



MERKO EHITUS

Construction, Engineering & Real Estate

16 October 2014

East Capital Investor Tour



Agenda

1. About the Group
2. Business Activities
3. 2013 and 6M 2014 Results
4. Market Outlook and Focus

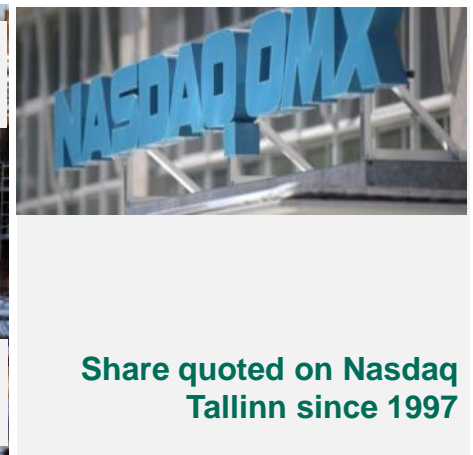
Group In Brief



Construction services:

- General construction
- Engineering construction
- Road construction

Own developed real estate projects



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:

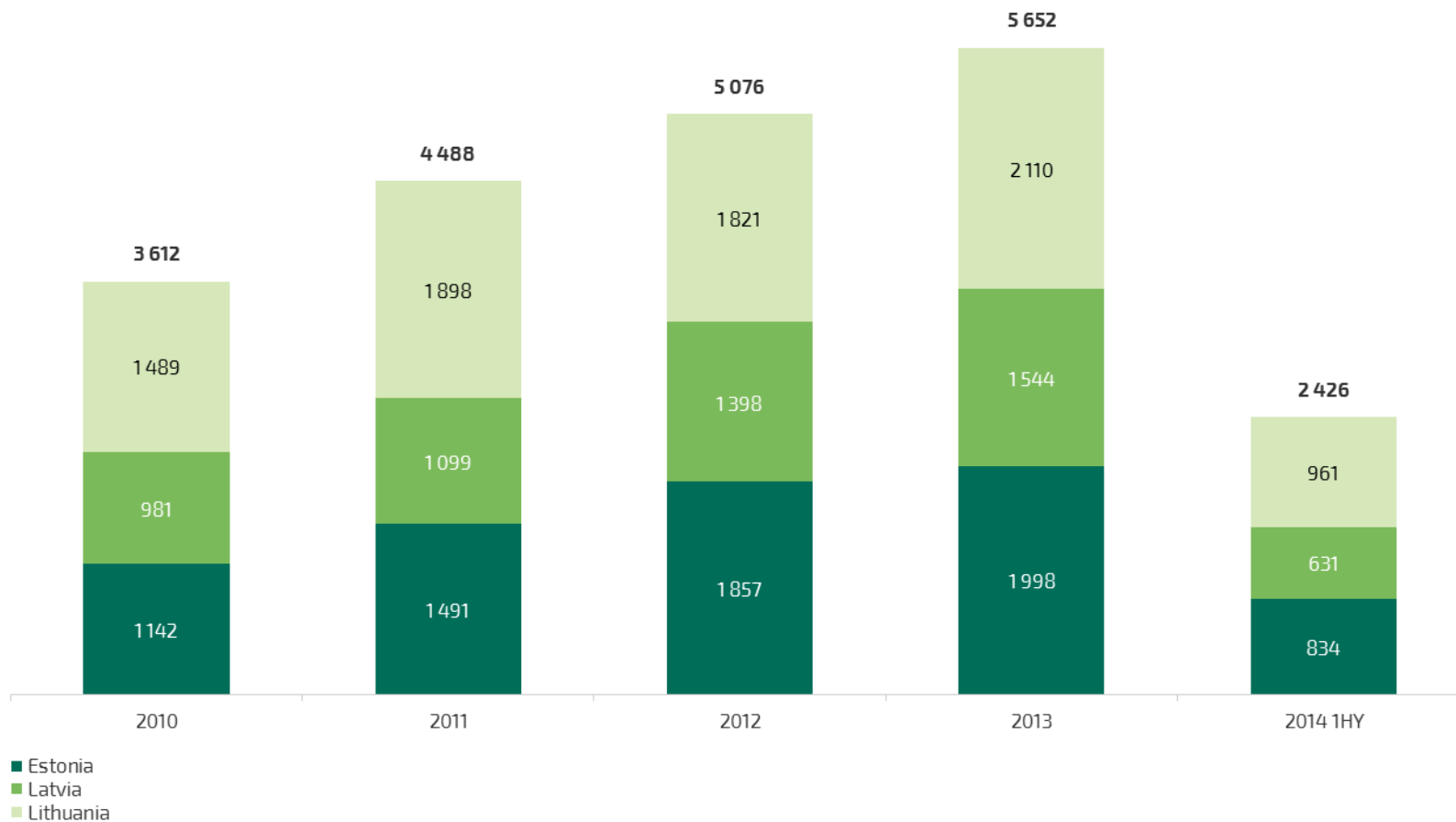
- ❖ Experienced project managers and engineers
- ❖ Experience and influence on subcontractor market
- ❖ New engineering and construction solutions
- ❖ Strong financial capability relative to peers



MARKET

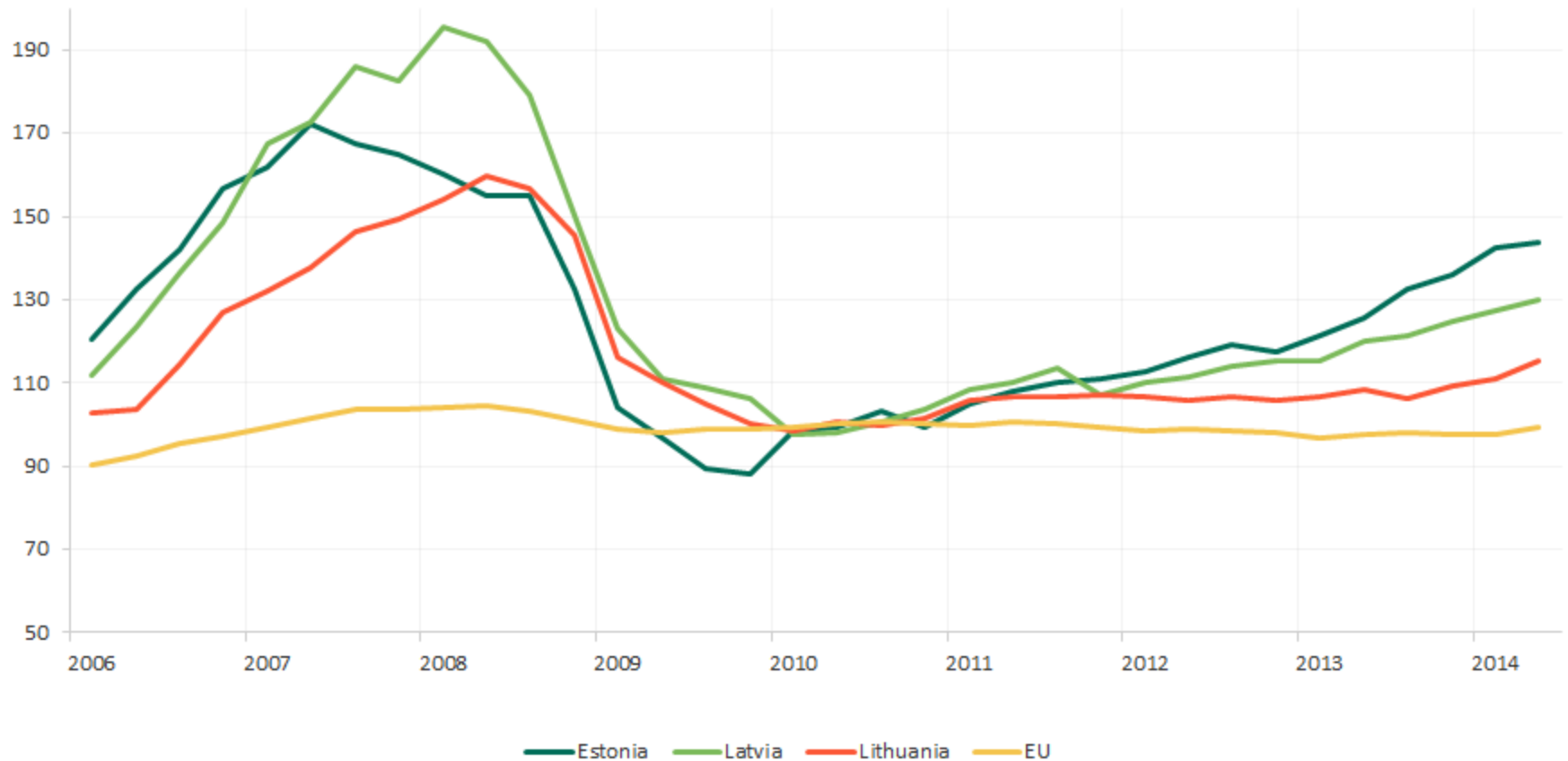
Construction Market

BUILDING MARKET VOLUMES (WITH OWN FORCES) AND GROWTH IN THE BALTIC STATES
in million euros



Real Estate Market

House price index (2010=100)

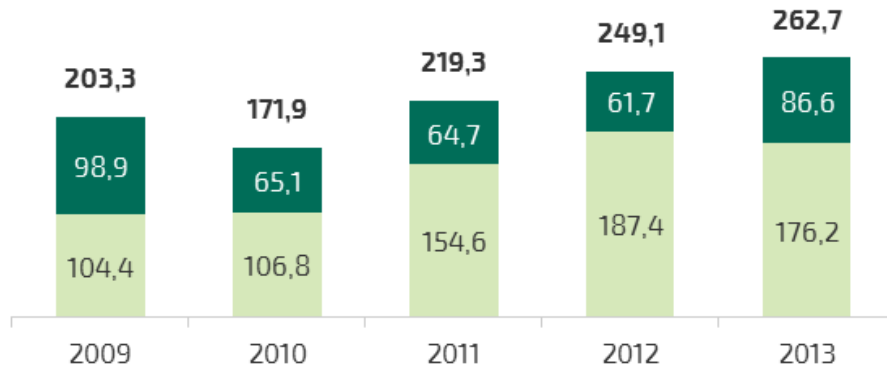


BUSINESS ACTIVITIES

General Construction

- ❖ Construction of buildings and facilities
- ❖ 33% of 2013 revenues (+40% y-o-y), 50% of HY 2014
- ❖ Decrease since 2009 (2009: 43% of total revenues) due to increasing share of infra projects, however this is changing yet again
- ❖ Markets:   

REVENUE
in million euros





■ Other segments
■ General construction

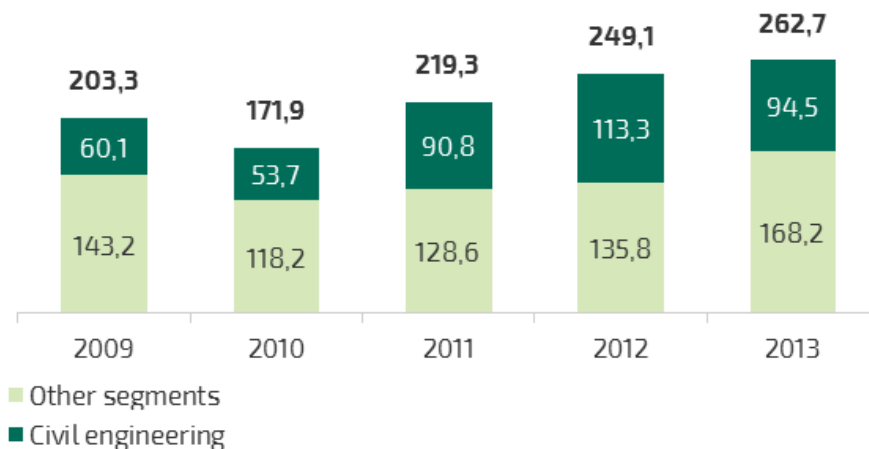


Tondiraba Ice Arena, 2014


Civil Engineering

- ❖ Infrastructure and engineering projects. Including water, environmental and electrical projects.
- ❖ 36% of 2013 revenues (-17% y-o-y), 21% of HY 2014
- ❖ EU funding is key
- ❖ Markets:  

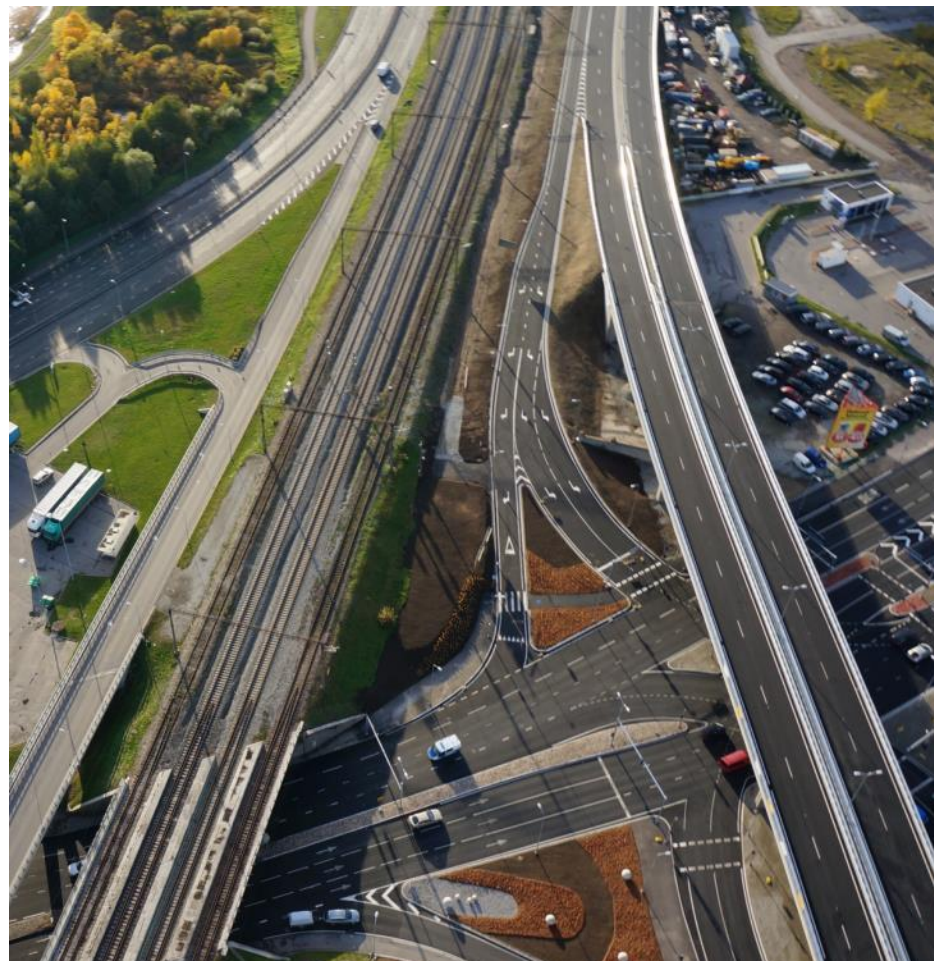
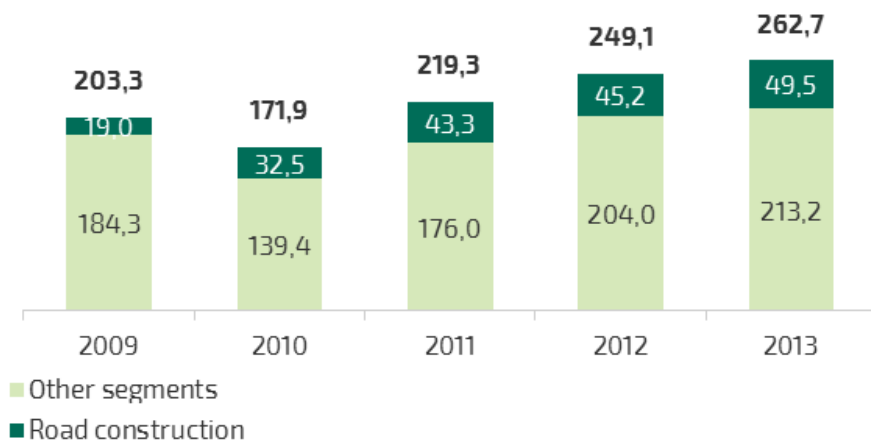
REVENUE
in million euros



Road Construction

- ❖ Road construction and long-term road maintenance contracts
- ❖ 19% of 2013 revenues (+10% y-o-y), 10% of HY 2014
- ❖ EU funding is key
- ❖ Since 2010 large scale projects
- ❖ Market: 

REVENUE
in million euros

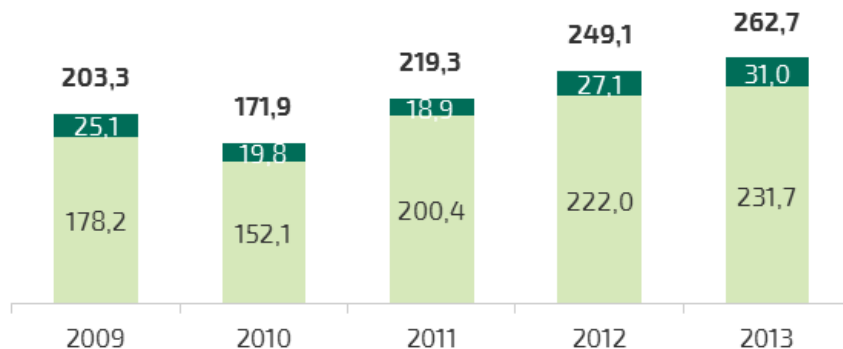


Reconstruction of Ülemiste traffic junction, 2013

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), 18% of HY 2014
- ❖ 2009-2011 downturn years
- ❖ Markets: 

REVENUE
in million euros



■ Other segments
■ Real estate development



***Skanstes virsotnes apartment buildings,
several phases 2006-2013***

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



Valmiera's Professional School (2015): €5.9 mln



Riga State Technical School (2015): €4.8 mln

2014 Largest Projects In Progress Lithuania



Vilnius and Kaunas train terminals (2014): €3.6mln



Own development: Fizikų, 108 apartments (started in 2014)



Vilnius Balsiai Secondary School – PPP (2011–2035)



Civil construction works of Nordbalt HVDC converter station in Klaipeda district (2015): €6.0mln

2013 AND 6M 2014 RESULTS

2013 and 6M 2014: Key Highlights

EUR millions	2013	2012	Var	6M 2014	6M 2013	Var
Revenue	262.7	249.1	+5.5%	113.7	113.7	0.0
Gross profit	22.7	17.9	+26.8%	10.1	9.8	+3.1%
Gross profit margin, %	8.6	7.2	+19.4%	8.9	8.6	+3.5%
EBITDA	15.1	11.4	+32.5%	10.1	9.8	+3.1%
Net profit, attributable to equity holders of the parent	10.4	7.6	+36.8%	4.4	4.0	+10.0%
Earnings per share (EPS), in euros	0.59	0.43	+37.2%	0.25	0.23	+8.7%
Secured order book	213.7	189.9	+12.5%	191.6	184.4	+3.9%
Employees	860	915	-6.0%	851	943	-9.8%

* Variance calculated based on rounded consolidated financial figures

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%

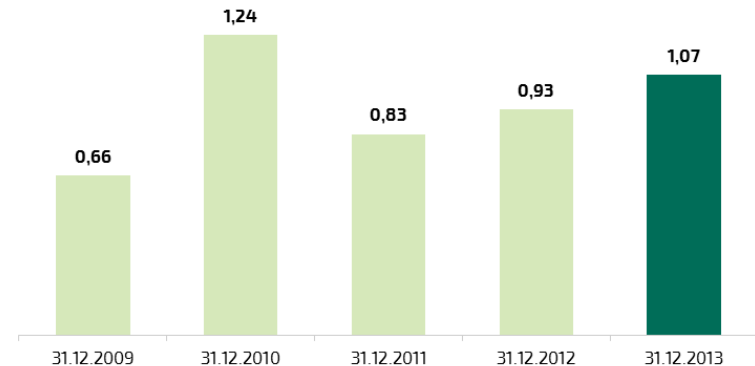
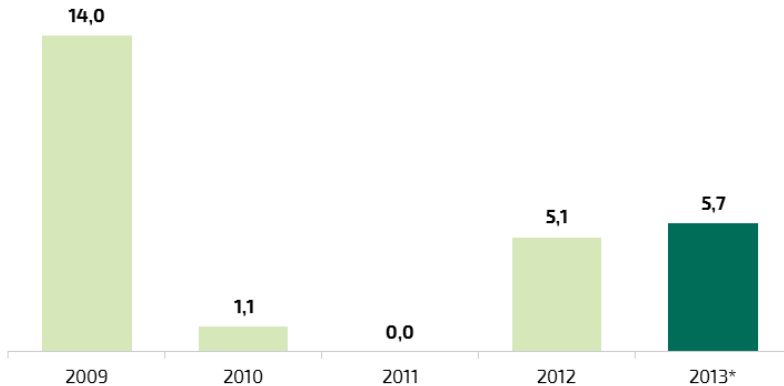
2013 actual:

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

DIVIDEND YIELD
percentages

Stock Exchange overview

P/B RATIO
times



Shareholders	No of shares	% of total 30.09.2014	% of total 30.06.2014	Variance
AS Riverito (management)	12 742 686	71,99%	71,99%	-
ING Luxembourg S.A. AIF Account	974 126	5,50%	5,50%	-
Skandinaviska Enskilda Banken S.A.	469 378	2,65%	2,71%	-10 149
Firebird Republics Fund Ltd	375 704	2,12%	1,71%	73 309
Skandinaviska Enskilda Banken AB, Swedish clients	293 660	1,66%	1,72%	-11 400
Firebird Aurora Fund Ltd	190 519	1,08%	0,96%	20 519
Skandinaviska Enskilda Banken AB, Finnish clients	154 804	0,87%	0,74%	23 112
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%	0,84%	-
Clearstream Banking Luxembourg S.A. clients	143 652	0,81%	0,81%	-
Total largest shareholders	15 645 567	88,38%	87,84%	95 391
Other shareholders	2 054 433	11,62%	12,16%	-95 391
Total shares	17 700 000	100,00%	100,00%	

MARKET OUTLOOK AND FOCUS

Construction market

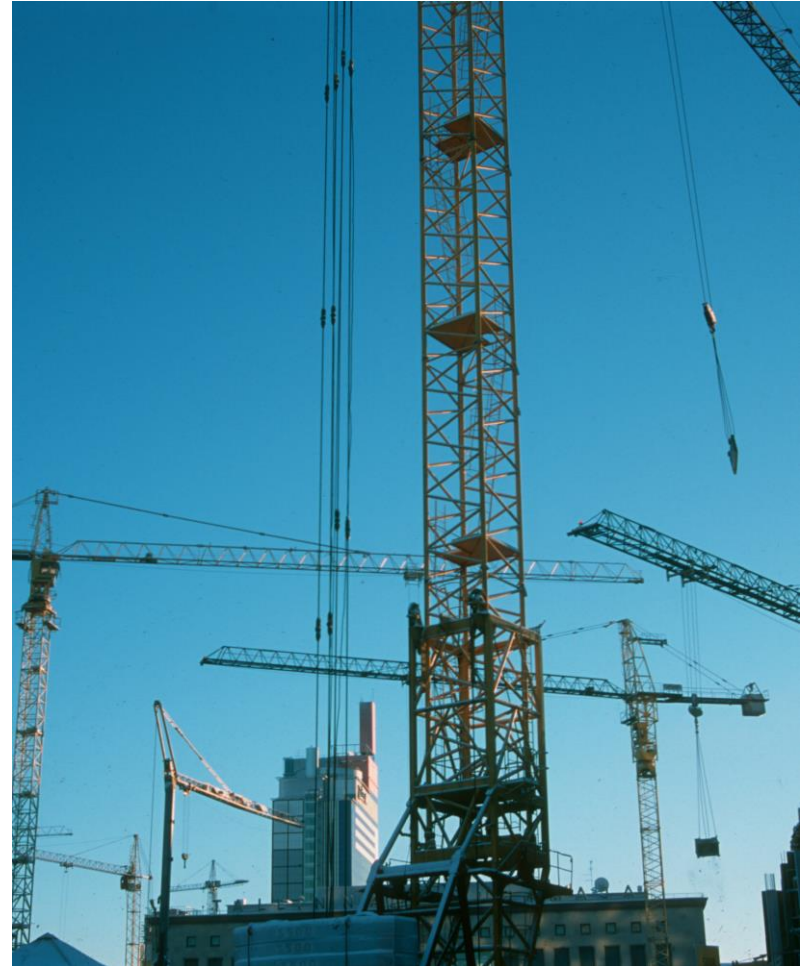
- A decrease of 10-15% in construction volumes is expected in the Baltic States, primarily in Estonia, during 2014 and 2015.
- Continuing decrease of public sector procurements due to the switchover to the new EU funding period and uncertainties around allocation of funds by sectors and projects. Somewhat less funding expected for construction and infrastructure projects, but overall EU funding in Baltics is ok compared to previous EU budget:
 - Estonia, growth of EUR 2.5 billion to EUR 5.9 billion;
 - Latvia, contraction of EUR 0.1 billion to EUR 5.6 billion;
 - Lithuania, growth of EUR 1.8 billion to EUR 8.4 billion.
- 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 has become more competitive and aggressive on margins, especially in buildings segment. This leads to a challenging position to win contracts and keep the profitability levels.

Real estate development

- Number of transactions and price per m2 have shown growth trend up until 1H 2014 due to low interest rates and limited supply of new flats during the last few years.
- Still good potential to start new developments in all Baltic capitals, however clients are increasingly selective by location, quality and price. Supply of new apartments on sale to increase during 2014-2015.
- Increased apartment offering is likely to cause price stabilisation and the prolongation of sales periods.

Focus going forward

- Key challenge to increase and also keep the 2013 level of secured order book.
- Active positioning in residential real-estate.
- Closely following the developments in the nearby markets and new opportunities. Aim to identify non-Baltic revenue potential at acceptable risk level.
- Mitigation of project management risks and improvement of control systems.
- A greater focus on costs. Optimization of group legal structure. Keeping and recruiting the best employees.



Site visit: Kentmanni VI



Exclusive apartment building in the heart of Tallinn offering great views to the old town, city centre and Gulf of Tallinn

14 storeys, 92 apartments + commercial premises. Two sections (8- and 14-storey) of the building are interconnected through a 2-storey underground car park.

Smart Home concept enables to use a smartphone or tablet as a remote control for adjusting lighting, heating and air conditioning or opening doors for welcomed guests.



Andres Trink

Chief Executive Officer

E-mail: andres.trink@merko.ee



Signe Kukin

Chief Financial Officer

E-mail: signe.kukin@merko.ee

AS Merko Ehitus

Delta Plaza, 7th floor

Pärnu mnt. 141, 11314 Tallinn, Estonia

Phone: +372 6501 250

www.group.merko.ee

Disclaimer

- ❖ This presentation has been prepared by AS Merko Ehitus (the Company) solely for your use and benefit for information purposes only. By accessing, downloading, reading or otherwise making available to yourself any content of the presentation, in whole or in part, you hereby agree to be bound by the following limitations and accept the terms and conditions as set out below.
- ❖ You are only authorized to view, print and retain a copy of the presentation solely for your own use. No information contained in the presentation may be copied, photocopied, duplicated, reproduced, passed on, redistributed, published, exhibited or the contents otherwise divulged, released or disseminated, directly or indirectly, in whole or in part, in any form by any means and for any purpose to any other person than your directors, officers, employees or those persons retained to advise you, who agree to be bound by the limitations set out herein.
- ❖ The presentation does not constitute or form part of, and should not be construed as, an offer, solicitation or invitation to subscribe for, underwrite or otherwise acquire, any securities of the Company or any member of its group nor should it or any part of it form the basis of, or be relied on in connection with, any contract to purchase or subscribe for any securities of the Company or any member of its group, nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Any person considering the purchase of any securities of the Company must inform himself or herself independently before taking any investment decision. The presentation has been provided to you solely for your information and background and is subject to amendment. Further, the information in this presentation has been compiled based on information from a number of sources and reflects prevailing conditions as of its date, which are subject to change.
- ❖ The information contained in this presentation has not been independently verified. The information in this presentation is subject to verification, completion and change without notice and the Company is not under any obligation to update or keep current the information contained herein. Accordingly, no representation or warranty, express or implied, is made or given by or on behalf of the Company or any of its respective members, directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this presentation, and any reliance you place on such information or opinions will be at your sole risk. Neither the Company nor any of its respective members, directors, officers or employees nor any other person accepts any liability whatsoever for any loss howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith.
- ❖ This presentation includes "forward-looking statements," which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets," "believes," "expects," "aims," "intends," "will," "may," "anticipates," "would," "plans," "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Accordingly, any reliance you place on such forward-looking statements will be at your sole risk. These forward-looking statements speak only as at the date as of which they are made, and neither the Company or any of its respective agents, employees or advisors intends or has any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained herein to reflect any change in the Company. Past performance of the Company cannot be relied on as a guide to future performance. No statement in this presentation is intended to be a profit forecast.