

AS MERKO EHITUS

Annual General Meeting of Shareholders

Tallink City Hotel, Tallinn
8 May 2019



1. Approval of the annual report of the year 2018 and overview of the economic results and outlook
2. Decision on distribution of profits



Uus-Veerenni residential development area, Tallinn (2019)



Rinktinės Urban 1st stage residential development in Vilnius

1. Approval of the annual report of the year 2018 and overview of the economic results and outlook

Group's Markets and Business Areas 2018

Regional general contracting and
real estate developing company

Norway

- Renovation works, building construction

peritus

Estonia

- Buildings, facilities, electrical and road construction, concrete works
- Real estate development
- Among Top 2 in construction companies

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Latvia

- Buildings, facilities, electrical construction
- Real estate development
- Among Top 3 in general contracting of buildings

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Lithuania

- Building construction
- Real estate development
- Among Top 5 in general contracting of buildings

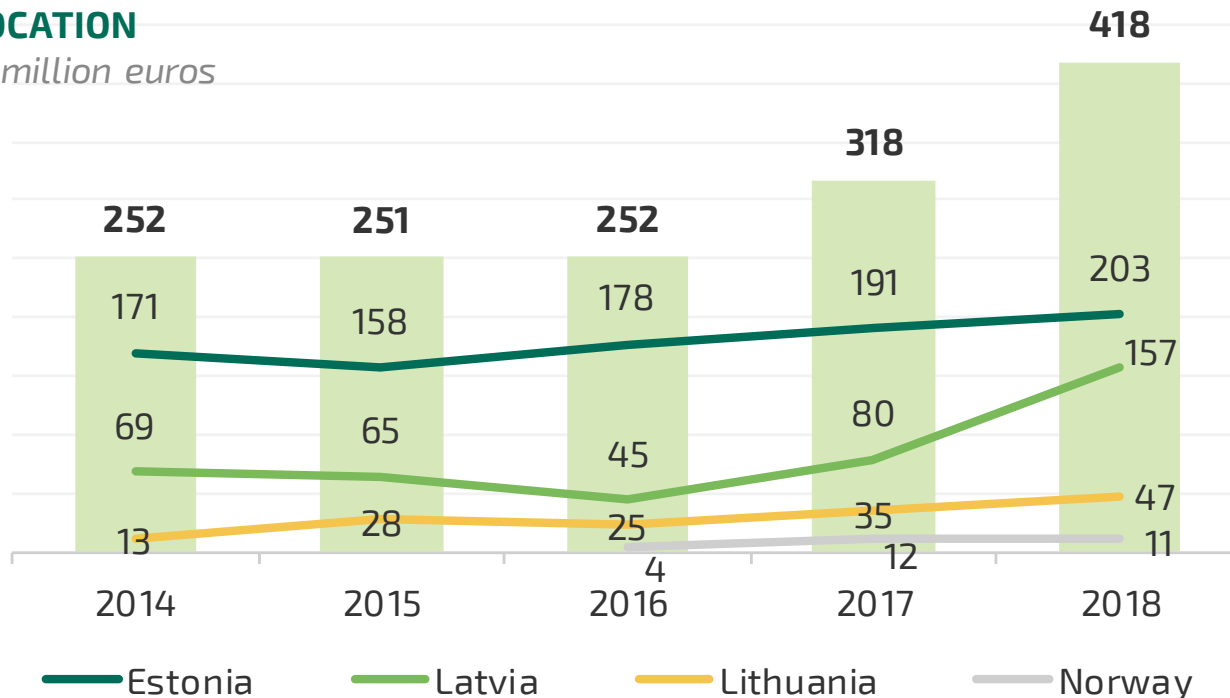
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Continued growth in 2018 revenue. Largest increase in Latvia

48% of revenue from Estonia and 52% from other markets

DISTRIBUTION OF GROUP REVENUE BY GEOGRAPHICAL LOCATION

in million euros



- Revenue growth as expected due to construction contracts of large objects signed in 2015-2017
- 2018 construction volumes were extraordinarily large, compared to the average level of previous years

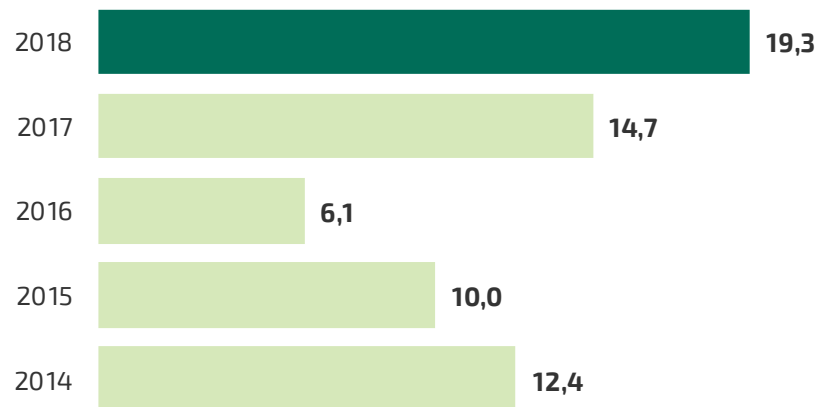
2018 profitability of main operations retained...

...but also retained high risk in building for clients

- ❑ Net profit grew at the same pace as revenue. In 2017 net profit was supported by one-time sales transactions, in 2018 by lower corporate income tax cost.
- ❑ Group made profit in all markets.
- ❑ Slightly more than half of operating profit came from real estate development, the other half from construction services.
- ❑ We sold Ibis hotel in Vilnius
- ❑ Profitability in building for clients continuously under pressure, rise in input prices as well as lack of sub-contractor resources at times a clear problem.
- ❑ Group's financial capability remained strong.
- ❑ 2018 return on equity 15%.

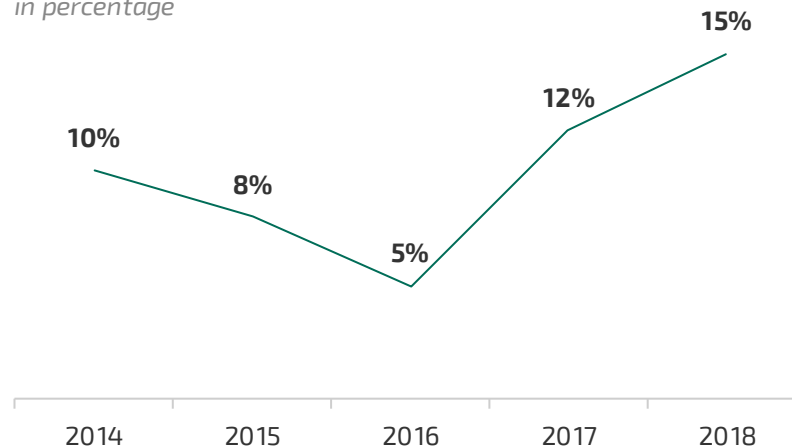
NET PROFIT

in million euros



RETURN ON EQUITY

in percentage

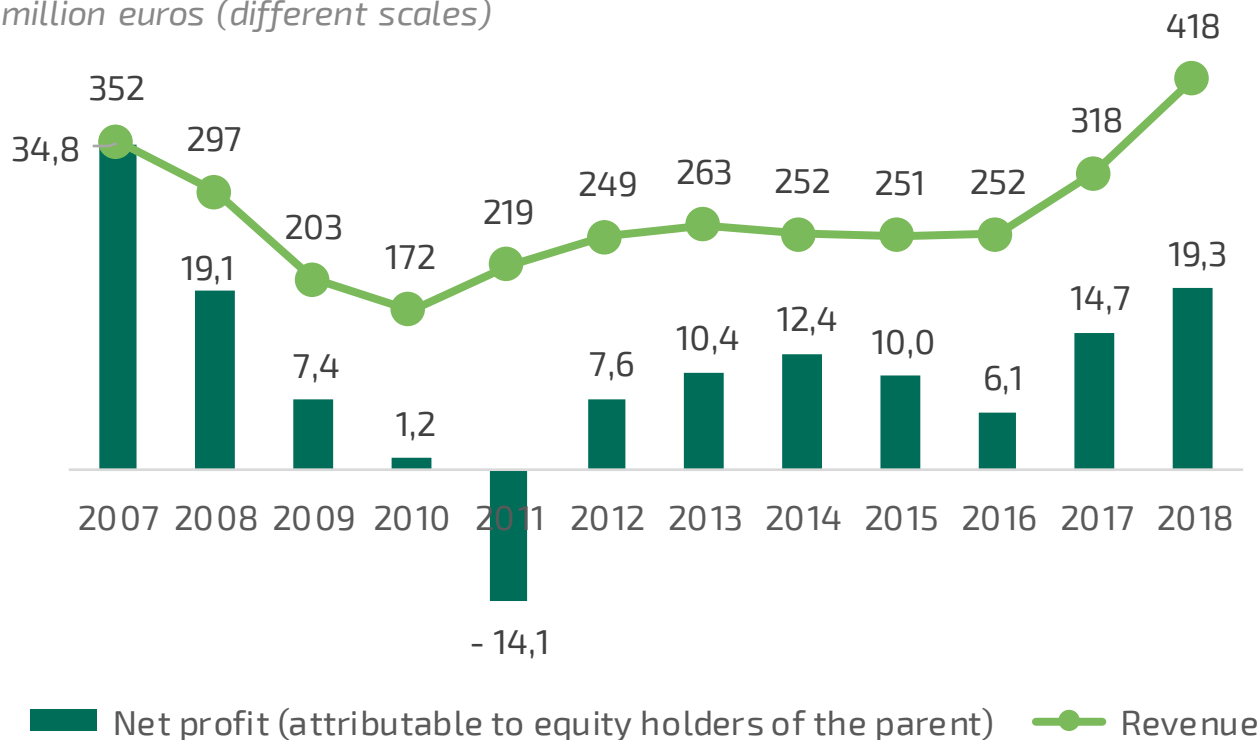


2018 revenue and profit in annual context

Largest revenue in history, largest net profit in 11 years

GROUP REVENUE AND NET PROFIT

in million euros (different scales)

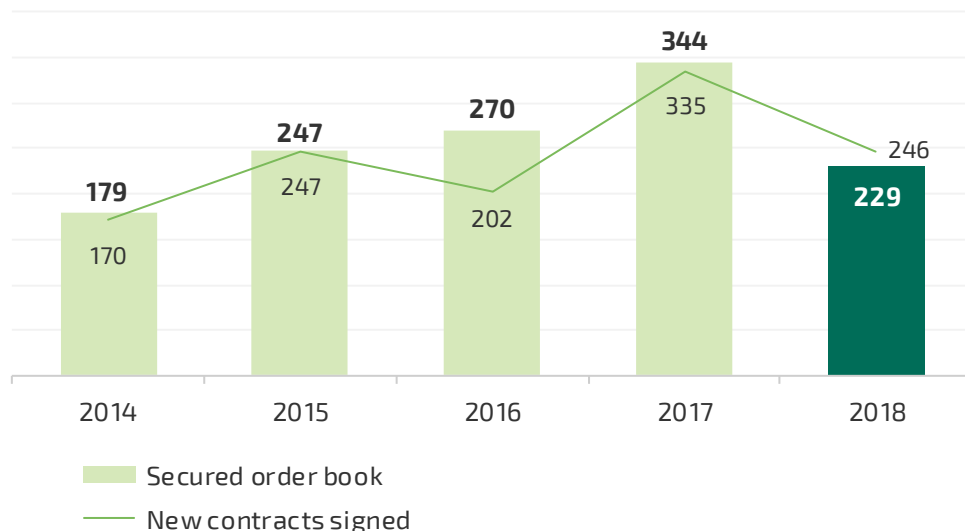


EUR 246m of new construction contracts

Secured order book EUR 229m

SECURED ORDER BOOK

in million euros



2018 LARGEST SIGNED CONTRACTS

in million euros

Lidl logistics centre in Riga <i>Construction contract</i>	43
5 year maintenance and repair works of Tallinn's roads and streets <i>Maintenance contract</i>	26
Pärnu road 186 commercial building in Tallinn <i>Design and construction contract</i>	16
Quadrum office building in Vilnius <i>Construction contract</i>	12
Electric sea cables between mainland and Muhu island (partnership with AS Connecto Eesti) <i>Construction contract</i>	9

- Secured order book balance back on average level of previous years
- Less very large project on the market and in our portfolio
- Volume of contracts in civil and road construction somewhat below expectations

In addition many smaller contracts:
 School building in Vilnius (7.5); in Norway, e.g., Tesla service centre (4.5) and reconstruction of office building (3.6) etc.

Examples of projects completed in 2018



T1 shopping centre in Tallinn



“Öpiku maja” second office building in Tallinn



Hotel and office complex in Vilnius



Multifunctional building in Riga

In 2019, group companies have many large objects ongoing and in final stages



Akropole centre in Riga (2019)



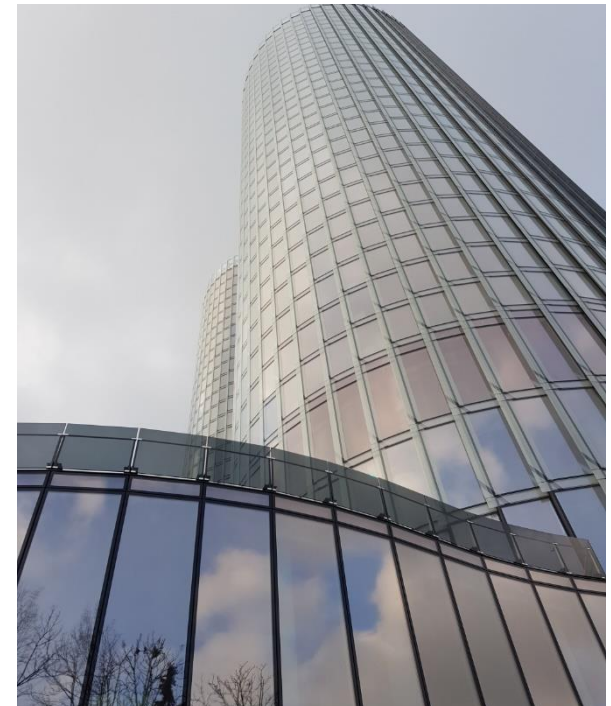
Quadrum office building in Vilnius (2019)



Pärnu road 186 commercial building in Tallinn (2020)



Alfa shopping centre expansion in Riga (2019)

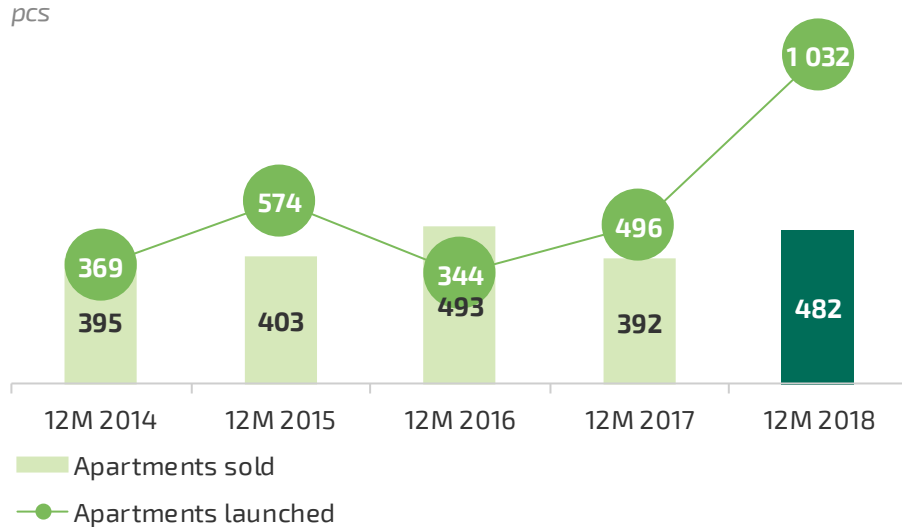


Z-Towers multifunctional centre in Riga (2019)

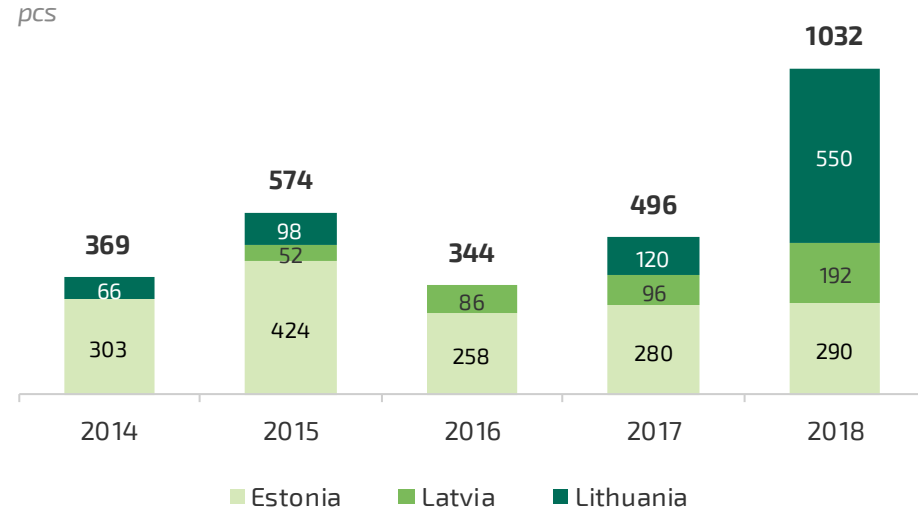
In 2018 more than 1000 new apartments launched

Apartment development – group's central business line

NUMBER OF APARTMENTS SOLD AND LAUNCHED

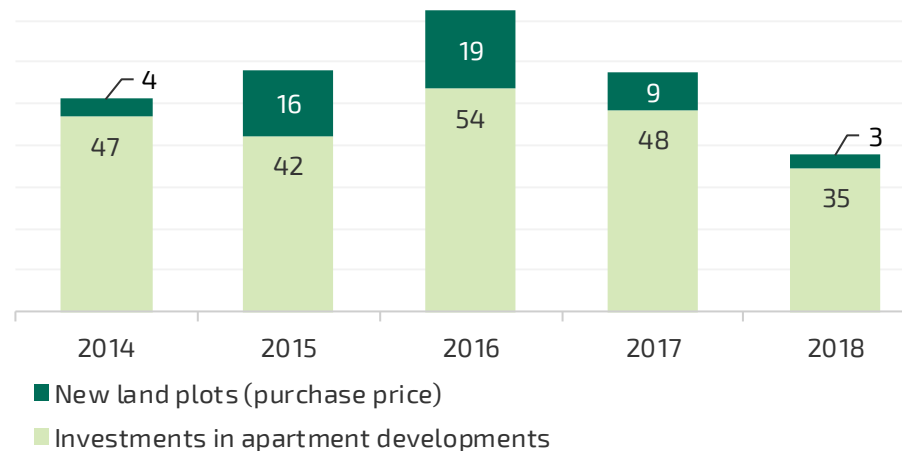


APARTMENTS LAUNCHED BY GEOGRAPHICAL LOCATION



INVESTMENTS IN APARTMENT DEVELOPMENT PROJECTS AND LAND PLOT ACQUISITIONS

in million euros



- Ca 500 new apartments sold.
- Construction of more than 1000 new apartments was launched, ca EUR 35m invested.
- Majority of investments to launched apartments to be done in 2019-2020, approximately EUR 100m.
- Investments to land plots in Estonia and Latvia EUR 3m. Many additional investments under analysis or negotiations.
- Ca EUR 55m worth of land plots on balance sheet as at 31.12.2018. Building rights for more than 5000 units.

Examples of residential development projects in construction



Rand urban villas, Tallinn: 31 apts (2019)



Basteja Life, Vilnius: 77 apts (2019)



Rinkties Urban 2nd stage, Vilnius: 187 apts (2020)



Uus-Veerenni residential area 1st stage, Tallinn: 137 apts (2019)



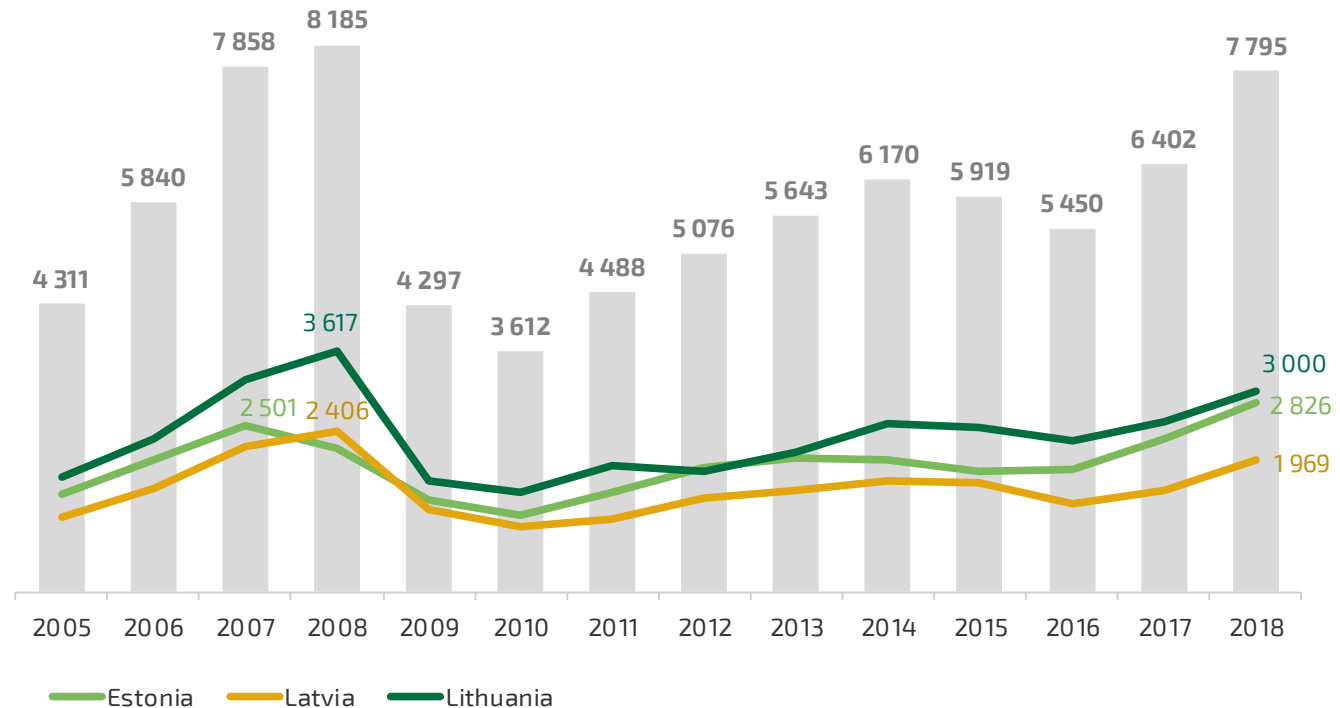
Tähepargi 1st & 2nd stage, Tartu: 45 apts (2019/2020)

Construction market developments

Less orders, but market activity remains reasonable. Countries differ in development.
Sub-contractor resource problem to decrease, strong main contractor competition remains.

- ☐ Economic growth forecast ca 3%
- ☐ Countries differ in development
- ☐ **Estonia:** volume decrease, release of sub-contractor resources, less cost pressure
- ☐ **Latvia:** apartment market higher activity, volumes still low. Other construction more active, cost pressure.
- ☐ **Lithuania:** continued active market in residential and other construction. Costs increasing.
- ☐ Rail Baltica? Timing? Volumes?

CONSTRUCTION MARKET VOLUMES (WITH OWN FORCES) IN THE BALTIC STATES
in million euros

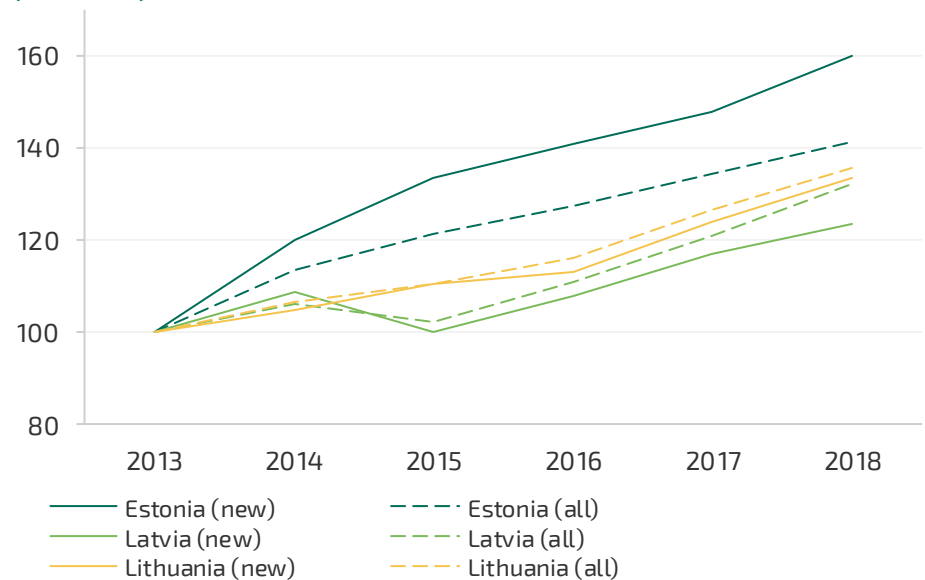


How do we see the residential real estate market?

Towards stabilization

- ❑ Developments and expectations largely the same as last year
- ❑ Overall sentiment of residential market remains good, bank financing for apartment purchase remains stable
- ❑ Increase in apartment prices at the same pace with salary growth
- ❑ Demand in Tallinn and Vilnius remains strong, must be ready for stabilization, prolongation of sales periods
- ❑ Continued price hike in higher price segment limited; at the same pace with increase in income in medium and lower segment
- ❑ Increased variety of options for buyers
- ❑ More large integrated developments
- ❑ Big question: banks' readiness to finance developments. Competitive edge for developers with strong capitalization.
- ❑ Riga real estate market picking up, but development still slow

NEW AND ALL (dotted line) DWELLINGS HOUSE PRICE INDEX (2013=100)



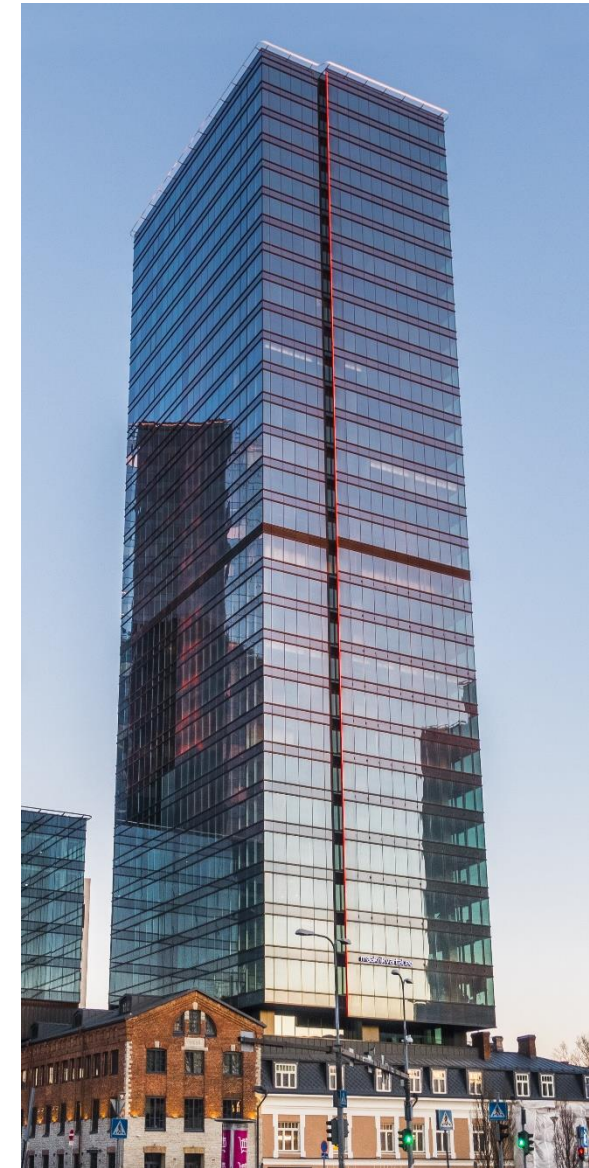
- ❑ Focus on current home markets

Construction for client:

- ❑ Finalization of large objects and managing risks
- ❑ Preferred partner for private customers who value reliability and quality
- ❑ Selective participation in construction tenders. Efficiency of bidding resources.
- ❑ Internal efficiency and cost savings, incl. with the help of technology. Continue with 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
- ❑ Continued focus on the capitals of the Baltic states
- ❑ Integral development concept for large development areas
- ❑ Launch 650-700 new apartments and invest ca EUR 60m annually, depending on receiving building permits. 2019 investments higher, due to projects launched in 2018
- ❑ Ensuring investment capability



Maakri Kvartal business complex, Tallinn

Thank you!

Extension to Tallinn air traffic control complex

2. Decision on distribution of profits

Proposal for distribution of profits

The Supervisory Board proposes to:

- I. approve the **net profit** for the financial year 2018 as **EUR 19,342,762**;
- II. pay the shareholders the total amount of EUR 17,700,000 as dividends from net profit brought forward, which totals to **EUR 1.00 per share**;
 - ☐ shareholders, entered into the share register of AS Merko Ehitus on **27 June 2019**, at close of the business of the settlement system, will be entitled to dividends;
 - ☐ consequently, the day of change of the rights related to the shares **(ex-date) is set to 26 June 2019**; from this date onwards, the person acquiring the shares will not have the right to receive dividends for the financial year 2018;
 - ☐ dividends will be paid to the shareholders on **1 July 2019** by transferring the respective amount to the shareholder's bank account, which is linked to the securities account;
- III. leave the outstanding net profit undistributed.

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