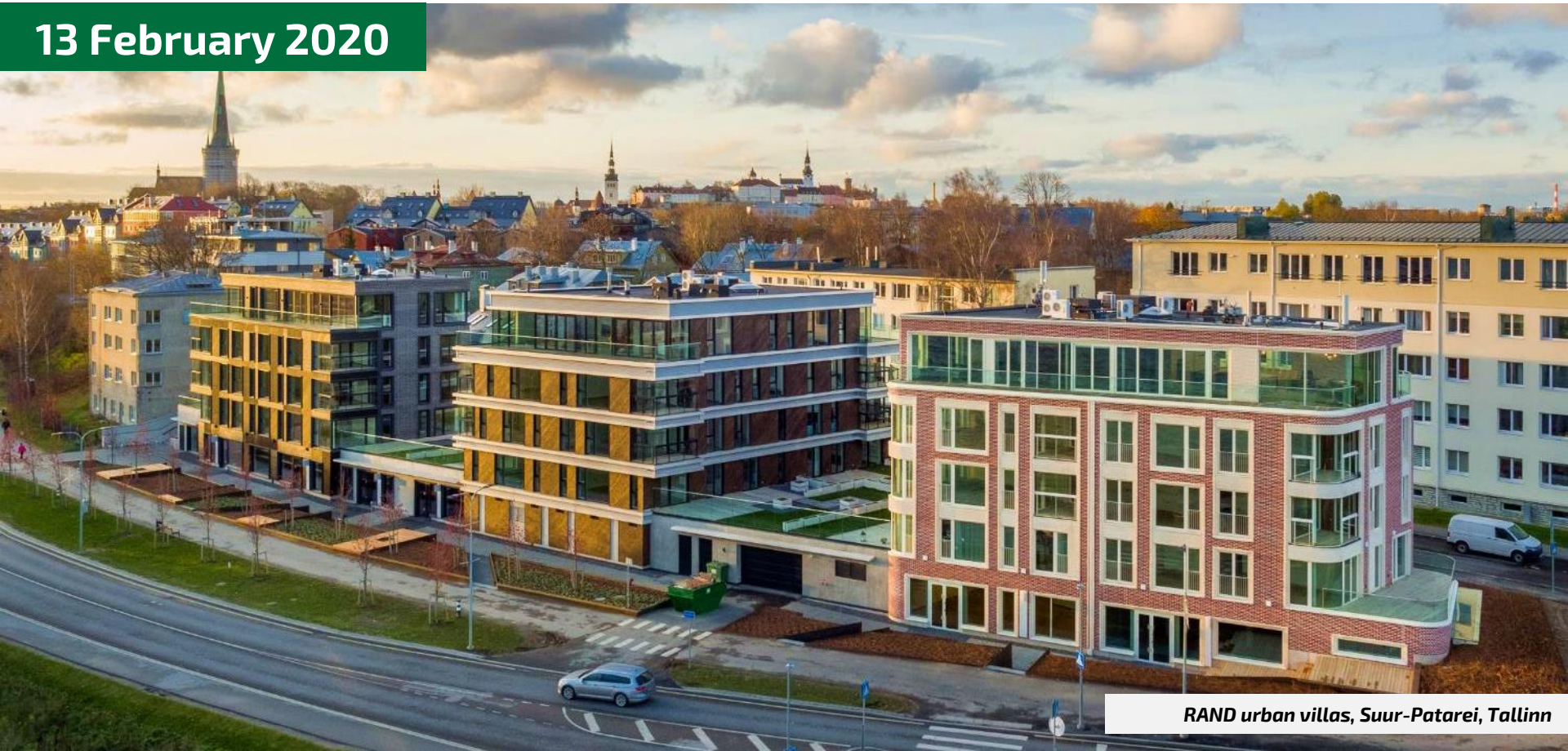


AS MERKO EHITUS

12 months and Q4 2019 interim report

13 February 2020



RAND urban villas, Suur-Patarei, Tallinn

1. Key Highlights
2. Business Review
3. Financial Position
4. Dividend Proposal
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Merko Group Key Highlights

- ❑ Q4 2019 revenue EUR 99m and 12M 2019 EUR 327m, down 22% compared to 12M 2018
Decline as expected: 2018 extraordinarily high comparison base, markets are cooling off, secured order book (EUR 141m) decreased -38% y-o-y
- ❑ In 12M 2019, 48% of revenue earned outside Estonia
- ❑ 2019 Q4 profit before tax EUR 10.0m and 12M EUR 20.3m
- ❑ 2019 Q4 net profit EUR 9.3m and 12M EUR 16.3m, including EUR -2.7m impact from income tax on dividends paid
- ❑ In Q4 2019 276 apartments sold and in 12M 482 apartments sold

More than 800 apartments in total under construction in Estonia, Latvia, Lithuania

Will be finished during 2020

- ❑ The group continued to implement its long-term apartment development strategy by investing a total of EUR 106m in this field in 12M 2019, including EUR 19m in new land for development



Residential complex at Aguonu 10, Vilnius

Merko Group Key Financial Highlights

<i>EUR million</i>	12M 2019	12M 2018	Variance*	Q4 2019	Q4 2018	Variance*
Revenue	326.8	418.0	-21.8%	99.2	119.2	-16.8%
EBITDA	21.9	21.9	+0.3%	10.2	7.6	+35.2%
EBITDA margin (%)	6.7	5.2		10.3	6.3	
Operating profit	19.2	19.9	-3.2%	9.3	7.0	+33.6%
Operating profit margin (%)	5.9	4.8		9.4	5.8	
Profit before tax	20.3	19.8	+2.8%	10.0	7.1	+40.4%
Net profit, attributable to equity holders of the parent	16.3	19.3	-15.9%	9.3	7.0	+31.8%
Earnings per share (EPS), in euros	0.92	1.09	-15.9%	0.52	0.40	+31.8%
Secured order book	141.4	229.0	-38.2%	141.4	229.0	-38.2%
Employees	694	764	-9.2%	694	764	-9.2%

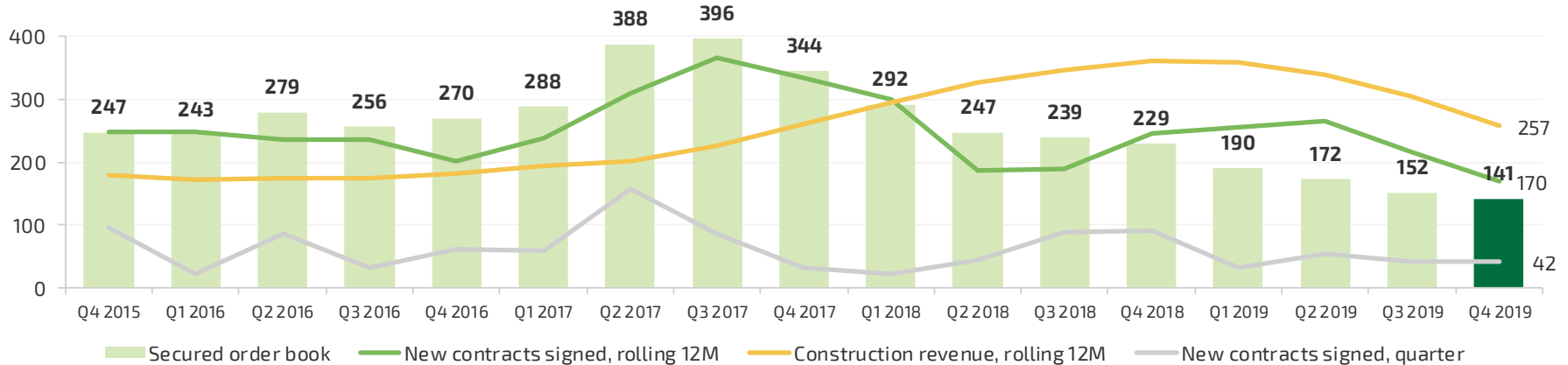
* Variance calculated based on consolidated financial statements of interim reports

<i>EUR million</i>	12M 2019	12M 2018	Variance	Q4 2019	Q4 2018	Variance
Revenue	326.8	418.0	-21.8%	99.2	119.2	-16.8%
Construction service	256.7	347.1	-26.0%	52.7	96.6	-45.4%
Real estate development	70.1	70.9	-1.2%	46.5	22.6	+104.9%

- ❑ The decline in group's revenue was expected due to high comparison base of 2018, which included the construction of some very large projects
- ❑ Fewer commercial real estate sites are being built because of stiffer competition, construction prices have risen and financing conditions have become more complicated
- ❑ Fair and transparent pricing and balanced distribution of contractual risks between the contracting entity and the main contractor are essential for the group
- ❑ Ensuring higher construction volumes is not a goal onto itself. Revenue must be balanced against taken risks and estimated profitability

SECURED ORDER BOOK

in million euros



- ❑ Secured order book EUR 141m (31.12.2018: EUR 229m)
- ❑ Private sector orders constitute 36% of the order book (31.12.2018: 70%)
- ❑ Total new contracts signed during 12M 2019: EUR 170m (12M 2018: EUR 246m)
- ❑ Declining secured order book reflects the situation on the market: fewer commercial real estate sites are being built. In particular, the activity of private subscribers has declined considerably. The share of public sector orders has increased significantly, but still cannot compensate for the decline in private sector volumes
- ❑ The price competition on the main contracting market continues to be tight
- ❑ The greater caution exercised by banks as to selection of customers and projects for financing and the growth in loan margins are also having an increasing impact on the construction market

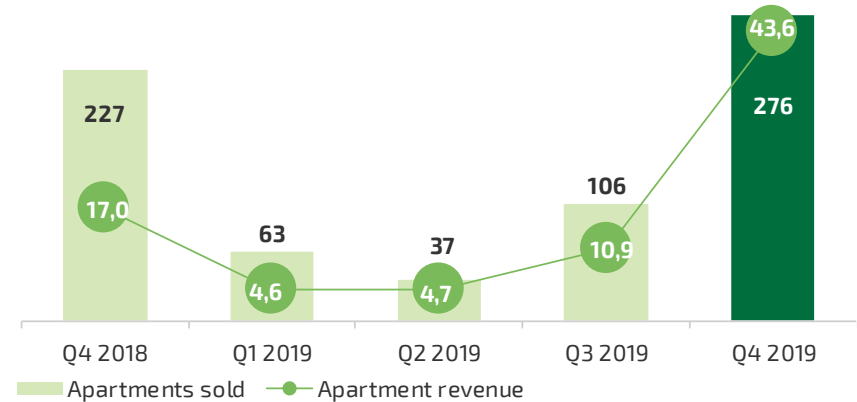
Real Estate Development

Group's central business line

- ❑ In 12M 2019, sold 482 apartments, incl. 47 in joint venture, and 24 commercial areas, (12M 2018: also 482, incl. 131 in joint venture, and 15 commercial areas)
- ❑ Revenue from sale of own developed apartments EUR 64m in 12M 2019 (12M 2018: EUR 41m)
In addition, there were 347 pre-sale agreements signed as of 31.12.2019 (193 on 31.12.2018)
- ❑ Construction of 368 apartments launched during 12M 2019 (12M 2018: 1,032) and EUR 87m invested in apartment developments (12M 2018: EUR 35m)
- ❑ As of 31.12.2019, 723 apartments on active sale without pre-sale agreements, of which 25% (182 apartments) completed
- ❑ Land for development acquisitions for EUR 19m in 12M 2019 (12M 2018: EUR 3m)
- ❑ Land plot portfolio of EUR 70m (31.12.2018: EUR 55m):
 - Estonia EUR 29m
 - Latvia EUR 27m
 - Lithuania EUR 14m

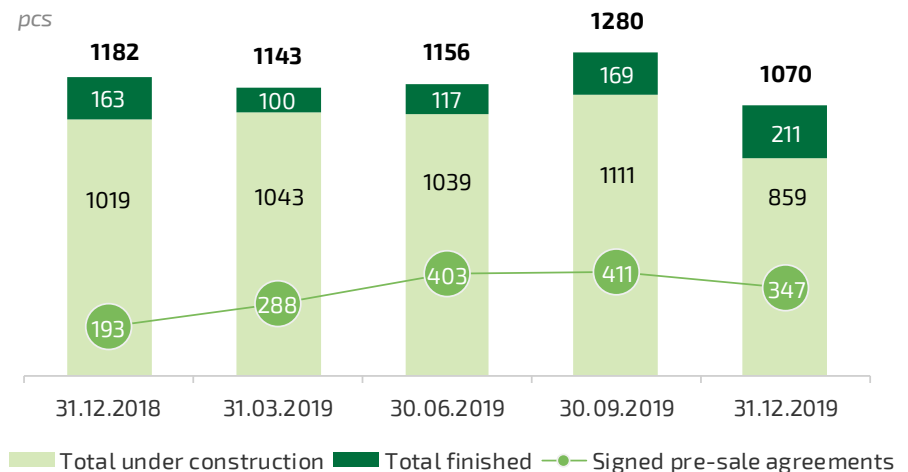
APARTMENTS SOLD AND APARTMENT REVENUE

pcs / in million euros



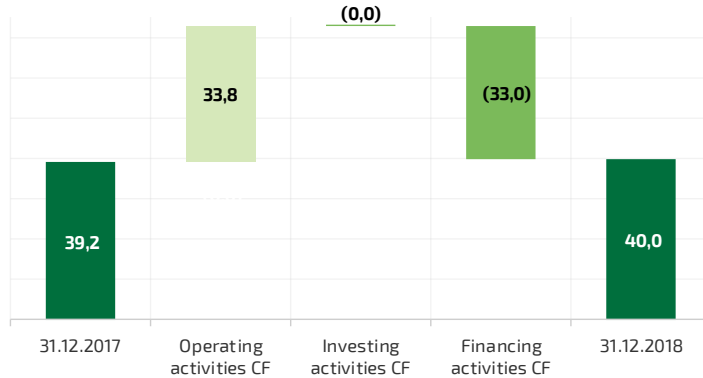
GROUP APARTMENTS INVENTORY

pcs



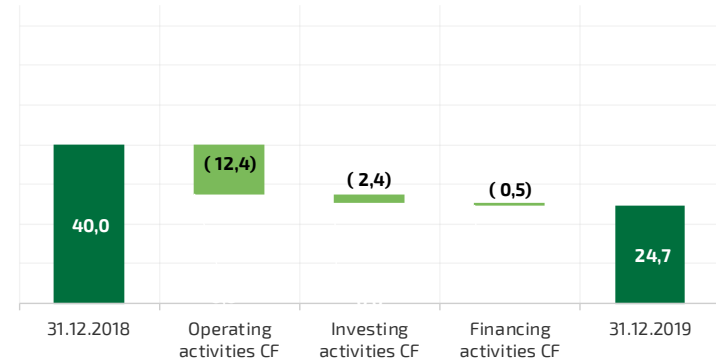
CHANGE IN CASH AND CASH EQUIVALENTS

in million euros



CHANGE IN CASH AND CASH EQUIVALENTS

in million euros

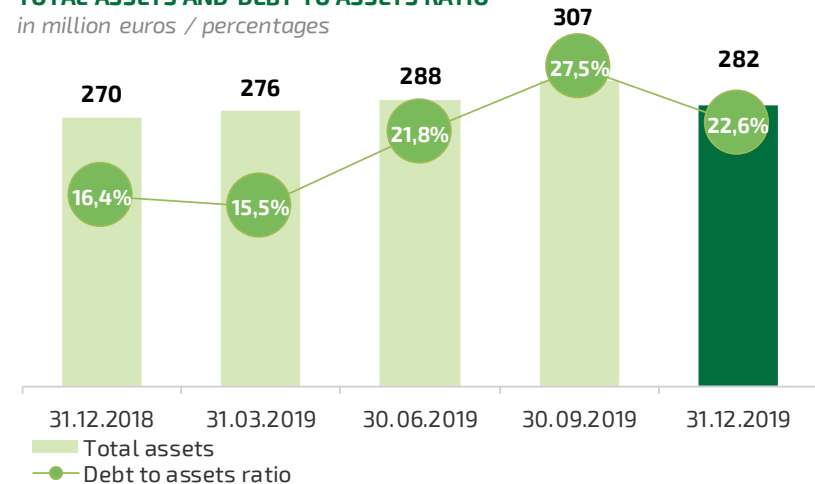


Robust capitalization, decent liquidity, loan level has increased

- ❑ Good cash position maintained, cash at EUR 25m as at 31.12.2019 (31.12.2018: EUR 40m)
- ❑ Net debt amounted to EUR 39m and debt ratio at 23% (31.12.2018: EUR 4m and 16%). Group is self-funding a large proportion of its own development projects' construction activities and has not used all its overdraft facilities (unused limits of EUR 30m)
- ❑ Current assets are at 2.4x current liabilities (31.12.2018: 2.2x)
- ❑ Equity ratio at 46% (31.12.2018: 49%)

TOTAL ASSETS AND DEBT TO ASSETS RATIO

in million euros / percentages

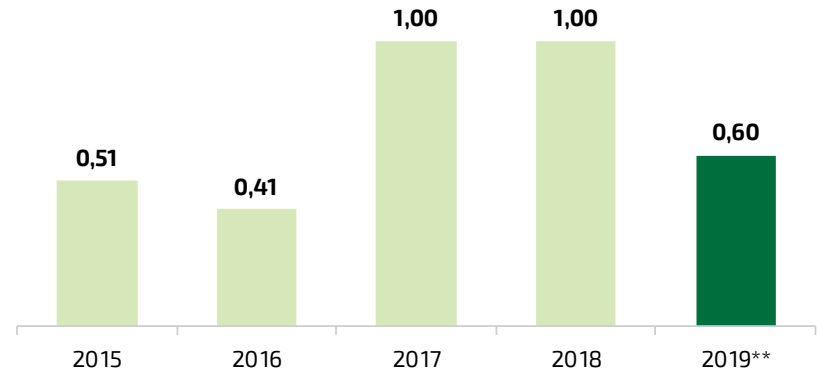


The Management Board proposes to pay a total amount of EUR 10.62m as dividends (EUR 0.6 per share) in 2020

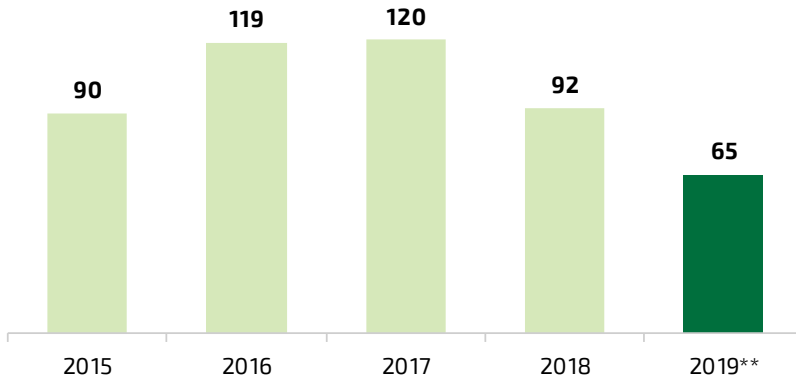
Based on Management Board proposal:

- 2019 dividend rate 65%
- 2019 dividend yield 6.4%
(using share price of 9.38 euros as at 31.12.2019)

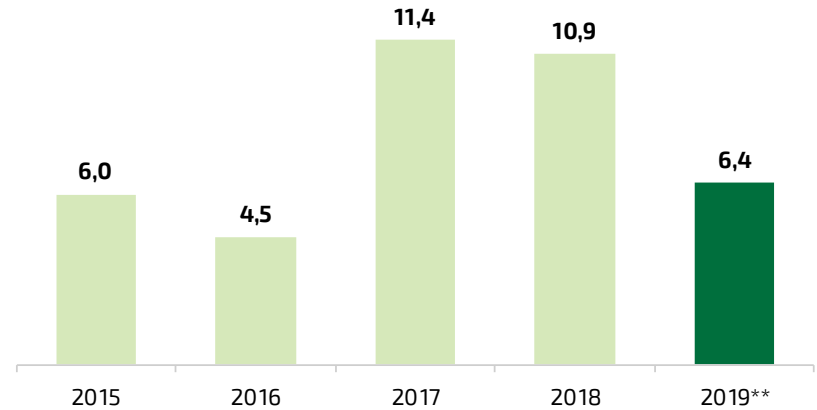
DIVIDEND PER SHARE
in euros



DIVIDEND RATE
percentages



DIVIDEND YIELD *
percentages

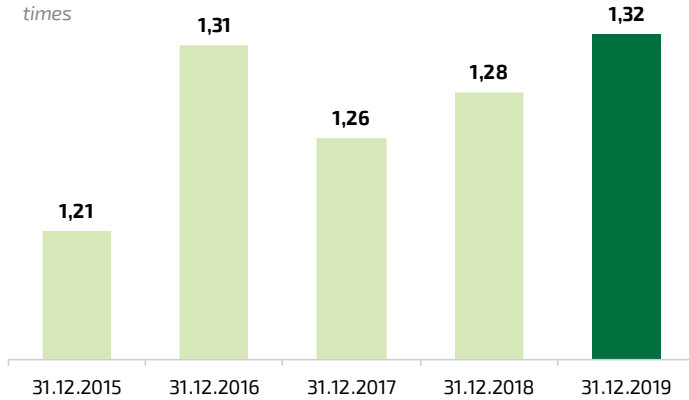


* Using share price as at 31 December

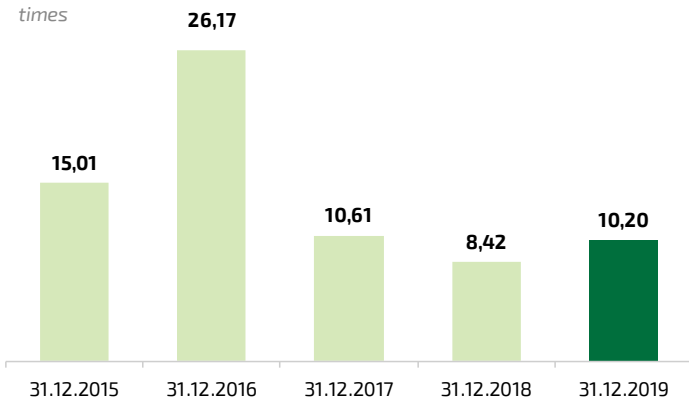
** 2019 figures based on Management Board proposal

Stock Exchange Overview

P/B RATIO times

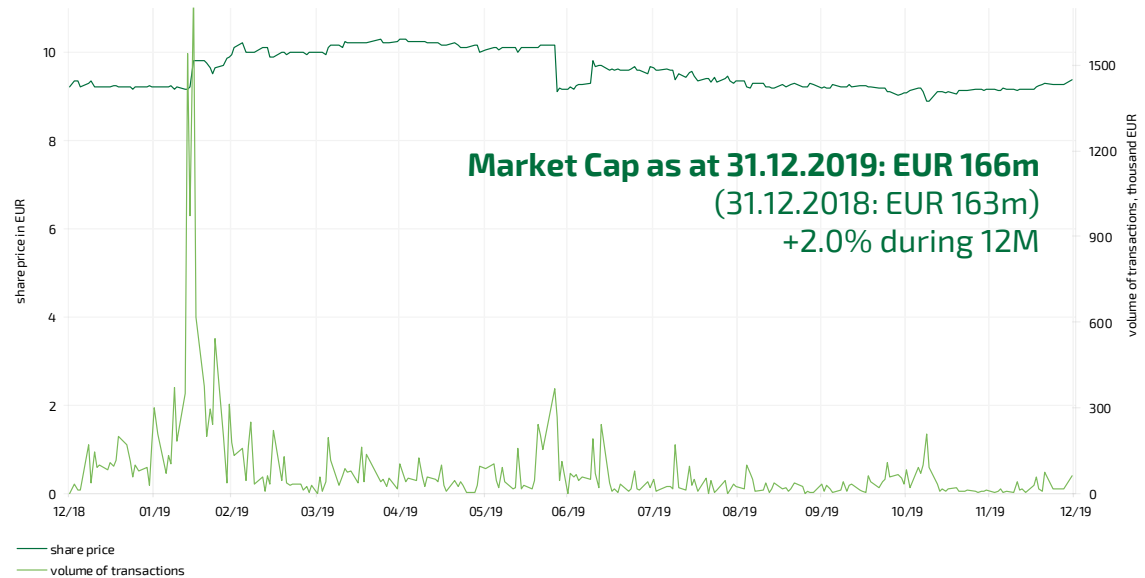


P/E RATIO times



12M 2019: 8,558 transactions, turnover EUR 21.3 million (12M 2018: 4,299; EUR 12.2m)

31.12.2019 (31.12.2018):
3,924 shareholders (2,664)

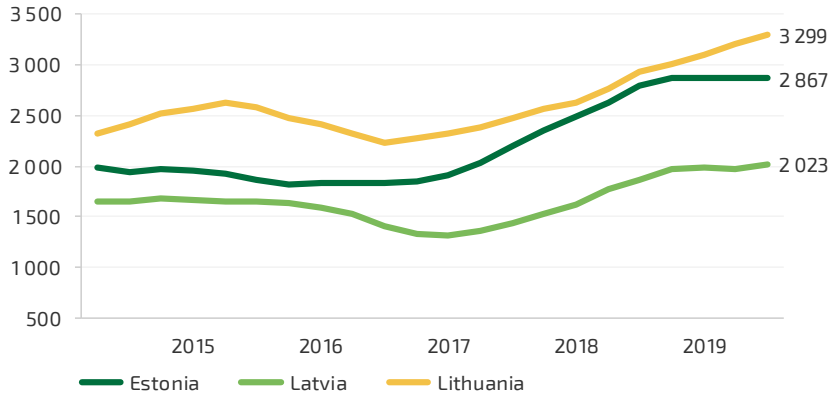


Shareholders

Shareholders	Number of shares	% of total 31.12.2019	% of total 30.09.2019	Variance
AS Riverito	12,742,686	71.99%	71.99%	-
Firebird Republics Fund Ltd	329,602	1.86%	1.86%	-
OÜ Midas Invest	296,100	1.67%	1.66%	2,300
Firebird Avrora Fund Ltd	188,927	1.07%	1.07%	-
Skandinaviska Enskilda Banken AB, Swedish Clients	161,438	0.92%	0.92%	(1,000)
State Street Bank and Trust Omnibus Account at Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	148,787	0.84%	0.84%	-
Siseinfo OÜ	115,000	0.65%	0.65%	-
Firebird Fund L.P.	114,585	0.65%	0.65%	-
Clearstream Banking AG	108,228	0.61%	0.00%	108,228
Total largest shareholders	14,358,371	81.12%	80.50%	109,528
Total others shareholders	3,341,629	18.88%	19.50%	(109,528)
Total	17,700,000	100%	100%	-

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

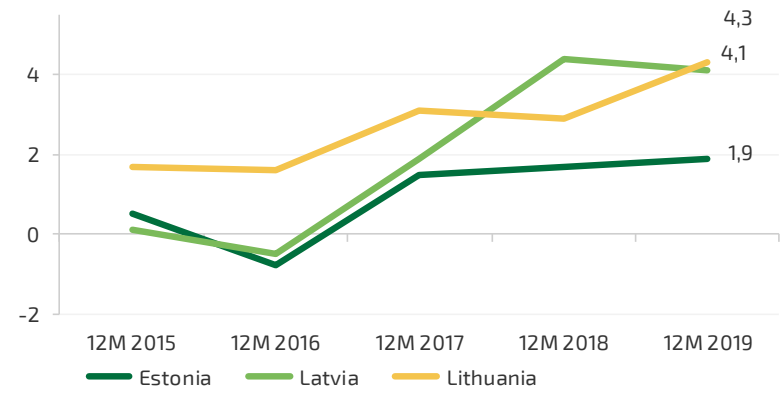
in million euros



Source: Local national statistical offices

12 MONTHS' CHANGE IN CONSTRUCTION PRICE INDEX

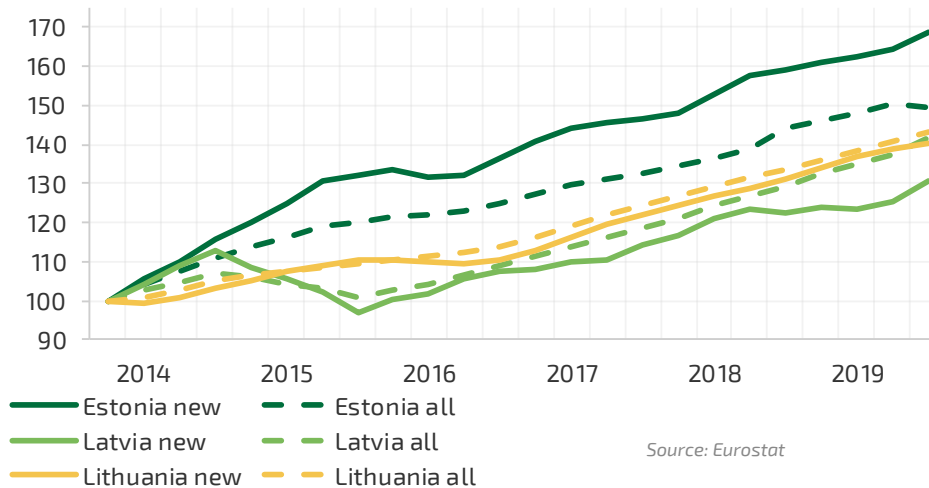
percentages



Source: Local national statistical offices

- ❑ Construction market volumes in Estonia and Latvia remained unchanged in 2019, strong growth in Lithuania
- ❑ The construction volume index in Estonia about 10% greater than at the peak of the boom time, in Latvia and Lithuania still ca 20% lower
- ❑ The volume of building permits issued in Estonia increased, total volumes were just short of the 2017 peak. Increase in 2019 was likely partially due to stricter near-zero energy requirements for residential buildings kicking in starting from 2020
- ❑ In Latvia, the volumes of building permits for residential units declined in 2019, while new growth was seen in Lithuania
- ❑ The volume of building permits for non-residential space in Estonia has fallen back from its peak in the last years. Latvia has seen precisely the opposite – several years of continuous growth starting from a trough. Developments in Lithuania fall into an in-between area: the slightly positive trend seen for the past few years continuing at a relatively high general level
- ❑ The Norwegian construction market is continuing to grow at a stable 3% per year, as it has for several years now
- ❑ The construction prices continued rising in 2019: more than 4% in Latvia and Lithuania, almost 2% in Estonia
Employment cost component in Estonia ca +4%, in Latvia and Lithuania ca +8%

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



- ❑ In Estonia, the relatively steady growth in the volumes of permits for use has continued for about eight years, the peak of the last boom years exceeded in 2018
- ❑ In Lithuania, the volumes of permits for use have stabilized above the peak levels of the previous boom
- ❑ Latvia's overall volumes are lower compared to Estonia and Lithuania, but rise in market activity evident – the trend in permits for use has been positive for last two-three years, growth accelerating in 2019
- ❑ In Estonia and Lithuania, the dynamics of housing prices are essentially the same as they have been the past few years – prices are constantly rising and incomes are growing. In Latvia, housing prices for new dwellings returned to growth in 2019, having remained at the same level for some 1.5 years
- ❑ In all three markets, developments on the apartment market seem rather stable, a clear oversupply or price bubble cannot be seen
- ❑ As long as dynamics of incomes, unemployment level, inflation, and lending conditions remain more or less the same, there is no reason to expect a significant decline in the real estate market



Lahekalda apartment development in Tallinn

Construction for clients:

- ❑ 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
- ❑ As a long-term average, launch 650-700 new apartments and invest ca EUR 60m annually. Actual volumes of each year depend on overall market developments and receiving building permits
- ❑ Ensuring investment capability

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%**)

2019 KEY FIGURES

Revenue **326.8 million** euros

Net profit **16.3 million** euros

694 employees



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Chief Executive Officer

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