AS MERKO EHITUS

Overview of 2019 Economic Results and Future Outlook

6 May 2020







Group's Markets and Business Areas 2019

Regional general contracting and real estate developing company



Norway
- Renovation works, building construction

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Estonia
- Buildings, facilities, electrical and road construction, concrete works
- Real estate development

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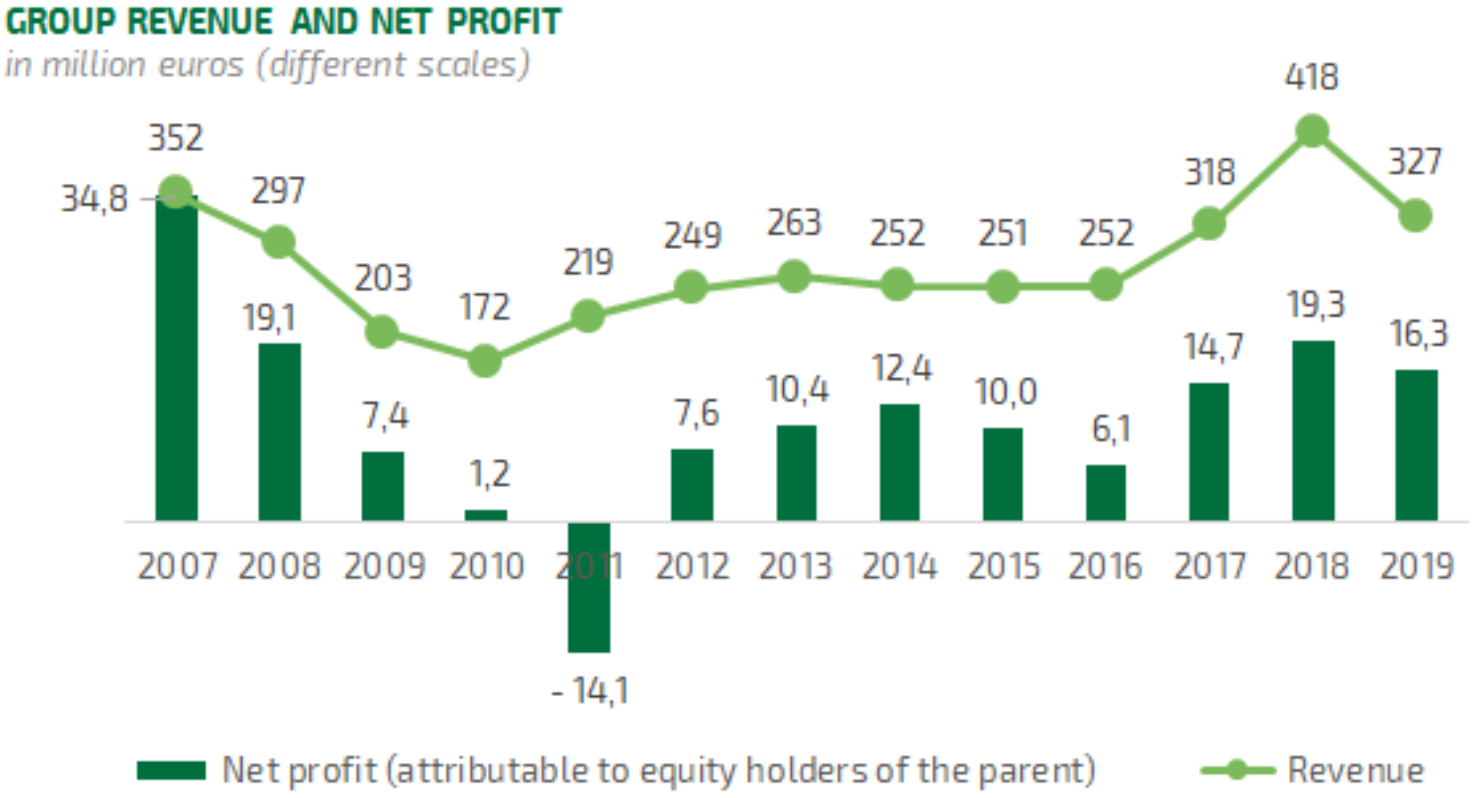
Latvia
- Buildings, facilities, electrical construction
- Real estate development

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Lithuania
- Building construction
- Real estate development

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2019 revenue and profit in annual context

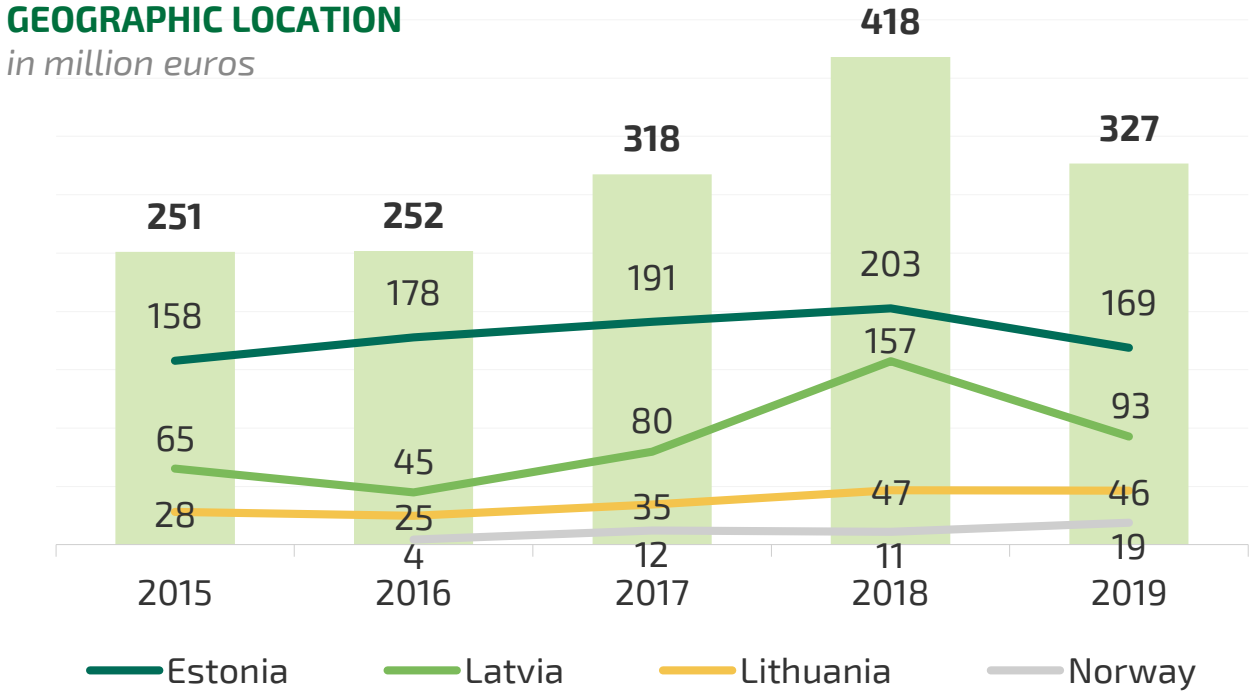


2019 revenues on good level

2018 revenues were extraordinary

DISTRIBUTION OF GROUP REVENUE BY GEOGRAPHIC LOCATION

in million euros



- Revenue: 52% from Estonia, 48% from other markets
- Decrease in revenue was expected as the construction volumes in 2018 were extraordinary – construction contracts for large objects signed 2015-2017 were being realised

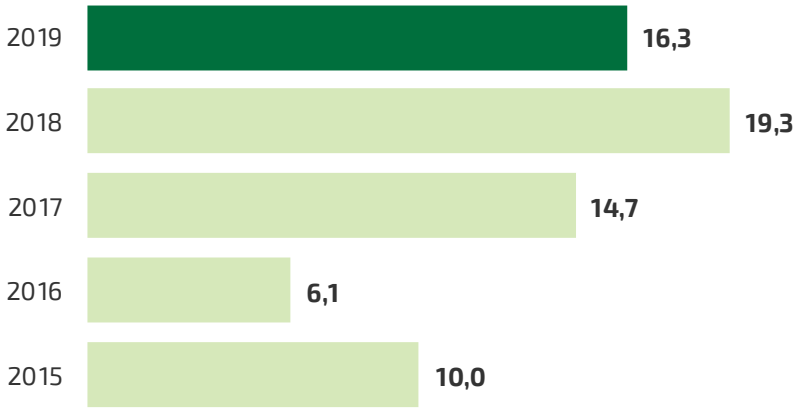
2019 strong profitability

5 year average return on equity above 10%

- 2019 profit before tax EUR 20.3m
  2018 profit before tax EUR 19.8m
- In 2019, compared to 2018, higher corporate income tax from dividend payments, due to which net profit was below that of 2018
- Group made profit in all markets
- Approximately 62% of operating profit came from construction services and 38% from real estate development
- 2019 was a year of large investments in real estate development – more than EUR 100m in total
- Group's financial capability remained strong, equity ratio at 46%
- 2019 return on equity at 13%.

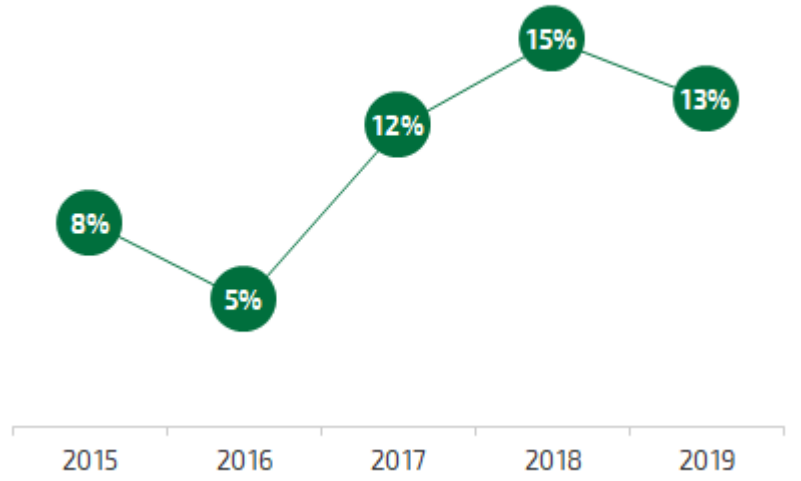
NET PROFIT

in million euros



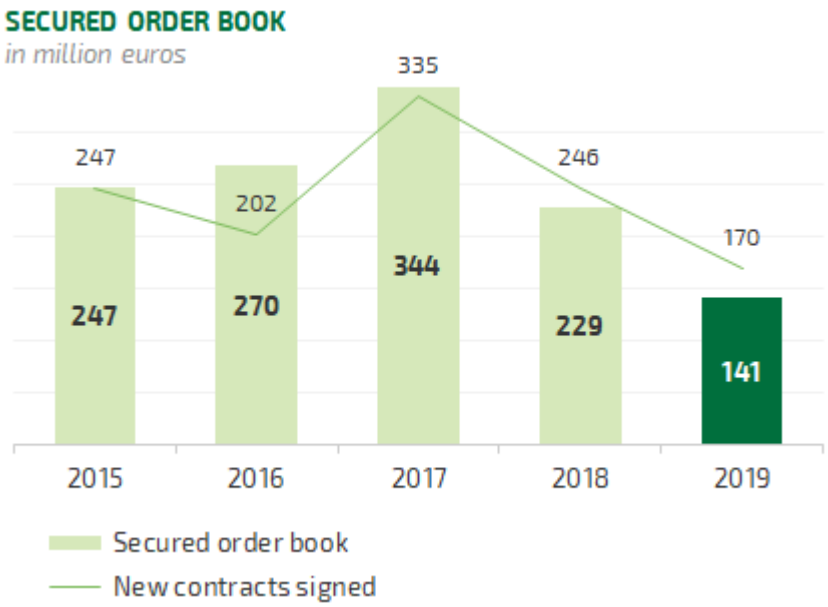
RETURN ON EQUITY

in percentage



EUR 170m of new construction contracts

Secured order book EUR 141m



- Secured order book balance decreased below average
- Construction sector was cooling down (less new large projects, especially in private sector)
- The group was selective in signing contracts in order not to go along with overly aggresive pricing and other unfavourable terms

2019 LARGEST SIGNED CONTRACTS

in million euros

Kaunas district Police headquarters building in Lithuania *Public–private partnership (PPP) contract for 15 years*	**24**
Reconstruction works of Aaspere-Haljala road section in Estonia	**13**
Reconstruction of Riga Technical University Civil Engineering Faculty building	**12**
Türi Basic School buildings in Estonia	**11**
New college building and a dormitory in Piņķi, Babītes county in Latvia	**10**

In addition a number of smaller contracts:

- chocolate factory in Latvia (EUR 8.9m);
- construction works of water supply and sewerage piping in Metsanurme, Kasemetsa and Üksnurme area in Estonia (EUR 6.4m)
- amendment of Neringa hotel reconstruction in Lithuania (EUR 5.0m), etc.

Examples of projects completed in 2019



Akropole centre in Riga



Quadrum office building in Vilnius



Kiini 110/20kV substation in Estonia



Alfa shopping centre expansion in Riga



Tallink office building in Tallinn

Examples of ongoing objects in 2020



Türi Basic School buildings in Estonia (2020)



Kaunas district Police headquarters building in Lithuania (2022)



College building and dormitory in Piņķi, Latvia (2020)



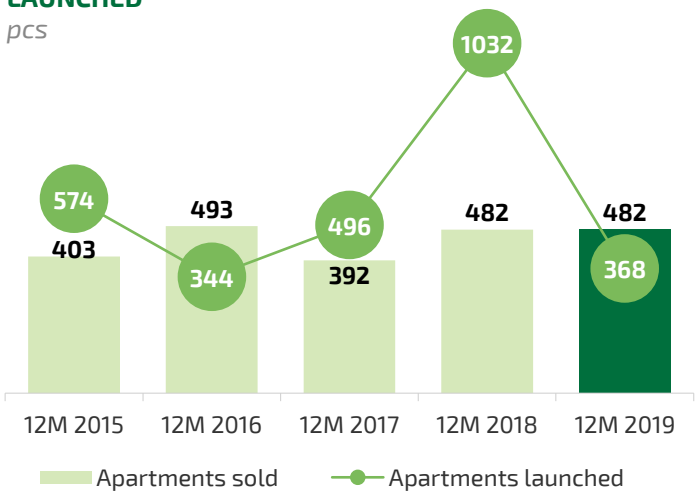
Aaspere-Haljala road section in Estonia (2020)

In 2019 ca 500 new apartments sold, ca 100m EUR invested

Apartment development remains group's central business line

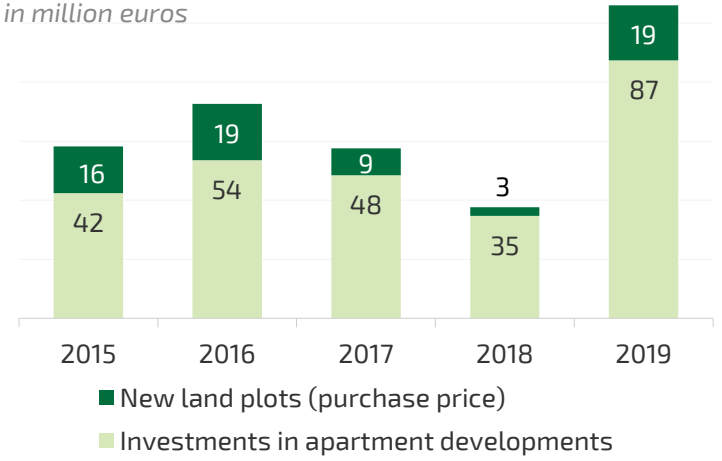
NUMBER OF APARTMENTS SOLD AND LAUNCHED

pcs



INVESTMENTS IN APARTMENT DEVELOPMENT PROJECTS AND LAND PLOT ACQUISITIONS

in million euros



- Ca 500 new apartments sold
- Construction of ca 370 new apartments launched in the Baltics, ca EUR 87m invested, including large part in projects launched in 2018
- Investments of EUR 19m in land plots in Estonia and Lithuania
- Ca EUR 70m worth of land plots on balance sheet as at 31.12.2019. Potential building rights for more than 7000 apartement units

Examples of ongoing residential development projects



Uus-Veerenni 2nd stage, Tallinn: 88 apts. (2020)



Pikaliiva 2nd & 3rd stage, Tallinn: 116 apts. (2020)



Vilneles slenis, Vilnius: 221 apts. (2020)



Lahekalda residential area 1st stage, Tallinn: 144 apts. (2020)



Merks Viesturdārzs 1st stage, Riga: 96 apts (2020)

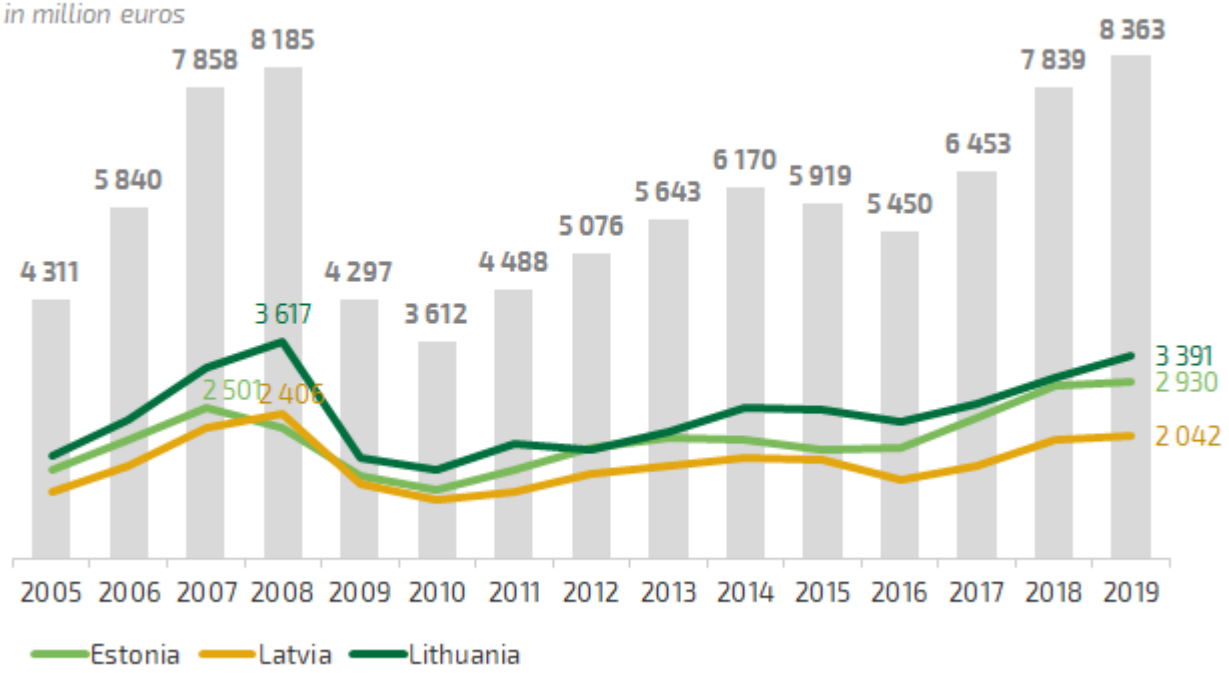
Construction market developments

Stabilization in Estonia and Latvia, continued growth in Lithuania
Pandemic to impact construction sector with delay
Important role of governmental measures and procurements

- Depth and duration of economic **decline in 2020** due to pandemic unknown
- **Pandemic** has first impact on service sector; construction continues supported by existing contracts for one or two quarters
- **Private sector** demand will decrease considerably, **public sector** will have even larger role than so far in the survival of construction companies and maintaining of jobs
- **Governments** need to take immediate steps with construction procurements both in buildings and infrastructure (e.g. **Rail Baltica**) to support the construction sector

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

in million euros



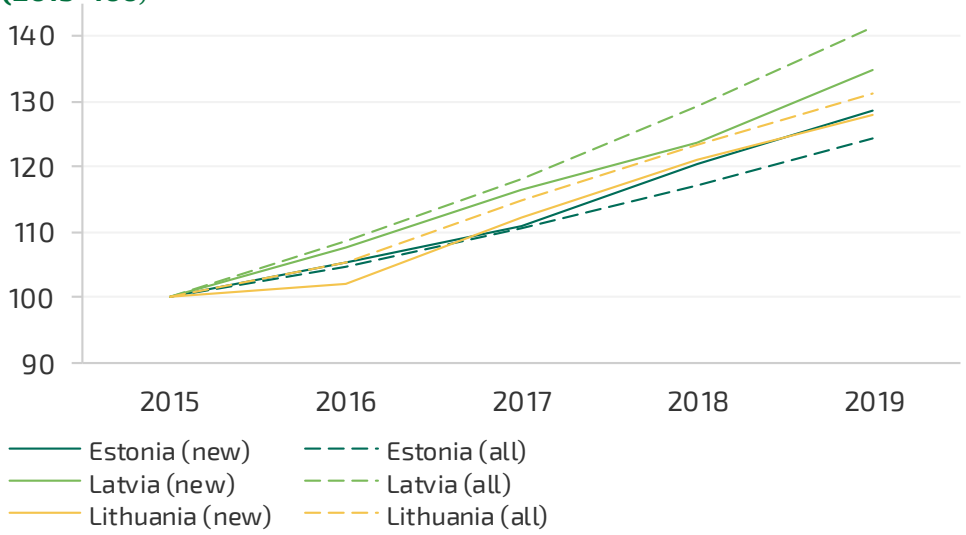
- So far, the pandemic has not had significant impact on **group's construction service business area**. Construction activity in the ongoing objects has continued at a close to normal pace, stoppages due to supply line difficulties or cases of illness have not created significant obstacles. Necessary measures have been taken: distancing, disinfection of hands and premises, use of personal protective equipment, remote work where possible, etc.
- To ensure that the outcome of construction activity in these demanding times meets the expectations of all parties as well as possible, it is **very important to maintain constructive cooperation** between the client, general contractor, subcontractors and financiers

Residential real estate market

Pandemic caused insecurity
Sales periods becoming longer

- So far growing wages have balanced out the increase in real estate prices – **there has not been a price bubble**. Therefore current difficult situation cannot be compared to the crisis of the late 2000s on the same basis
- **Until March the developments on the Baltic markets continued to be positive** – the development and sale activity in Estonia and Lithuania remained high, while Latvia was also increasingly showing signs of growth from its lower levels
- Due to pandemic **market activity has considerably decreased** since March
- Ongoing development projects will largely be completed, **new projects remain on standby**
- Impact of pandemic on **prices of apartments** currently indefinable. Much will depend on the overall fate of the economy and private persons as well as restoring confidence in the future. This, in turn, depends on the future developments of the spread of the virus and its consequences as well as the related governmental and societal restrictions
- **Banks will have an important role to play.** Their credit decisions will determine whether the real estate developers will face a situation of forced realization of apartments and whether the home-buyers will have sufficient purchasing capability

NEW AND ALL (dotted line) DWELLINGS HOUSE PRICE INDEX (2015=100)



- Group companies have **continued apartment sales processes** also during the state of emergency
- In order to minimize the spread of the virus **necessary measures have been taken**. These will ensure the safety of both the clients and group's employees. All discussions where physical meeting is not needed are held remotely. We use digital means as much as possible also in finalizing transactions
- When visiting the apartments the sales personnel wear personal protective equipment (safety masks, goggles and gloves), which is also provided to the clients

Merko Ehitus strategic directions

In times of economic crisis focus on cash flow management and costs

- Long-term directions have not changed – profitable growth in apartment development and construction services with focus on current home markets
- Primary objective in challenging times is to ensure sustainability of business operations. The group's market position is solid, owing to its strong financial position, including capitalisation
- In the short-term perspective, focus is more geared towards cash flow planning and management as well as cost control. Also, measures for operating in an environment of increased health risks
- During each crisis also seeds are sown for new growth. We will not jump ahead of the developments, but we do intend to act with foresight and determination

Construction for client:

- Finalization of large objects and managing risks
- Preferred partner for clients 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

Development of residential real estate:

- Finishing ongoing development projects
- Continuing with new projects when the situation clears. For now new projects are on hold for 3 months
- Our ambition to sell the best apartments of their price range while covering different segments has not changed
- Continued focus on the capitals of the Baltic states
- Integral development concept for large development areas
- Ensuring investment capability

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Thank you!

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