



MERKO EHITUS

Construction, Engineering & Real Estate

17 December 2014

Dunross & Co AB



Agenda

1. About the Group
2. Business Activities
3. 2013 and 9M 2014 Results
4. Market Outlook and Focus

Group In Brief



The largest listed construction company in the Baltics

Construction services:

- General construction
- Engineering construction
- Road construction

Own developed real estate projects



Operates in
Estonia (81% of revenue),
Latvia (17%), Lithuania (2%)



Revenue in 2013:
€262.7 mln



31.12.2013:
860 employees



Net Profit 2013:
€10.4 mln

EBITDA 2013:
€15.1 mln



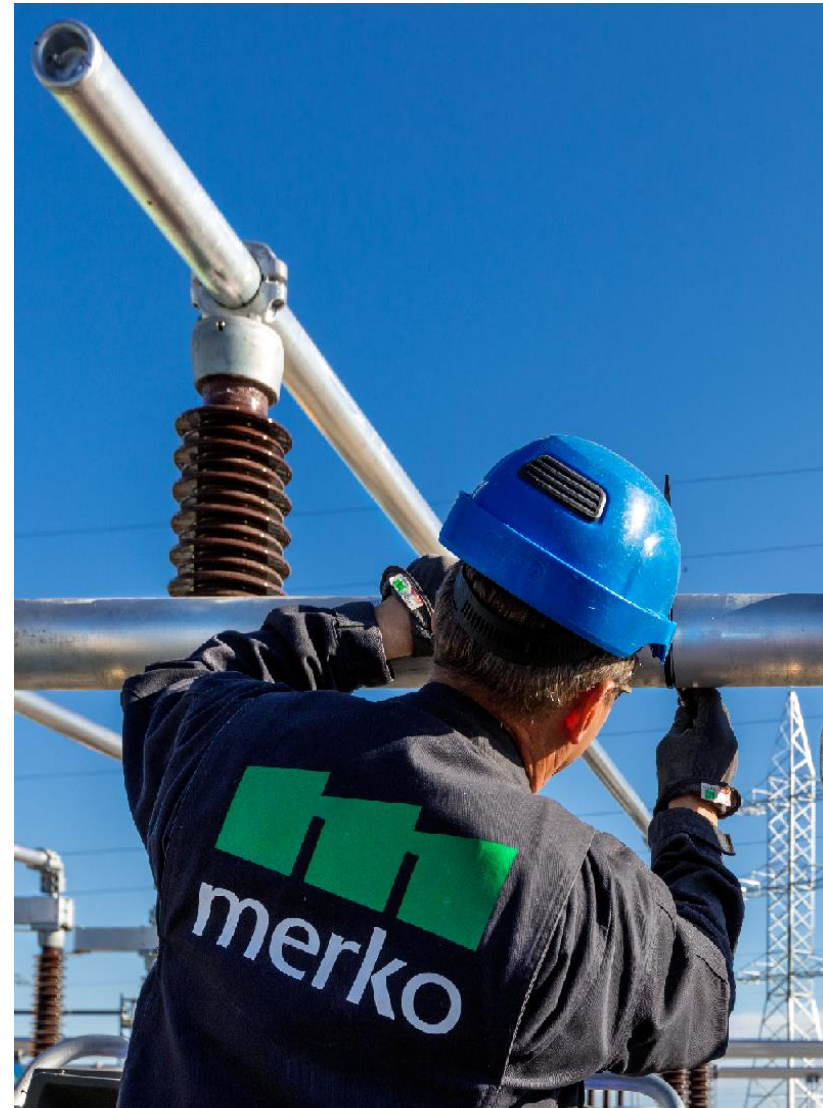
Share quoted on Nasdaq
Tallinn since 1997

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

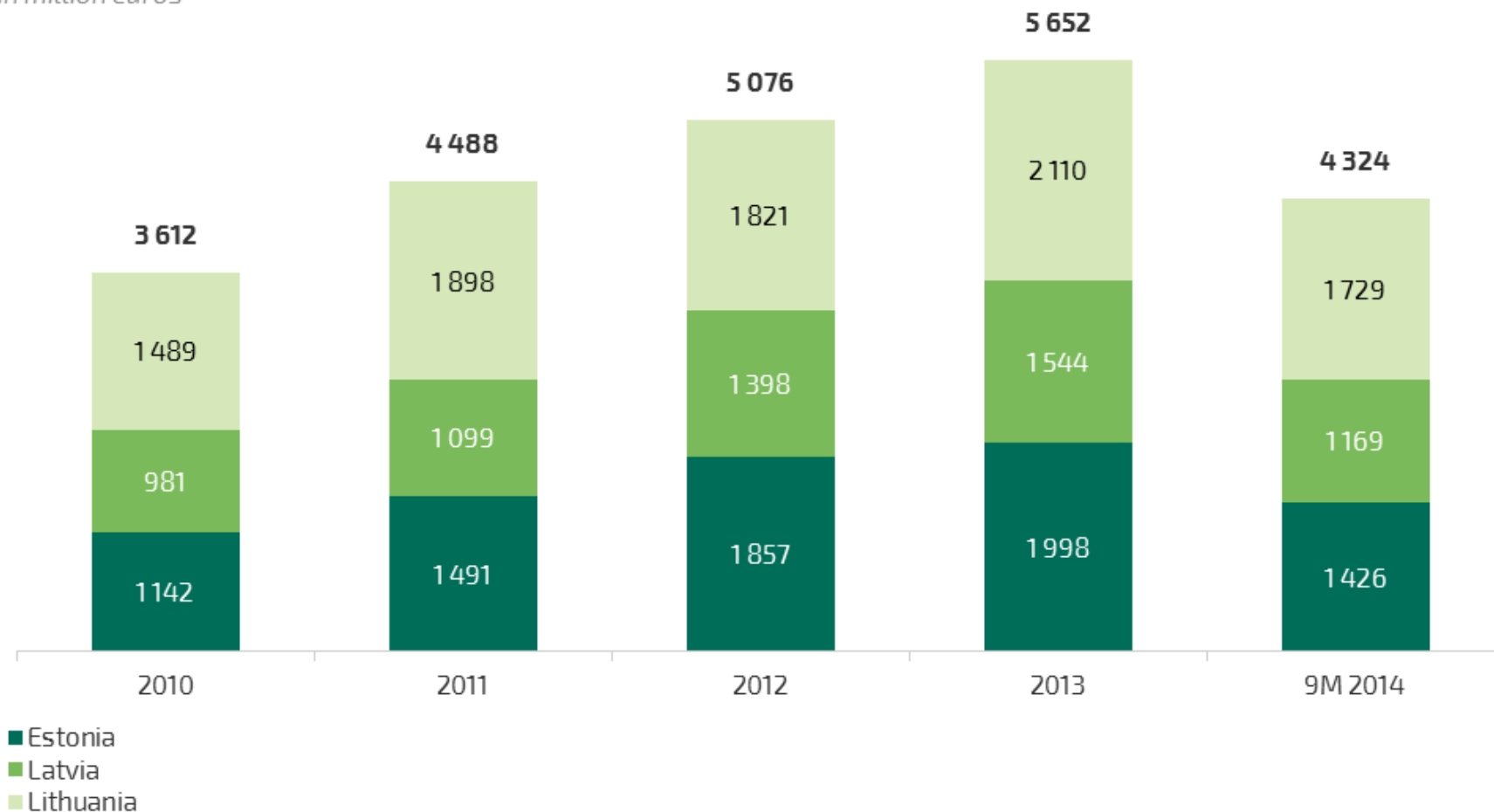


MARKET

Construction Market

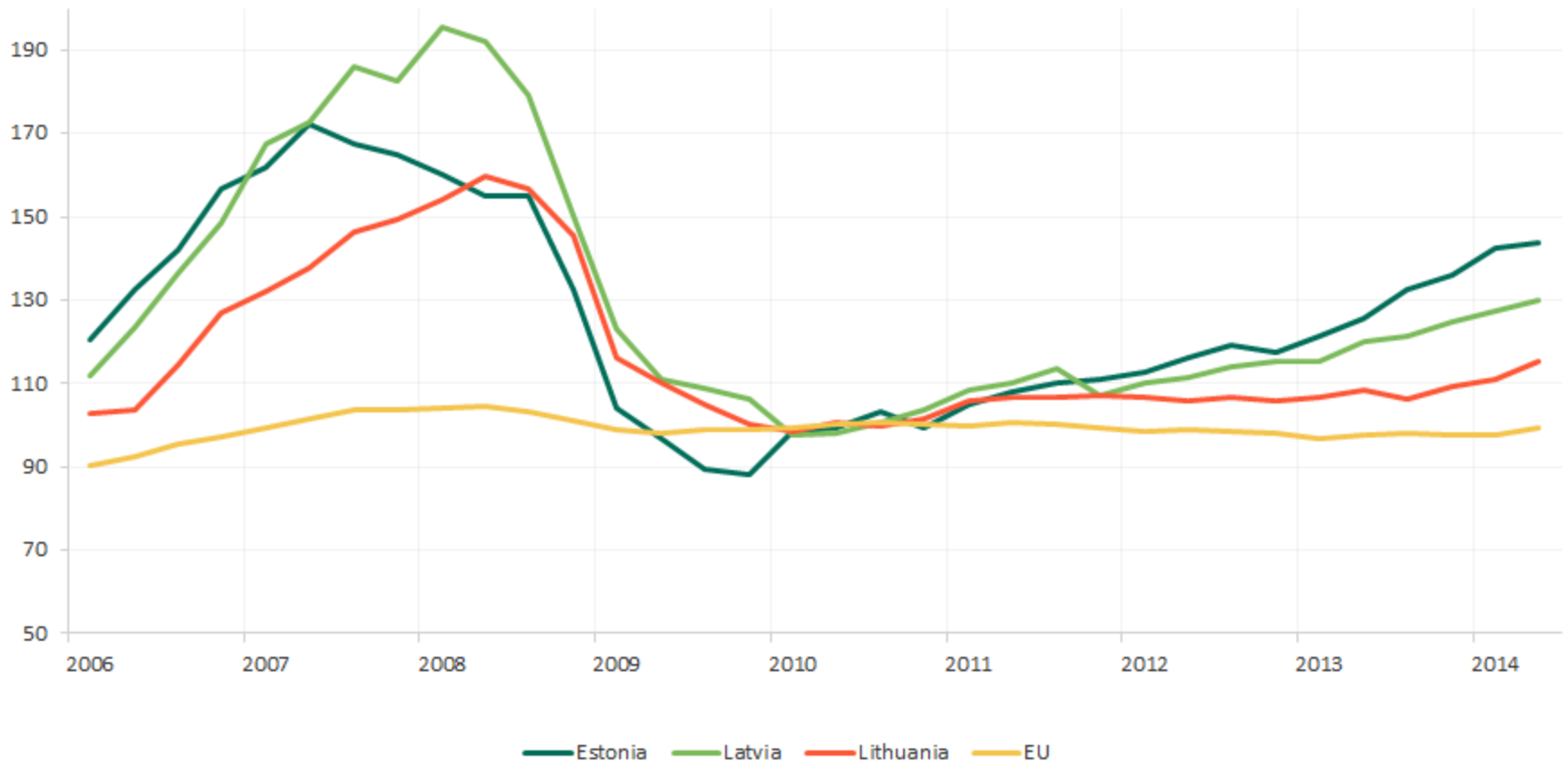
BUILDING MARKET VOLUMES (WITH OWN FORCES) IN THE BALTIC STATES

in million euros



Real Estate Market

House price index (2010=100)

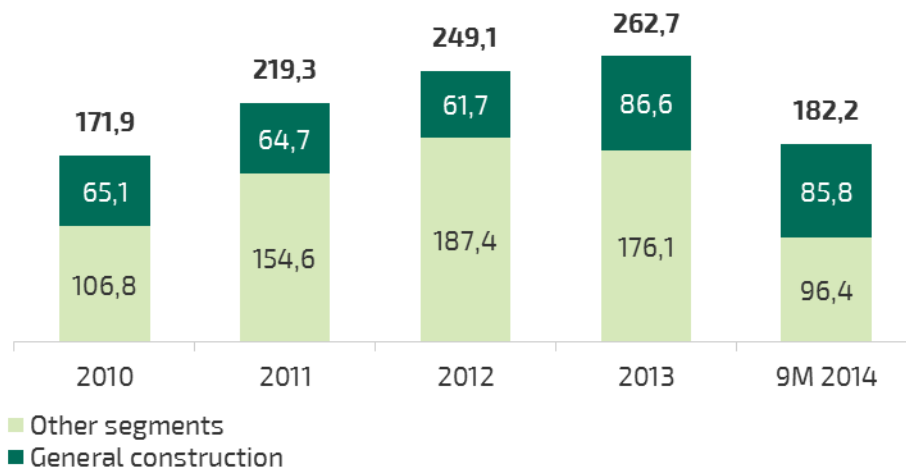


BUSINESS ACTIVITIES

General Construction



- ❖ Construction of buildings and facilities
- ❖ 33% of 2013 revenues (+40% y-o-y), 47% of 9M 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

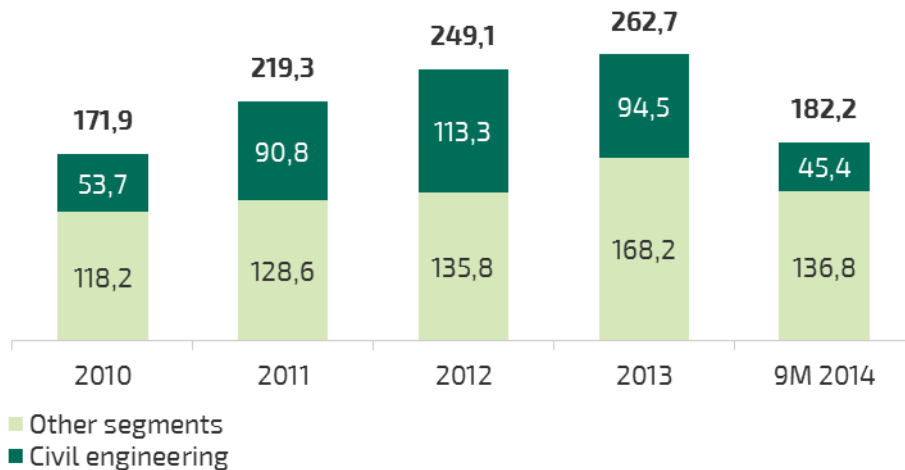


Tondiraba Ice Arena, 2014

Civil Engineering


- ❖ Infrastructure and engineering projects. Including water, environmental and electrical projects.
- ❖ 36% of 2013 revenues (-17% y-o-y), 25% of 9M 2014
- ❖ EU funding is key
- ❖ Markets:  

REVENUE
in million euros

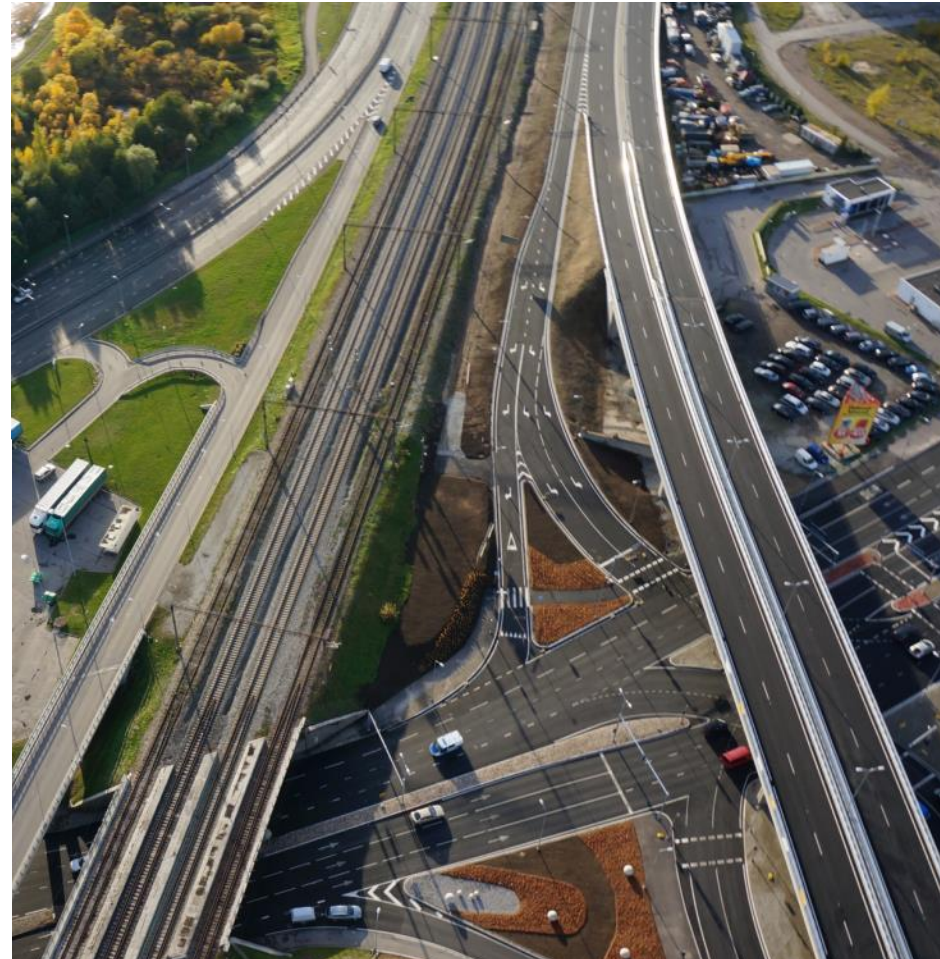
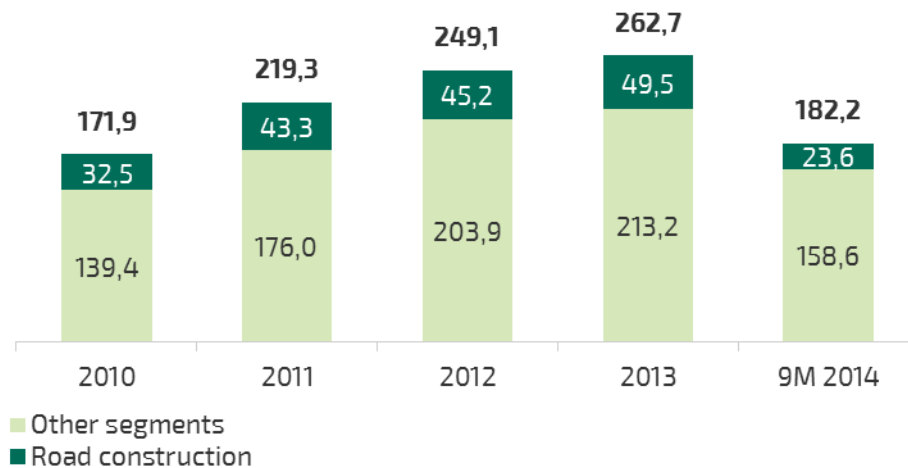


**Partial renovation of switchgear of Paide
330kW substation, 2013**

Road Construction

- ❖ Road construction and long-term road maintenance contracts
- ❖ 19% of 2013 revenues (+10% y-o-y), 13% of 9M 2014
- ❖ EU funding is key
- ❖ Since 2010 large scale projects
- ❖ Market: 

REVENUE
in million euros

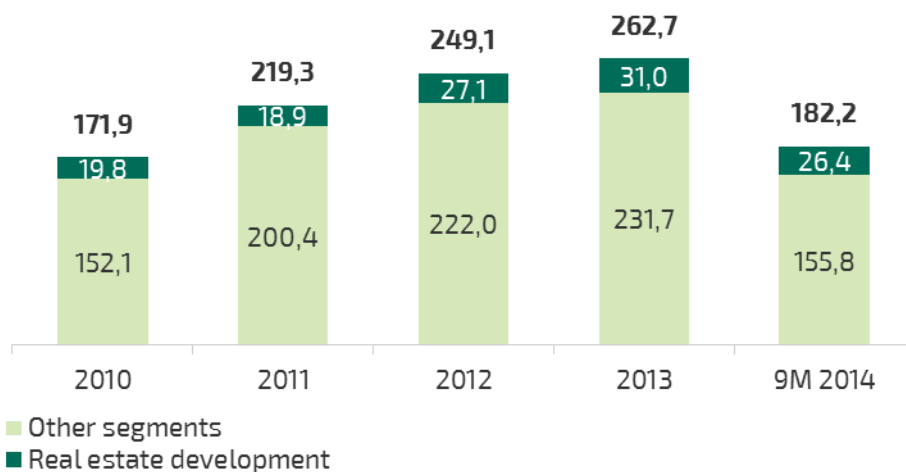


Reconstruction of Ülemiste traffic junction, 2013

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), 15% of 9M 2014
- ❖ 2009-2011 downturn years
- ❖ Markets: 

REVENUE
in million euros

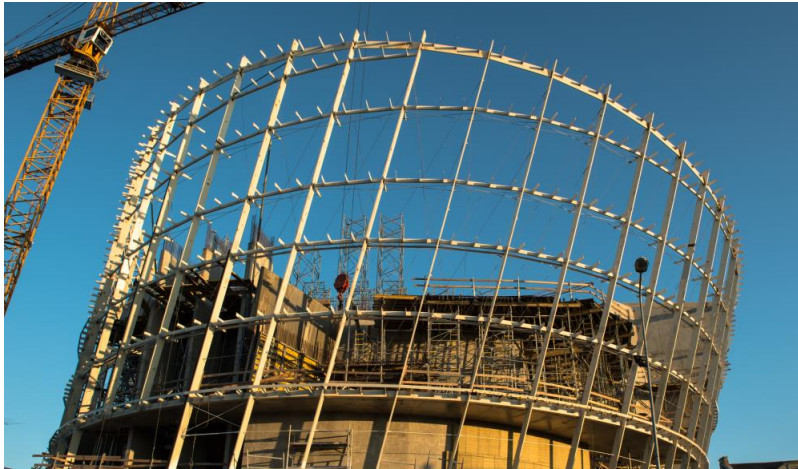


***Skanstes virsotnes apartment buildings,
several phases 2006-2013***

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 9M 2014 RESULTS

2013 and 9M 2014: Key Highlights

EUR millions	2013	2012	Var	9M 2014	9M 2013	Var
Revenue	262.7	249.1	+5.5%	182.2	197.8	-7.9%
Gross profit	22.7	17.9	+26.8%	16.3	17.4	-6.3%
Gross profit margin, %	8.6	7.2	+19.4%	8.9	8.8	+1.1%
EBITDA	15.1	11.4	+32.5%	10.2	11.6	-12.1%
Net profit, attributable to equity holders of the parent	10.4	7.6	+36.8%	7.6	7.9	-3.8%
Earnings per share (EPS), in euros	0.59	0.43	+37.2%	0.43	0.45	-4.4%
Secured order book	213.7	189.9	+12.5%	166.4	218.1	-23.7%
Employees	860	915	-6.0%	804	902	-10.9%

* Variance calculated based on rounded consolidated financial figures

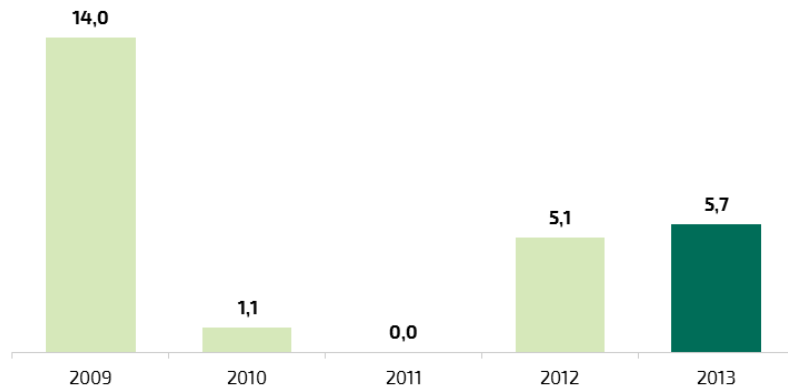
Financial objectives:

- ❖ 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:

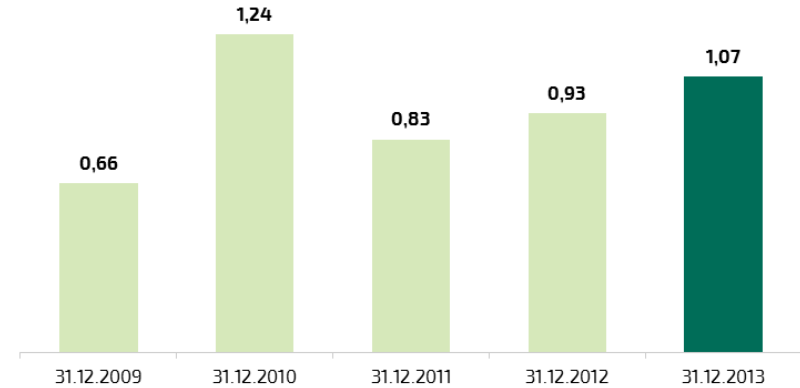
- ❖ Annual return on equity (ROE): 8.8% (2012: 6.8%)
- ❖ Dividend pay-out ratio: 70% (2012: 70%)
- ❖ Equity ratio: 50.2% (2012: 52.0%)

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

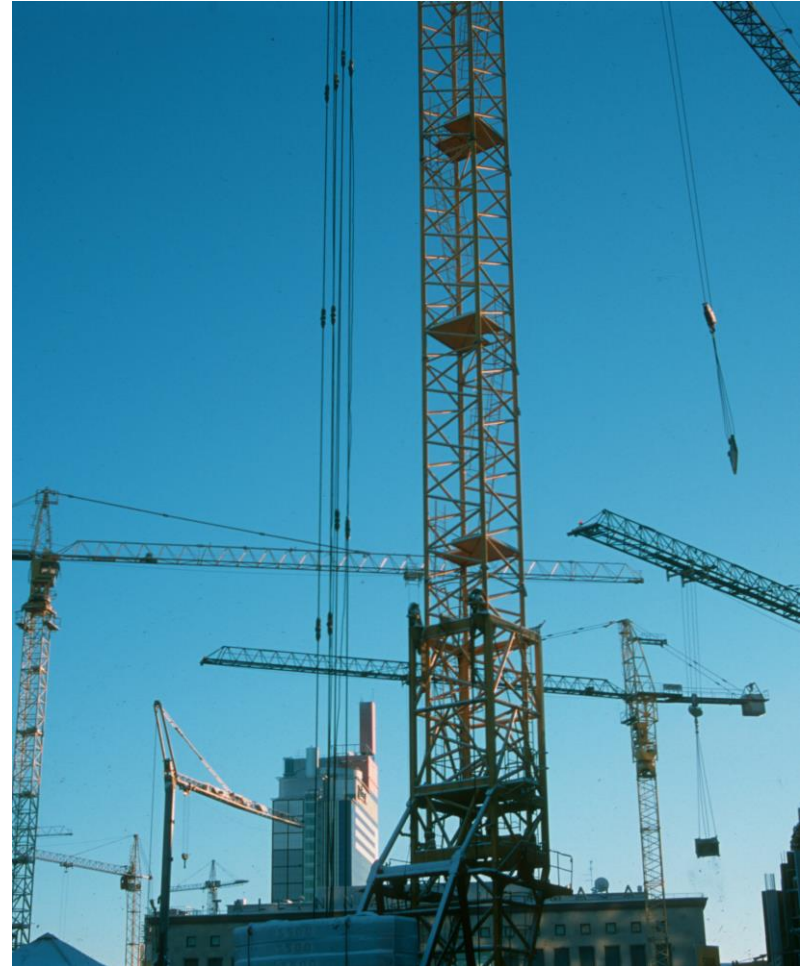
- A decrease in construction volumes.
- Uncertainties around allocation of EU funds by sectors and projects.
 - Estonia, growth of EUR 2.5 billion to EUR 5.9 billion;
 - Latvia, contraction of EUR 0.1 billion to EUR 5.6 billion;
 - Lithuania, growth of EUR 1.8 billion to EUR 8.4 billion.
- Increased number of private sector orders.
- Market very competitive and aggressive on margins.

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.
- Increased supply of new apartments on sale.
- 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.





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