

AS MERKO EHITUS

6 months and Q2 2018 interim report

09 August 2018



Maakri Kvartal in Estonia

1. Key Highlights
2. Business Review
3. Financial Position
4. Stock Exchange Overview
5. Market Outlook
6. Strategic Directions



Merko Group Key Highlights

- ❑ Q2 2018 revenue EUR 103m and in 6M EUR 184m, up 43% compared to 6M 2017
- ❑ More than half of revenue (52.6%) in 6 months earned outside Estonia; greatest growth in Latvia, supported by large contracts in progress.
- ❑ Shortage of sub-contractors, growth of construction input prices and strong competition among general contractors
- ❑ Net profit of 2018 Q2 at EUR 5.6m and in 6M EUR 6.7m
- ❑ Secured order book at EUR 247m
- ❑ In Q2 2018 117 apartments sold, in 6M 2018 168 apartments sold
- ❑ The group continued to implement its long-term apartment development strategy by investing a total of EUR 14m in 6M
- ❑ In 6 months six new development projects with 349 apartments were started



Noblessner Home Port in Estonia

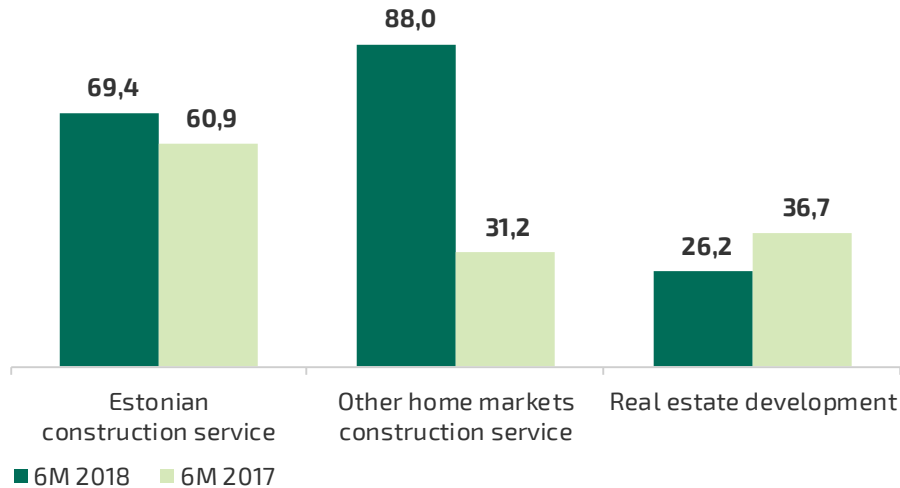
Merko Group Key Financial Highlights

<i>EUR million</i>	6M 2018	6M 2017	Variance *	Q2 2018	Q2 2017	Variance *
Revenue	183.7	128.8	+42.6%	103.3	70.1	+46.2%
EBITDA	8.2	6.0	+35.1%	6.4	4.1	+54.7%
EBITDA margin (%)	4.4	4.7		6.2	5.9	
Operating profit	7.2	4.7	+53.2%	5.9	3.5	+71.7%
Operating profit margin (%)	3.9	3.7		5.8	4.9	
Profit before tax	7.1	4.4	+62.0%	5.8	3.3	+78.1%
Net profit, attributable to equity holders of the parent	6.7	3.2	+107.7%	5.6	2.2	+155.0%
Earnings per share (EPS), in euros	0.38	0.18	+107.7%	0.31	0.12	+155.0%
Secured order book	247.0	387.5	-36.3%	247.0	387.5	-36.3%
Employees	767	803	-4.5%	767	803	-4.5%

* Variance calculated based on consolidated financial statements of interim reports

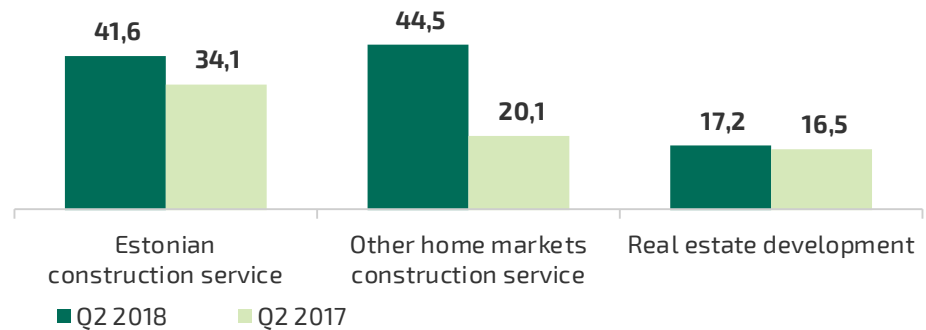
GROUP 6 MONTHS' REVENUE BY SEGMENTS

in million euros



GROUP QUARTERLY REVENUE BY SEGMENTS

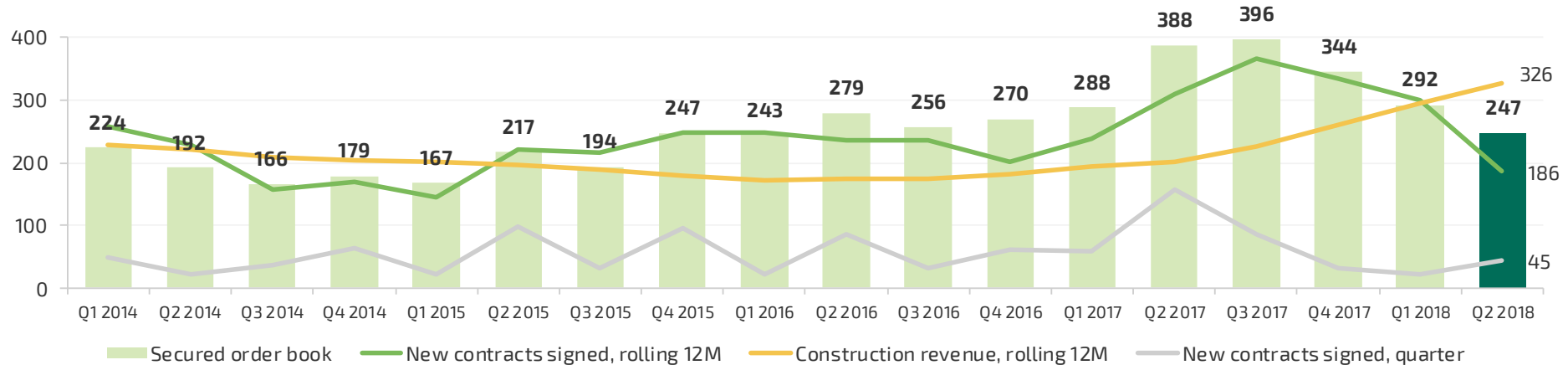
in million euros



- ❑ Other home markets construction service revenue increased by EUR 57m (+182%), compared to 6 months of 2017.
- ❑ Strong revenue growth in Latvia, supported by major construction contracts.
- ❑ In Lithuania, we are continuing our strategic plan to focus on foreign customers.
- ❑ The prices of labour, construction equipment and building materials have all increased. Limitations to sub-contracting capabilities.
- ❑ We are focusing on the quality of construction services and improving profitability.

SECURED ORDER BOOK

in million euros



- ❑ Secured order book EUR 247m (30.06.2017: EUR 388m).
- ❑ Private sector orders from projects in progress constitute 78% (30.06.2017: ca 82%)
- ❑ Total new contracts signed during 6M 2018: EUR 68m (6M 2017: EUR 158m)
- ❑ Customers have become more cautious about starting new projects, as many commercial real estate objects have been launched in recent years and construction has become more expensive. This will affect the volumes of construction services offered to our customers in 2019.

Group's central business line

- 168 apartments (incl. 34 in joint venture) sold for EUR 16m in 6M (6M 2017: 239, incl. 1 in joint venture, for EUR 27m).

In addition, there were 289 pre-sale agreements signed as of 30.06.2018 (235 on 30.06.2017).

- Construction of 349 apartments launched during 6M 2018 (6M 2017: 385) and EUR 14m invested in apartment developments (6M 2017: EUR 18m).

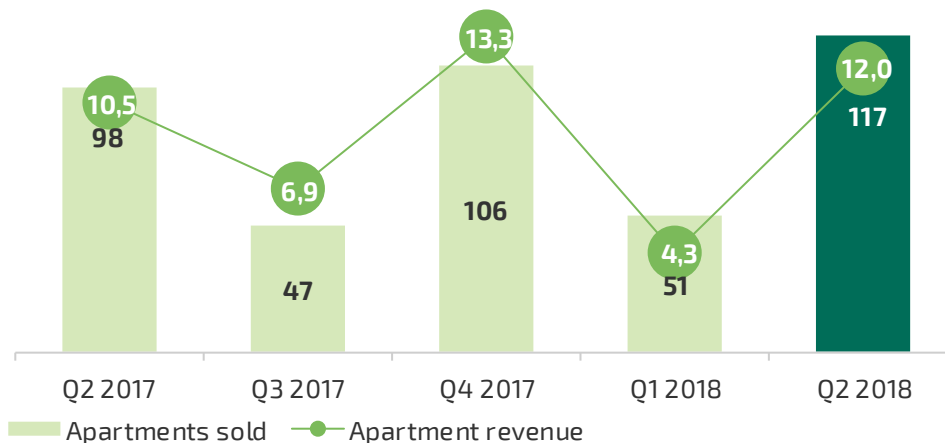
- 523 apartments on active sale without pre-sale agreements, of which 22% have been completed.

- Land plot portfolio of EUR 60m (30.06.2017: EUR 67m).

- Estonia EUR 28m
- Latvia EUR 26m
- Lithuania EUR 6m

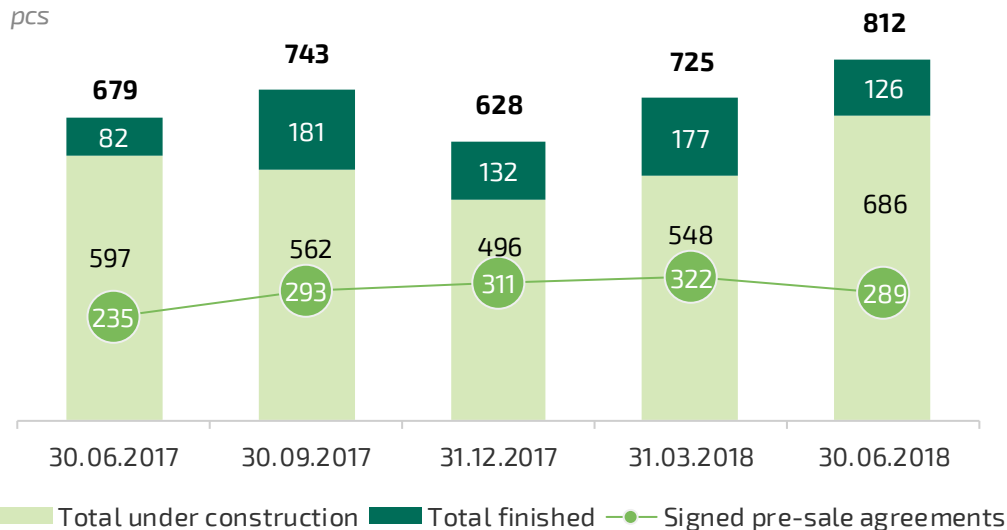
APARTMENTS SOLD AND APARTMENT REVENUE

pcs / in million euros



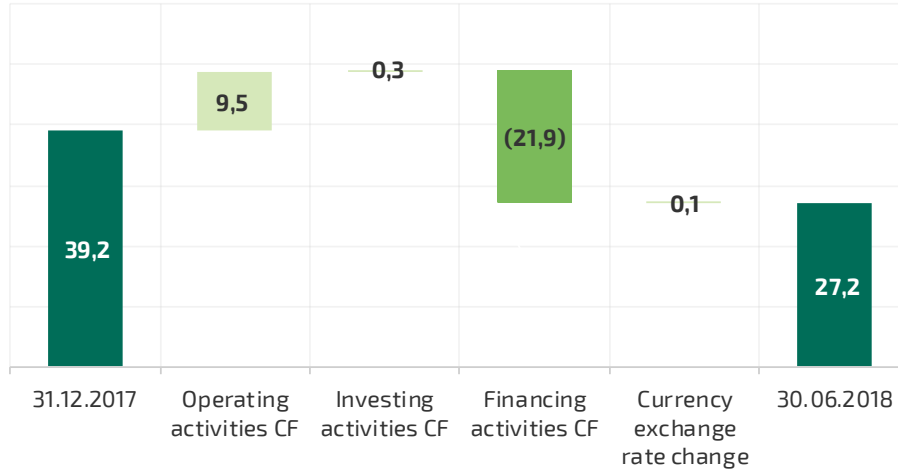
GROUP APARTMENTS INVENTORY

pcs



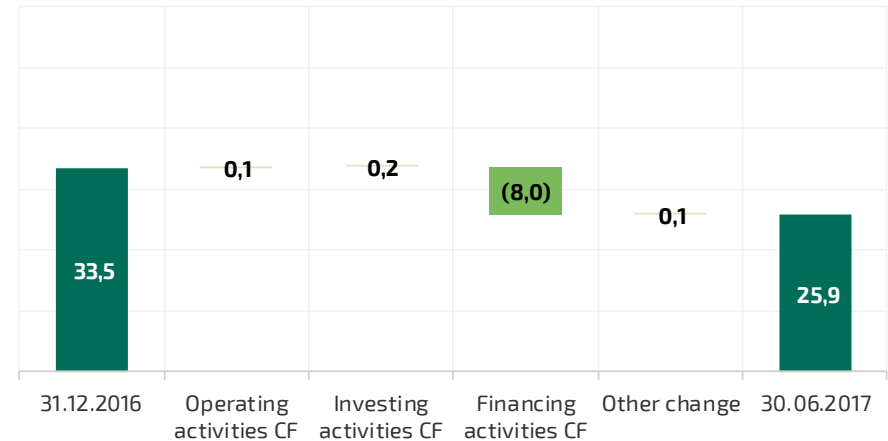
CHANGE IN CASH AND CASH EQUIVALENTS

in million euros



CHANGE IN CASH AND CASH EQUIVALENTS

in million euros

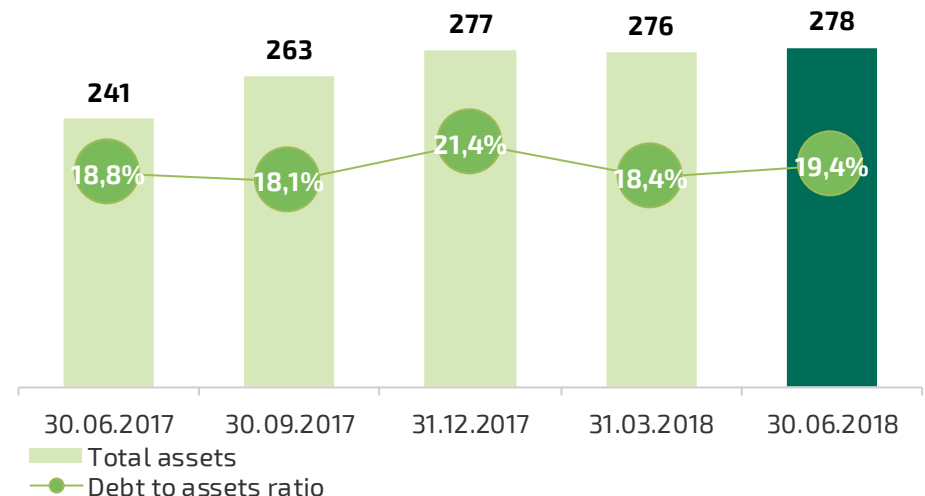


Robust capitalization, high liquidity, low debt level

- ❑ Liquidity position maintained strong, cash at EUR 27m (30.06.2017: EUR 26m).
- ❑ Net debt amounted to EUR 27m and debt ratio at 19% (30.06.2017: EUR 19m 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 (30.06.2017: 2.8x).
- ❑ Equity ratio at 43% (30.06.2017: 49%).

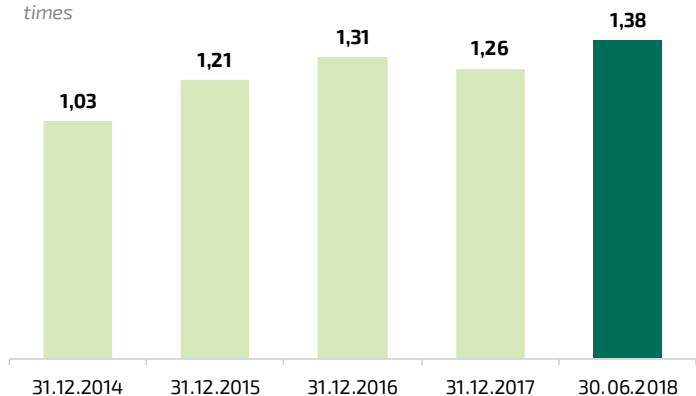
TOTAL ASSETS AND DEBT TO ASSETS RATIO

in million euros / percentages



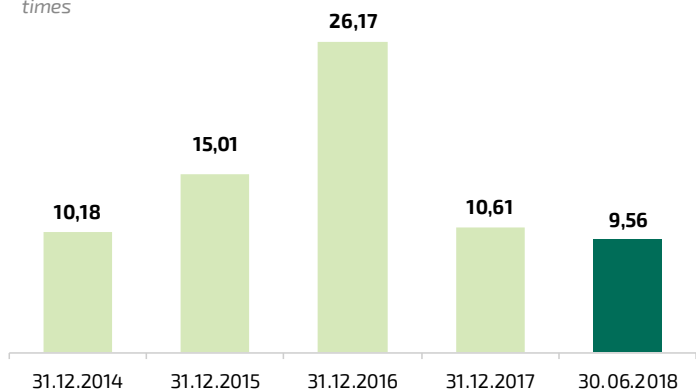
P/B RATIO

times



P/E RATIO

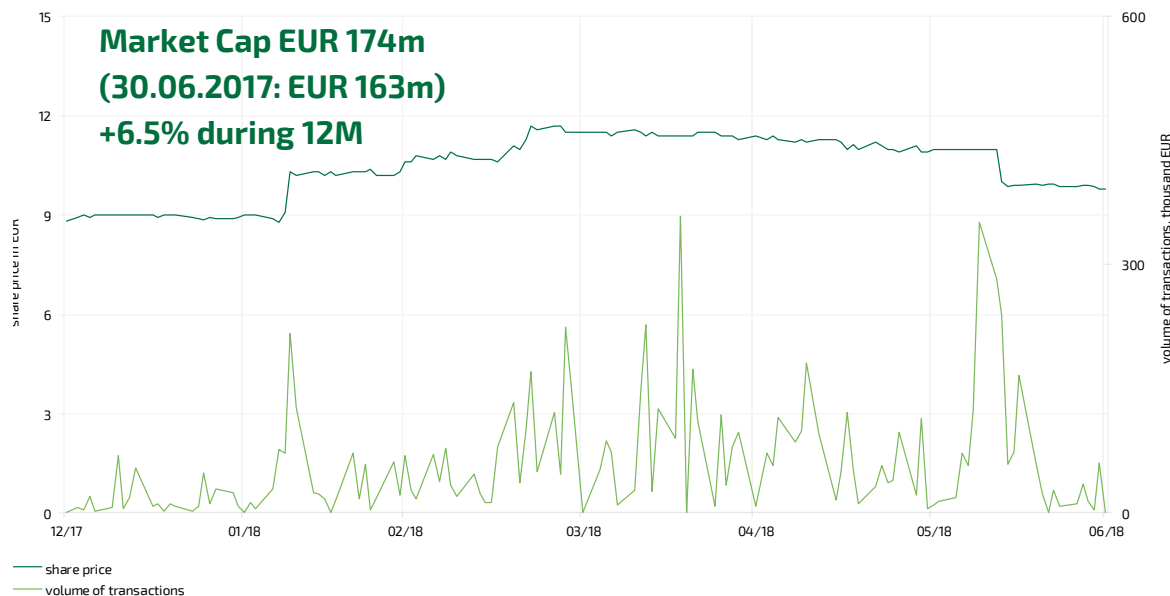
times



6M 2018: 2,408 transactions, turnover EUR 7.7 million (6M 2017: 1,179; EUR 2.5m)

30.06.2018 (30.06.2017):
2,425 shareholders (1,955)

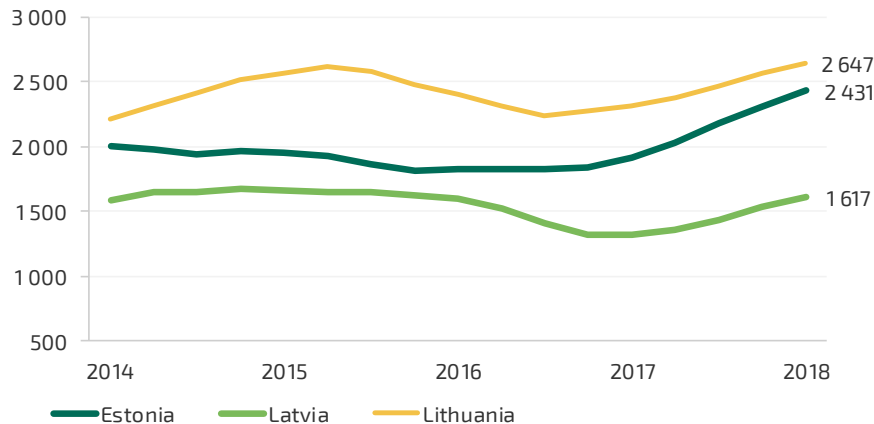
Stock Exchange Overview



Shareholders	Number of shares	% of total 30.06.2018	% of total 31.03.2018	Variance
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	763,045	4.31%	5.50%	(211,081)
Firebird Republics Fund Ltd	363,094	2.05%	2.05%	-
SEB S.A. UCITS client assets	232,222	1.31%	1.31%	-
Firebird Avrora Fund Ltd	222,419	1.26%	1.26%	-
OÜ Midas Invest	192,500	1.09%	0.99%	17,575
Skandinaviska Enskilda Banken AB, Swedish customers	159,619	0.90%	0.96%	(10,190)
State Street Bank and Trust Omnibus Account at Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	143,887	0.81%	0.81%	-
Firebird Fund L.P.	131,331	0.74%	0.74%	-
Total largest shareholders	15,103,821	85.33%	86.48%	(203,696)
Total others shareholders	2,596,179	14.67%	13.52%	203,696
Total	17,700,000	100%	100%	-

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

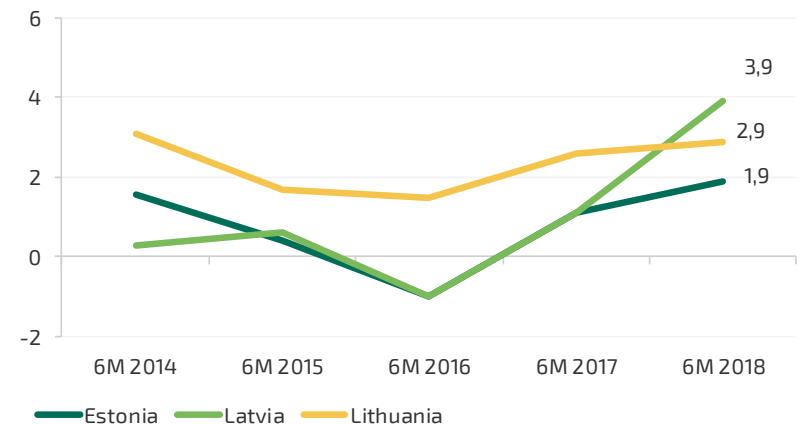
in million euros



Source: Local national statistical offices

6 MONTHS CHANGE IN CONSTRUCTION PRICE INDEX

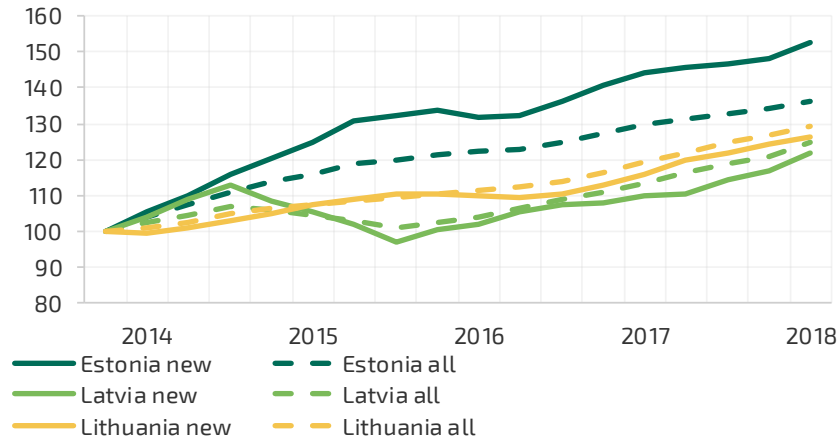
percentages



Source: Local national statistical offices

- ❑ In Estonia, construction volumes are at a similar level as during the boom ten years ago. The recovery of volumes, after a decline in the interim period in 2016, has continued also on Lithuanian and Latvian markets.
- ❑ For general contractors, it is still a problem to find suitable subcontractors to ensure adherence to completion schedules and budgets.
- ❑ Looking ahead, three major narratives can be traced, which are expected to have an impact on the activity of the construction market in the future:
 - ❑ the end of the current EU financial framework in 2020;
 - ❑ the potential start of Rail Baltic construction;
 - ❑ the entry into force of nearly zero energy requirements for new buildings.
- ❑ in Latvia, the relative growth in the past quarters has been comparable to even of Estonia, which gives hope that the development of the Latvian construction and real estate market could be more similar to Estonia and Lithuanian from here on out.

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



Source: Eurostat

- ❑ The supply of new apartments in Tallinn and Vilnius remains high, the new-apartments market is significantly less active in Riga.
- ❑ In the first quarter of this year prices kept on rising, in general mirroring salary growth in all three countries.
- ❑ The importance of quality, location and integrity of the development area is increasing.
- ❑ Sales periods are becoming longer for less attractive projects.
- ❑ On the Norwegian market, in the first half-year of 2018, prices have returned to a rising trend, making up for the interim decline in 2017.

Construction for client:

- ❑ 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
- ❑ Goal for 2018 to launch 650-700 new apartments and invest nearly EUR 60m, depending on receiving building permits

To retain liquidity:

- ❑ increase in construction volumes, investment capability



Multifunctional Centre Akropole (2019) in Latvia

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



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