contractual sanctions and increasing costs
- ❑ Strong revenue growth in Latvia, supported by major construction contracts
- ❑ In Lithuania, we are continuing our strategic plan to focus on foreign customers
- ❑ We participate in procurements for such objects where the risk-reward ratio matches our goals

SECURED ORDER BOOK

in million euros



- ❑ Secured order book EUR 239m (30.09.2017: EUR 396m).
- ❑ Private sector orders from projects in progress constitute 83% (30.09.2017: ca 86%)
- ❑ Total new contracts signed during 9M 2018: EUR 157m (9M 2017: EUR 304m)
- ❑ Increasing prices and shortage of construction capacity has an important impact on construction market, which makes the customers postpone launching of new construction projects, as they are becoming more cautious

Real Estate Development

Group's central business line

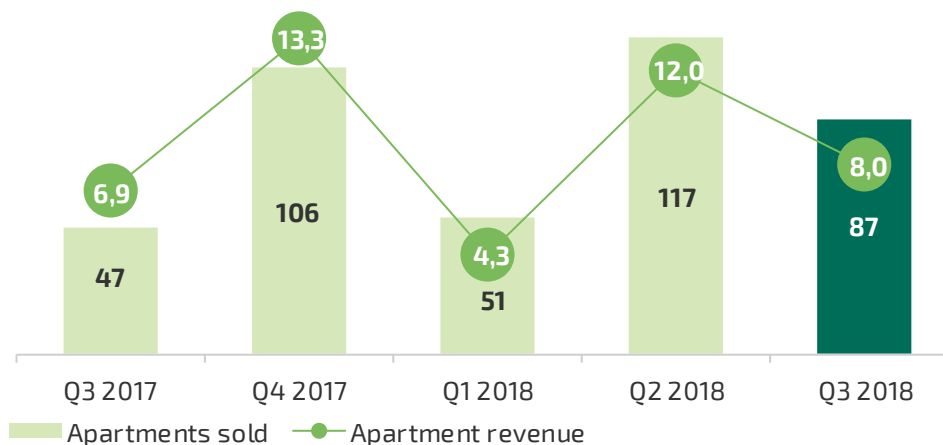
- ❑ 255 apartments, incl. 47 in joint venture, sold in 9M 2018 (9M 2017: 286, incl. 1 in joint venture)
- ❑ Revenue from sale of own developed apartments EUR 24m in 9M 2018 (9M 2017: EUR 34m)

In addition, there were 275 pre-sale agreements signed as of 30.09.2018 (293 on 30.09.2017)

- ❑ Construction of 840 apartments launched during 9M 2018 (9M 2017: 496) and EUR 22m invested in apartment developments (9M 2017: EUR 39m)
- ❑ As of 30.09.2018, 945 apartments on active sale without pre-sale agreements, of which 12% completed
- ❑ Land plot acquisitions for EUR 1.7m in 9M 2018
- ❑ Land plot portfolio of EUR 55m (30.09.2017: EUR 70m):
 - ❑ Estonia EUR 27m
 - ❑ Latvia EUR 27m
 - ❑ Lithuania EUR 1m

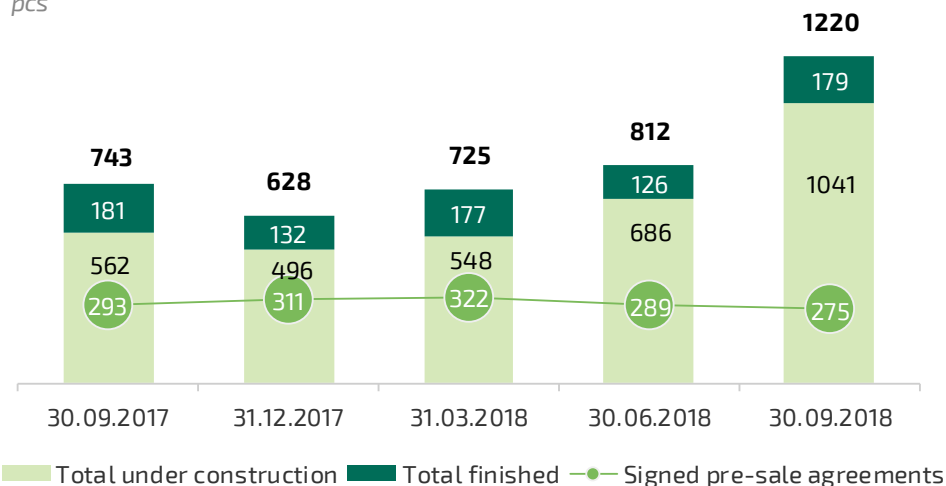
APARTMENTS SOLD AND APARTMENT REVENUE

pcs / in million euros



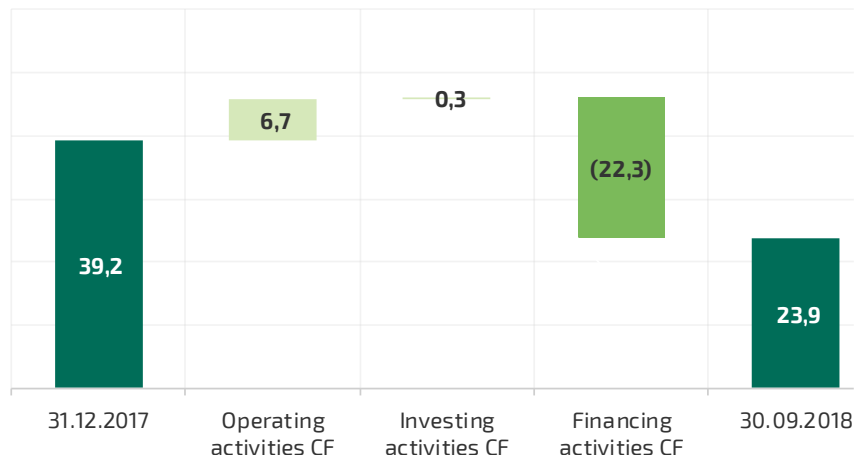
GROUP APARTMENTS INVENTORY

pcs



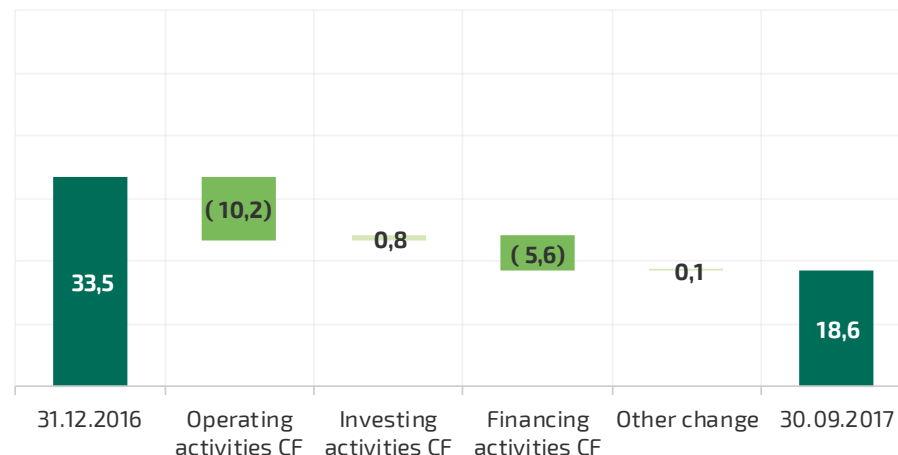
CHANGE IN CASH AND CASH EQUIVALENTS

in million euros



CHANGE IN CASH AND CASH EQUIVALENTS

in million euros

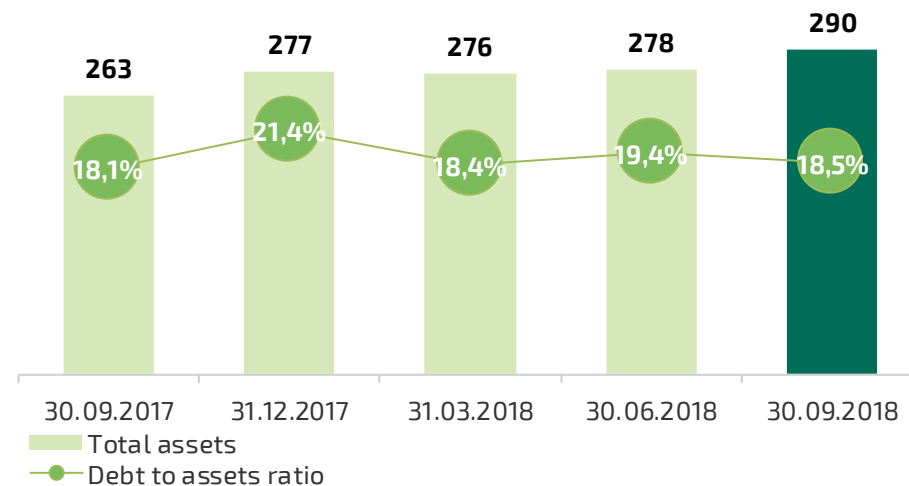


Robust capitalization, high liquidity, low debt level

- Liquidity position maintained strong, cash at EUR 24m (30.09.2017: EUR 19m).
- Net debt amounted to EUR 30m and debt ratio at 19% (30.09.2017: EUR 29m and 18%). Group is self-funding a large proportion of its own development projects construction activities and has not used all its overdraft facilities.
- Current assets are at 2.1x current liabilities (30.09.2017: 2.5x).
- Equity ratio at 43% (30.09.2017: 46%).

TOTAL ASSETS AND DEBT TO ASSETS RATIO

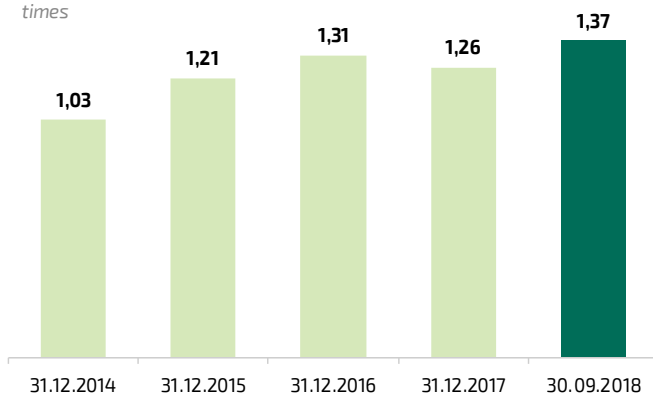
in million euros / percentages



Stock Exchange Overview

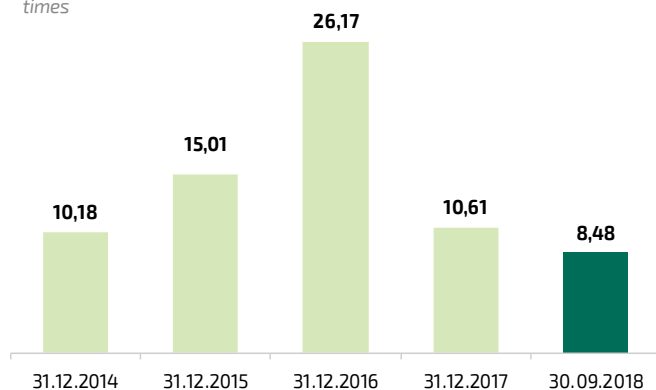
P/B RATIO

times



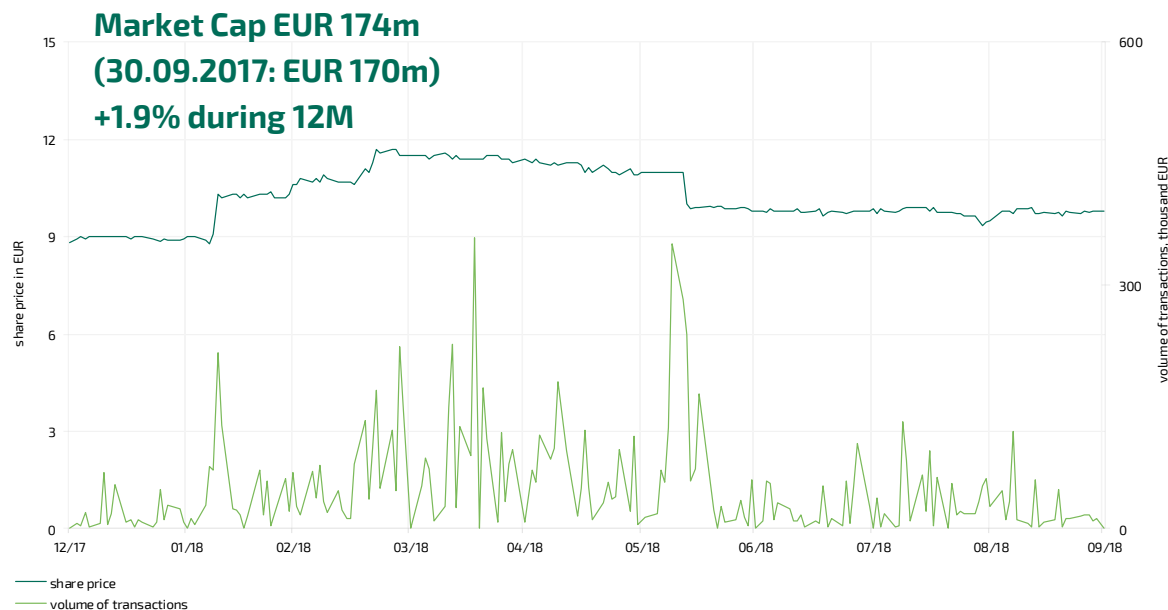
P/E RATIO

times



9M 2018: 3,230 transactions, turnover EUR 9.6 million
(9M 2017: 1,603; EUR 3.7m)

30.09.2018 (30.09.2017):
2,542 shareholders (2,002)

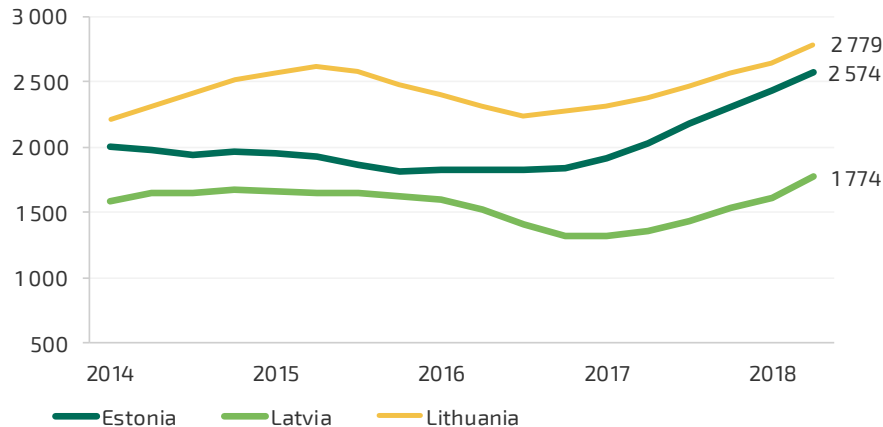


Shareholders

Shareholders	Number of shares	% of total 30.09.2018	% of total 30.06.2018	Variance
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	685,405	3.87%	4.31%	(77,640)
Firebird Republics Fund Ltd	363,094	2.05%	2.05%	-
SEB S.A. UCITS client assets	230,993	1.31%	1.31%	(1,229)
Firebird Aurora Fund Ltd	222,419	1.26%	1.26%	-
OÜ Midas Invest	192,500	1.09%	1.09%	-
Skandinaviska Enskilda Banken AB, Swedish customers	159,559	0.90%	0.90%	(60)
State Street Bank and Trust Omnibus Account at Fund No OM01	153,018	0.87%	0.87%	-
SEB Elu- ja Pensionikindlustus AS	143,887	0.81%	0.81%	-
Firebird Fund L.P.	131,331	0.74%	0.74%	-
Total largest shareholders	15,024,892	84,89%	85,33%	(78,929)
Total others shareholders	2,675,108	15.11%	14,67%	78,929
Total	17,700,000	100%	100%	-

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

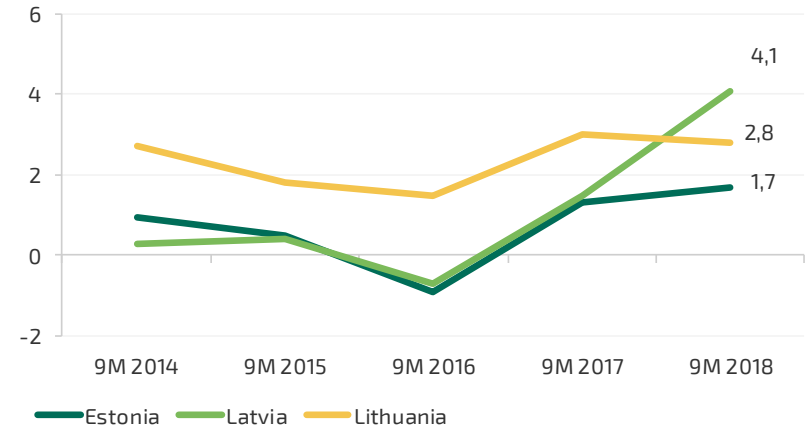
in million euros



Source: Local national statistical offices

9 MONTHS CHANGE IN CONSTRUCTION PRICE INDEX

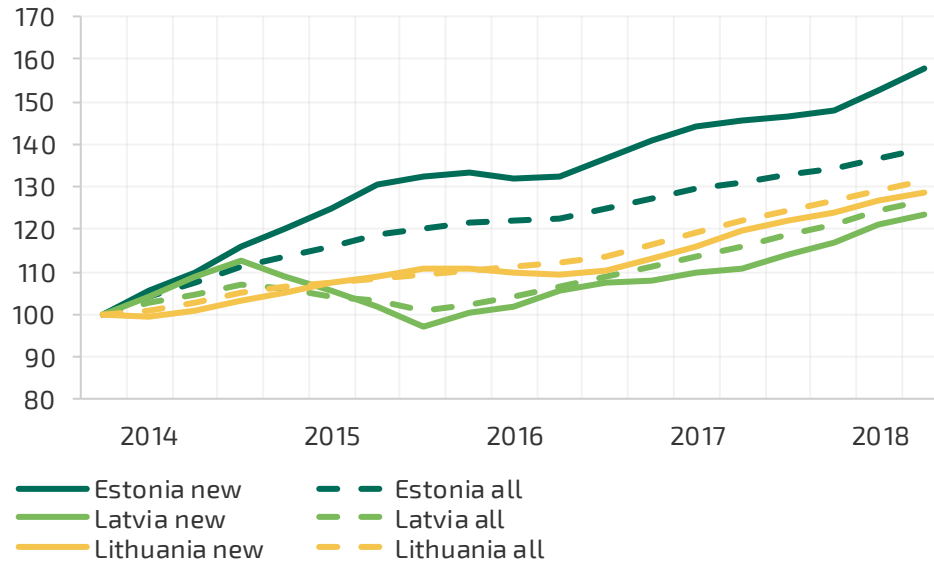
percentages



Source: Local national statistical offices

- ❑ In Estonia, construction volumes higher than in 2007 during the peak (based on latest 12 months' total). Caution to be exercised going forward.
- ❑ In Latvia and Lithuania rapid growth, but volumes 25-30% lower than during the peak. Danger of sudden corrections lower than in Estonia.
- ❑ Rising prices, and especially shortage of high-quality sub-contractors has a direct impact on main contractors
- ❑ The assumed start of Rail Baltic construction will have an important impact on the construction market in the coming years
- ❑ The end of the current EU financial framework in 2020 might increase public sector demand in construction sector for the nearest couple of years

NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX (4 QUARTER ROLLING AVERAGE) (2013=100)



- ❑ The prices have continued to rise in all three countries, including at an accelerated pace in Estonia
- ❑ In Tallinn, there might be a saturation forming for new projects, especially in higher price segment
- ❑ In Lithuania, supply is strong. The number of permits for use of residential units exceeded the high point of the previous boom at the beginning of 2017 and has remained close to that level since
- ❑ In Riga, demand for new apartments remains lower than in Tallinn and Vilnius, but also there positive developments can be seen in prices, construction volumes and number of permits for use
- ❑ In all three countries, wages are continuously rising. Therefore, growing real estate prices do not pose a similar risk as during the last boom and bust
- ❑ In Norway, during 2018, increase in prices has made up for the decline of last year

Construction for clients:

- ❑ Managing risks of large objects
- ❑ Preferred partner for private customers who value reliability and quality
- ❑ Clearer focus on construction tenders, efficiency of bidding resources
- ❑ Internal efficiency and cost savings, incl. with the help of technology. Expanding the usage area of building information modeling (BIM).
- ❑ Flexibility also to construct smaller objects
- ❑ Construction tenders for infrastructure facilities

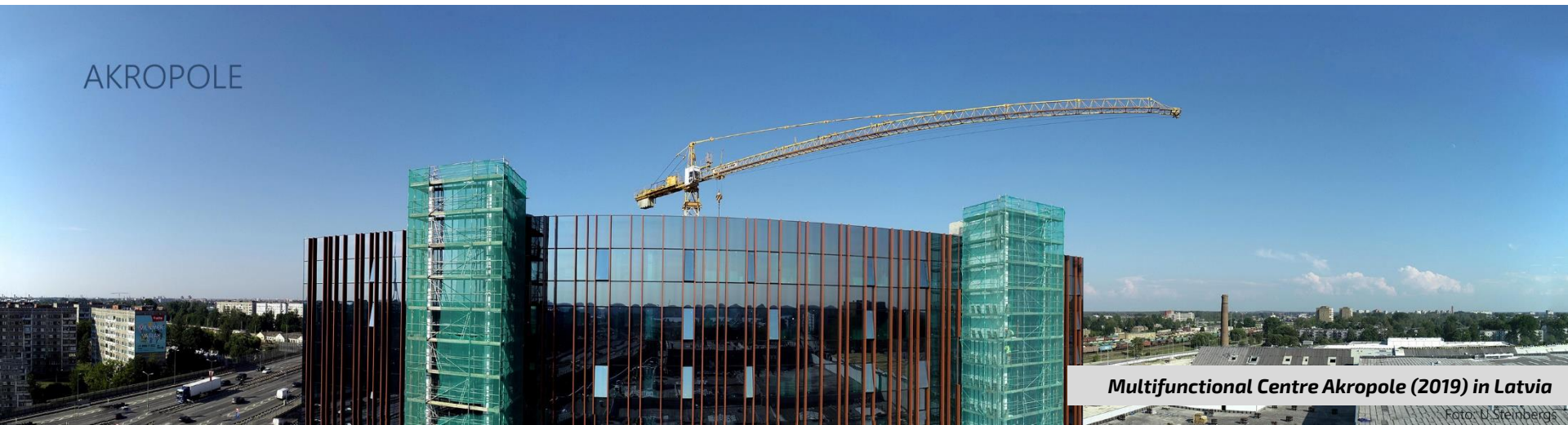
Development of residential real estate:

- ❑ Selling the best apartments of their price range: to cover different segments. Product development, based on pricing
- ❑ Focus on the capitals of the Baltic states
- ❑ Integral development concept for large development areas
- ❑ Launch 650-700 new apartments a year and invest nearly EUR 60m, depending on receiving building permits

To retain liquidity:

- ❑ Increase in construction volumes, investment capability

AKROPOLE



Multifunctional Centre Akropole (2019) in Latvia

Foto: U. Steinbergs

AS Merko Ehitus Group in Brief



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, OHSAS 18001**

SHARES

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

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

2017 KEY FIGURES

Revenue **317.6 million** EUROS

Net profit **14.7 million** EUROS

757 employees



Andres Trink

Chief Executive Officer

andres.trink@merko.ee



Priit Roosimägi

Head of Group Finance Unit

priit.roosimagi@merko.ee

AS Merko Ehitus

Delta Plaza, 7th floor

Pärnu road 141, 11314 Tallinn, Estonia

Phone: +372 650 1250

group.merko.ee

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