

# AS MERKO EHITUS

## Annual General Meeting of Shareholders

**Nordic Hotel Forum, Tallinn**  
9 May 2018





# Agenda

1. Approval of the annual report of the year 2017 and overview of the economic results and outlook
2. Decision on distribution of profits
3. Appointment of auditor for financial years of 2018-2020







# **1. Approval of the annual report of the year 2017 and overview of the economic results and outlook**

# Group's Markets and Business Areas 2017

Regional general contracting and real estate developing company

## Norway

- Renovation works and building construction

peritus

## Estonia

- Buildings, facilities, electrical and road construction, concrete works
- Real estate development
- Among Top 3 in its business areas

merko

## Latvia

- Buildings, facilities, electrical construction
- Real estate development
- Among Top 3 in general contracting of buildings

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## Lithuania

- Building construction
- Real estate development
- Among Top 5 in general contracting of buildings

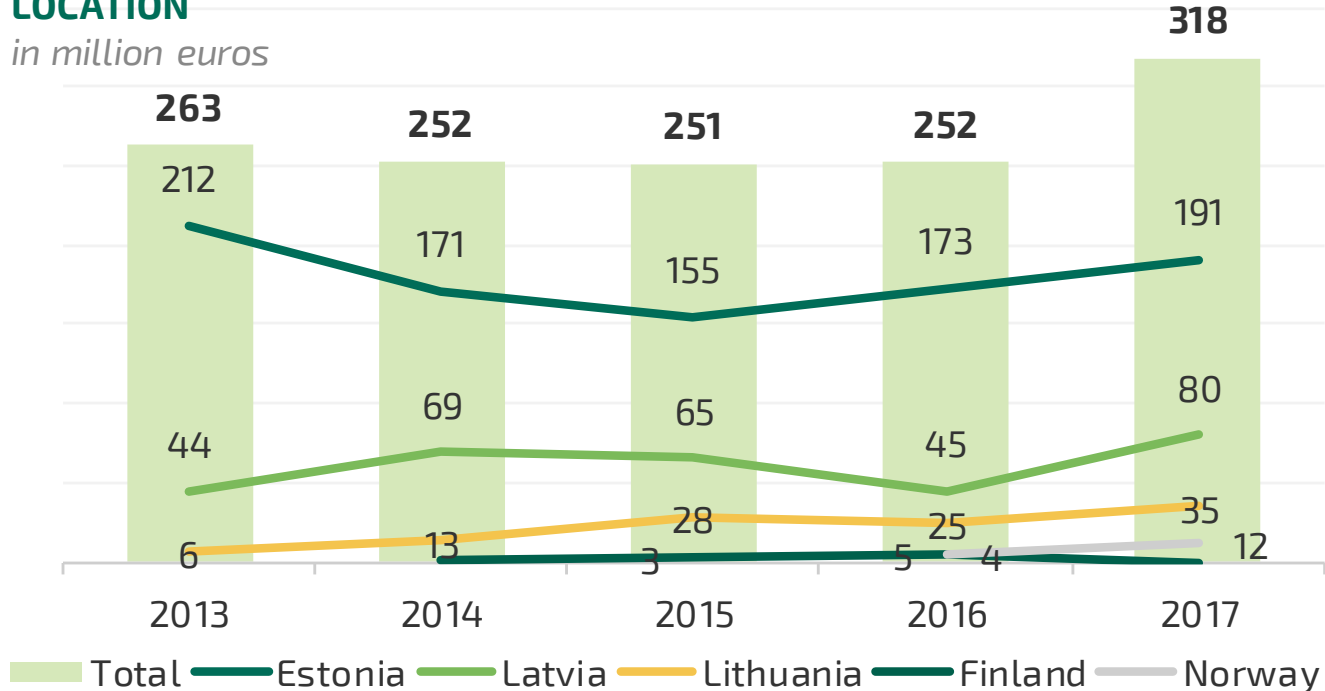
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# 2017 revenue increased in all home markets

From revenue, 60% from Estonia and 40% from other markets

## DISTRIBUTION OF GROUP REVENUE BY GEOGRAPHICAL LOCATION

in million euros



- Revenue growth in line with strategy adopted 2 years ago



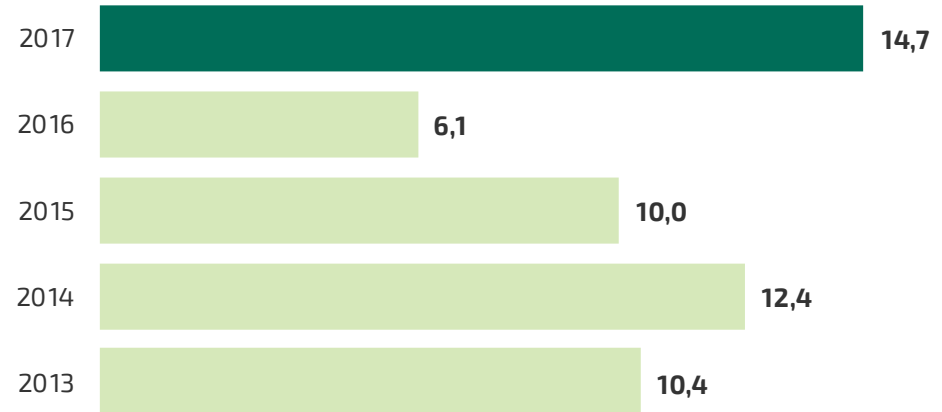
# 2017 profitability improved...

## ...but risk/benefit ratio unbalanced in building for clients

- ❑ All markets in profit, largest share from Estonia
- ❑ Compared to 2016, group's profit increased in all markets
- ❑ One-off sales supported increase in profit significantly. Profitability of core business lower
- ❑ Real estate development gave the largest part of profit
- ❑ Overall profitability of building for clients in unsatisfactory. Increase in construction prices faster than increase in contract prices. Main contractors are between a rock and a hard place
- ❑ Financial capability remained strong
- ❑ 2017 return on equity 12%

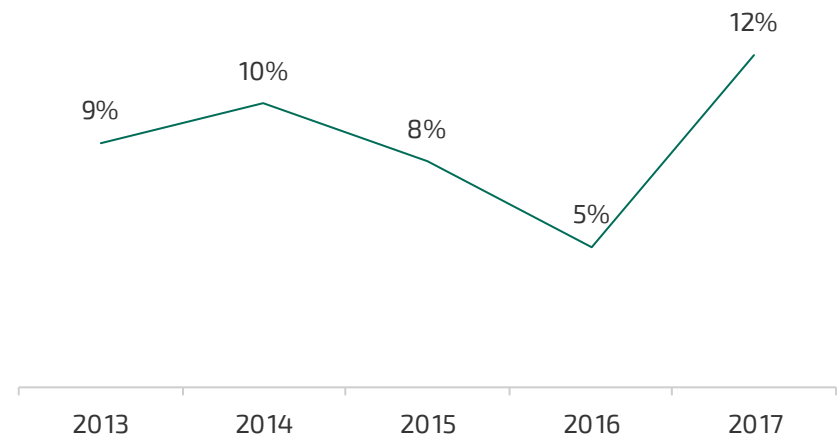
### NET PROFIT

in million euros



### RETURN ON EQUITY

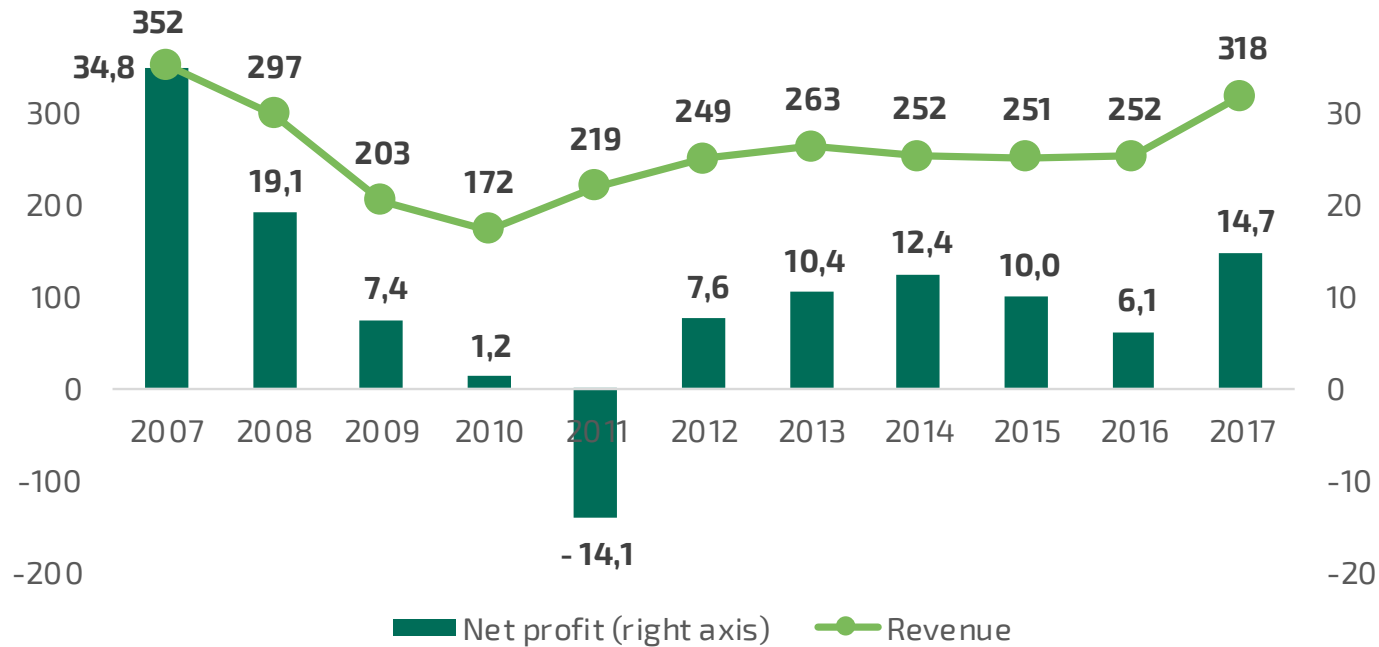
in percentage



# 2017 revenue and profit in 10 years' context

## GROUP REVENUE AND NET PROFIT

in million euros



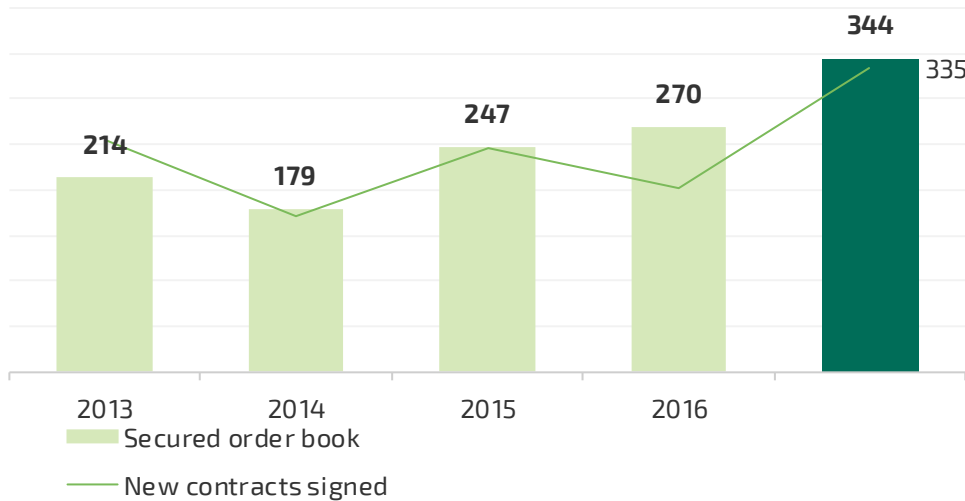
- Construction and real estate market has considerably changed in 10 years

# EUR 335m of new construction contracts

## Secured order book EUR 344m

### SECURED ORDER BOOK

in million euros



- Rapid growth of new contracts in Latvia
- Public sector share in secured order book 14%
- Volume of road and civil engineering contracts in Estonia were below expectations

### 2017 LARGEST CONTRACTS

in million euros

<b>Multifunctional centre Akropole in Riga</b> <i>Construction contract</i>	<b>100</b>
<b>Multifunctional Z-Towers complex completion works in Riga</b> <i>Construction contract</i>	<b>36</b>
<b>Extension works of Alfa Shopping Centre in Riga</b> <i>Construction contract</i>	<b>34</b>
<b>Öpiku maja second office building in Tallinn</b> <i>Design and construction contract</i>	<b>16</b>
<b>Staapli 3 apartment building in Tallinn</b> <i>Design and construction contract</i>	<b>15</b>
<b>Residential complex in Šaltiniu Namai quarter in Vilnius</b> <i>Design and construction contract</i>	<b>11</b>



# Examples of projects completed in 2017



**Telecom office building (Tallinn)**



**Narbuto 5 office building (Vilnius)**



**Barracks of Tapa military base (Estonia)**



**Juuliku road junction at Tallinn roundabout**



# In 2018, there are many large projects ongoing



*Akropole multifunctional centre in Riga (100m, 2019)*



*“Öpiku maja” second office building (16m, 2018)*



*T1 shopping centre (70m, 2018)*



*Extension of Alfa shopping centre (34m, 2019)*



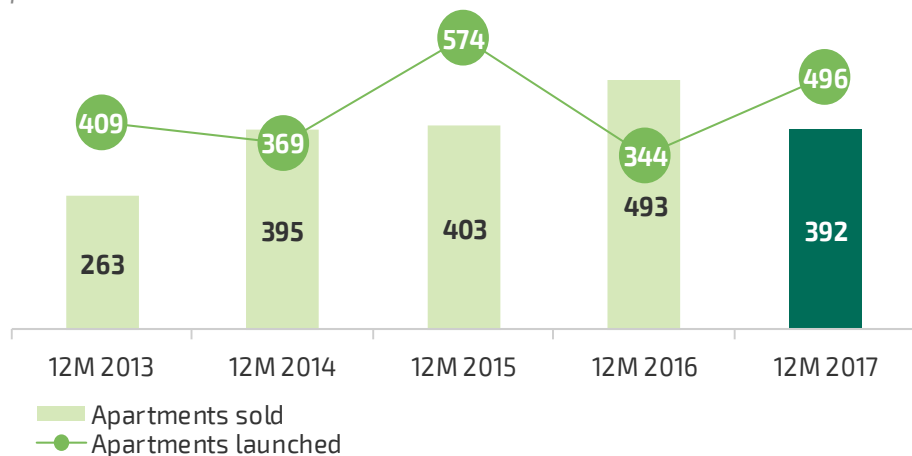
*Z-Towers multifunctional centre (44m, 2018)*

# Apartment development – group's central business line

In 2017, nearly 500 new apartments launched

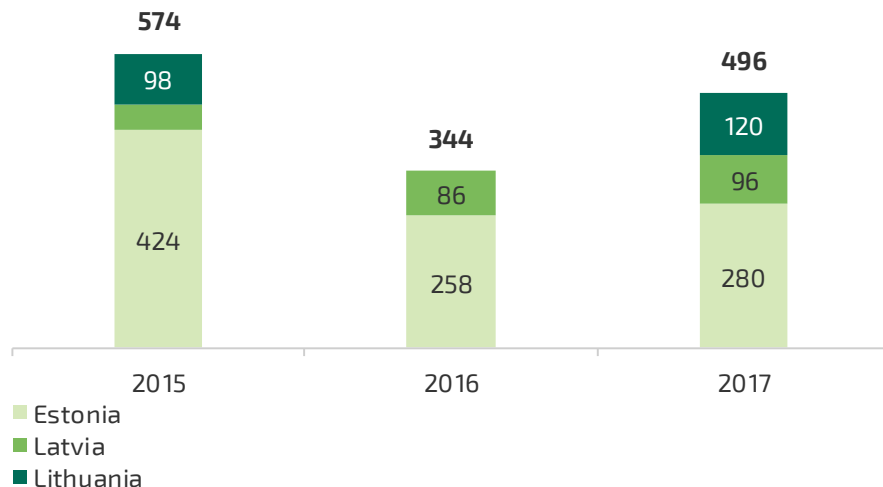
## NUMBER OF APARTMENTS SOLD AND LAUNCHED

pcs



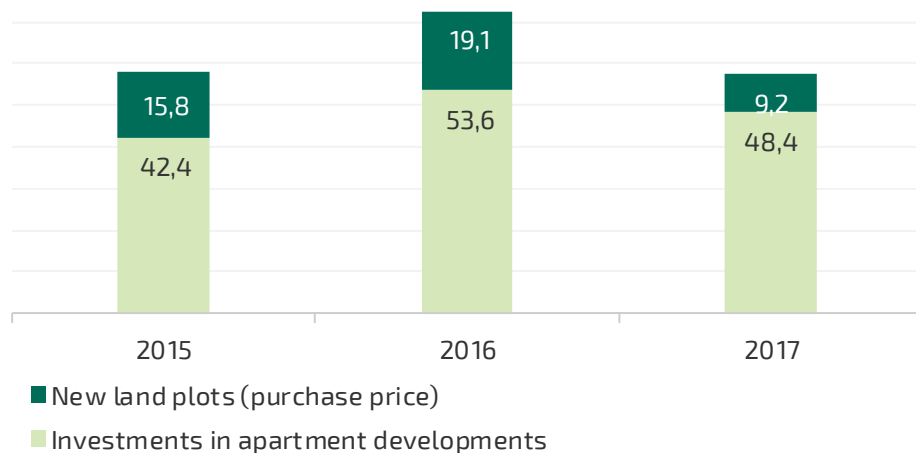
## APARTMENTS LAUNCHED BY GEOGRAPHICAL LOCATION

pcs



## INVESTMENTS IN APARTMENT DEVELOPMENT PROJECTS AND LAND PLOT ACQUISITIONS

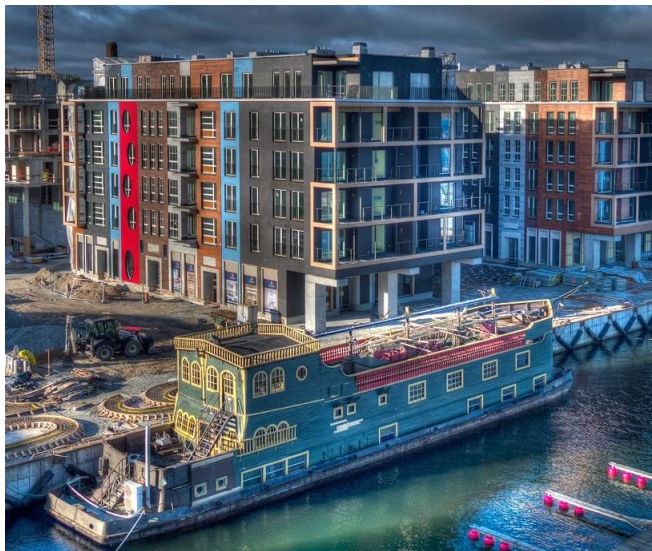
in million euros



- ☐ Ca 400 new apartments sold
- ☐ Construction of nearly 500 new apartments was launched and EUR 48m was invested in development projects
- ☐ Processing of building permits and plans slower than expected
- ☐ EUR 9m invested in new land plots in Estonian and Latvia. Volumes of building rights increased
- ☐ As at 31.12.2017, approx. EUR 64m worth of land plots on balance sheet



# Residential development projects in construction



***Noblessner Home Port***  
**Tallinn: 220 apartments (2018)**



***Basteja Life***  
**Vilnius: 77 apartments (2019)**



***Rinktinės Urban stage 1***  
**Vilnius: 1120 apartments (2018)**



***Suur-Patarei 20, Tallinn: 31 apartments (2019)***



***Tähepargi stage 1, Tartu: 26 apartments (2019)***

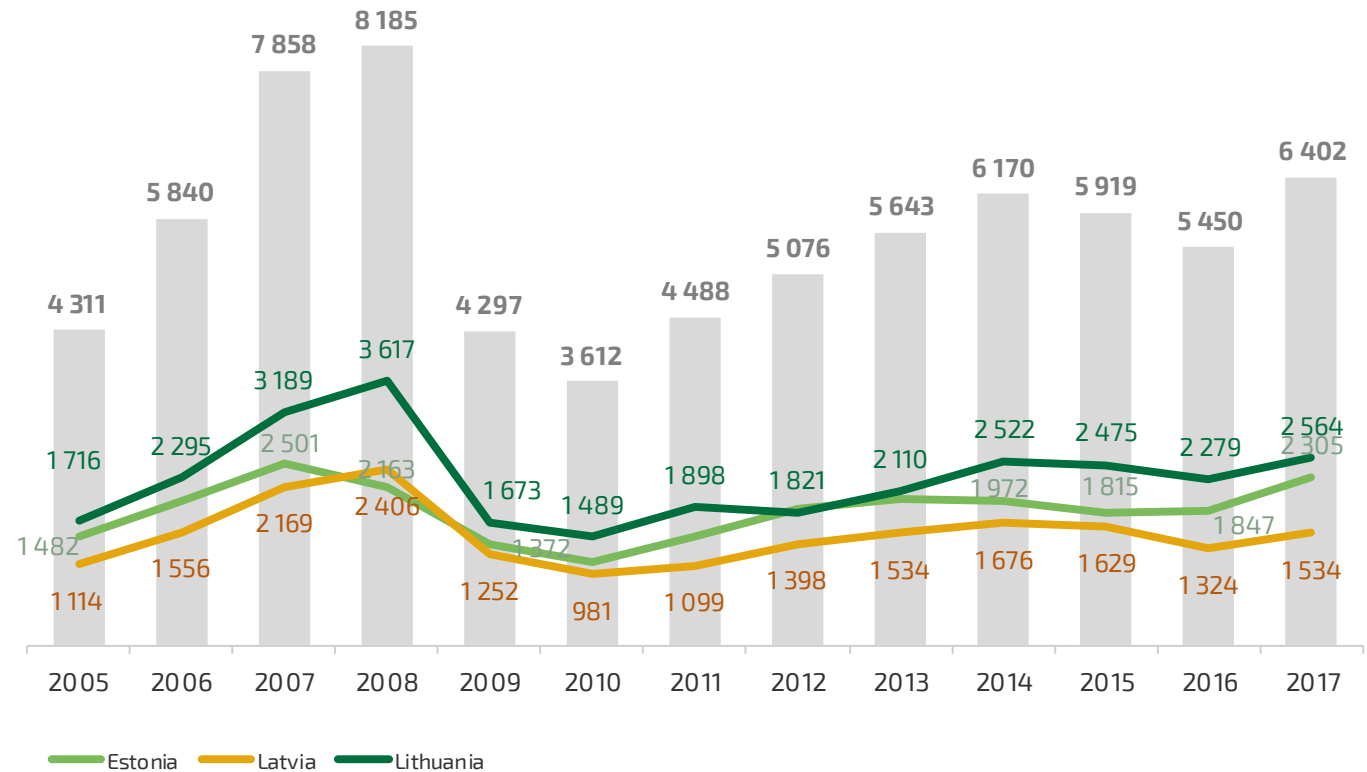
# How do we see the construction market?

Construction market to remain rather active.

Last year's trends to continue. Reallocation of risks in construction value chain.

- ☐ Economic growth forecast *ca* 3-4%
- ☐ Stabilisation of residential construction
- ☐ Stabilisation of commercial real estate
- ☐ Tenders for road and other facilities
- ☐ Increase in construction prices
- ☐ Limitations to sub-contracting capabilities
- ☐ Nearly zero energy requirements 2019-2020

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

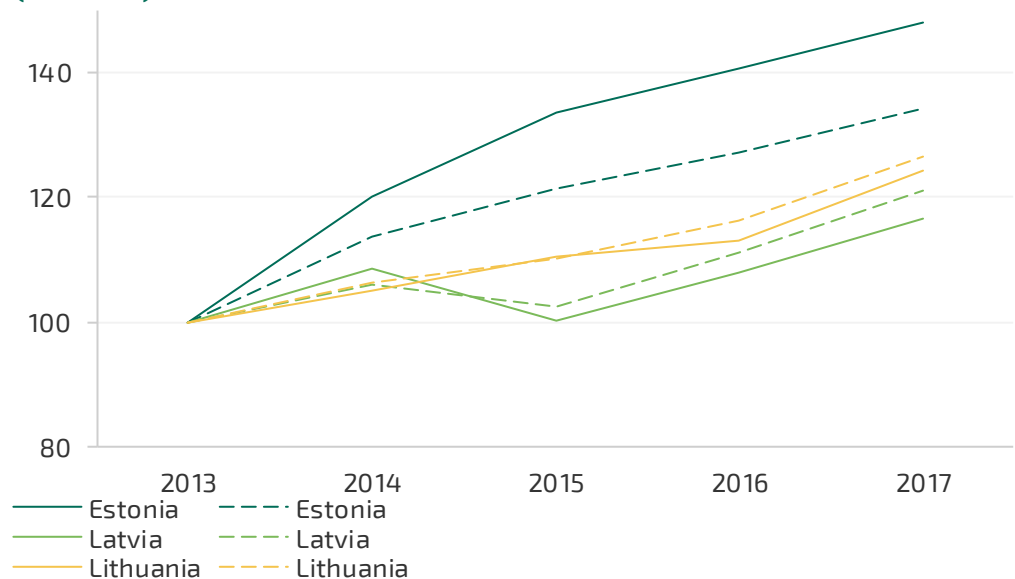


# How do we see the residential real estate market?

## Towards stabilisation

- ☐ Overall sentiment of real estate market is good
- ☐ Salaries and prices of apartments grown at similar pace
- ☐ In Tallinn and Vilnius, stabilisation of demand, the phase of rapid increase in prices is ending
- ☐ Transfer of increase in construction prices to sales prices? Limits to purchase power?
- ☐ Good quality and integral residential environment with affordable price
- ☐ Still large potential in Riga's real estate market, but growth is slow
- ☐ Nearly zero energy requirements 2020

NEW AND ALL (dotted line) DWELLINGS HOUSE PRICE INDEX (2013=100)





# Merko Ehitus 2018 Strategic Directions

Focus on construction activity profitability and apartment development

## **Construction for client:**

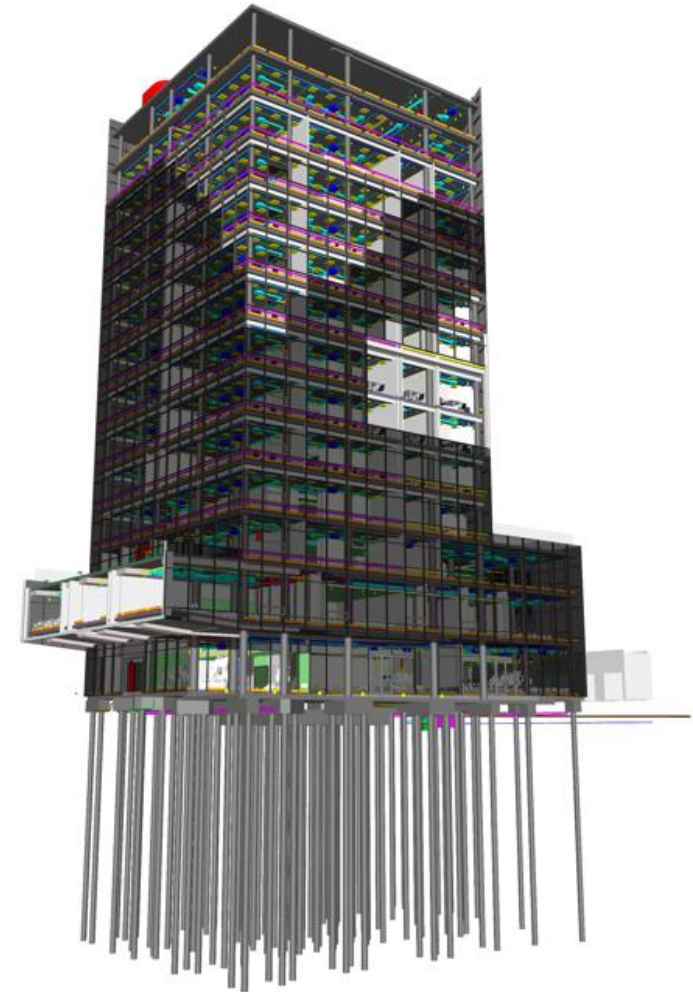
- ❑ Managing risks of large objects
- ❑ Preferred partner for private customers who value reliability and quality
- ❑ Clearer focus on construction tenders, efficiency of bidding resources
- ❑ Internal efficiency and cost savings, incl. with the help of technology. Expanding the usage area of building 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



**Thank you!**





## 2. Decision on distribution of profits



*Z-Towers (Riga)*



### **3. Appointment of auditor for financial years of 2018-2020**

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