

AS MERKO EHITUS

3 months 2019 interim report

9 May 2019



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Merko Ehitus Q1 profit grew to EUR 2.8 million

- ❑ 3M 2019 revenue EUR 77m, -4% compared to 3M 2018
- ❑ More than half of revenue (61%) in 3 months earned outside Estonia
- ❑ Net profit of 2019 3M at EUR 2.8m
- ❑ Secured order book at EUR 190m
- ❑ In Q1 2019 63 apartments sold
- ❑ The group continued to implement its long-term apartment development strategy by investing a total of EUR 16m in this field in 3M 2019



Kilingi-Nõmme substation in Estonia

Merko Group Key Financial Highlights

<i>EUR million</i>	3M 2019	3M 2018	Variance*	12M 2018
Revenue	76.8	80.3	-4.3%	418.0
EBITDA	3.5	1.8	+97.1%	21.9
EBITDA margin (%)	4.5	2.2		5.2
Operating profit	2.9	1.3	+126.9%	19.9
Operating profit margin (%)	3.8	1.6		4.8
Profit before tax	3.0	1.3	+138.0%	19.8
Net profit, attributable to equity holders of the parent	2.8	1.1	+151.7%	19.3
Earnings per share (EPS), in euros	0.16	0.06	+151.7%	1.09
Secured order book	190.0	291.9	-34.9%	229.0
Employees as at 31 December	740	764	-3.1%	764

* Variance calculated based on consolidated financial statements of interim reports

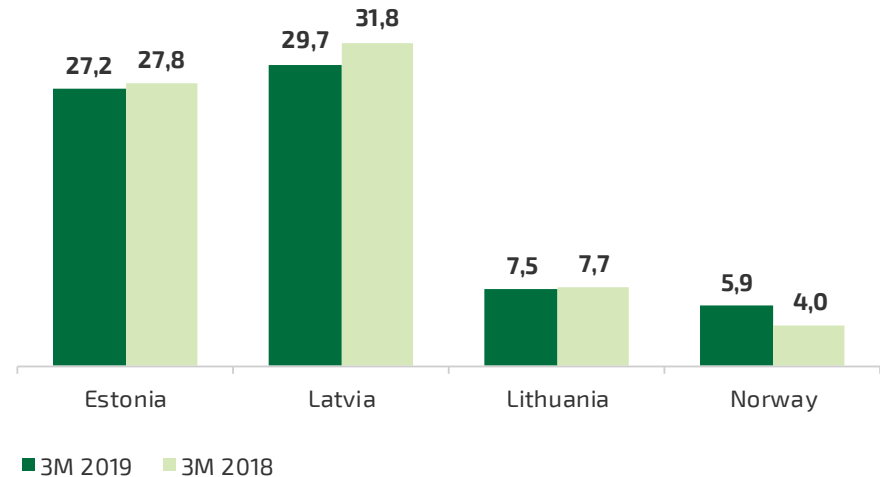
Construction Service

<i>EUR million</i>	3M 2019	3M 2018	Variance	12M 2018
Revenue	76.8	80.3	-4.3%	418.0
Construction service	70.3	71.3	-1.4%	347.1
Real estate development	6.5	9.0	-28.1%	70.9

- ❑ The decline in the group's revenue was due to the decreasing trend in construction orders on the market and the completion of large construction projects in group's portfolio in recent years
- ❑ The share of government contracts is increasing and the volume of public procurements is significantly influencing the outlook on the construction market in the years to come
- ❑ Group participates in procurements for such objects where the risk-reward ratio matches our goals
- ❑ The availability of construction resources is improving in Estonia
- ❑ The continuing rapid growth of the price of construction in Lithuania and Latvia points to the fact that the shortage of resources on these markets may remain topic this year as well

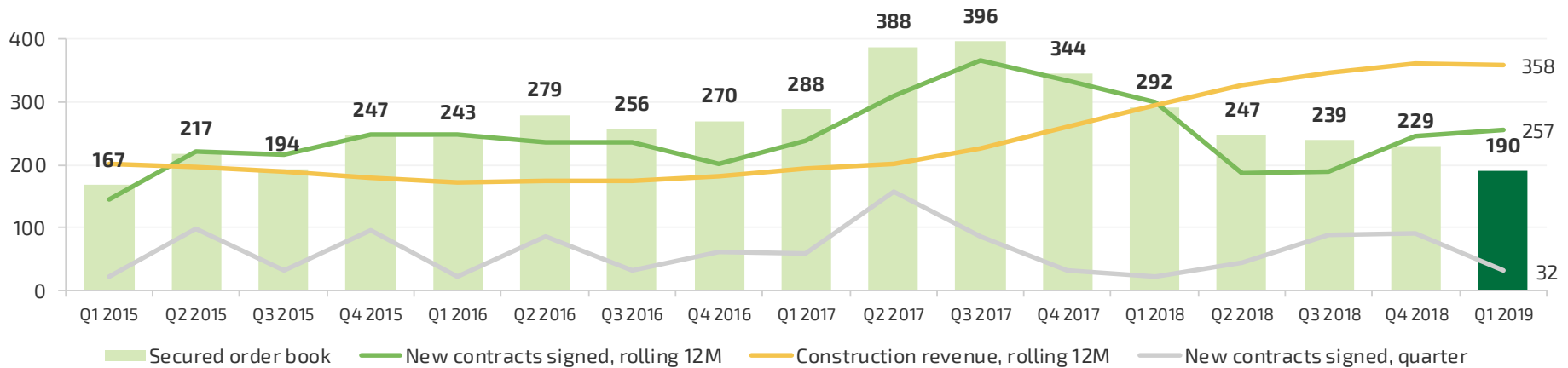
CONSTRUCTION SERVICE REVENUE BY COUNTRIES

in million euros



SECURED ORDER BOOK

in million euros



- ❑ Secured order book EUR 190m (31.03.2018: EUR 292m)
- ❑ Private sector orders from projects in progress constitute 61% (31.03.2018: 70%)
- ❑ Total new contracts signed during 3M 2019: EUR 32m (3M 2018: EUR 22m)
- ❑ The decreasing competition in the Baltic banking market as well as tightening requirements on acceptance of bank customers and on transactions may start manifesting itself in a decline of real estate market activity

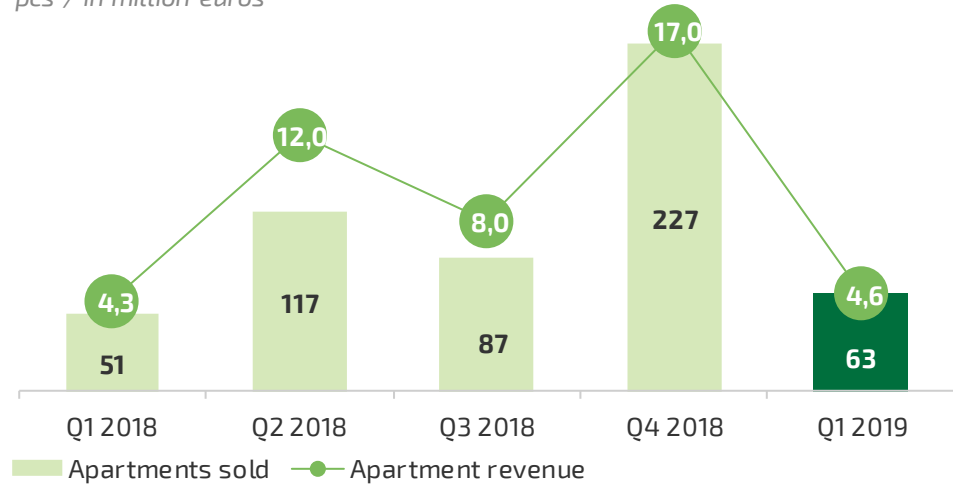
Real Estate Development

Group's central business line

- ❑ 63 apartments, incl. 29 in joint venture, sold in 3M 2019 (3M 2018: 51, incl. 25 in joint venture)
 - ❑ Revenue from sale of own developed apartments EUR 4.6m in 3M 2019 (3M 2018: EUR 4.3m)
- In addition, there were 288 pre-sale agreements signed as of 31.03.2019 (322 on 31.03.2018)
- ❑ Construction of 20 apartments launched during 3M 2019 (3M 2018: 145) and EUR 16m invested in apartment developments (3M 2018: EUR 7m)
 - ❑ As of 31.03.2019, 855 apartments on active sale without pre-sale agreements, of which 11% completed
 - ❑ Land plot portfolio of EUR 54m (31.03.2018: EUR 62m):
 - Estonia EUR 26m
 - Latvia EUR 27m
 - Lithuania EUR 1m

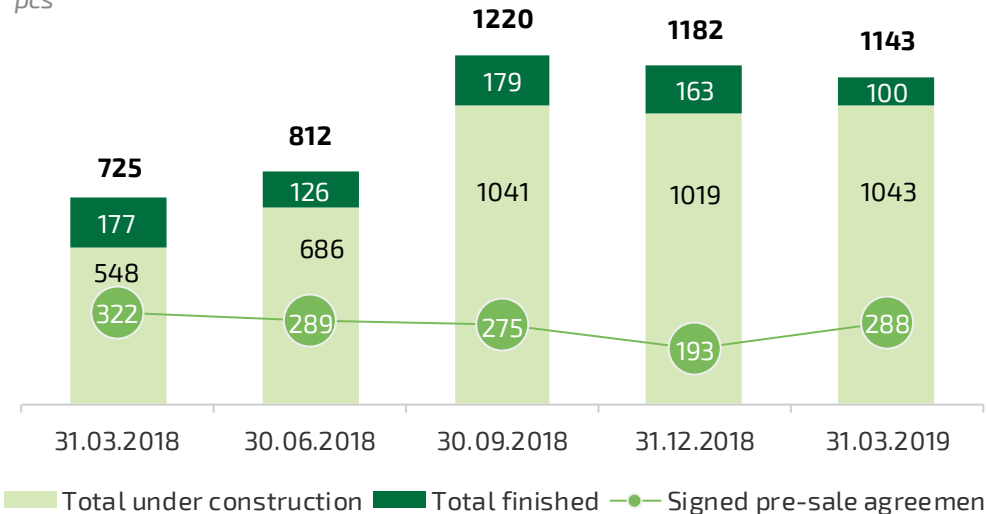
APARTMENTS SOLD AND APARTMENT REVENUE

pcs / in million euros



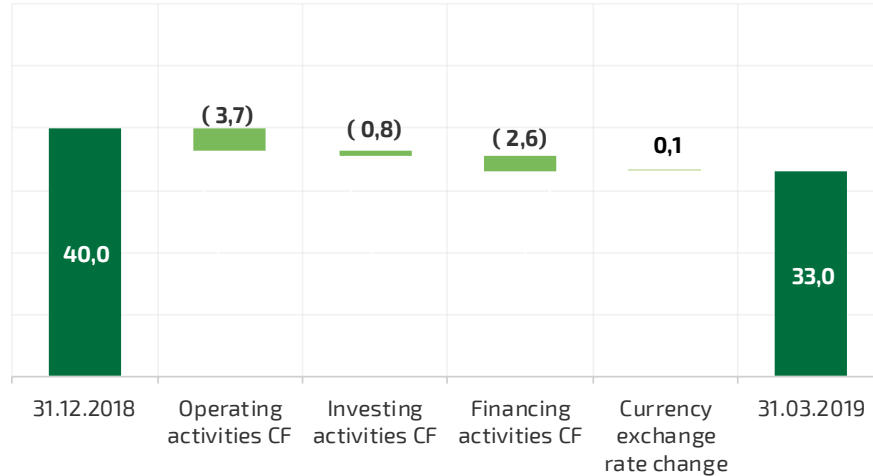
GROUP APARTMENTS INVENTORY

pcs



CHANGE IN CASH AND CASH EQUIVALENTS

in million euros



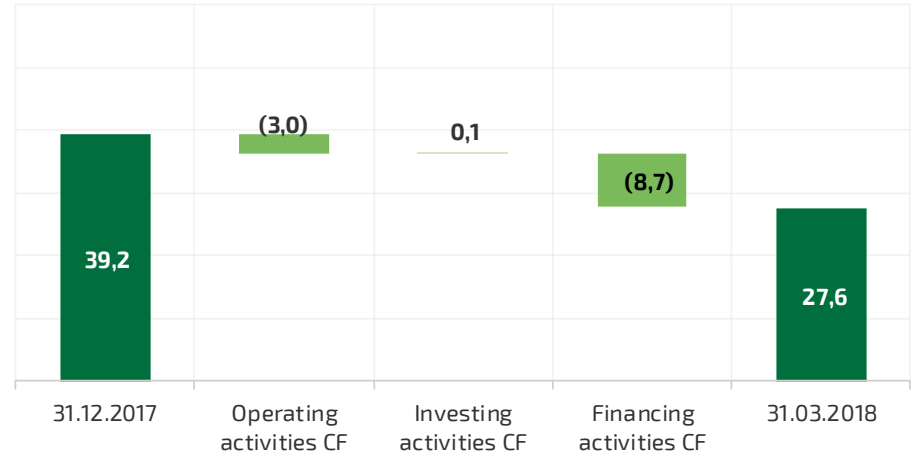
Robust capitalization, high liquidity, low debt level

- ❑ Liquidity position maintained strong, cash at EUR 33m as at 31.03.2019 (31.03.2018: EUR 28m).
- ❑ Net debt amounted to EUR 10m and debt ratio at 16% (31.03.2018: EUR 23m 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 2.3x current liabilities (31.03.2018: 2.3x).
- ❑ Equity ratio at 49% (31.03.2018: 48%).

Financial Position

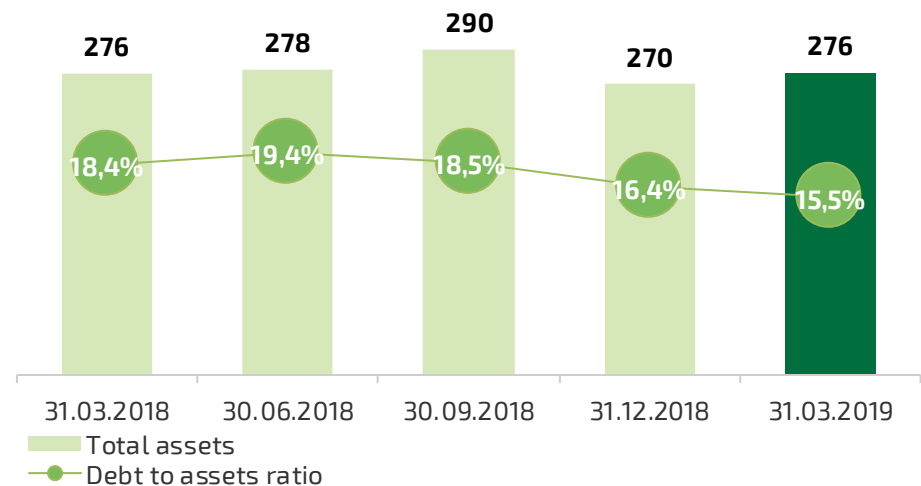
CHANGE IN CASH AND CASH EQUIVALENTS

in million euros



TOTAL ASSETS AND DEBT TO ASSETS RATIO

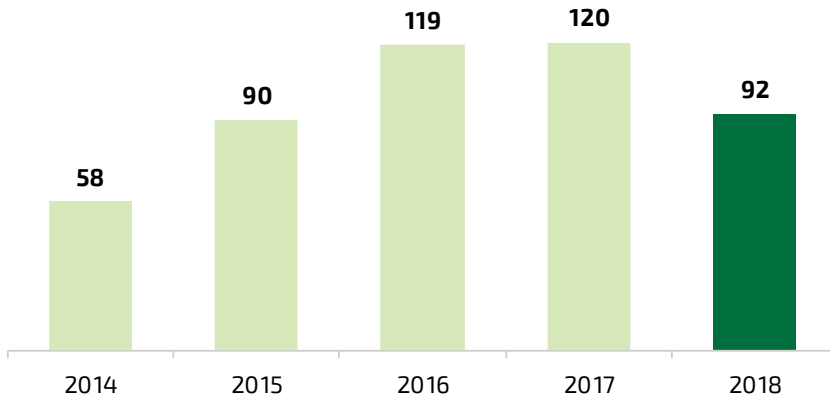
in million euros / percentages



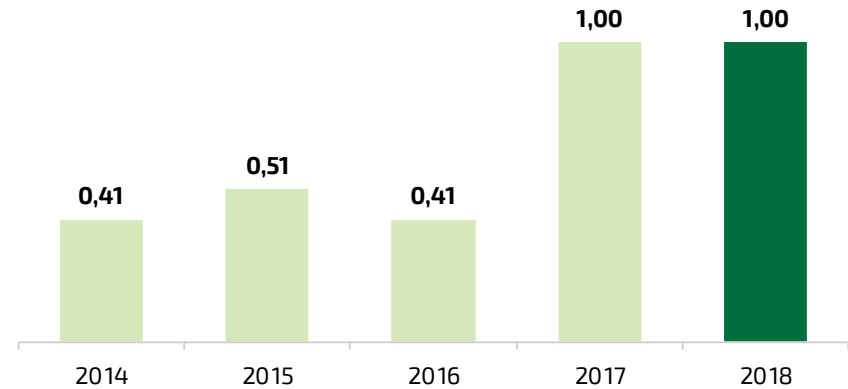
The annual general meeting of shareholders on 8 May 2019 approved the proposal to pay the shareholders a total amount of EUR 17.7m as dividends (EUR 1.0 per share) in 2019

- 2018 dividend rate 92%
- 2018 dividend yield 10.9%
(using share price of 9.20 euros as at 31.12.2018)
- Dividend payment will be made on 1 July 2019

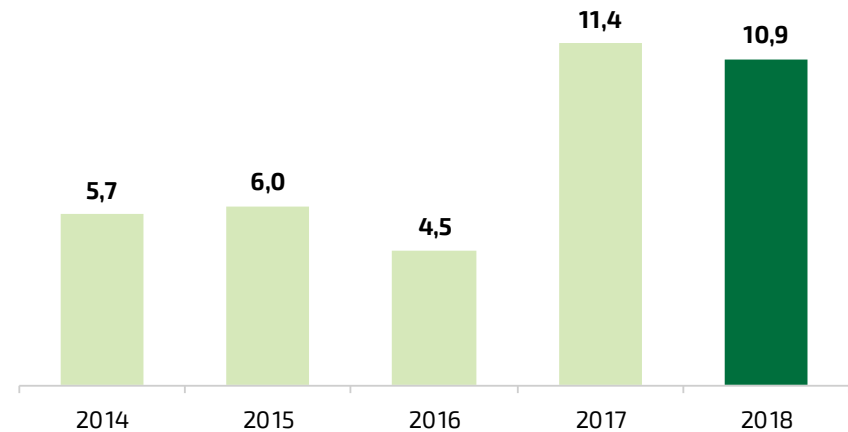
DIVIDEND RATE
percentages



DIVIDEND PER SHARE
in euros



DIVIDEND YIELD *
percentages



* Using share price as at 31 December

Stock Exchange Overview

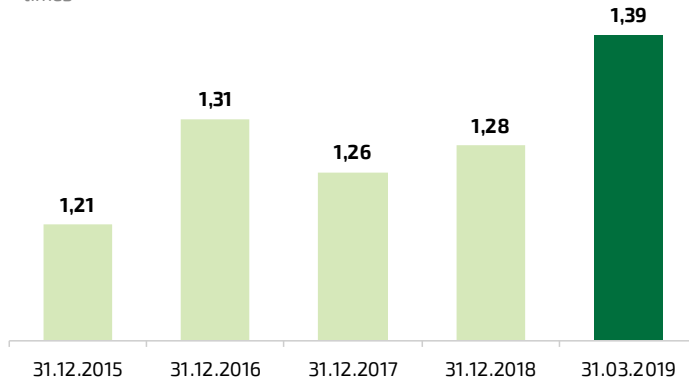
Market Cap as at 31.03.2019: EUR 177m

(31.03.2018: EUR 204m)

-13.0% during 12M

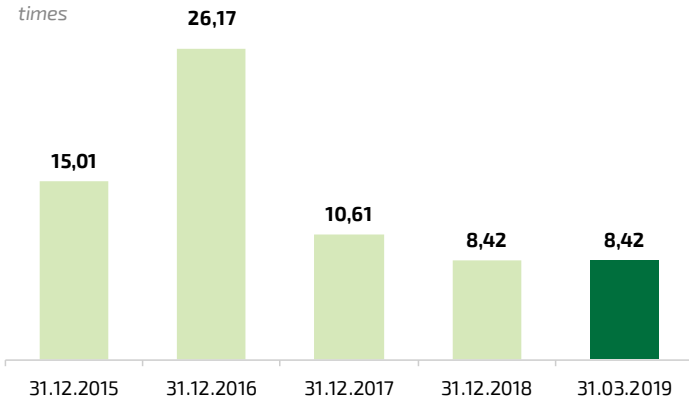
P/B RATIO

times



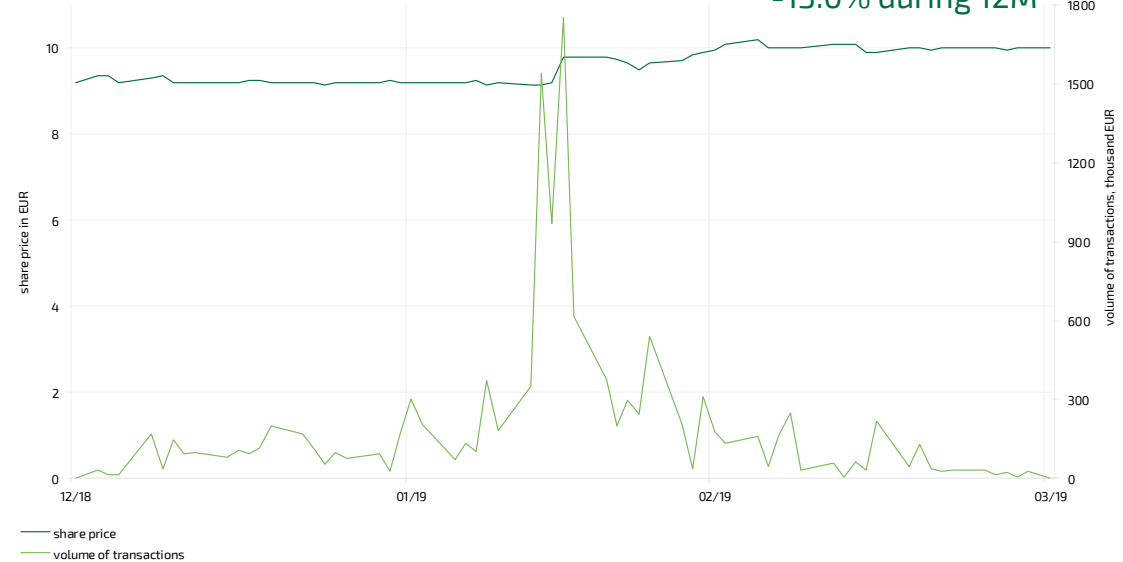
P/E RATIO

times



3M 2019: 3,644 transactions, turnover EUR 12.5 million (3M 2018: 1,071; EUR 2.8m)

31.03.2019 (31.03.2018):
3,422 shareholders (2,161)

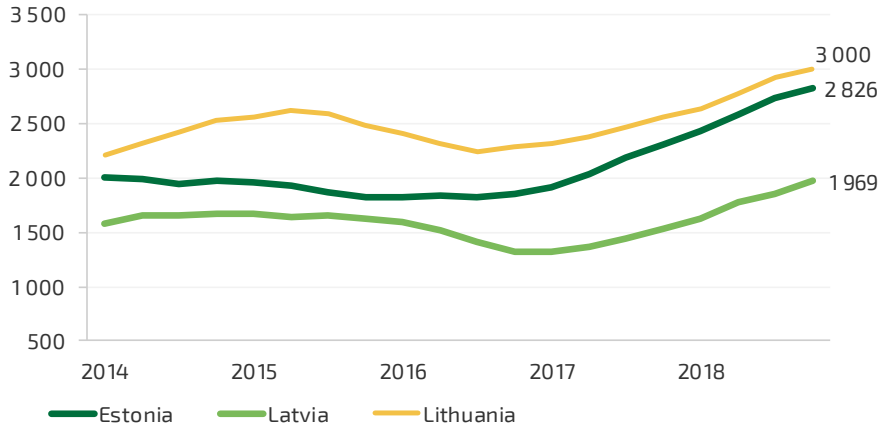


Shareholders

Shareholders	Number of shares	% of total 31.03.2019	% of total 31.12.2018	Variance
AS Riverito	12,742,686	71.99%	71.99%	-
Firebird Republics Fund Ltd	356,062	2.01%	2.05%	(7,032)
OÜ Midas Invest	253,28	1.43%	1.19%	42,600
Firebird Avrora Fund Ltd	215,387	1.22%	1.26%	(7,032)
Skandinaviska Enskilda Banken AB, Swedish customers	201,000	1.14%	0.90%	41,441
State Street Bank and Trust Omnibus Account at Fund No OM01	161,006	0.91%	0.87%	7,988
SEB Elu- ja Pensionikindlustus AS	148,787	0.84%	0.81%	5,900
Firebird Fund L.P.	127,815	0.72%	0.74%	(3,516)
BNYM ASAGT/CLTS	115,698	0.65%	0.47%	32,470
Swedbank AS	109,262	0.62%	0.40%	37,339
Total largest shareholders	14,430,983	81.53%	80.68%	150,158
Total others shareholders	3,269,017	18.47%	19.32%	(150,158)
Total	17,700,000	100%	100%	-

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

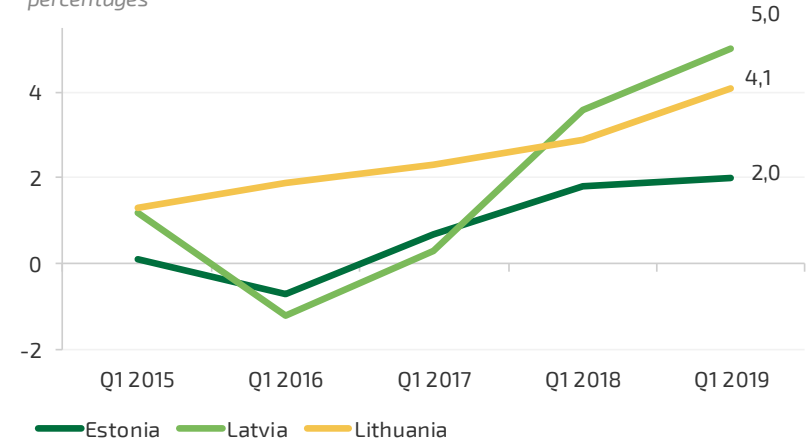
in million euros



Source: Local national statistical offices

ANNUAL CHANGE IN CONSTRUCTION PRICE INDEX IN FIRST QUARTER

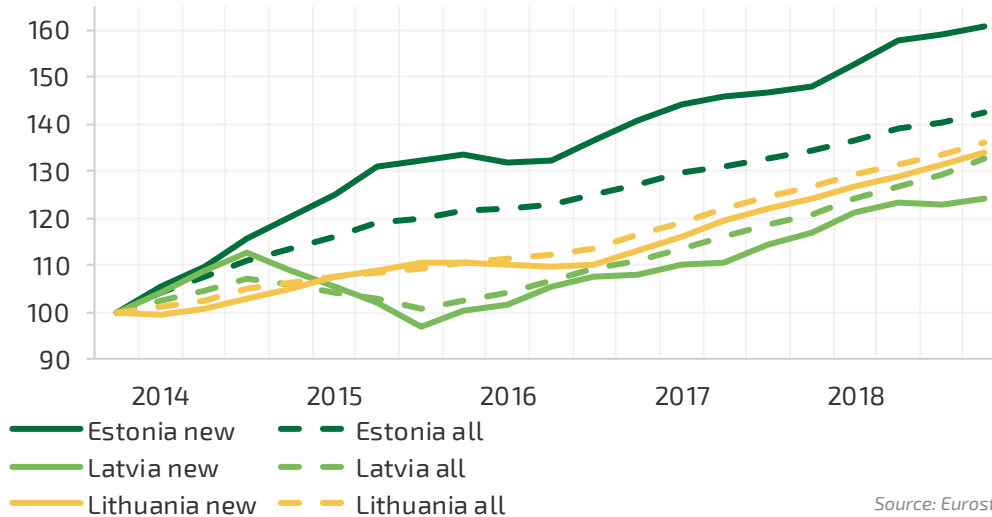
percentages



Source: Local national statistical offices

- ❑ In 2018, construction work using own forces in the Baltic states grew by close to EUR 1,400 million compared to the year before
- ❑ In Estonia, the boom era peak was exceeded by 13%, while Latvia and Lithuania fell 17-18% short
- ❑ The amount of issued construction permits decreased in 2018 compared to previous year in Estonia both in terms of residential (ca -10%) and non-residential premises (ca -20%)
- ❑ In Lithuania the amount of issued construction permits for residential premises remained the same, permits for non-residential premises increased (ca +10%)
- ❑ In Latvia the amount of issued construction permits increased both for residential and non-residential premises (ca +15...20%)
- ❑ In Norway, annual growth has continued at a stable 3% rate
- ❑ Latvia's construction price index growth accelerated significantly, in Lithuania the price increase in construction is also rising, Estonia's price growth has remained more or less stable

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



- ❑ In Estonia, the number of permits for use issued for new residential units reached the level seen at the peak of the boom era
- ❑ In Lithuania, more use permits have been issued for new housing than at the height of 2008 for couple of years already
- ❑ In Latvia, volumes remain lower than in Estonia and Lithuania, but in 2018, the number of permits for use grew by nearly 20%
- ❑ In spite of the increase in supply, prices display a clear rising trend; prices have risen at the same pace with personal incomes, so it does not in itself pose a risk to the general economic environment
- ❑ The continued growth in wages, low unemployment rate, general economic growth and low loan interest rates support price increase
- ❑ Success is defined by quality, location and the cohesiveness of the development area
- ❑ Developers with strong financial capability have an advantage – they can cope successfully with a longer sales period

Construction for clients:

- ❑ 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



Uus-Veerenni residential area development in Tallinn

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%**)

2018 KEY FIGURES

Revenue **418.0 million** euros

Net profit **19.3 million** euros

764 employees



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