

# AS Merko Ehitus

## Annual General Meeting of Shareholders

5 June 2013



# Agenda of the AGM

1. Approval of the 2012 annual report and overview of the financial results and the prospectives
2. Proposal on distribution of profits
3. Recall of Supervisory Board member

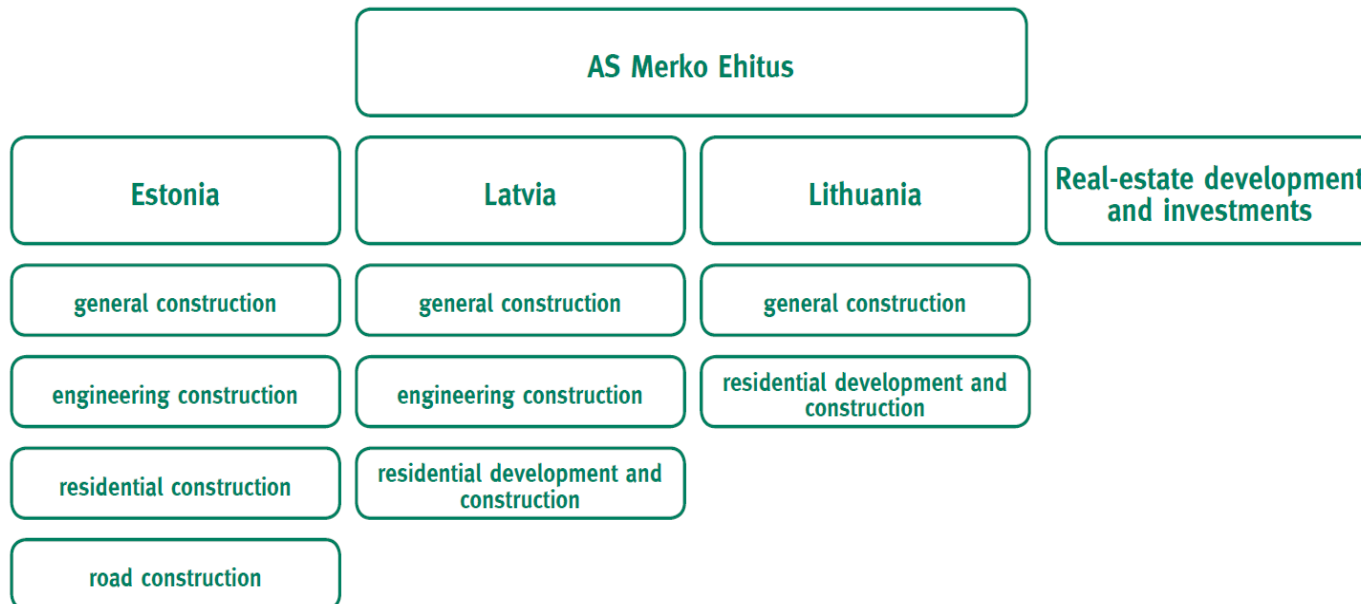
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# Merko Ehitus Group

AS Merko Ehitus operates as a holding company. Group companies in Estonia, Latvia and Lithuania offer complete solutions in the field of construction and real estate development.

The main activity of the holding company is development and implementation of the strategies of Merko Ehitus group's separate business areas primarily through long-term planning of resources.

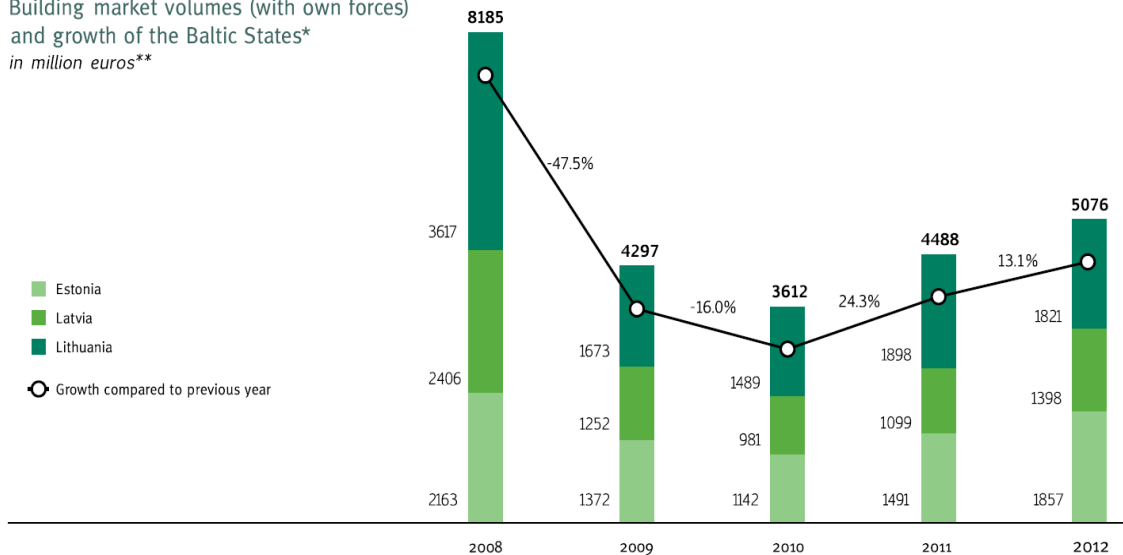


# Stabilisation of the Baltic States' economic environment in 2012

## The most important indicators influencing the construction market

	Estonia	Latvia	Lithuania
GDP change, y-o-y, in current prices	+3.2%	+5.6%	+3.6%
Construction price index change, y-o-y, in current prices	+4.6%	+6.8%	+3.7%
Labour force	+6.3%	+15.8%	+4.2%
Building machines	+7.2%	+12.2%	+2.9%
Building materials	+3.7%	+0.7%	+3.6%

Building market volumes (with own forces) and growth of the Baltic States\*  
in million euros\*\*



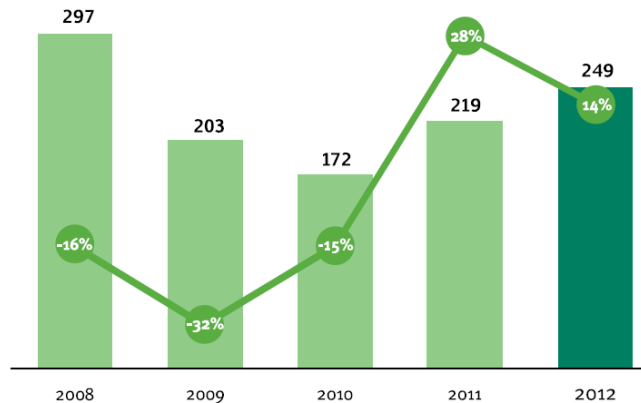
\* Based on the data of local statistical offices.

\*\* According to the exchange rates of European Central Bank and Eesti Pank.

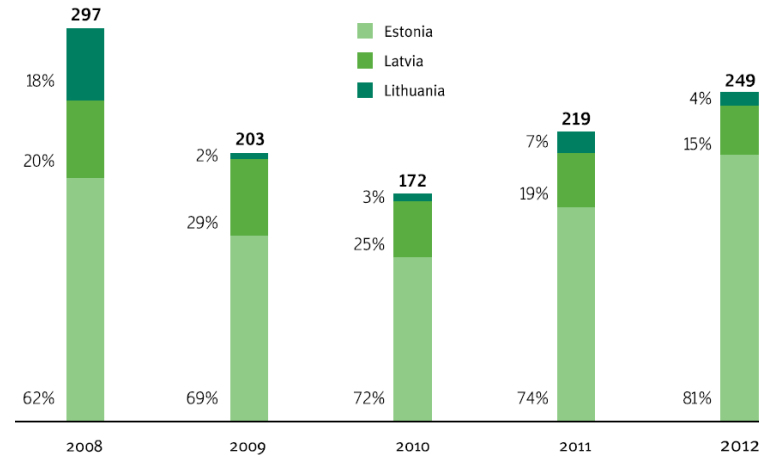
- ❖ **Stabilisation of economic environment in Baltic States**
- ❖ **2013 expected GDP growth: 3-4% in all Baltic countries.**
- ❖ **2012 construction volumes increased:** however still substantially lower than booming years (2007 and 2008).
- ❖ **Largest construction market in Estonia – 36.6%**
- ❖ **Construction volumes growth not expected in 2013:** due to the ending of the current European Union financing and in relation to this decrease in public procurements before the approval of the new EU budget period.

# 2012 revenue increased 13.7%

Group revenue  
in million euros



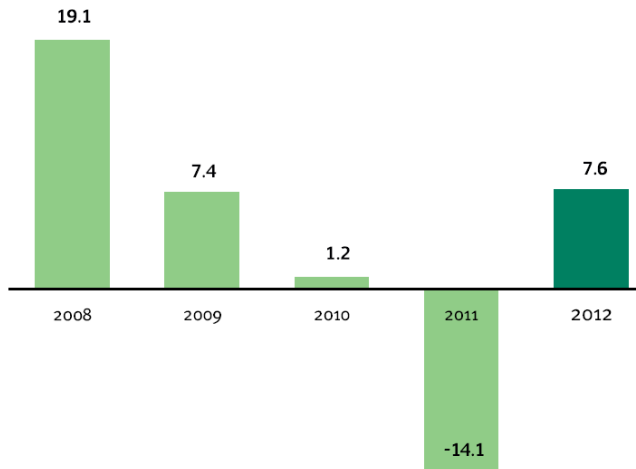
Revenue of Merko Ehitus group  
in million euros



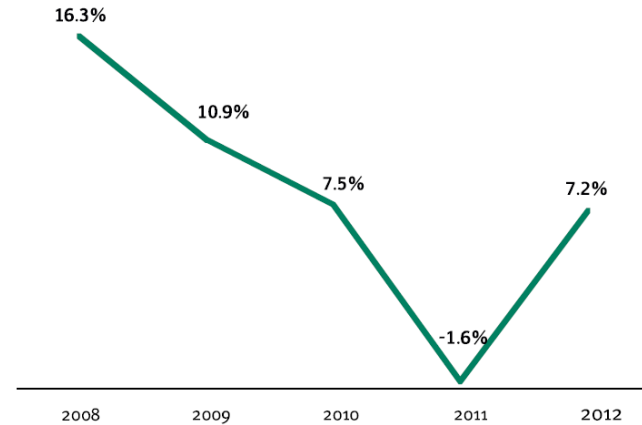
- ❖ **Revenue growth:** group revenue increased mainly on account of growth in engineering projects in Estonia and revenue of apartment development in all three Baltic States.
- ❖ **Secured order book is stable:** as at 31 December 2012 totalled EUR 190 million (31 December 2011: EUR 166 million).
- ❖ **Changes in business activities:** liquidation of operations in Ukraine, creating a legal platform in Finland and Russia. Sale of shares of AS TMB and, in connection with the review of the Lithuanian business strategy, to end implementation of water management projects in Lithuania. Board changes in Latvia and Lithuania.

# Profitability improved

Group net profit  
in million euros



Group gross profit margin  
percentages



Group net profit margin  
percentages

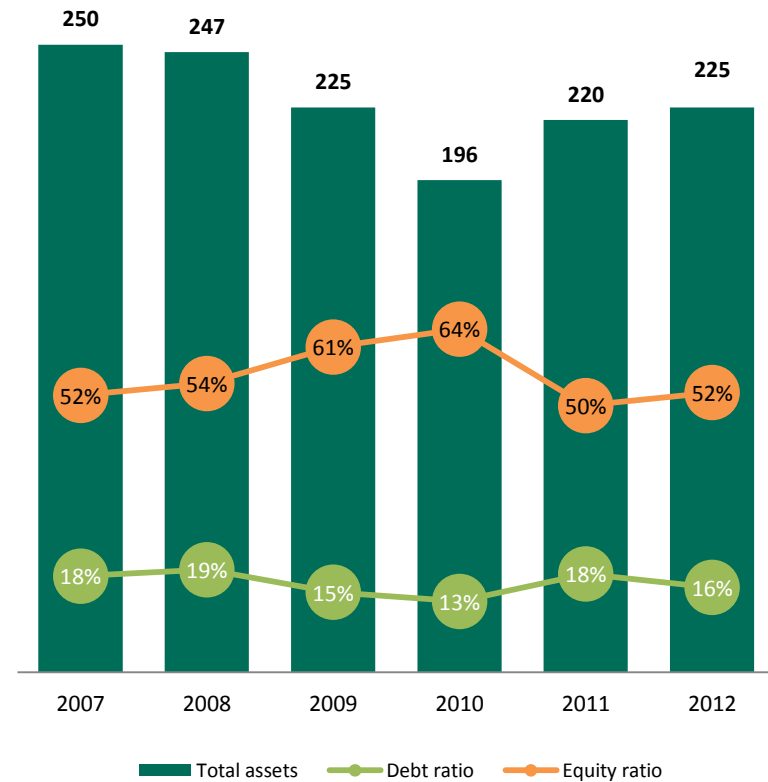


- ❖ 2012 with the largest net profit in the last four years (EUR 7.6 million).
- ❖ The year of recovery after the crisis – new and more profitable projects, losses from problematic projects recognised already in the previous period.
- ❖ The improvement in profitability that began in 2012 will probably not continue in 2013 at the same rate. Keeping profitability levels in a market with a tight competition is a major challenge.

# Stable cash position

- ❖ Strong cash position EUR 35.3 million (2011: EUR 18.5 million).
- ❖ There is pressure on the effective management liquidity, mainly due to the high share of public procurements.
- ❖ Net debt EUR 0.2 million and debt ratio 16%.
- ❖ Current ratio 2.1 (2011: 2.0).
- ❖ Equity ratio 52% (2011: 49.6%).

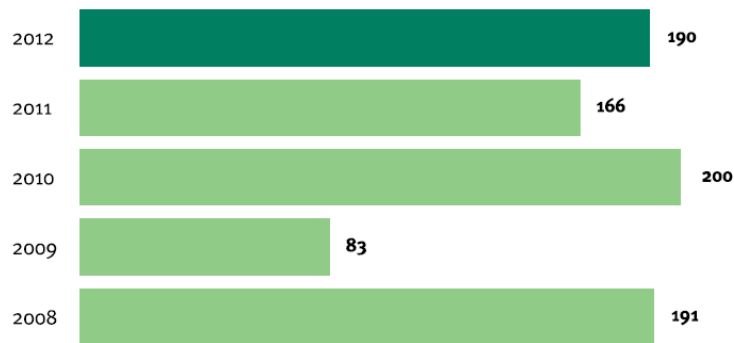
**Total assets, equity ratio and debt ratio**  
EUR million and %



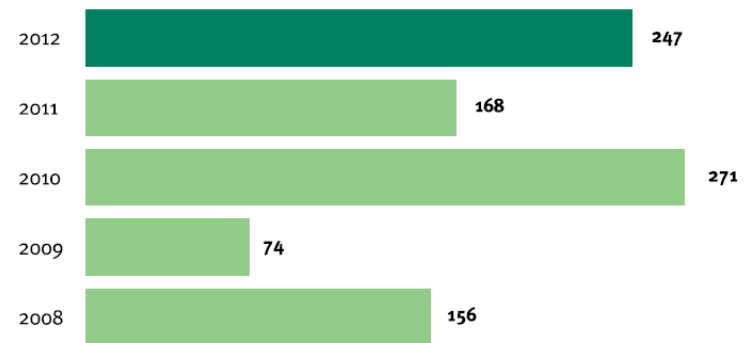


# Secured order book is stable

Secured order book  
in million euros



New contracts signed  
in million euros



- ❖ Secured order book EUR 190 million (2011: EUR 166 million).
- ❖ The share of public procurements is still predominant.
- ❖ The private customers' segment became more active at the end of the year.
- ❖ Decrease of the volume of public procurements in 2013 due to the end of the EU multiannual financing period, as a result of which it will be a challenge in its own right to keep construction contracts at the 2012 level.

# Construction and real estate market outlook for 2013

## Construction

- ❖ Decrease in the volume of large public procurements due to the end of the EU budgetary financing period in all three Baltic states.
- ❖ Potential pick-up in private orders in retail, logistics and other commercial space segments.
- ❖ Maintaining profitability is a major challenge. The goal is an efficient and flexible cost base.
- ❖ Pressure on liquidity, primarily due to the large share of public procurements.

## Real estate development

- ❖ Supply of new apartments will increase, based on the growth of development projects launched in 2012 as well as those to be launched during 2013.
- ❖ The market will remain moderately active in the capitals of all three Baltic states.
- ❖ Our objective is to develop, with a higher than the average quality, apartment buildings for different range of customer segments.

# Financial objectives until 2018

**Considering the weak growth perspective of the Baltic construction and real estate market in the coming few years, the overall low interest environment and the company's high equity base, the strategy and the financial objectives are focused on improving the return on invested capital and increasing the efficiency of the balance structure.**

The long-term financial objectives of AS Merko Ehitus cover the period until 2018 and will be reviewed annually based on the market situation, the company's financial position and the strategy:

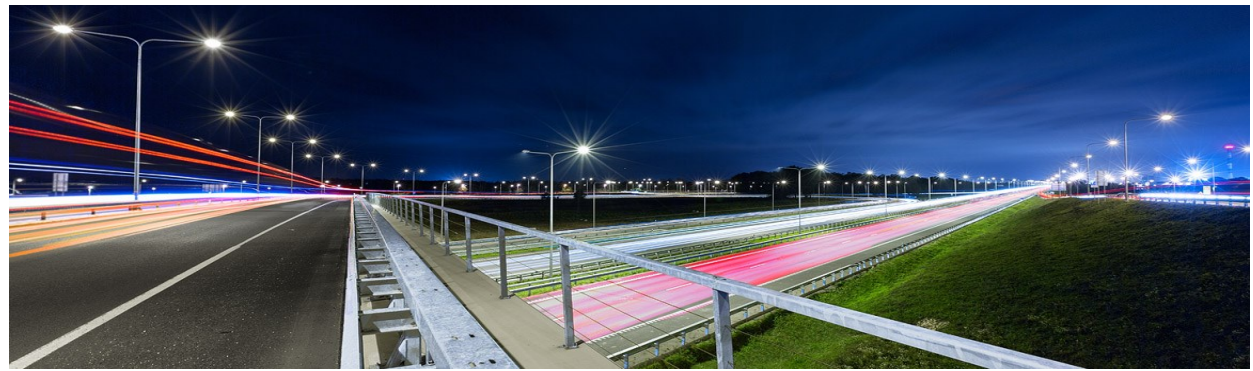
- ❖ The minimum period average return on equity (ROE): 10%
- ❖ Dividend pay-out ratio: 50-70% of the annual profit
- ❖ Equity ratio: at least 40%

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**Thank you!**

