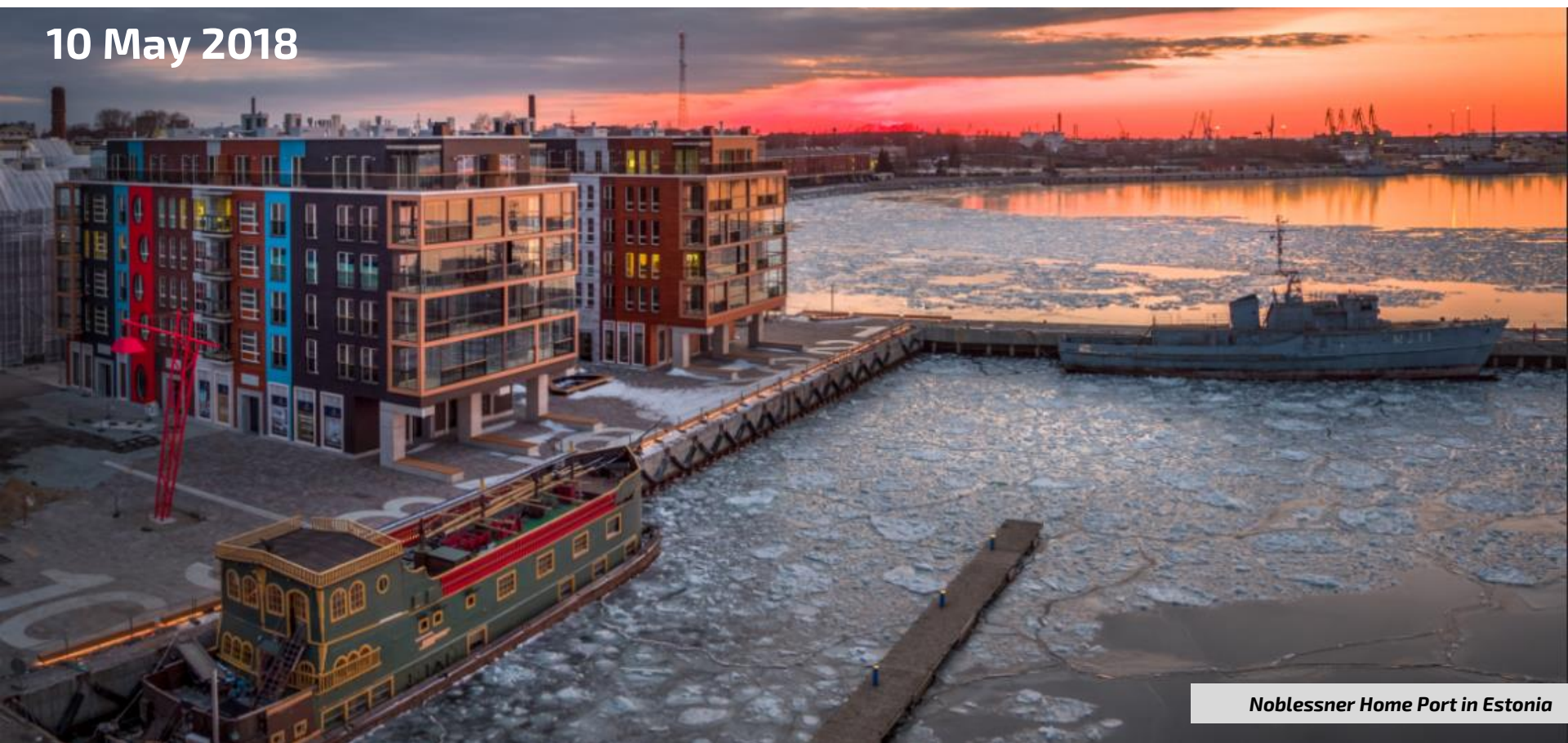


AS MERKO EHITUS

3 months 2018 interim report

10 May 2018





1. Key Highlights
2. Business Review
3. Financial Position
4. Dividends

5. Stock Exchange Overview
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Merko Group Key Highlights

- ❑ Revenue EUR 80m in 3M, up 38% compared to 3M 2017.
- ❑ Revenue greatest growth came in Latvia, supported by large contracts in progress.
- ❑ The trends of pressure on the growth of input prices and the limited availability of construction resources continued.
- ❑ Secured order book strong at EUR 292m.
- ❑ 3M 2018 sold 51 apartments and launched construction of approx. 140 new apartments.
- ❑ The group continued to implement its long-term apartments development strategy by investing a total of EUR 7m in 3M.



Tööstuse substation 110kV in Estonia

Merko Group Key Financial Highlights

<i>EUR million</i>	3M 2018	3M 2017	Variance	12M 2017
Revenue	80.3	58.1	+38.1%	317.6
EBITDA	1.8	1.9	-7.5%	22.2
EBITDA margin (%)	2.2	3.3		7.0
Operating profit	1.3	1.3	+1.9%	19.5
Operating profit margin (%)	1.6	2.2		6.2
Profit before tax	1.3	1.1	+14.2%	18.8
Net profit, attr. to equity holders of the parent	1.1	1.0	+7.3%	14.7
Earnings per share (EPS), in euros	0.06	0.06	+7.3%	0.83
Secured order book	291.9	287.7	+1.4%	344.4
Employees	764	799	-4.4%	757

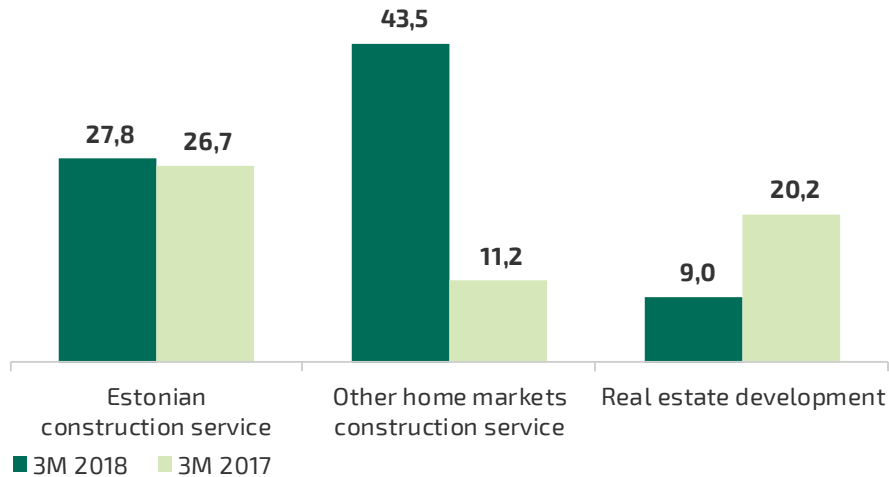
* Variance calculated based on consolidated financial statements of interim reports.

GROUP REVENUE BY SEGMENTS

in million euros

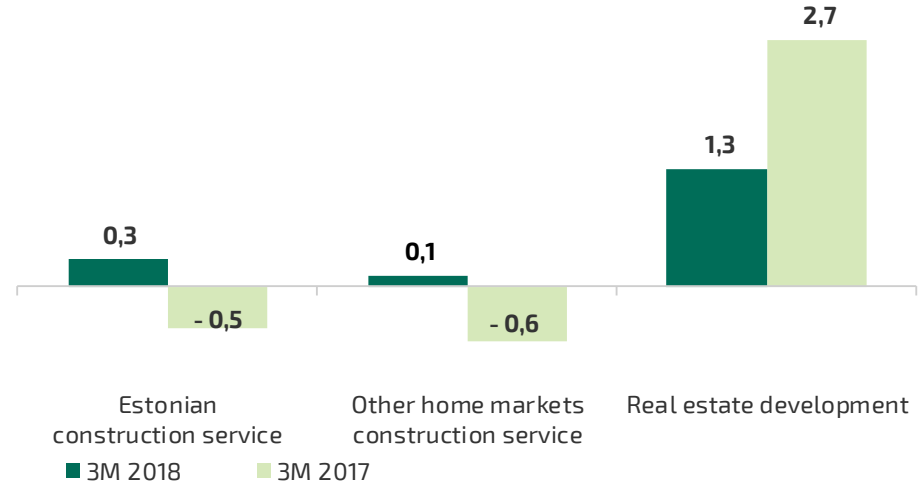
2018: EUR 80.3m

2017: EUR 58.1m



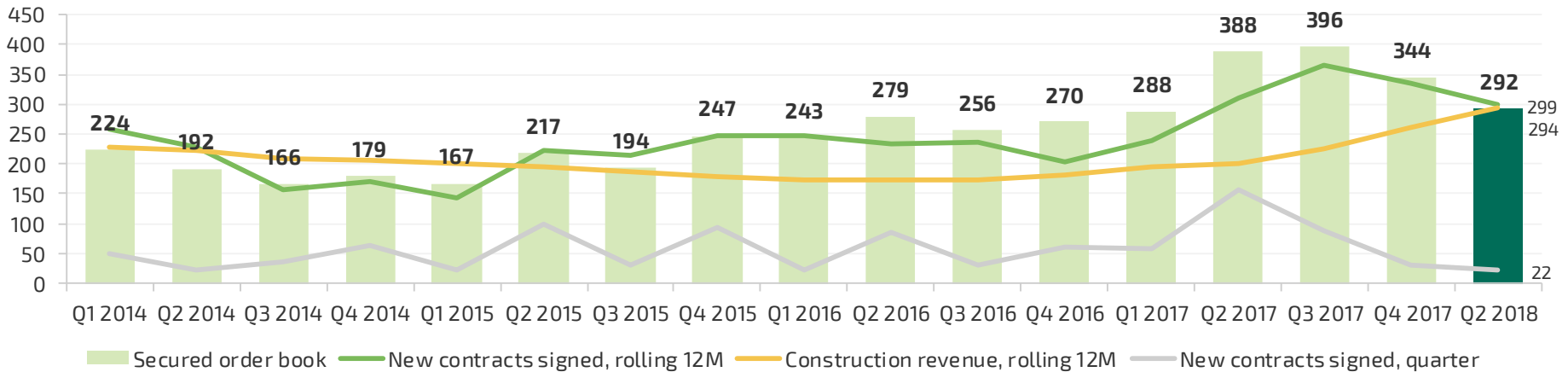
GROUP OPERATING PROFIT BY SEGMENTS

in million euros



- ❑ The revenue increased by EUR 32m (+289%) in other home market construction service, compared to 3 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 number of construction objects in the Estonian market is limited and therefore contractors tend to leave an increasingly small buffer for profitability and adverse developments when competing in price
- ❑ The prices of labour, construction equipment and building materials have all increased. Limitations to sub-contracting capabilities.

SECURED ORDER BOOK *in million euros*



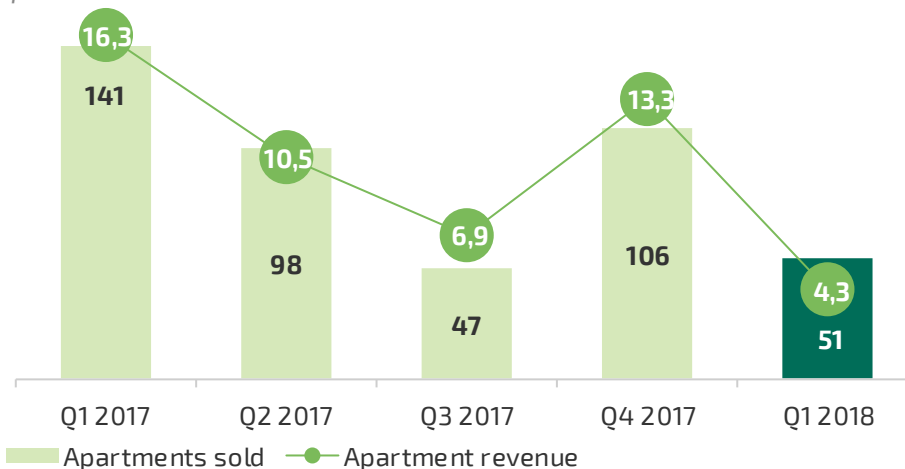
- ❑ Secured order book strong at EUR 292m (31.03.2017: EUR 288m).
- ❑ Private sector orders from projects in progress constitute 84% (31.03.2017: ca 70%)
- ❑ Total new contracts signed during 3M 2018: EUR 22m (3M 2017: EUR 59m; 12M 2017: EUR 335m)

Group's central business line

- ❑ 51 apartments (incl. 25 in joint venture) sold for EUR 4.3m in 3M (3M 2017: 141, incl. 1 in joint venture, for EUR 16.3m). In addition, there are 322 pre-sale agreements signed as of 31.03.2018 (202 on 31.03.2017).
- ❑ Construction of 145 apartments launched during 3M 2018 (3M 2017: 408) and EUR 7m invested in apartment construction (3M 2017: EUR 8m).
- ❑ 403 apartments on active sale without pre-sale agreements, of which 34% have been completed.
- ❑ During 3M 2018, sale of non-strategic land plots for EUR 0,7m in Estonia.
- ❑ Solid land plot portfolio of EUR 62 (31.03.2017: EUR 67m).
 - ❑ Estonia EUR 27m
 - ❑ Latvia EUR 27m
 - ❑ Lithuania EUR 8m

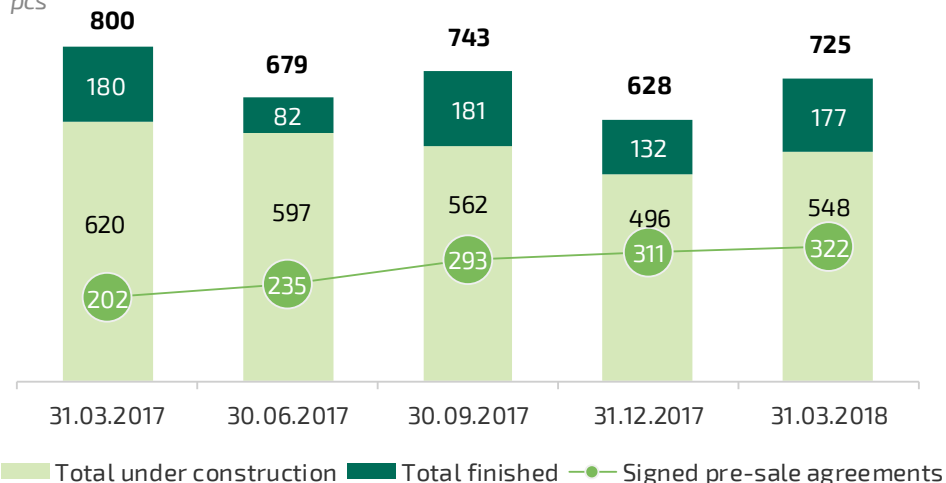
APARTMENTS SOLD AND APARTMENT REVENUE

pcs / in million euros



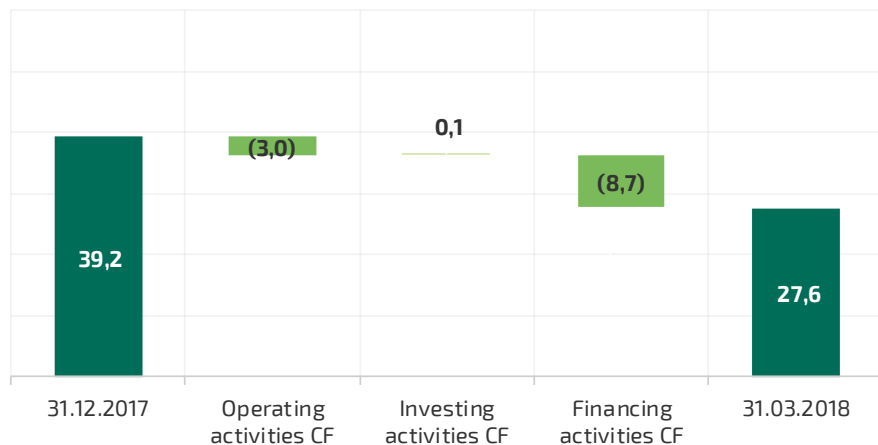
GROUP APARTMENTS INVENTORY

pcs



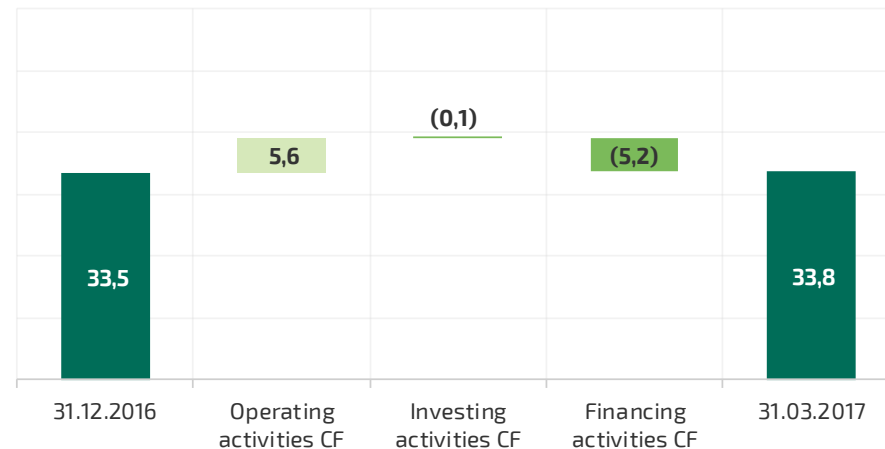
CHANGE IN CASH AND CASH EQUIVALENTS

in million euros



CHANGE IN CASH AND CASH EQUIVALENTS

in million euros

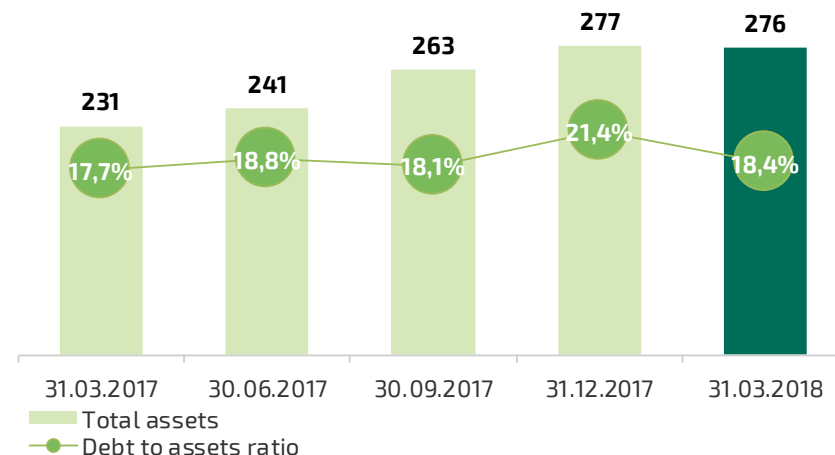


Robust capitalization, high liquidity, low debt level

- ❑ Liquidity position maintained strong, cash at EUR 28m (31.03.2017: EUR 34m).
- ❑ Net debt amounted to EUR 23m and debt ratio at 18% (31.03.2017: EUR 7m 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 (31.03.2017: 2.7x).
- ❑ Equity at 48% (31.03.2017: 54%).

TOTAL ASSETS AND DEBT TO ASSETS RATIO

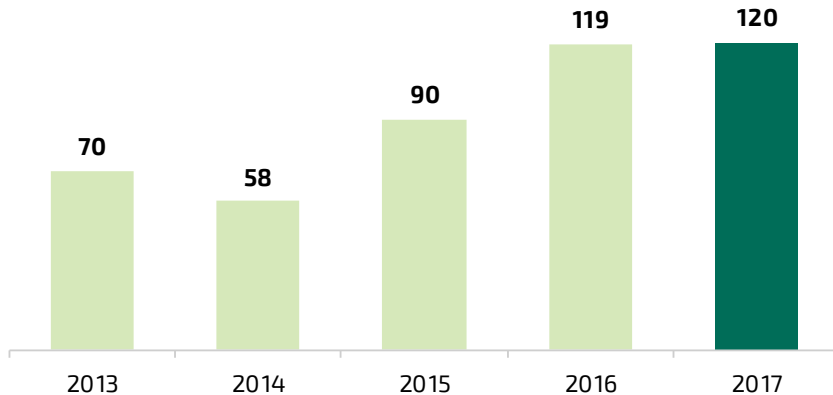
in million euros / percentages



Dividends approved at AGM

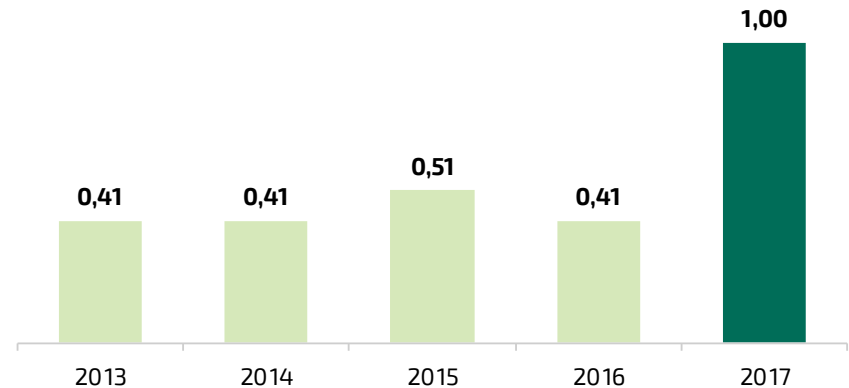
DIVIDEND RATE

percentages



DIVIDEND PER SHARE

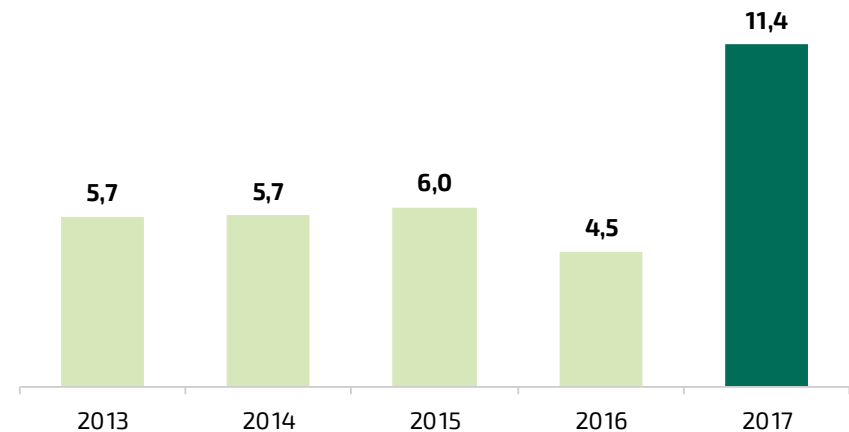
in euros



The AGM of shareholders approved to pay the shareholders a total amount of EUR 17.7m as dividends (EUR 1.0 per share) in 2018

DIVIDEND YIELD *

percentages

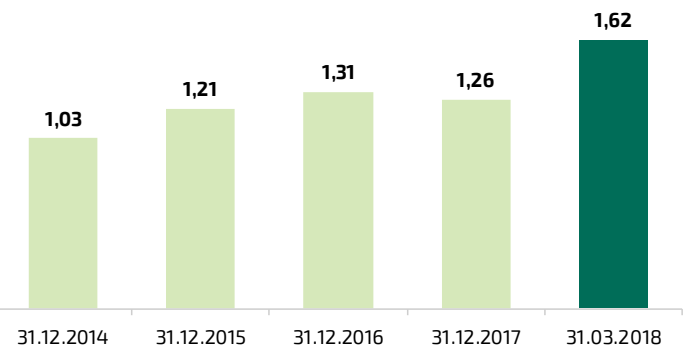


* Using share price as at 31.12

- 2017 dividend rate of 120% and yield* 11.4%.
- Dividend payment will be made on 15 June 2018.
- To pay in excess of the financial target of 50-70%, is reflecting the following factors:
 - Group's high equity ratio and moderate debt ratio
 - Low margins in construction sector, hampering group's overall profitability and return on equity

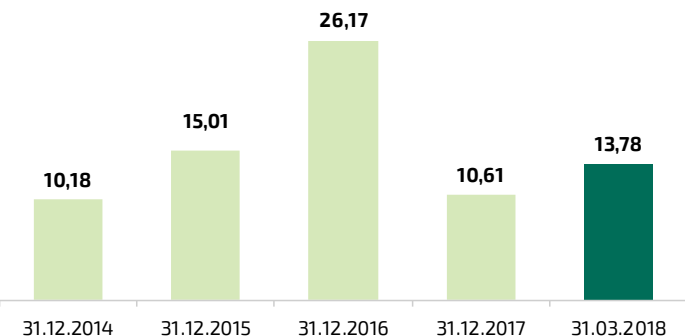
P/B RATIO

times



P/E RATIO

times



3M 2018: 1,071 transactions, turnover EUR 2.8 million (3M 2017: 634; EUR 1.4m)

31.03.2018 (31.03.2017):

2,161 shareholders (1,921)

Market value EUR 204m (EUR 159m)

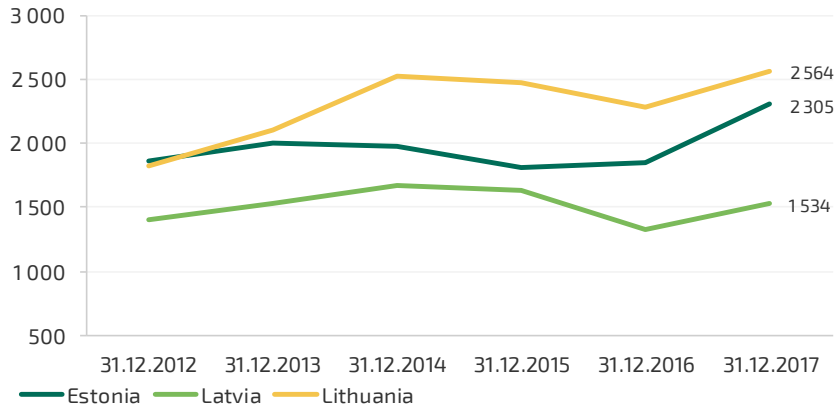
Stock Exchange Overview



Shareholders	Number of shares	% of total 31.03.2018	% of total 31.12.2017	Variance
AS Riverito	12 742 686	71,99%	71,99%	-
ING Luxembourg S.A. AIF Account	974 126	5,50%	5,50%	-
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%	1,25%	1900
OÜ Midas Invest	174 925	0,99%	0,92%	11900
Skandinaviska Enskilda Banken AB, Swedish customers	169 809	0,96%	1,19%	(41 451)
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	15 307 517	86,48%	86,64%	(27 651)
Total others shareholders	2 392 483	13,52%	13,36%	27 651
Total	17 700 000	100%	100%	-

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

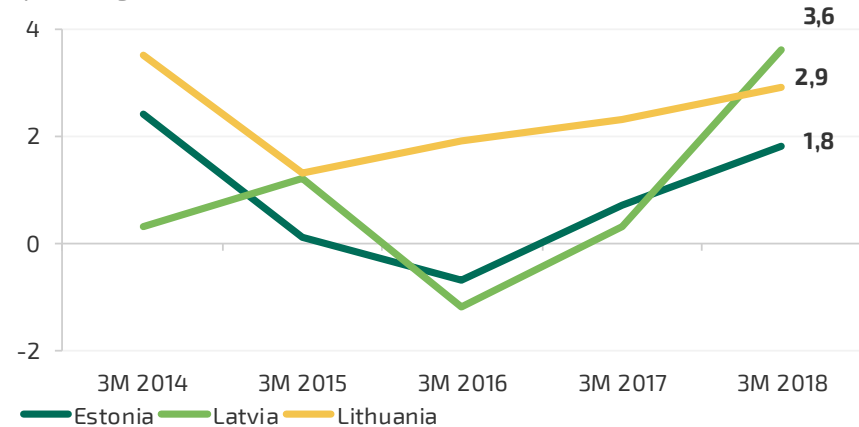
in million euros



Source: Local national statistical offices

3 MONTHS CHANGE IN CONSTRUCTION PRICE INDEX

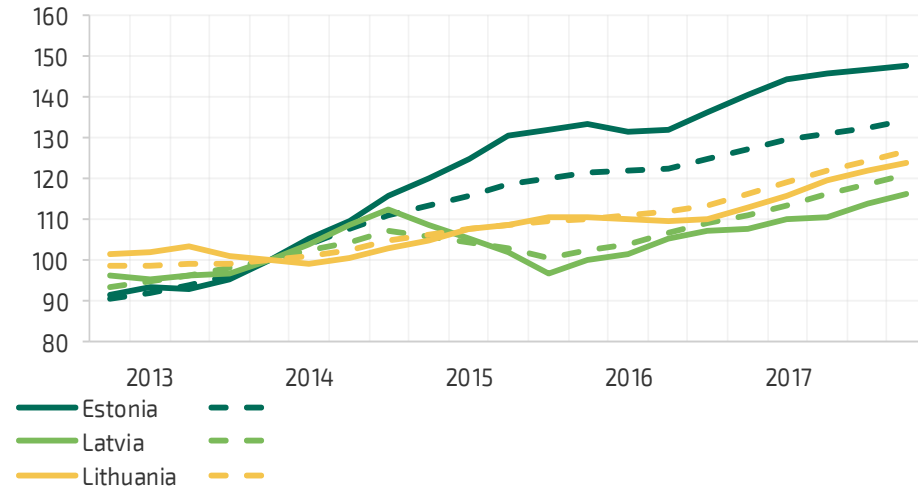
percentages



Source: Local national statistical offices

- ❑ Construction volumes remain high, which keeps the situation with availability of workforce tight: the market is characterised by a shortage of qualified employees and subcontractors.
- ❑ With strong price based competition between general contractors, it is even harder to channel rising input prices to customers.
- ❑ 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.
- ❑ Nearly zero energy regulatory developments are more modest in Latvia and Lithuania.
- ❑ In Riga, the construction activity has not fully recovered since the recession in the last decade.

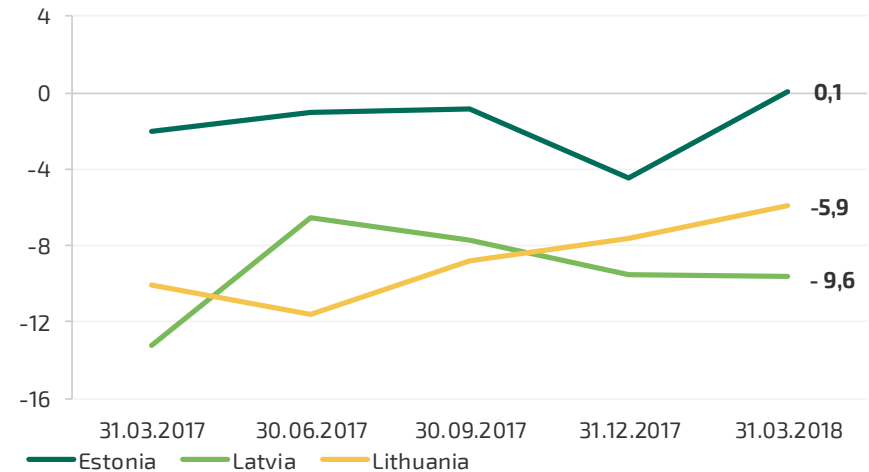
NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX
(4 QUARTER ROLLING AVERAGE) (2013=100)



Source: Eurostat

CONSUMER CONFIDENCE INDICATOR

difference between percentages of pos. and neg. responses



Source: Eurostat

- ☐ In Tallinn and Vilnius, the pace of apartment market growth is generally tapering off, but in spite of increased supply, we can still see a rise in prices, which is largely a function of rising wages.
- ☐ The quality, location and integrity of the development area will be more important.
- ☐ Sales periods will lengthen for less attractive projects.
- ☐ The apartment market in Riga is characterised by a lower activity level than Tallinn and Vilnius.
- ☐ The macroeconomic environment is still an apartment buyer's market – economic growth has sped up and is expected to remain strong, incomes and savings are increasing, loan interest rates are still low and bank loans are readily available.
- ☐ On the Norwegian housing market, a certain price correction has taken place and sales periods have become longer.

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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