



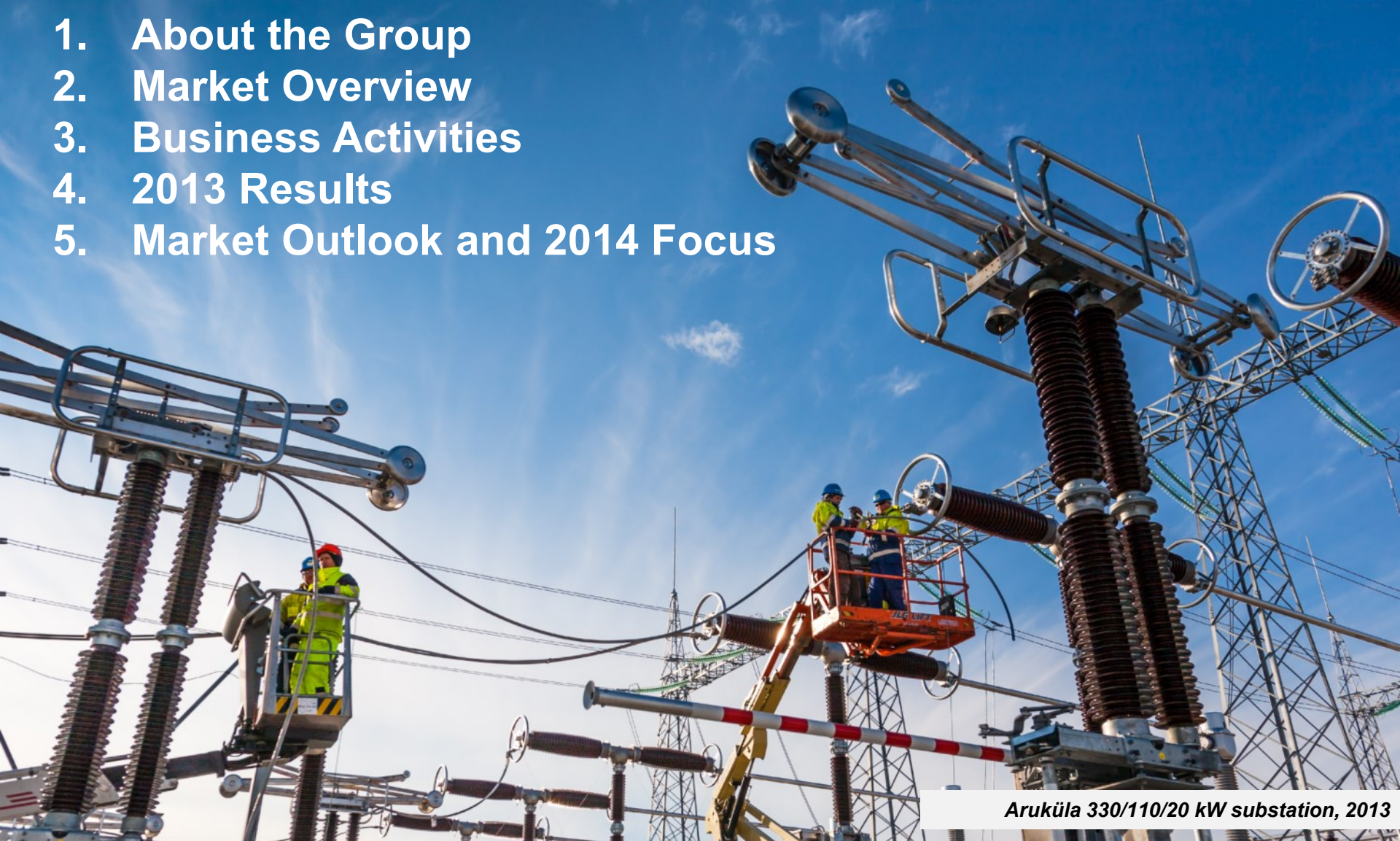
MERKO EHITUS

Construction, Engineering & Real Estate

20 March 2014



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Group In Brief



Construction services:

- General construction
- Civil engineering
- Road construction

Own developed real estate projects

Operates in
Estonia (81% of revenue),
Latvia (17%) and
Lithuania (2%)



Share quoted on
Nasdaq OMX
Tallinn since 1997



Value Offering

Integrated project management and general contracting service across the full life cycle of construction projects.

- ❖ From idea to planning to engineering design to site works to warranty: full responsibility to deliver the project.
- ❖ We mainly contract subcontractors, but also use own workforce in concrete works, road construction, high-and medium voltage electrical engineering, external pipe networks.
- ❖ We invest in real estate and develop homes for sale directly to consumers.
- ❖ We provide co-financing and share project risks, also in PPP

Our differentiation:

- ❖ Experienced project managers and engineers
- ❖ Experience and influence on subcontractor market
- ❖ New engineering and construction solutions
- ❖ Strong financial capability relative to peers



MARKET OVERVIEW

Baltic Construction Market

2013 growth +11.3% y-o-y

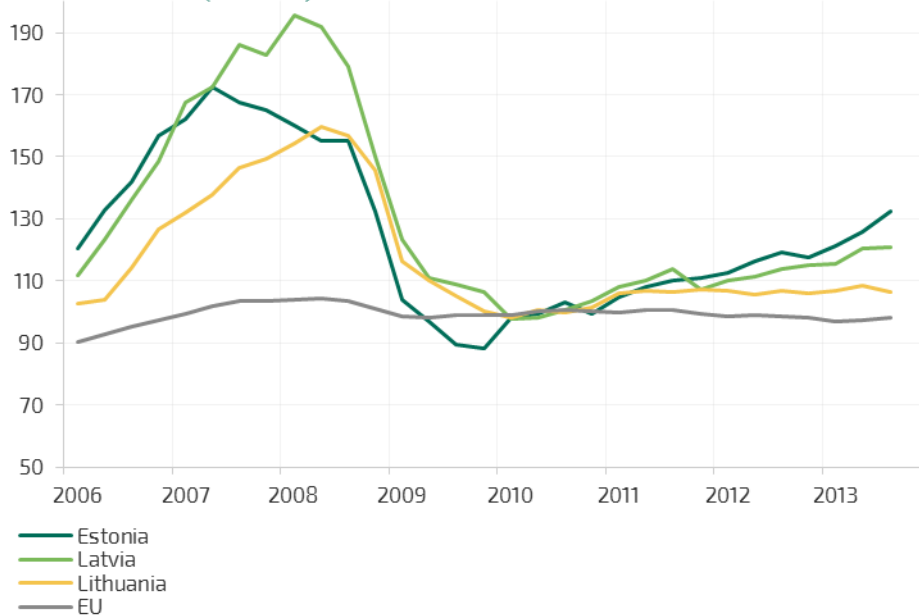
- ❖ Construction works with own resources totaled EUR 5,652m in Baltics representing an increase of 11.3% y-o-y (2012: EUR 5,076m and +13.1%).
- ❖ Strongest growth in Lithuania 15.9% (2012: -4.1%), in Latvia 10.4% (2012: 27.2%) and in Estonia 7.6% (2012: 24.5%).
- ❖ Lithuanian construction market the largest in Baltics with 37.3% (2012: 35.9%) share, followed closely by Estonia 35.4% (2012: 36.6%) and Latvia 27.3% (2012: 27.5%).

Merko's construction business market share:
Estonia 6%, Latvia 2% and Lithuania less than 1%.
Market is very fragmented.

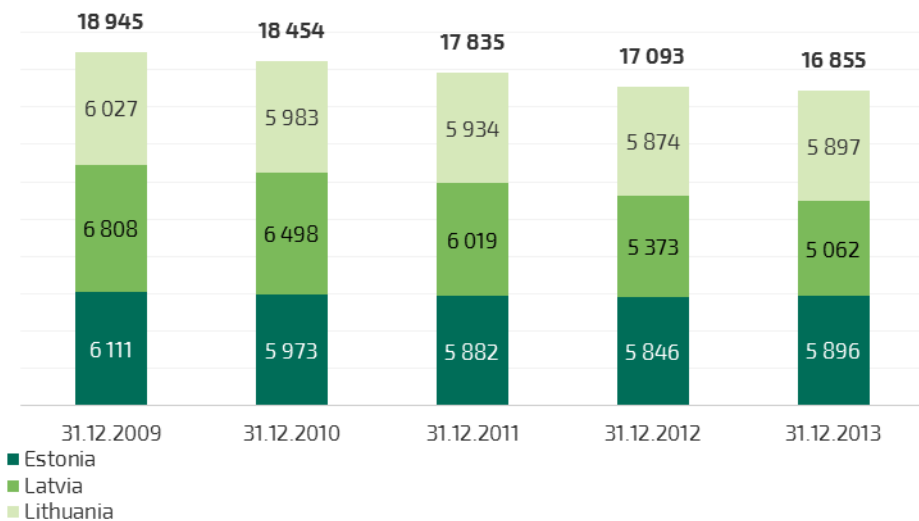
Merko is the largest listed construction company in Baltics (followed by Nordecon and PST).



HOUSE PRICE INDEX (2010=100)



STOCK OF HOUSING LOANS
in million euros



Residential Real Estate Market Position

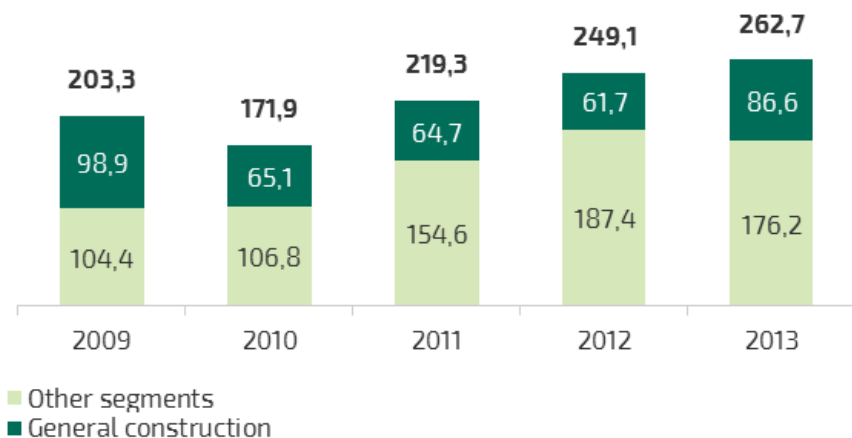
- ❖ Real estate prices (apartments) and transaction volumes have increased in all Baltic capitals during 2013.
- ❖ Balance of housing loans has continued to decrease in Latvia (-5,8%), Estonia and Lithuania have shown a slight increase (0,9% and 0,4% respectively). Favorable interest terms and consumer confidence has brought more people back to loan market to improve their living conditions.
- ❖ Latvian loan market still influenced by banks, who's real estate subsidiaries own a substantial portfolio of apartments and thus have significant influence on overall market and lending policies.
- ❖ Latvian market positively influenced by people from outside EU who invest in Latvian real estate to acquire a five-year residence permit.
- ❖ In Lithuania new apartments sold as „grey boxes“, i.e. without any finishing works or furnishings.

BUSINESS ACTIVITIES

General Construction



- ❖ Construction of buildings and facilities
- ❖ 33% of 2013 revenues (+40% y-o-y)
- ❖ Decrease since 2009 (2009: 43% of total revenues) due to increasing share of infra projects in recent years
- ❖ Markets:   

REVENUE
in million euros

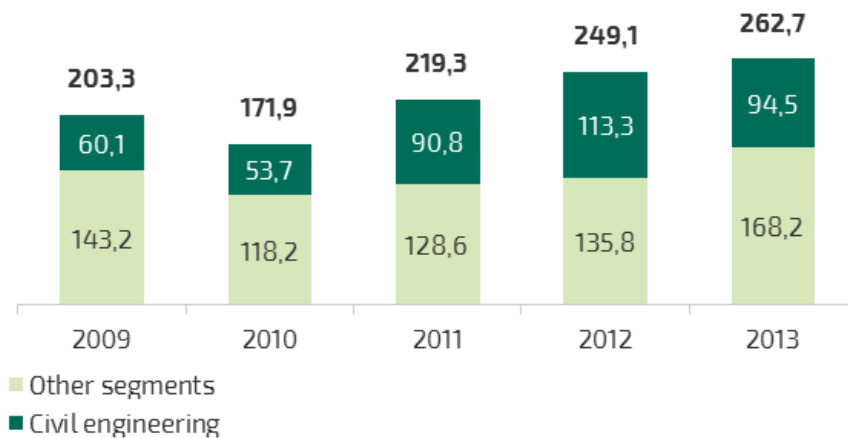


Tornimäe residential building, 2007

Civil Engineering


- ❖ Infrastructure and engineering projects. Including water, environmental and electrical projects.
- ❖ 36% of 2013 revenues (-17% y-o-y)
- ❖ EU funding is key
- ❖ Markets:  

REVENUE
in million euros

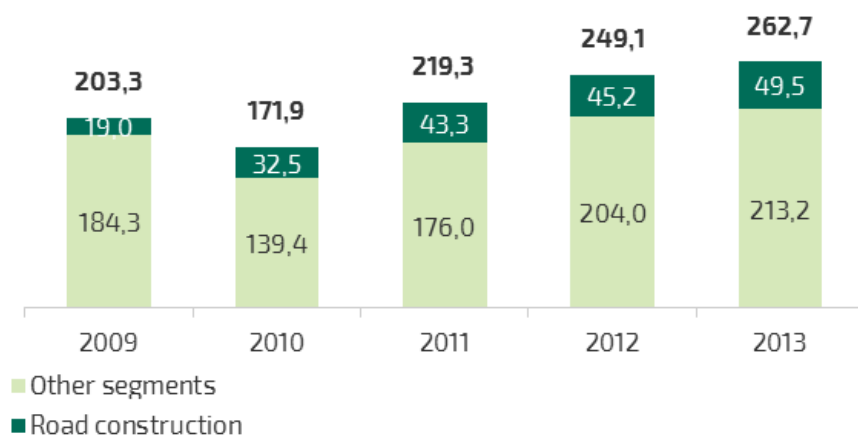


Puurmani traffic knot, 2008

Road Construction

- ❖ Road construction and long-term road maintenance contracts
- ❖ 19% of 2013 revenues (+10% y-o-y)
- ❖ EU funding key
- ❖ Since 2010 large scale projects
- ❖ Market: 

REVENUE
in million euros

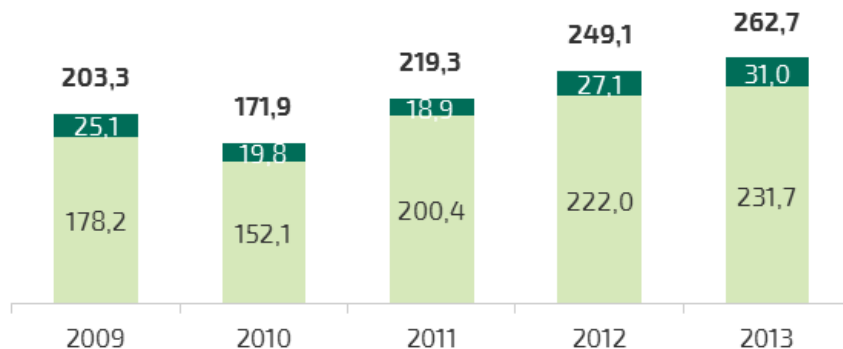


Reconstruction of Ülemiste traffic junction, 2013

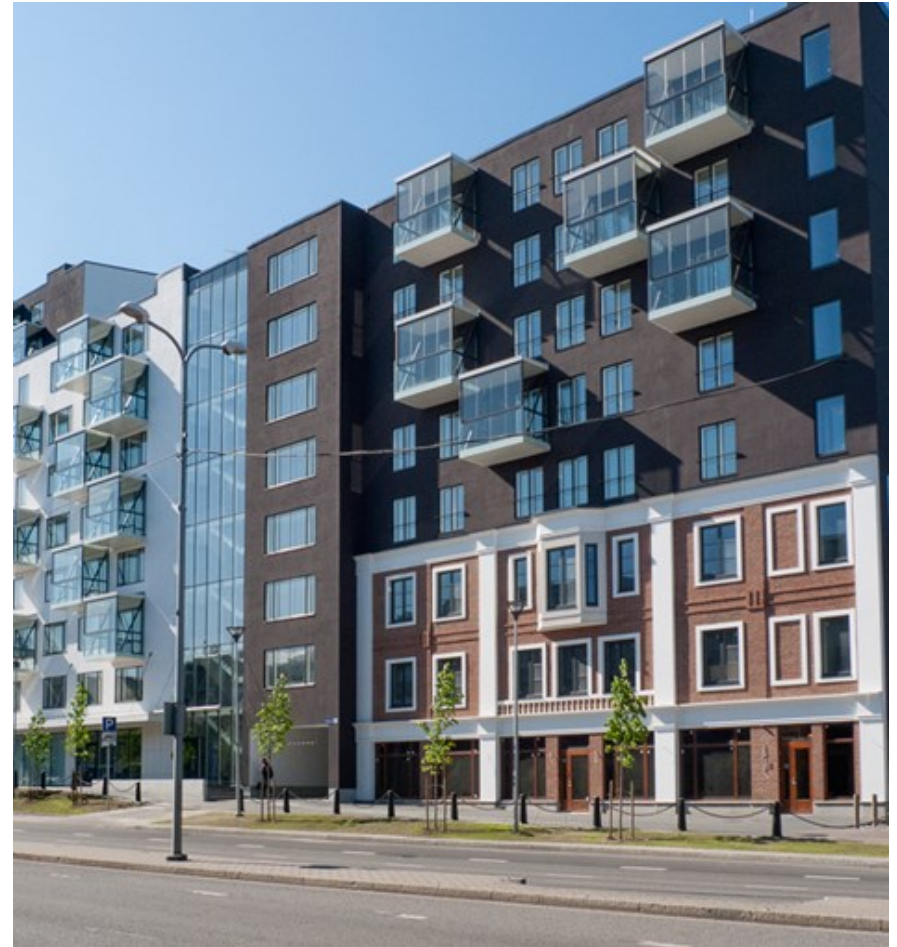
Real Estate Development

- ❖ Own development of residential apartments
- ❖ Merko has become the flagship of Baltics residential development
- ❖ 12% of 2013 revenues (+14% y-o-y)
- ❖ 2009-2011 downturn years
- ❖ Markets: 

REVENUE
in million euros

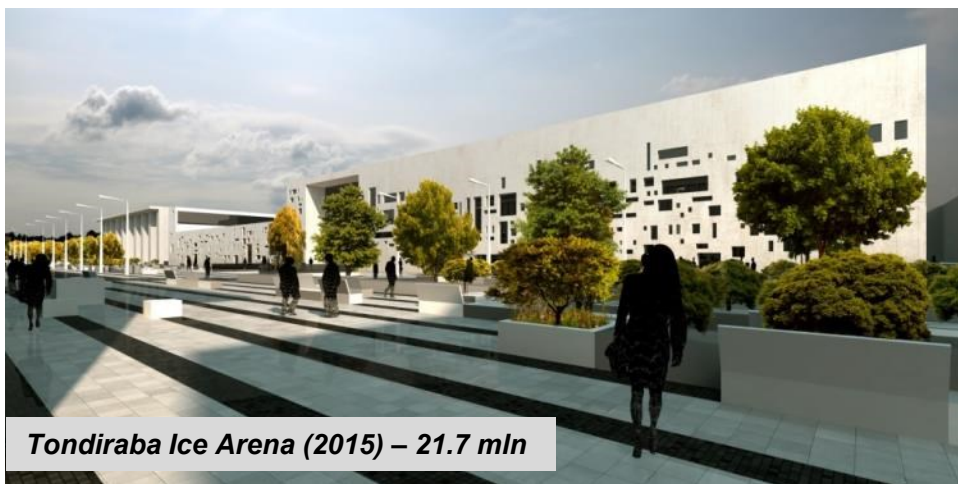


■ Other segments
■ Real estate development

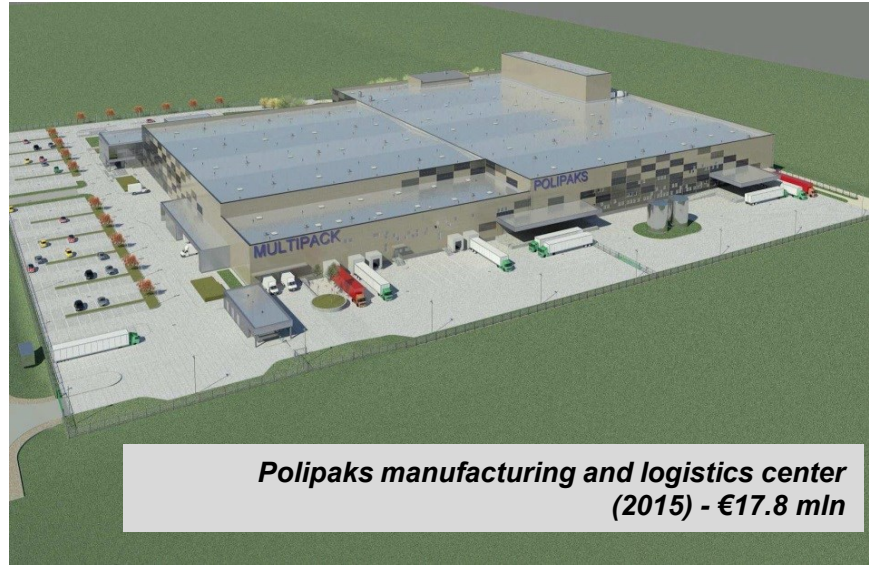


Tartu mnt apartment buildings, 2012

2014 Largest Projects In Progress Estonia



2014 Largest Projects In Progress Latvia



2014 Largest Projects In Progress Lithuania



Vilnius and Kaunas train terminals (2014) - €3.6mIn



Own development Mokslininku II stage, 54 apartments (2014)



Vilnius Balsiai Secondary School – PPP (2011 – 2035)

2013 RESULTS

2013: Key Highlights

EUR millions	2013	2012	Variance
Revenue	262.7	249.1	+5.5%
Gross profit	22.7	17.9	+26.8%
Gross profit margin, %	8.6	7.2	+20.3%
EBITDA	15.1	11.4	+32.4%
Net profit, attributable to equity holders of the parent	10.4	7.6	+36.3%
Earnings per share (EPS), in euros	0.59	0.43	+36.4%
Secured order book	213.7	189.9	+12.5%
Employees	860	915	-6.0%

The long-term financial objectives cover the period from 2013 till 2018:

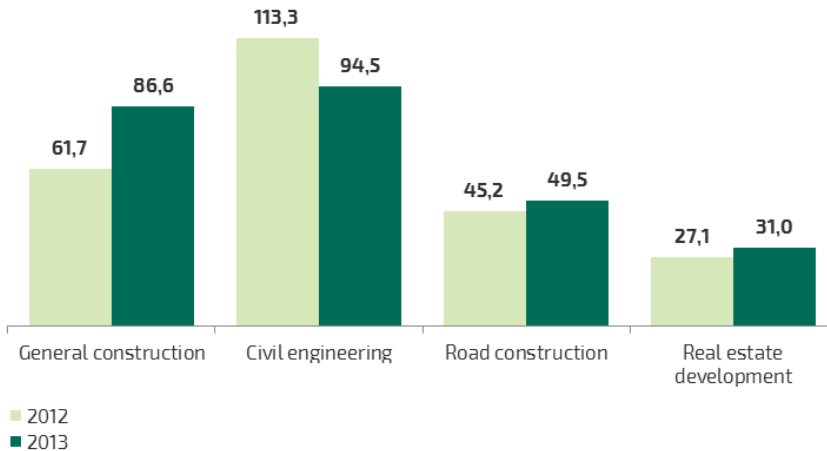
- ❖ The minimum period average return on equity (ROE): 10%
- ❖ Dividend pay-out ratio: 50-70% of the annual profit
- ❖ Equity ratio: at least 40%

2013 actual:

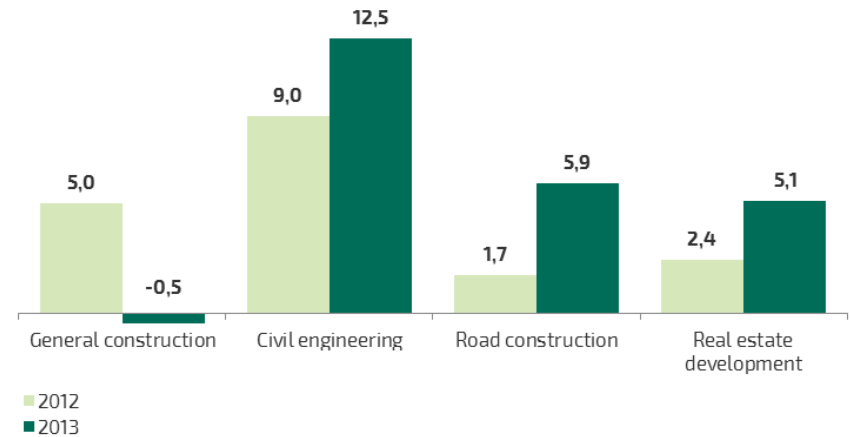
- ❖ Annual return on equity (ROE): 8.8% (2012: 6.8%)
- ❖ Dividend pay-out ratio: 70% (2012: 70%)
- ❖ Equity ratio: 50.2% (2012: 52.0%)

Revenue & Gross Profit Improved y-o-y

REVENUE BY SEGMENT
in million euros



GROSS PROFIT BY SEGMENT
in million euros



REVENUES

- ❖ The largest proportion of 2013 revenues still related to civil engineering projects financed with support from EU funds and state orders.
- ❖ 2013 private sector orders increased as ongoing trend.

GROSS PROFIT

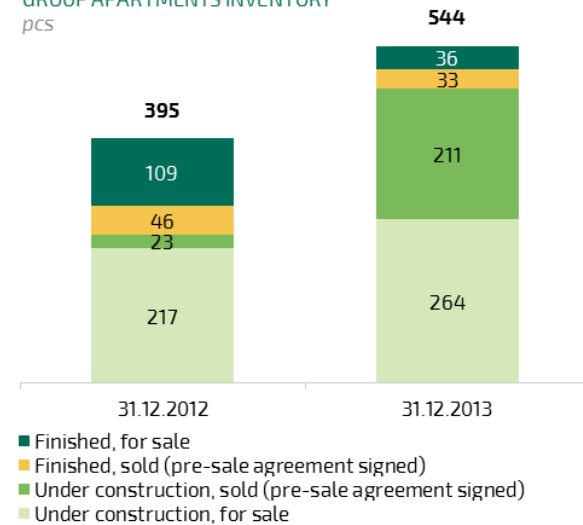
- ❖ Improved overall margin level from 7.2% to 8.6%.
- ❖ Positively impacted by road construction segment and real estate development segment however the general construction disappointed due to risks identified in the last quarter.

Real Estate Development Apartments

APARTMENTS SOLD / APARTMENT REVENUE
pcs / in million euros



GROUP APARTMENTS INVENTORY
pcs

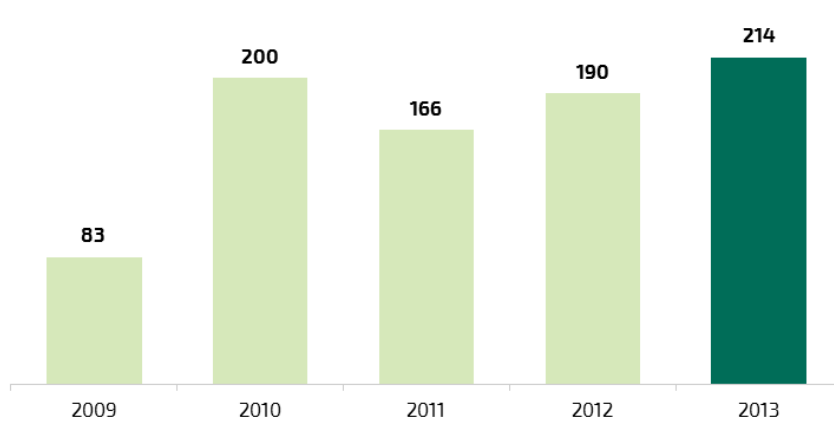


- ❖ 300 apartments on active sale (2012: 326).
- ❖ Construction of 409 apartments launched during 2013 (2012: 308 apartments).
- ❖ Keep the adequate level of inventory to meet the market demand.
- ❖ Focus to acquire new plots in Lithuania and Estonia.

Stable Secured Order Book

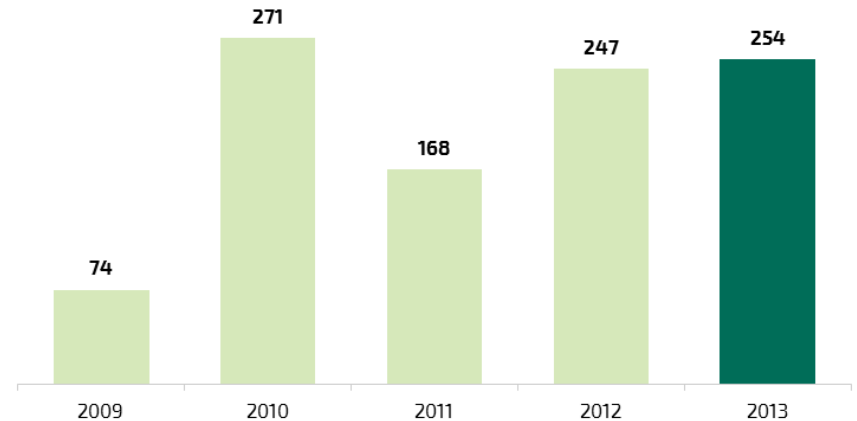
SECURED ORDER BOOK

at the end of the period, in million euros



NEW CONTRACTS SIGNED

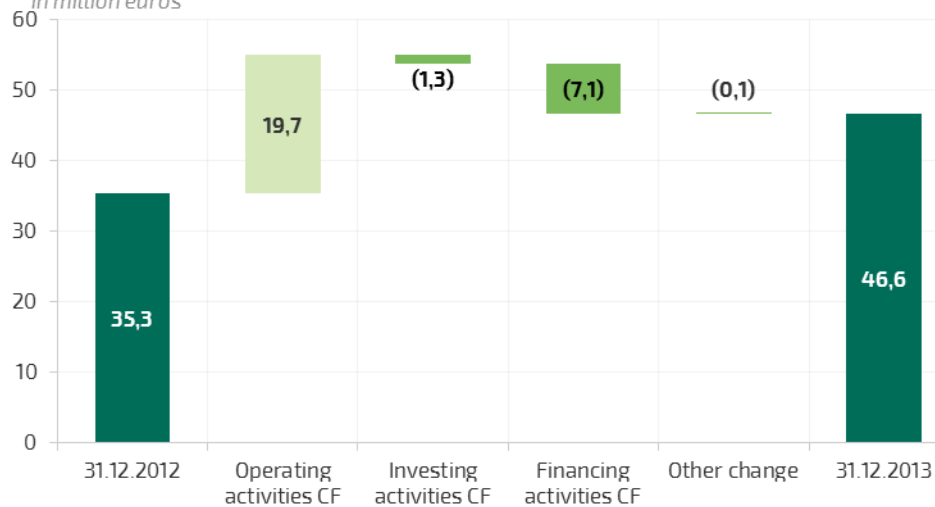
during the period, in million euros



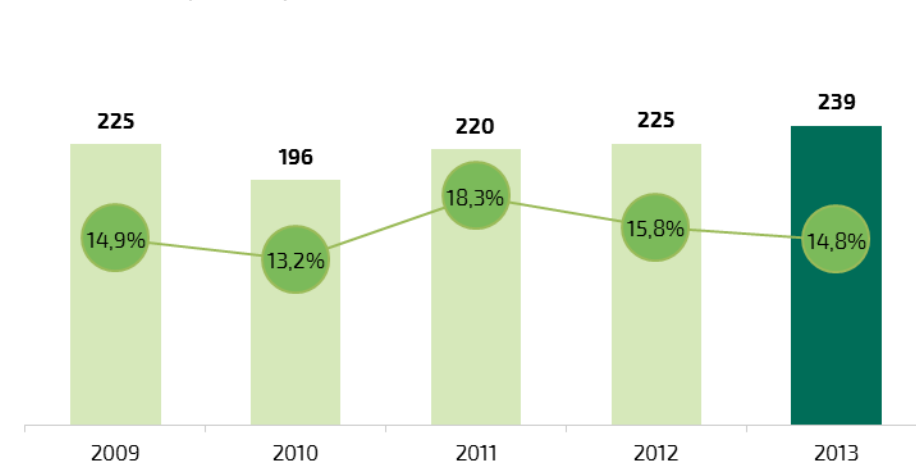
- ❖ Secured order book at EUR 213.7m (+12.5% compared to 2012).
- ❖ Order book is still dominated by public orders, however about half of new signed contracts during 2013 are related to private orders.
- ❖ Challenge for next 12 months to maintain the volume of new contracts.

Strong Balance Sheet and Cash Position

CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



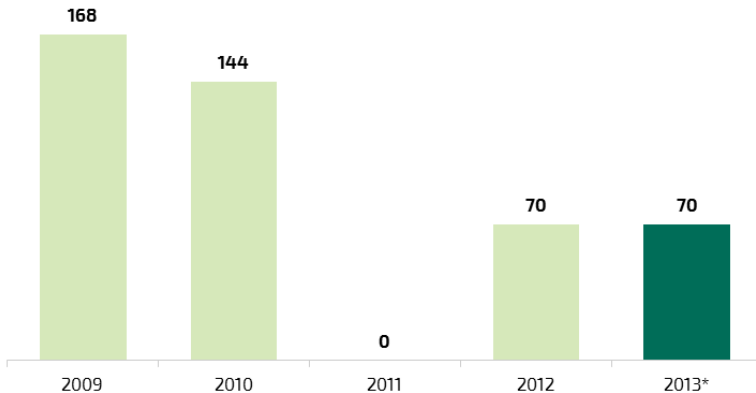
TOTAL ASSETS AND DEBT TO ASSETS RATIO
in million euros / percentages



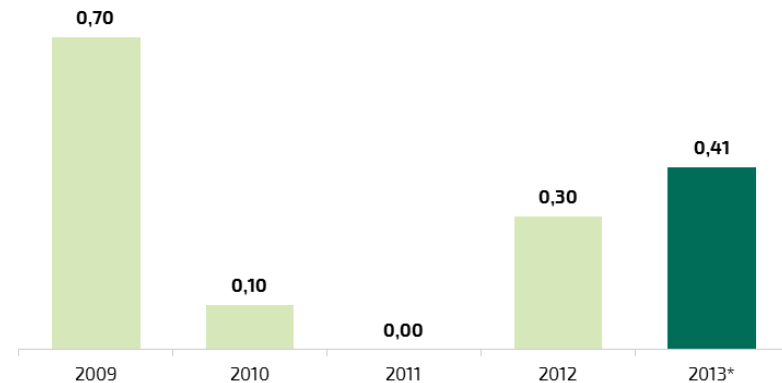
- ❖ Group's cash position at EUR 46.6m (31.12.2012: EUR 35.3m)
- ❖ The net debt amounted to EUR –11.2m and debt ratio is at a modest level of 14.8% (31.12.2012: EUR +0.2 and 15.8%)
- ❖ Current assets are at 2.0x current liabilities (31.12.2012: 2.1x)
- ❖ Equity at 50.9% (31.12.2012: 52.0%)

Dividend proposal: EUR 0.41 per share 70% pay-out ratio

DIVIDEND RATE
percentages

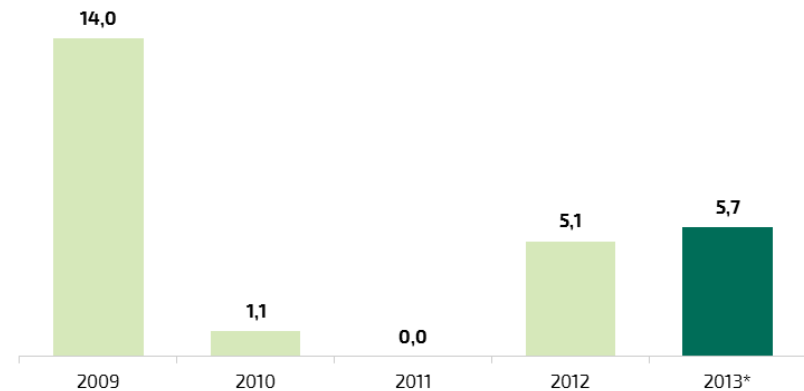


DIVIDEND PER SHARE
in euros



- ❖ Dividend pay-out ratio according to long-term financial objectives: 50-70% of the annual profit.
- ❖ Dividend payment of EUR 5.3m in July 2013 (EUR 0.3 per share).
- ❖ The Management Board proposes to pay the shareholders the total amount of EUR 7.3 million as dividends (EUR 0.41 per share) in 2014.

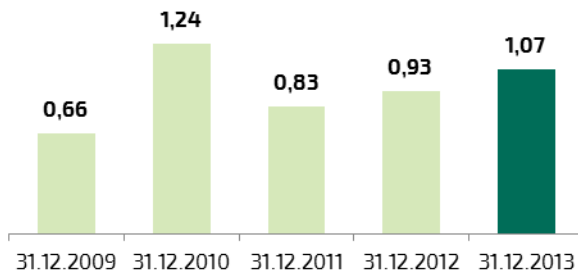
DIVIDEND YIELD
percentages



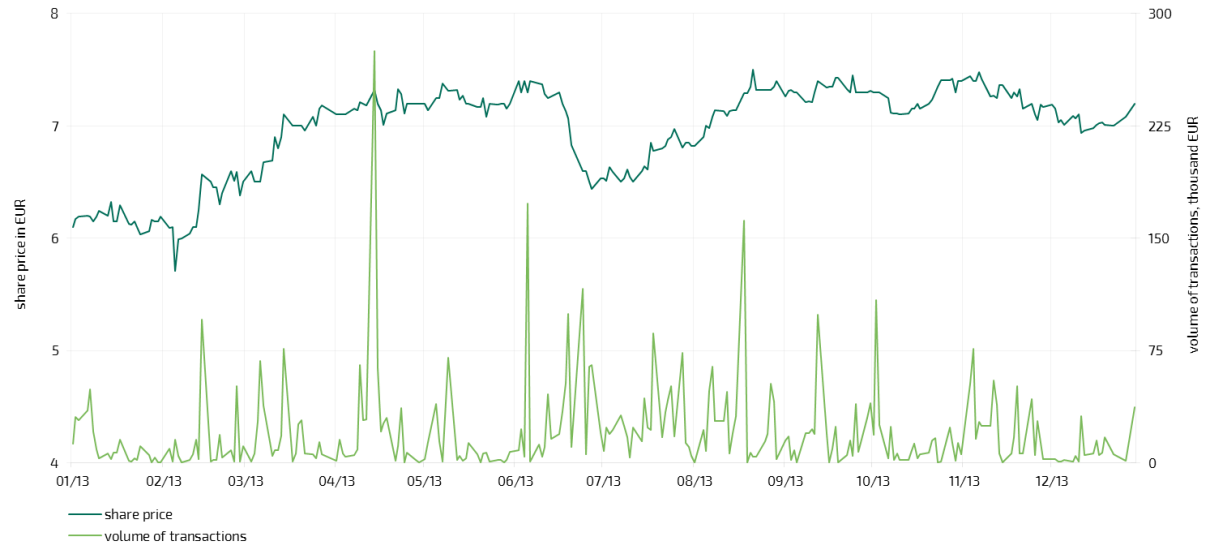
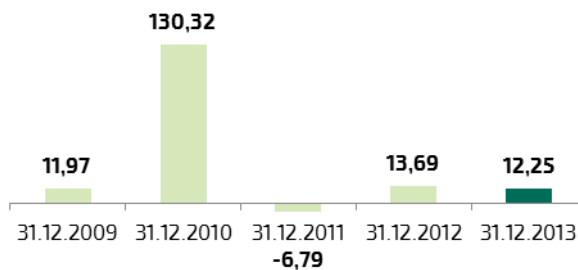
Share Performance

- ❖ Market capitalization as at 31 December 2013 EUR 127.4m (31.12.2012: EUR 104,4m)
- ❖ The closing share price on 31 December 2013 EUR 7.20 (31.12.2012: EUR 5.90)

P/B RATIO
times



P/E RATIO
times



Shareholders

Shareholders	No of shares	% of total 31.12.2013	% of total 31.12.2012	Variance
AS Riverito	12 742 686	71,99%	71,99%	-
ING Luxembourg S.A. AIF Account	974 126	5,50%	5,50%	-
Skandinaviska Enskilda Banken S.A.	481 379	2,72%	0,00%	481 379
Skandinaviska Enskilda Banken AB, Swedish clients	330 060	1,86%	5,07%	-566 804
Firebird Republics Fund Ltd	302 395	1,71%	1,71%	-
Gamma Holding OÜ	188 762	1,07%	0,92%	25 506
State Street Bank and Trust Omnibus Account a Fund No OM01	153 018	0,86%	0,86%	-
Clearstream Banking Luxembourg S.A. clients	141 262	0,80%	0,58%	38 765
Skandinaviska Enskilda Banken AB, Finnish clients	134 982	0,76%	0,71%	9 791
OÜ Midas Invest	131 185	0,74%	0,66%	14 130
TOP 10 shareholders	15 579 855	88,01%	88,00%	2 767
Other shareholders	2 120 145	11,99%	12,00%	-2 767
Total shares	17 700 000	100,00%	100,00%	

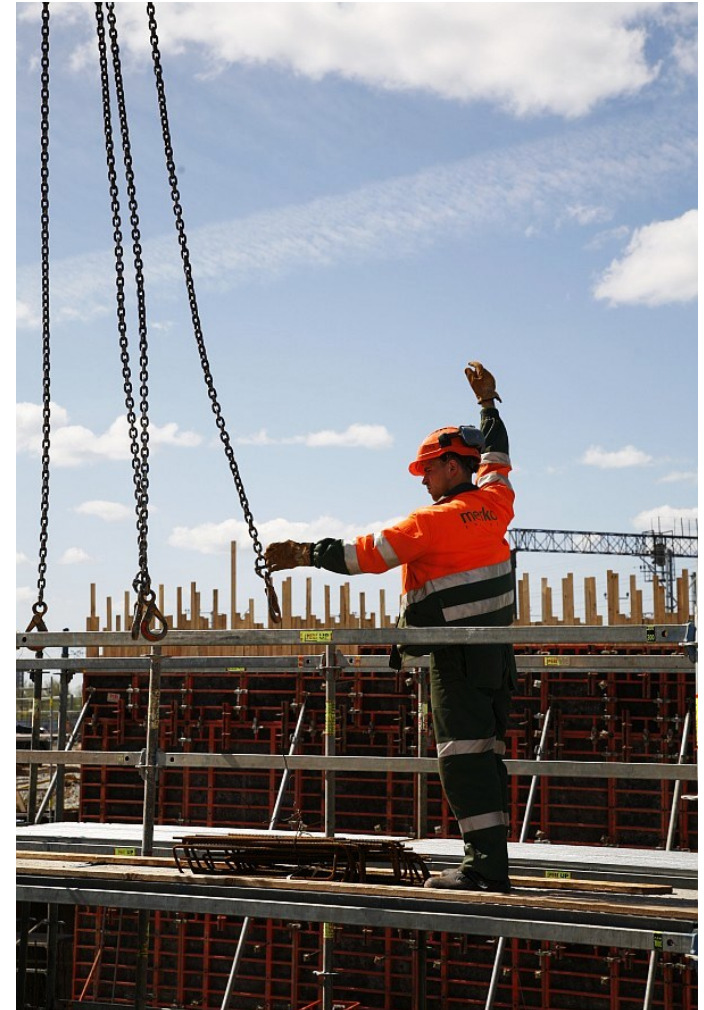
MARKET OUTLOOK AND 2014 FOCUS

Construction market

- ❖ A decrease of 10-15% in construction volumes is expected in the Baltic States during 2014 and 2015.
- ❖ Continuing decrease of public sector procurements due to the end of EU funding period 2007-2013 and uncertainties around distribution of fund in EUs budget period 2014-2020.
- ❖ 2013 positive trends from private sector as the market has been picking up. Nevertheless the private sector will not be able to fully compensate the reduction of public procurements (especially external networks).
- ❖ Market has been turning increasingly competitive and aggressive on margins. This leads to a challenging position to keep the profitability levels.

Property development

- ❖ Reasonable level of transactions and positive price movements due to low interest rates and limited supply of new flats during the last few years.
- ❖ Good potential to start new developments in all Baltic capitals. Supply of new apartments on sale to increase during 2014.
- ❖ Increased apartment offering in the future may bring about price stabilization and the prolongation of sales periods.



- ❖ Mitigation of project management risks
- ❖ Active positioning in residential real-estate. Improving quality and continuously introducing new and innovative housing solutions for consumers
- ❖ Work with private sector client relationships
- ❖ Improving efficiency. Structural changes and consolidation. Recruitment and competence development.
- ❖ Continuous search for new investment opportunities



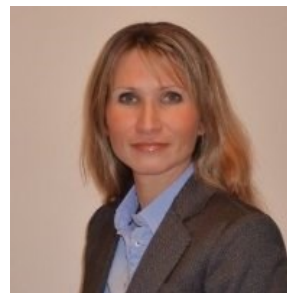
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