



MERKO EHITUS

Construction, Engineering & Real Estate

05 June 2014



A wide-angle, low-perspective photograph of a long, straight asphalt runway stretching towards a distant horizon. The runway is marked with white dashed lines down the center and solid white lines on the edges. Yellow chevron markings are visible on the tarmac in the foreground. The surrounding area is green grass, and the sky is filled with dramatic, grey clouds. In the distance, a small airport building and some trees are visible on the left.

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Group In Brief



Construction services:

- General construction
- Engineering construction
- Road construction

Own developed real estate projects

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

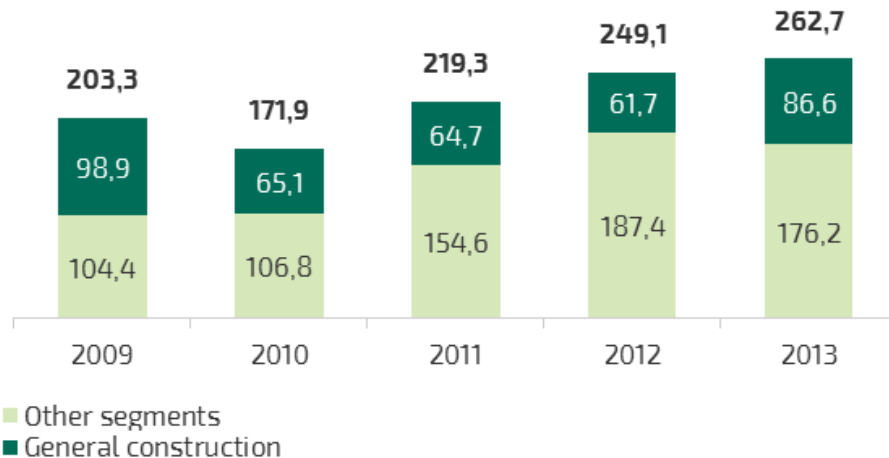


BUSINESS ACTIVITIES

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

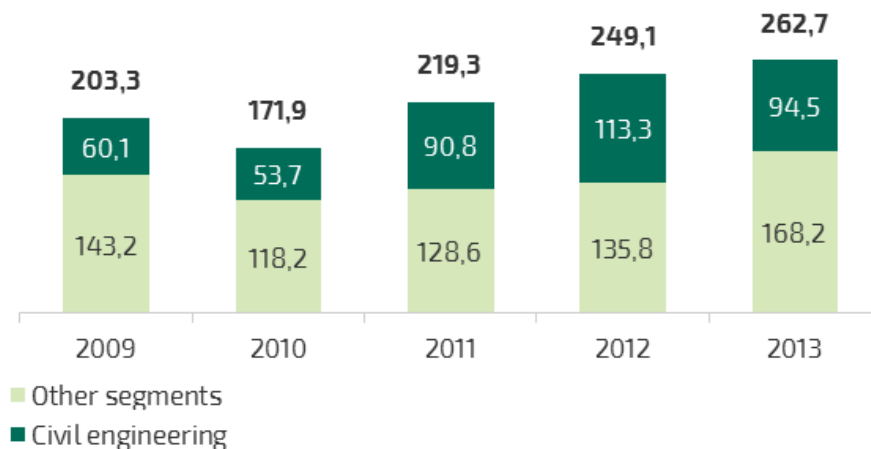


Tornimäe residential building, 2007

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

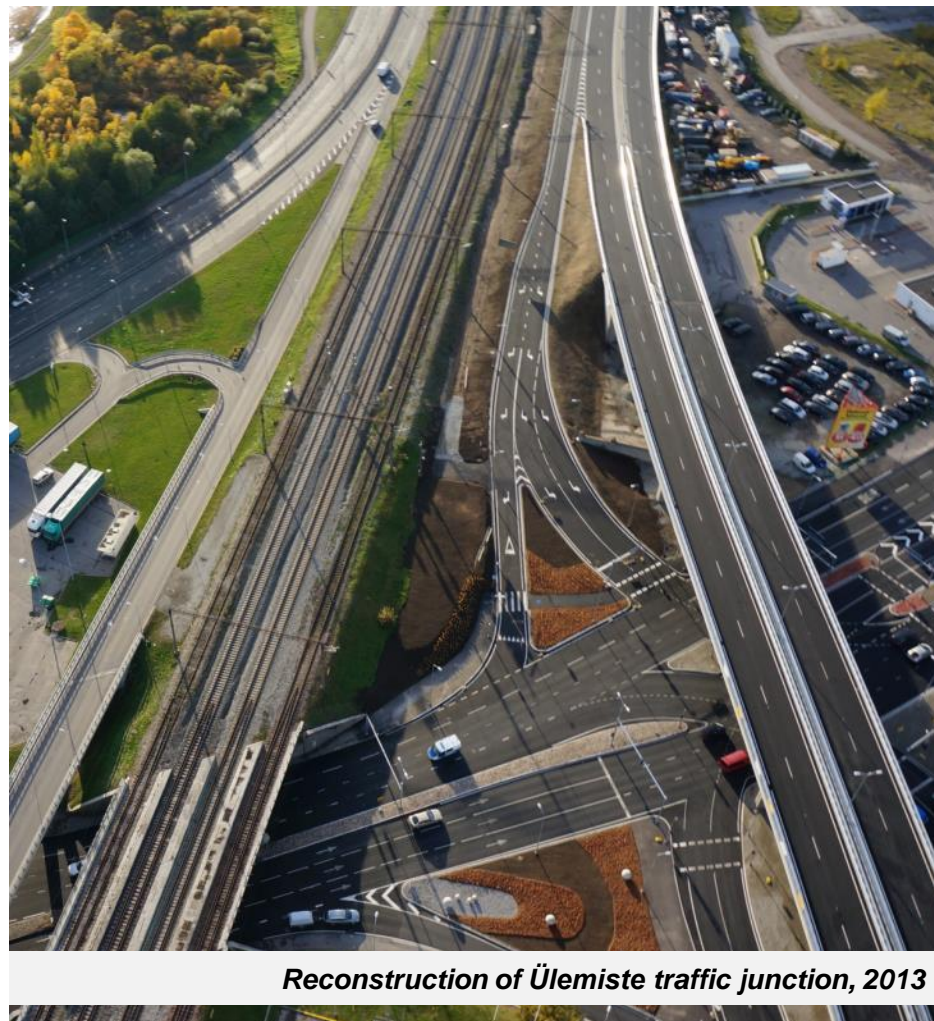
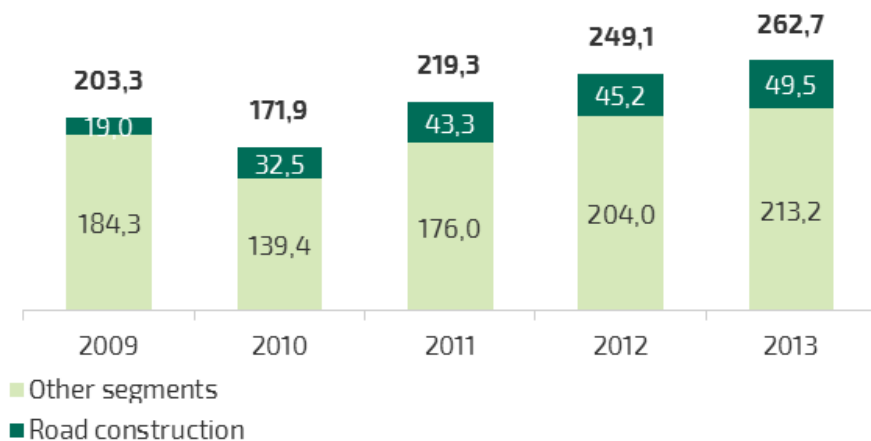


Puurmani traffic knot, 2008

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

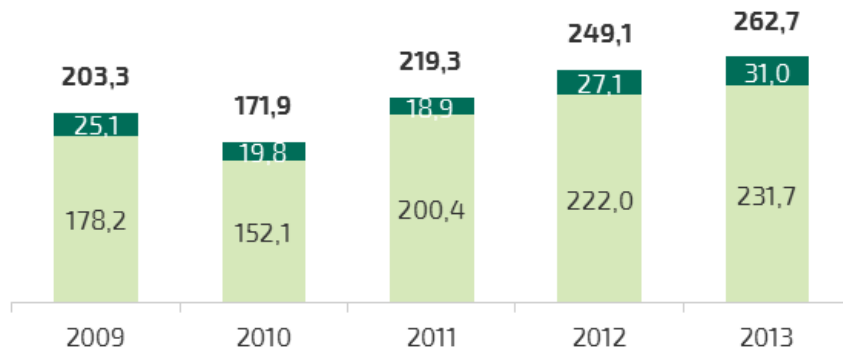


Reconstruction of Ülemiste traffic junction, 2013

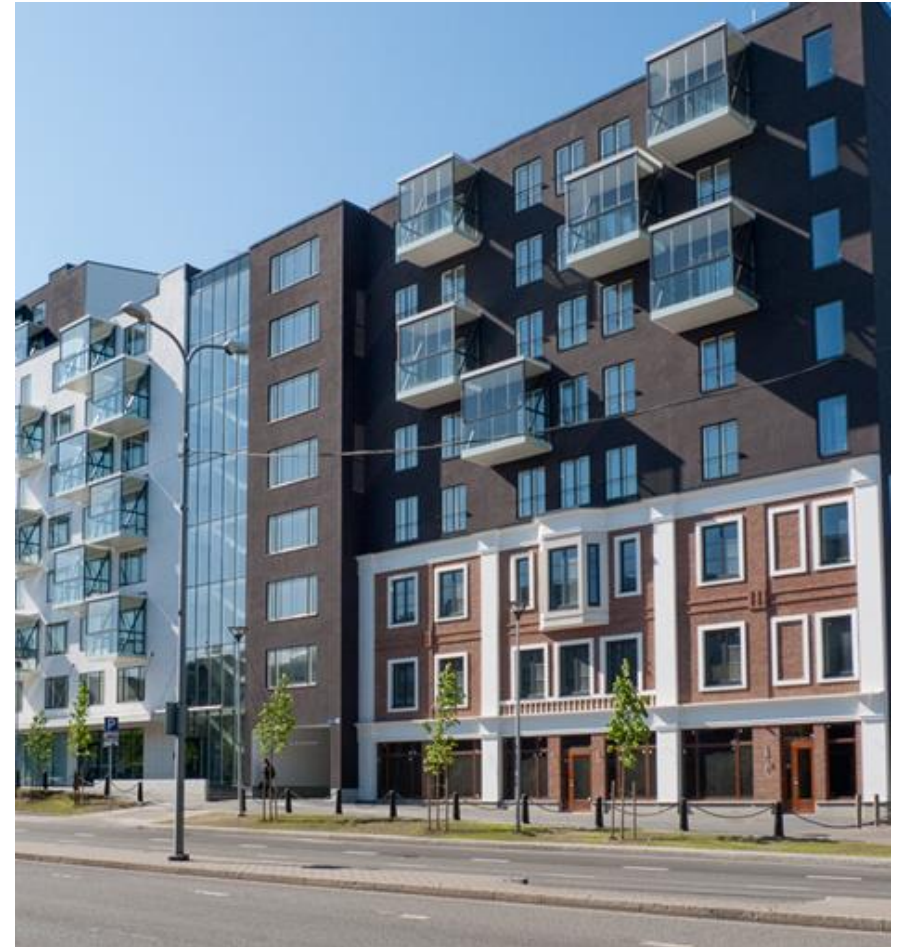
Real Estate Development

- ❖ 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

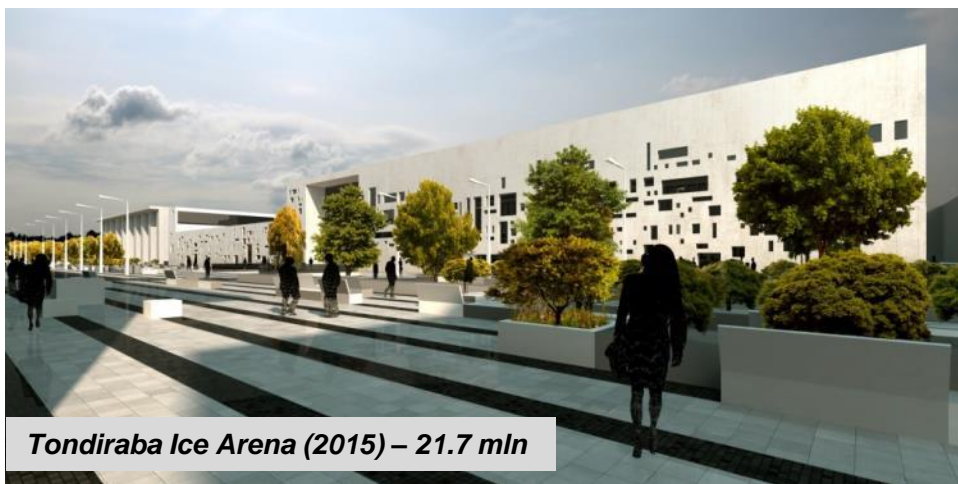


Other segments
Real estate development



Tartu mnt apartment buildings, 2012

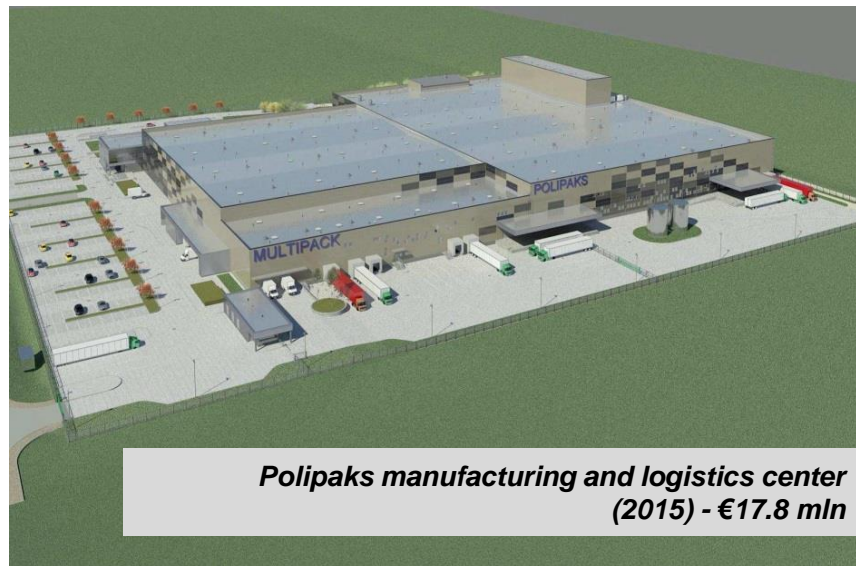
2014 Largest Projects In Progress Estonia



2014 Largest Projects In Progress Latvia



Liepaja Concert Hall (2015) - €28.3 mln



Polipaks manufacturing and logistics center (2015) - €17.8 mln



Jurmala apartment buildings (2015) - €13.7 mln



Riga State Technical School (2015) - €4.8 mln

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)

- ❖ Civil construction works of Nordbalt HVDC converter station in Klaipeda district (2015) - €6.0mIn

2013 AND 3M 2014 RESULTS

2013 and 3M 2014: Key Highlights

EUR millions	2013	2012	Variance	3M 2014	3M 2013	Variance
Revenue	262.7	249.1	+5.5%	48.9	47.9	+2.1%
Gross profit	22.7	17.9	+26.8%	3.9	4.2	-7.1%
Gross profit margin, %	8.6	7.2	+20.3%	8.1	8.8	-9.0%
EBITDA	15.1	11.4	+32.4%	1.9	2.9	-35.6%
Net profit, attributable to equity holders of the parent	10.4	7.6	+36.3%	0.7	1.8	-59.8%
Earnings per share (EPS), in euros	0.59	0.43	+36.4%	0.04	0.10	-59.8%
Secured order book	213.7	189.9	+12.5%	224.0	193.4	+15.8ja
Employees	860	915	-6.0%	824	870	-5.3%

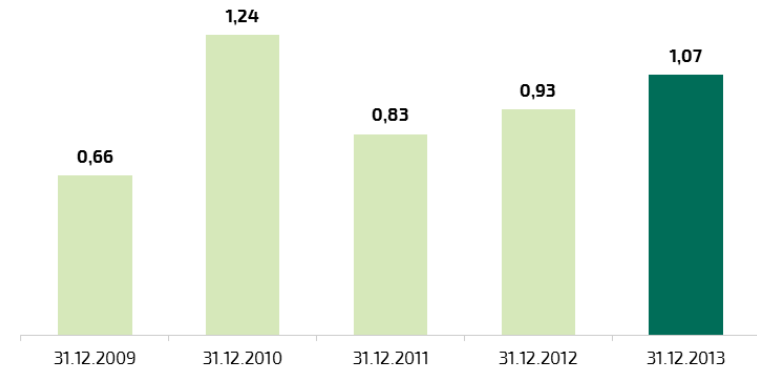
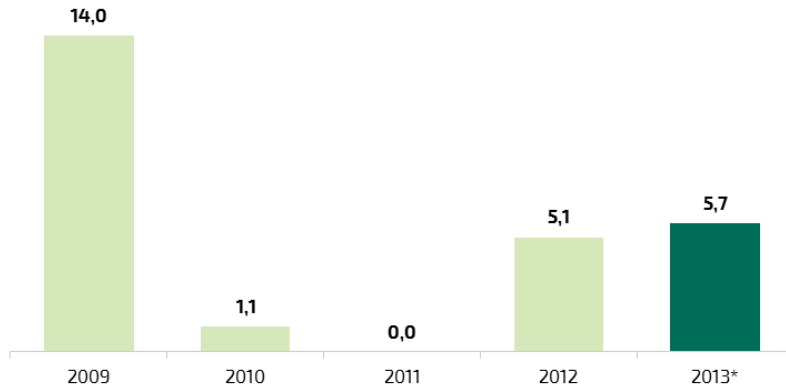
Financial objectives:

- ❖ 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%)

Stock Exchange overview



Shareholders	No of shares	% of total 31.03.2014	% of total 31.12.2013	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%	2,72%	-
Skandinaviska Enskilda Banken AB, Swedish clients	305 060	1,72%	1,86%	-25 000
Firebird Republics Fund Ltd	302 395	1,71%	1,71%	-
Gamma Holding OÜ	198 182	1,12%	1,07%	9 420
State Street Bank and Trust Omnibus Account a Fund No OM01	153 018	0,86%	0,86%	-
SEB Elu- ja Pensionikindlustus AS	148 020	0,84%	0,72%	20 000
Clearstream Banking Luxembourg S.A. clients	141 052	0,80%	0,80%	-210
Skandinaviska Enskilda Banken AB, Finnish clients	132 397	0,75%	0,76%	-2 585
Total largest shareholders	15 578 315	88,01%	87,99%	1 625
Other shareholders	2 121 685	11,99%	12,01%	-1 625
Total shares	17 700 000	100,00%	100,00%	

MARKET OUTLOOK AND 2014 FOCUS

Market outlook and 2014 focus

Construction market

- ❖ A decrease of 10-15% in construction volumes is expected in the Baltic States, primarily in Estonia, during 2014.
- ❖ 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.
- ❖ Positive trends from private sector as the market is picking up. The number of projects launched by private sector shows a positive trend. Nevertheless the private sector will not be able to compensate in the full reduction in procurement by the public sector (specially external networks).
- ❖ Market becomes more competitive and aggressive on margins, especially in general construction segment. This leads to a challenging position to keep the profitability levels.

Real estate development

- ❖ Number of transactions and price per m2 have shown growth trend 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, however more selective in Vilnius. Supply of new apartments on sale to increase during 2014.
- ❖ Increased apartment offering in the future may influence price stabilisation and the prolongation of sales periods.

Focus

- ❖ Key challenge to increase and also keep the 2013 level of secured order book. Closely following the development in the nearby markets and opportunities. Aim to increase the construction contracts from abroad.
- ❖ Active positioning in residential real-estate.
- ❖ Mitigation of project management risks and improvement of control systems.
- ❖ A greater focus on costs. Harmonisation of group structure and business needs. Keeping and recruiting the best employees.

Thank you!

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