

MERKO EHITUS GROUP

Construction, Engineering & Real Estate

Alpha Deal Group
Conference call: 10 August 2015



1. Group in brief
2. Business activities
3. Market outlook
4. Shareholders and dividends



300 MW Estonia Power Plant of Eesti Energia

Group in brief



The largest listed construction company in the Baltics

Wide scope of construction services:

- General construction
- Engineering construction
- Road construction
- Real estate projects

Estonian construction services (56% of revenue), Latvian and Lithuanian construction services (26%), Real Estate Development (18%)



Share quoted on Nasdaq OMX Tallinn since 1997

Competitive advantages:

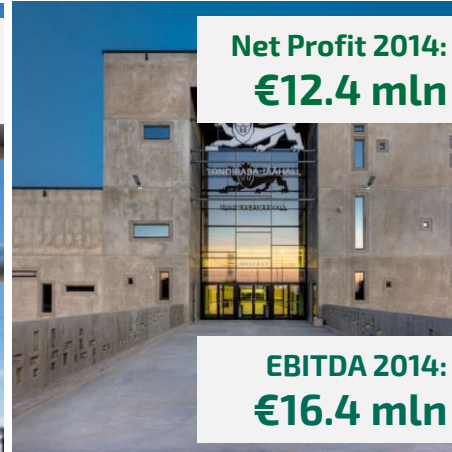
- Broad range of construction services and products, comprehensive solutions offered to clients
- Experienced project managers and engineers
- Longstanding experience on the subcontractors and suppliers market
- Innovative technological approaches and construction solutions
- Strong financial capability
- Inventory of residential development projects



**Revenue in 2014
€252.3 mln**



**31.12.2014:
765 employees**



**Net Profit 2014:
€12.4 mln**

**EBITDA 2014:
€16.4 mln**

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 can provide co-financing and share project risks, also in PPP

Our differentiation:

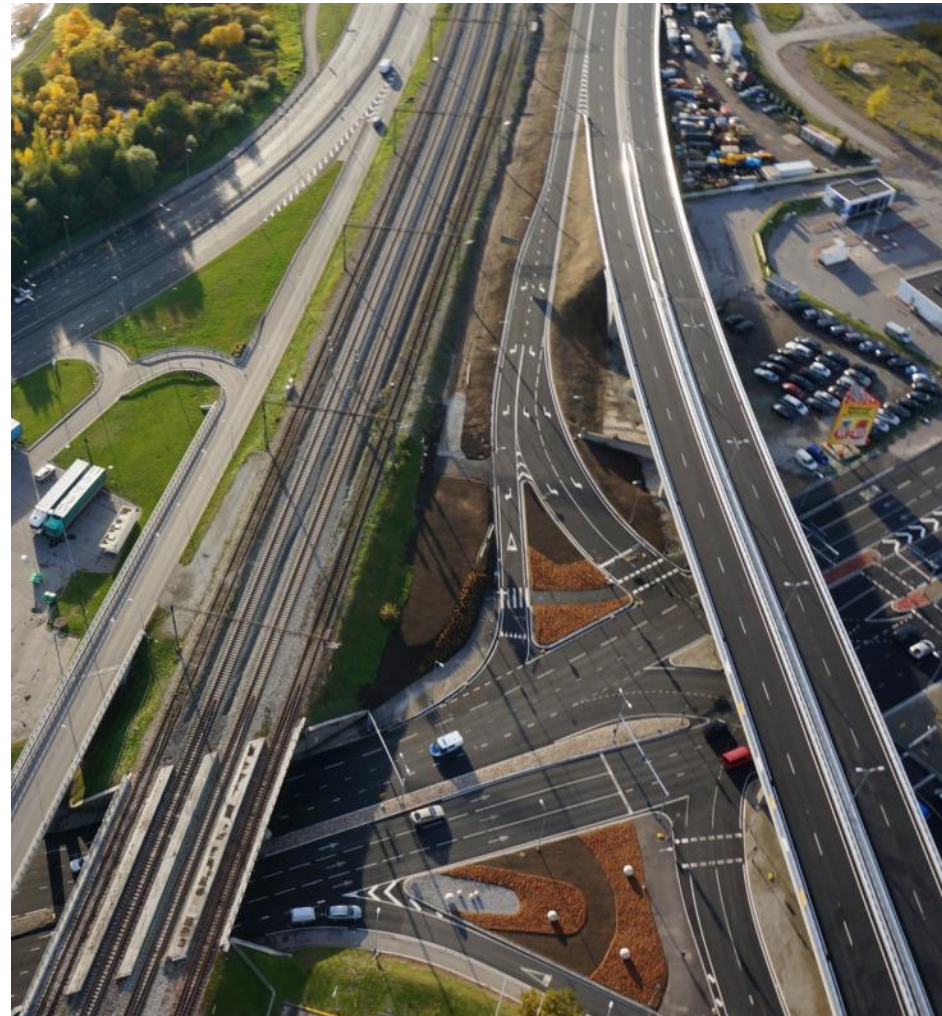
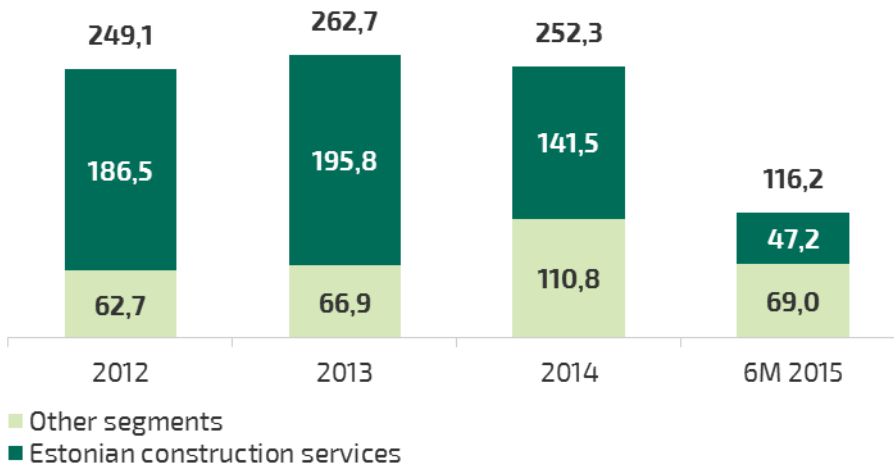
- ❖ Experienced project managers and engineers
- ❖ Experience and influence on subcontractor market
- ❖ New engineering and construction solutions
- ❖ Strong financial capability relative to peers
- ❖ Balanced business model: segment-wise and geographically



BUSINESS ACTIVITIES

- **Construction services include:**
 - **Buildings and different facilities;**
 - **Infrastructure engineering projects, including water, environmental and electrical projects;**
 - **Road construction and maintenance.**
- **56% of 2014 revenues**
- **Private and public clients**

REVENUE
in million euros

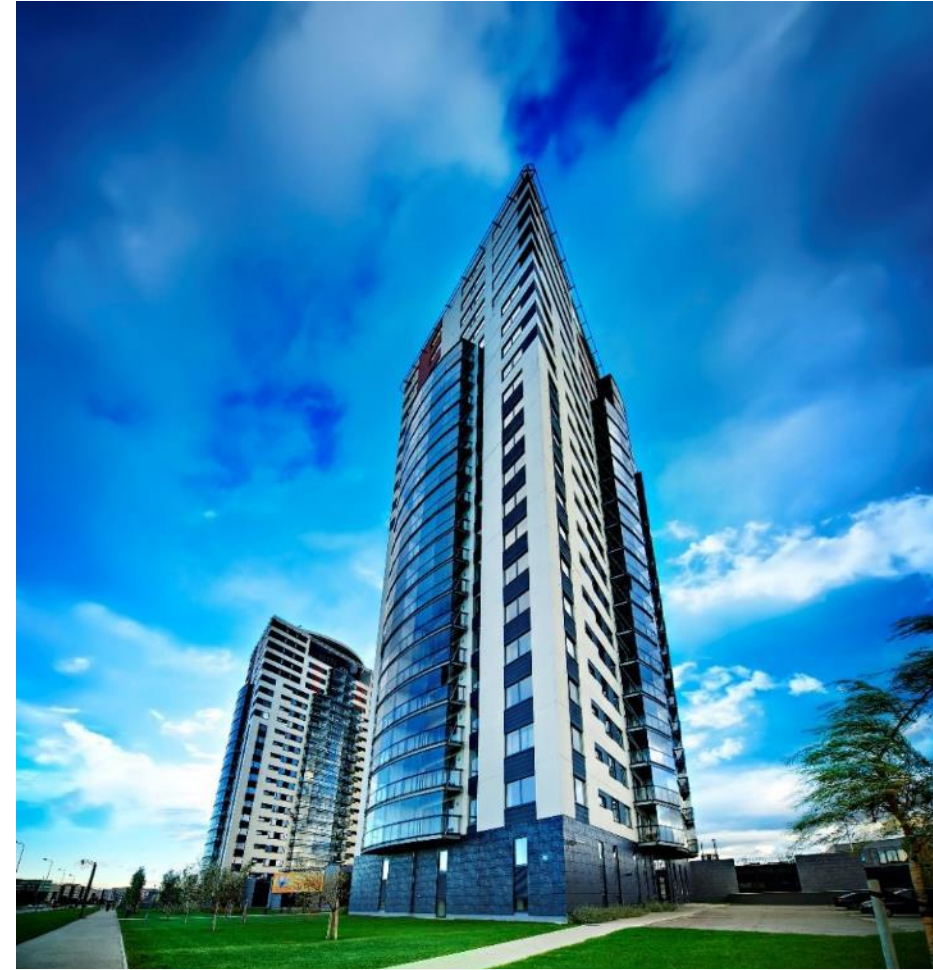
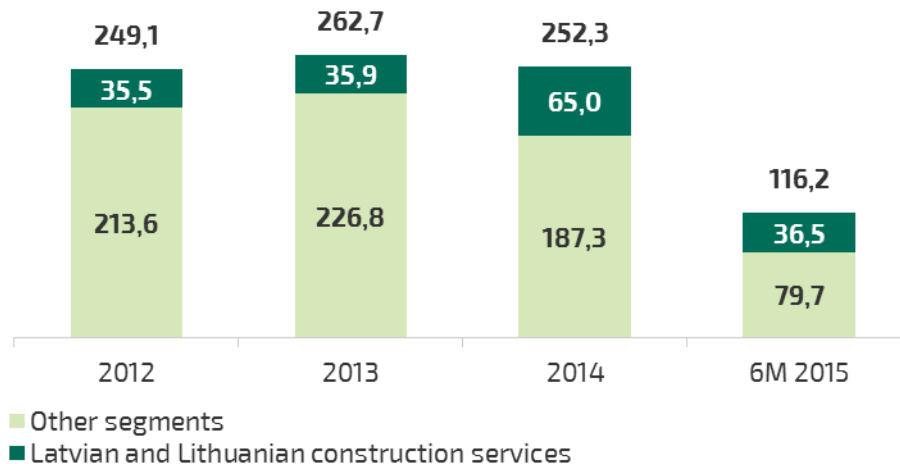


Reconstruction of Ülemiste traffic junction, 2013

Latvian and Lithuanian Construction Services

- **Construction services include:**
 - **Buildings and different facilities;**
 - **Infrastructure engineering projects, including water, environmental and electrical projects;**
- **26% of 2014 revenues**
- **Private and public clients**

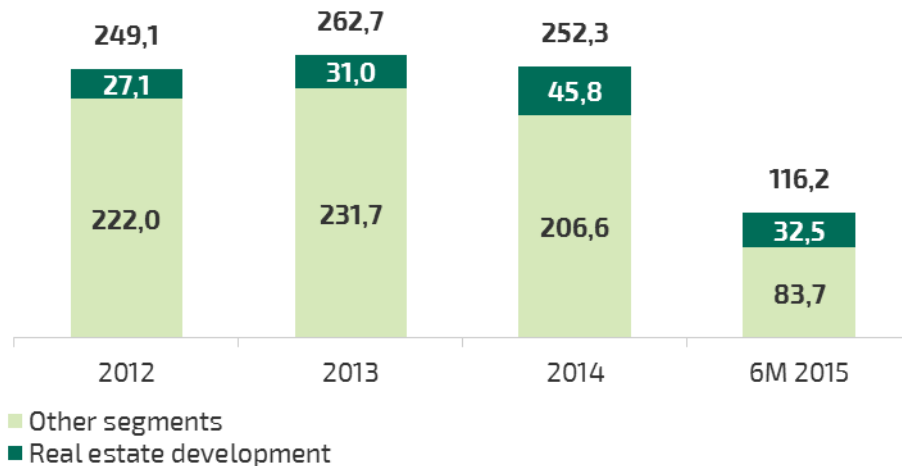
REVENUE
in million euros



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

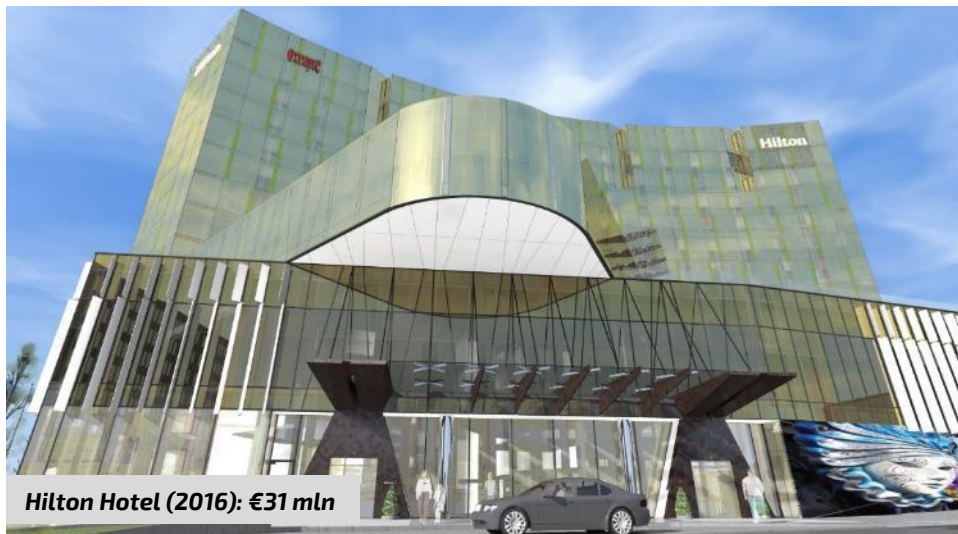
- Development of real estate owned by group:
 - Main focus on apartments development for consumers;
 - Real estate projects for business;
 - Long-term investments (PPP).
- 18% of 2014 revenues

REVENUE
in million euros



*Jahu street, Tallinn launched Q2 2015,
37 apartments*

2015 Largest Projects in Progress Estonia



Hilton Hotel (2016): €31 mln



Ülemiste City office building (2016): €17 mln



Design and renovation of the infrastructure of Tallinn tram line no. 4 (2015): €26 mln, consortium



T1 Shopping Centre (2017): €70 mln

Largest Project in Progress Latvia and Lithuania



Liepaja, Latvia Concert Hall (2015): €28 mln



Residential construction in Riga, Latvia (2016): €11 mln



**Civil construction works of Nordbalt HVDC converter station
in Klaipeda district, Lithuania (2015): €6 mln**



**Complex of multi-dwelling residential buildings
and administrative buildings in Vilnius, Lithuania (2017): : €15 mln**

Apartment developments in Progress

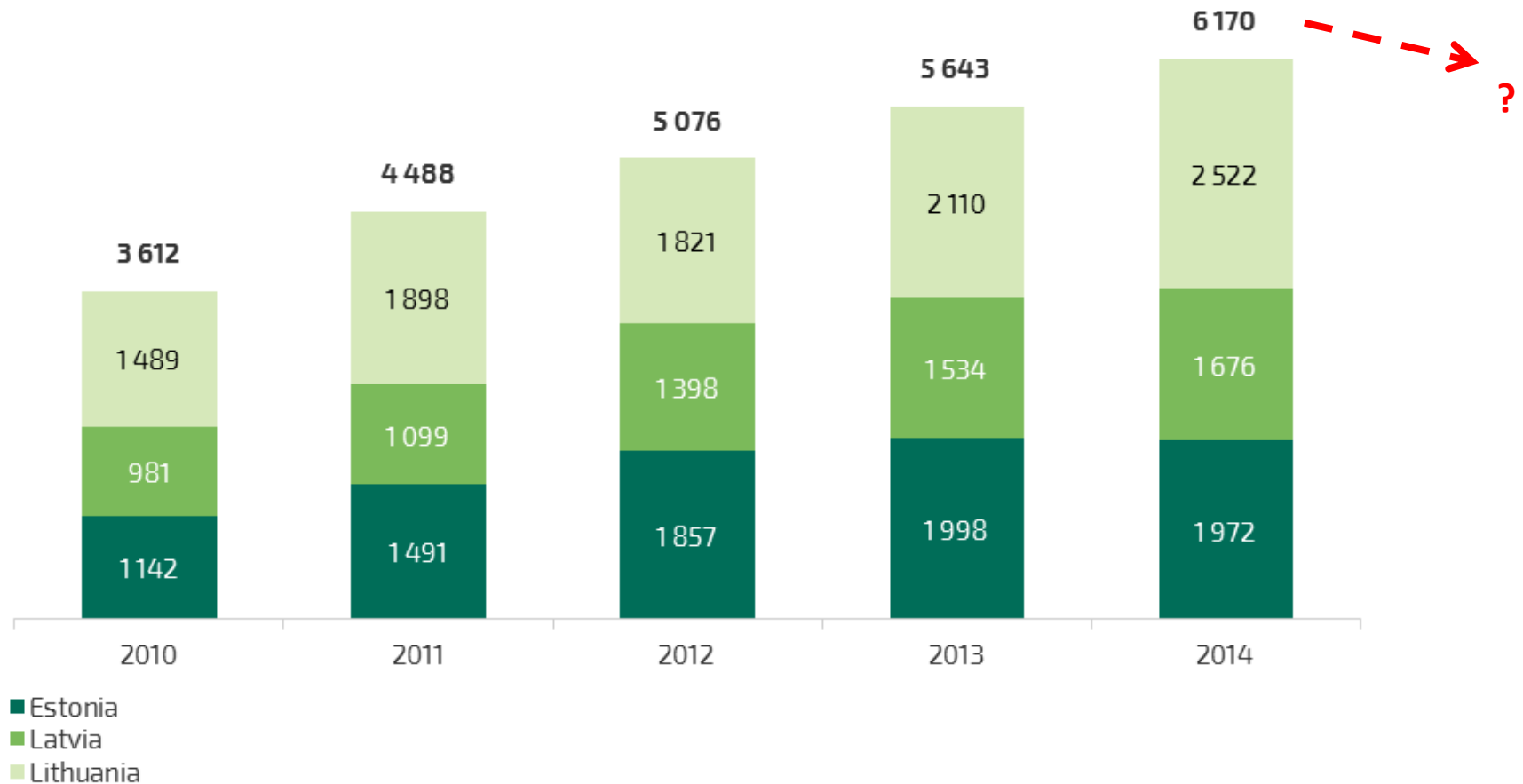


MARKET AND MARKET OUTLOOK

Market Outlook: construction

New tender volumes expected to decline in 2015 due to switchover to new EU budget period

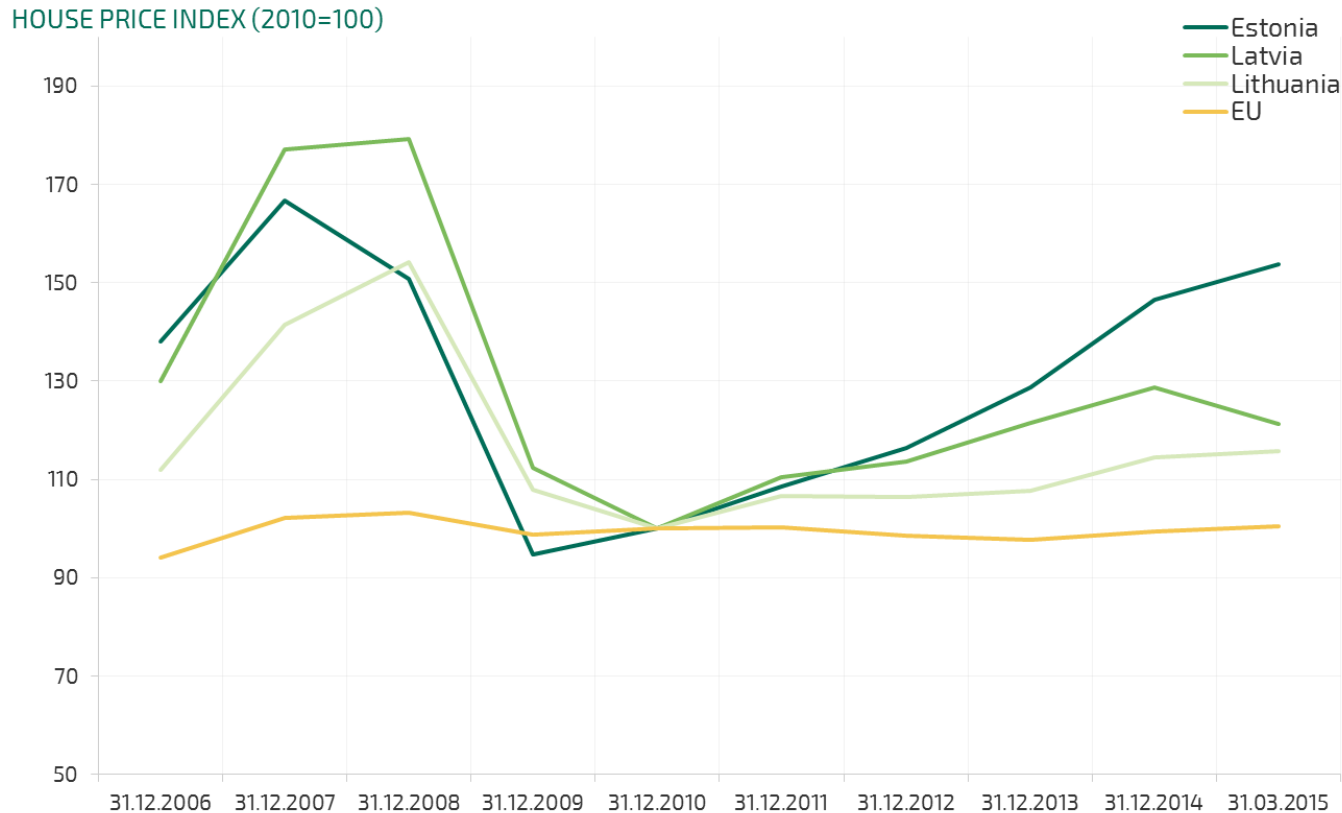
BUILDING MARKET VOLUMES (WITH OWN FORCES) IN THE BALTIC STATES
in million euros



Source: local statistical services

Market Outlook: Housing market in Baltics

Market calming, fast growth over last 3 years is ending



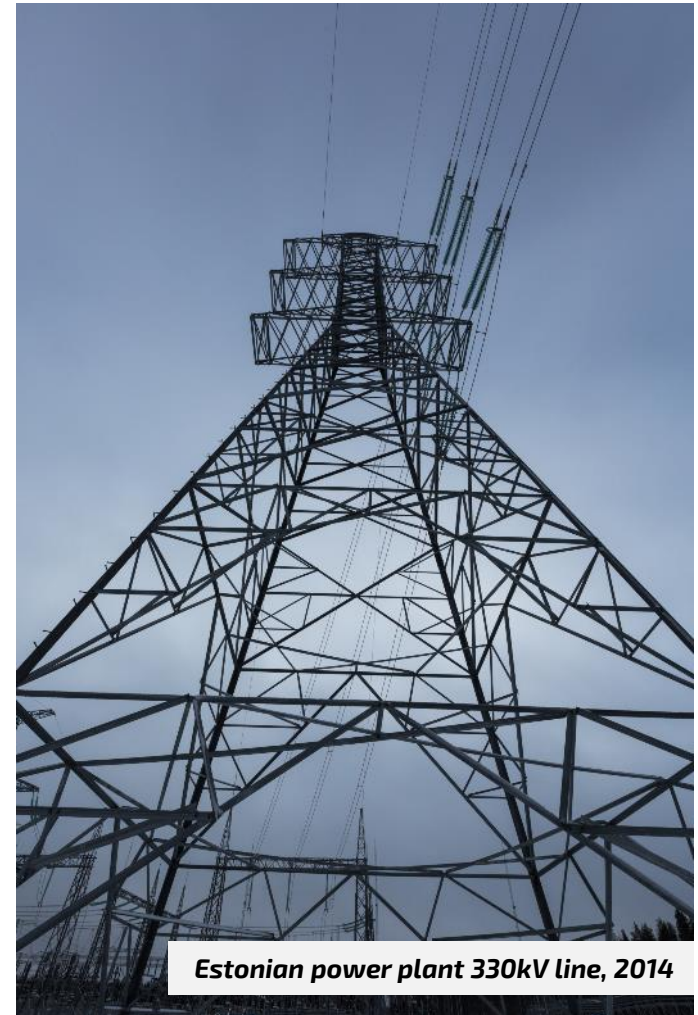
Source: Eurostat

- Number of transactions and price per m2 have shown growth trend 2012-2014 due to low interest rates and limited supply of new flats during first after-crisis years.
- Market is calming down. Increased apartment offering is likely to cause price stabilisation and the prolongation of sales periods. Clients becoming more selective towards what and from whom they buy. Financially stronger and more experienced developers are better positioned.

Orders not increasing and pricing competition tightening in Baltic construction market

Focus for next year: private sector orders and apartment development + internal efficiency

- Private sector focus in general construction. Increased effort on design and built contracts with aim to provide optimal outcome for the clients.
- For selected clients, who order construction services, and at acceptable conditions possibility to offer co-financing.
- Continuing new apartment development: 2015 plan to invest 45-50 million euros.
- Elering and Eesti Energia investments will not decrease in the near future, supports the electrical engineering market.
- Cost efficiency in-lined with the volumes of construction orders. Development possibilities for the best project managers and engineers.



Estonian power plant 330kV line, 2014

Long term outlook

Long term outlook: the leading Baltic construction and development business

- Post 2015-2016 EU funds will support the increase in civil and public sector building orders.
- Strengthen our position as leading apartment developer in the Baltic. We develop modern and quality living environments.
- Objective to grow in Lithuania.
- Tax and regulatory developments support more level playing field.
- Develop new capabilities: as example model designing.
- Continue ascertain our competitive advantages in Finland and Norway at an acceptable risk level. Objective to earn revenues from new markets during 2015-2016.



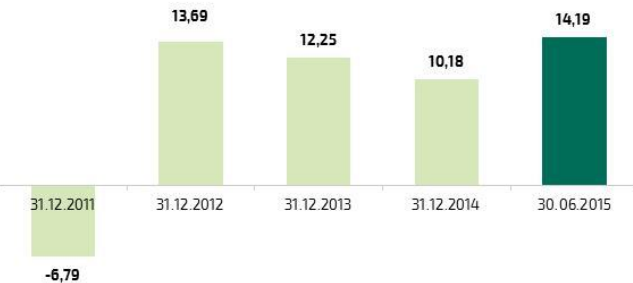
SHAREHOLDERS AND DIVIDENDS

Stock Exchange overview

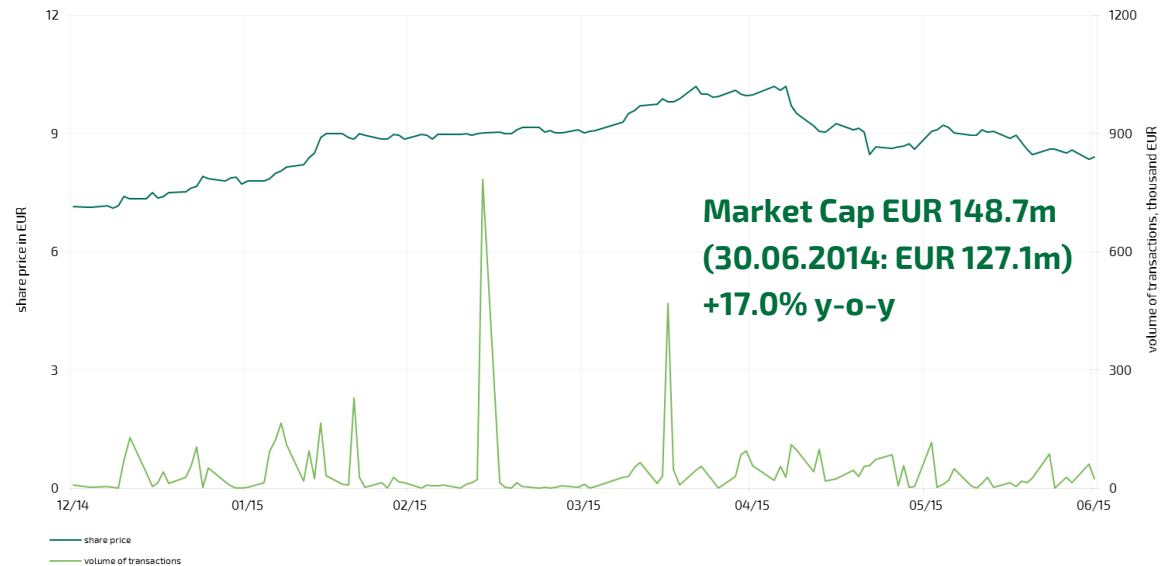
P/B RATIO
times



P/E RATIO
times



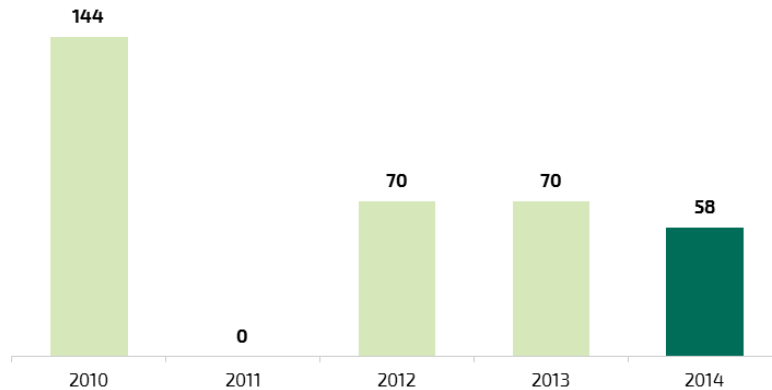
1,566 shareholders
+10.5% from 31.12.2014



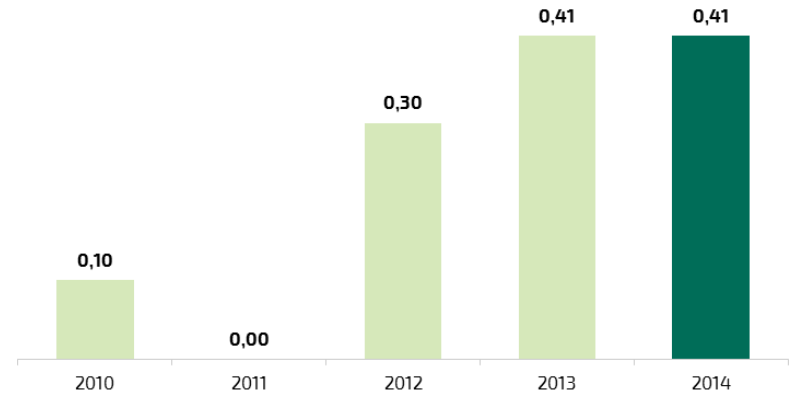
Shareholders	No of shares	% of total 30.06.2015	% of total 31.03.2015	Variance
AS Riverito (management)	12 742 686	71,99%	71,99%	-
ING Luxembourg S.A. AIF Account	974 126	5,50%	5,50%	-
Firebird Republics Fund Ltd	395 704	2,24%	2,24%	-
Skandinaviska Enskilda Banken S.A.	269 122	1,52%	1,77%	-44 952
Skandinaviska Enskilda Banken AB, Swedish clients	228 501	1,29%	1,42%	-22 771
Firebird Aurora Fund Ltd	220 519	1,25%	1,25%	0
Skandinaviska Enskilda Banken AB, Finnish clients	170 642	0,96%	1,09%	-22 227
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	142 622	0,81%	0,81%	-515
Total largest shareholders	15 444 960	87,26%	87,77%	-90 465
Other shareholders	2 255 040	12,74%	12,23%	90 465
Total shares	17 700 000	100,00%	100,00%	

Dividend and share capital reduction

DIVIDEND RATE
percentages

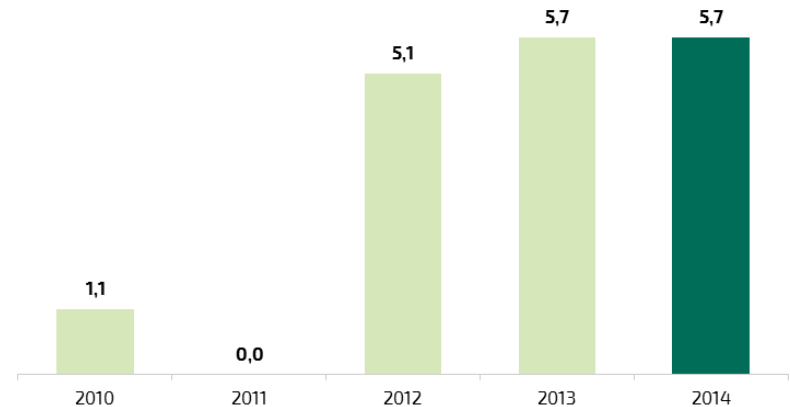


DIVIDEND PER SHARE
in euros



- Dividend pay-out ratio according to long-term financial objectives: 50-70% of the annual profit.
- EUR 7.3 million dividends (EUR 0.41 per share) paid in Q2 2015.
- The registration of share capital reduction in the amount of EUR 4.1 million (EUR 0.23 per share), as decided by AGM in April 2015, is in progress. The payment expected in Q4 2015.

DIVIDEND YIELD*
percentages



* Using share price as at 31.12

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