

AS MERKO EHITUS

Overview of 2020 Economic Results and Future Outlook

4 May 2021



Group's Markets and Business Areas 2020

Regional general contracting and
real estate developing company

Norway

- Renovation works, building construction

peritus

Estonia

- Buildings, facilities, electrical and road construction, concrete works
- Real estate development



Latvia

- Buildings and facilities
- Real estate development



Lithuania

- Building construction
- Real estate development



Focus on occupational health and safety

Raising awareness of occupational safety

- ❑ Priority on ensuring long-term work ability and well-being of personnel
- ❑ Mapping of near miss events, i.e. dangerous situations that could have ended in an accident, to increase awareness and change behavioural habits
- ❑ We provide our employees with all necessary work and personal protective equipment
- ❑ We organize training and in-service training in occupational health and safety
- ❑ We conduct periodic health checks
- ❑ To mitigate health risks, we offer employees the opportunity to be vaccinated and take COVID-19 tests at employer's expense
- ❑ We promote healthy lifestyles, reimbursing employees' sports and health expenses, as well as participating in sporting events together
- ❑ In 2020, there were no fatal accidents on the construction sites of the group companies, 9 injuries of own employees were recorded

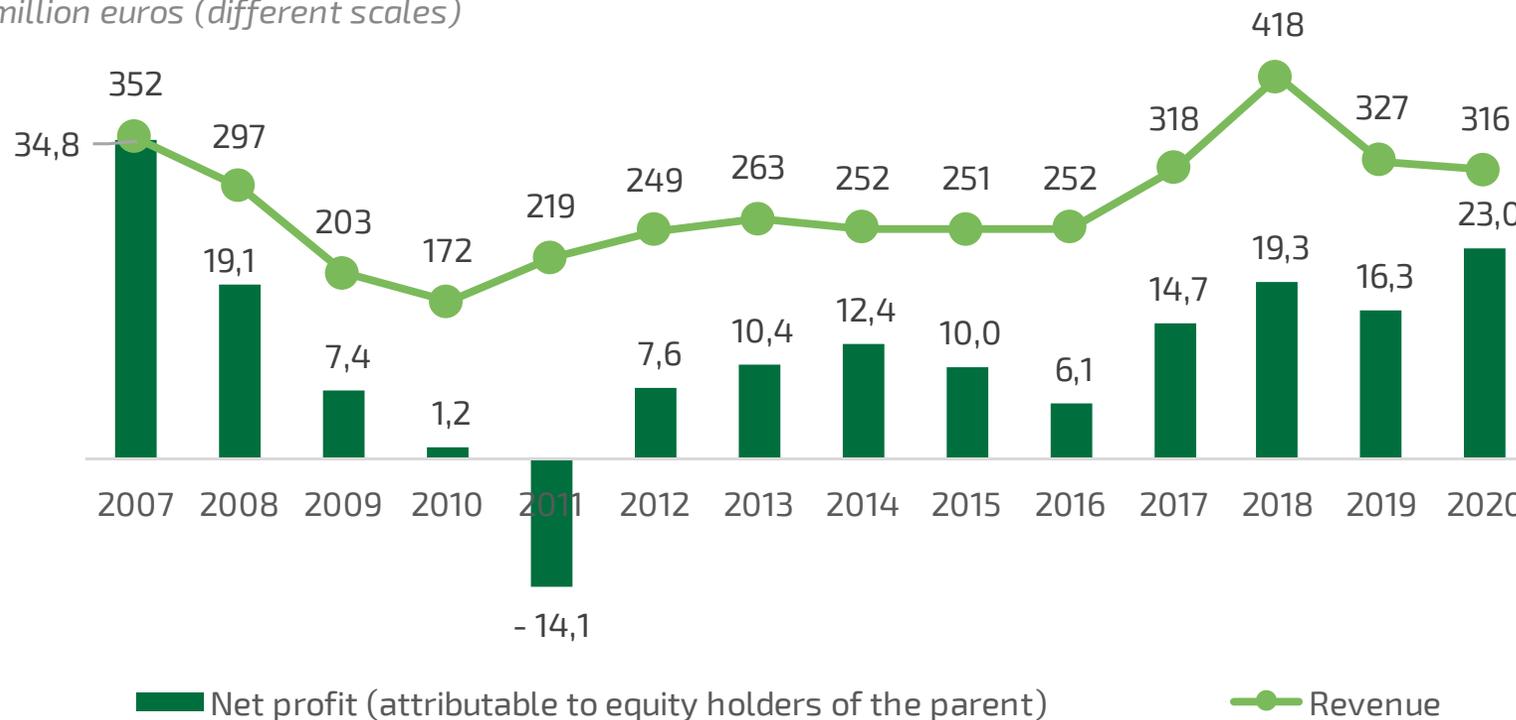


In the COVID-19 pandemic health crisis we developed a corona prevention action plan to protect the health of our employees

- ❑ Decentralization of work
- ❑ Introduction of parallel teams' system
- ❑ Implementation of maximum teleworking and remote communication
- ❑ Careful wearing of masks and disinfection

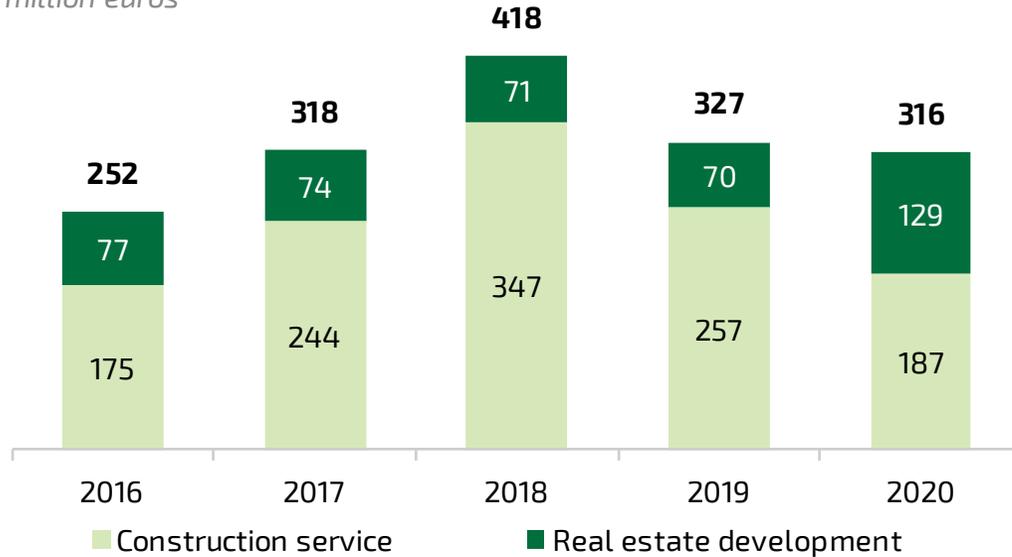
2020 revenue and profit in annual context

GROUP REVENUE AND NET PROFIT
in million euros (different scales)



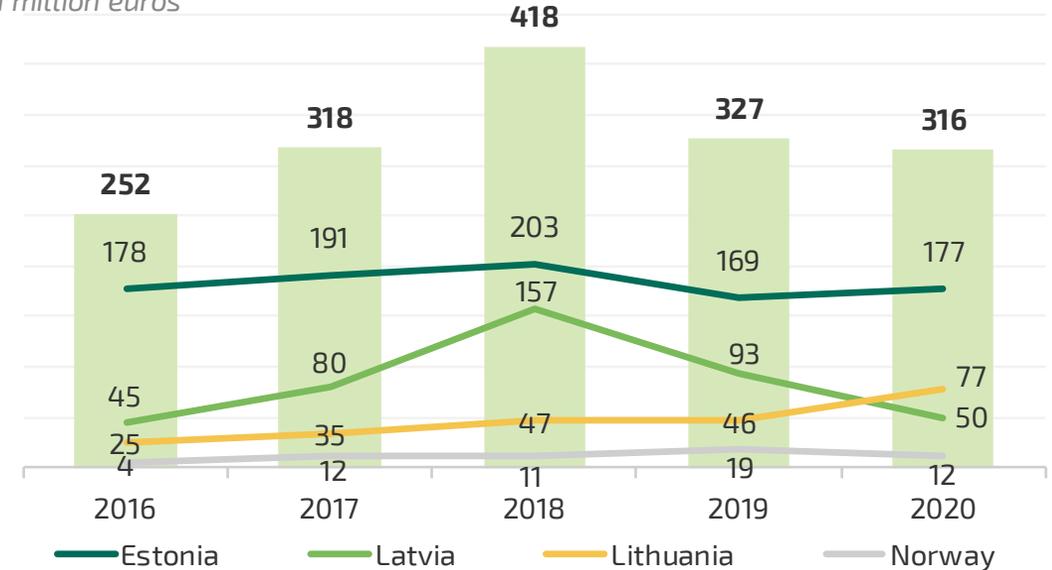
2020 stable sales revenue, but changed structure

DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
in million euros



- ❑ Decreased volume of construction service, substantially increased share of real estate development (21% → 41%)
- ❑ For the past years, group has increased focus on apartment development
- ❑ In commissioning new construction projects, group monitors that a suitable risk-return ratio is ensured
- ❑ Revenue: 56% from Estonia, 44% from other markets

DISTRIBUTION OF GROUP REVENUE BY GEOGRAPHIC LOCATION
in million euros

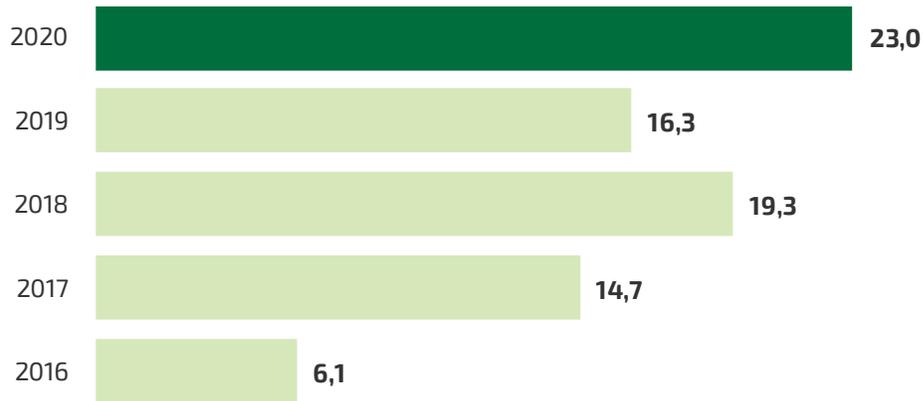


2020 strong profitability

5 year average return on equity above 12%

NET PROFIT

in million euros

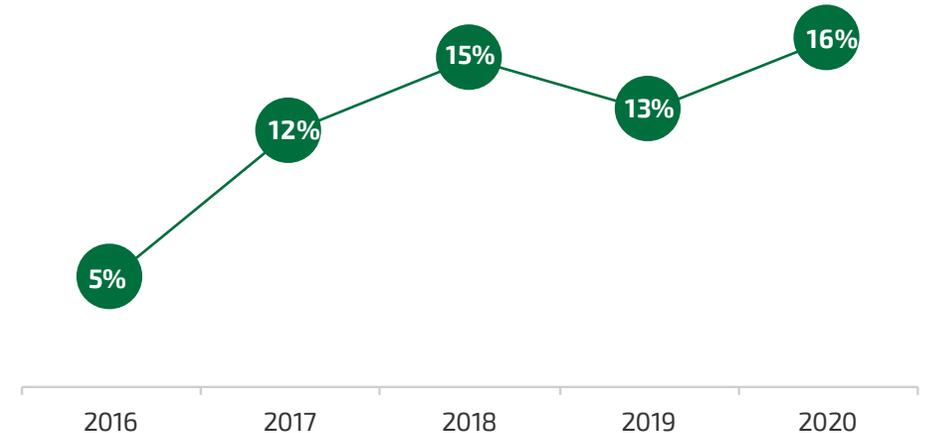


- 2020 profit before tax EUR 24.5m
2019 profit before tax EUR 20.3m
- No dividends were paid in 2020, but deferred income tax in the amount of EUR 1.4m was recognized, in 2019 the income tax expense on dividends was EUR 2.7m

- Approximately 84% of operating profit came from real estate development and 16% from construction services
- In real estate development – a total of 895 new homes were sold to the three Baltic countries
- Group's financial capability remained strong, equity ratio at 60%
- Return on equity at 16%

RETURN ON EQUITY

in percentage



EUR 277m of new construction contracts Secured order book EUR 225m

SECURED ORDER BOOK

in million euros



- After a low point in 2019, secured order book balance recovered to 2018 level
- Group continues to be selective in signing contracts in order to avoid excessive risks
- New contracts both in private and public sector, with the latter having larger impact. In the end of the year public sector contracts 66% of secured order book (2019: 64%)

2020 LARGEST SIGNED CONTRACTS

in million euros

Tallinn School of Music and Ballet in Estonia	35
The third stage of Mustamäe medical campus in Estonia	34
Orkla wafer and biscuits production plant in Latvia	32
Infrastructure of the Republic of Estonia's southeast land border	15
Water supply and sewerage piping in Kohila Parish in Estonia	14
Wind farm balance of plant in Telšiai in Lithuania	13

In addition, a number of smaller contracts, for example:

- first stage of data campus in Estonia (EUR 9.0m);
- renovation of Tallink City Hotel in Estonia (EUR 8.6m)
- renovation of Nordic Hotel Forum in Estonia (EUR 8.0m), etc.

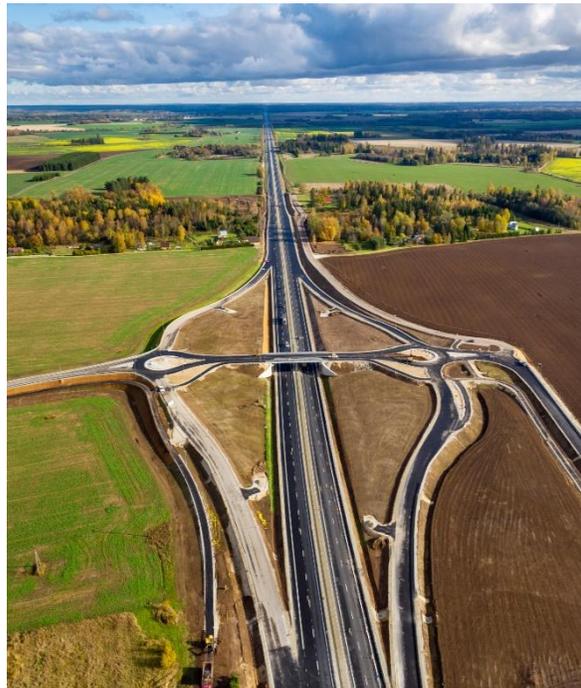
Selection of projects completed in 2020



Kärdla Central Square in Estonia



Türi Basic School buildings in Estonia



Aaspere-Haljala road section in Estonia



Neringa hotel building in Vilnius



Väike-Järve commercial building in Tallinn

Selection of ongoing objects in 2021



Tallinn School of Music and Ballet in Estonia (2022)



Kaunas district Police headquarters building in Lithuania (2022)



Orkla wafer and biscuits production plant in Ādaži, Latvia (2022)

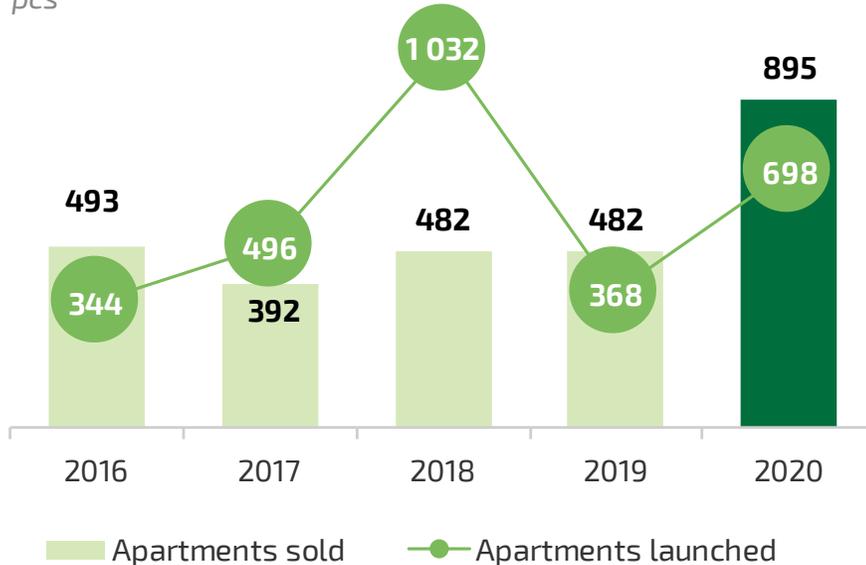


The third stage of Mustamäe medical campus in Estonia (2023)

In 2020 ca 900 new apartments sold, sales revenue over 100m EUR

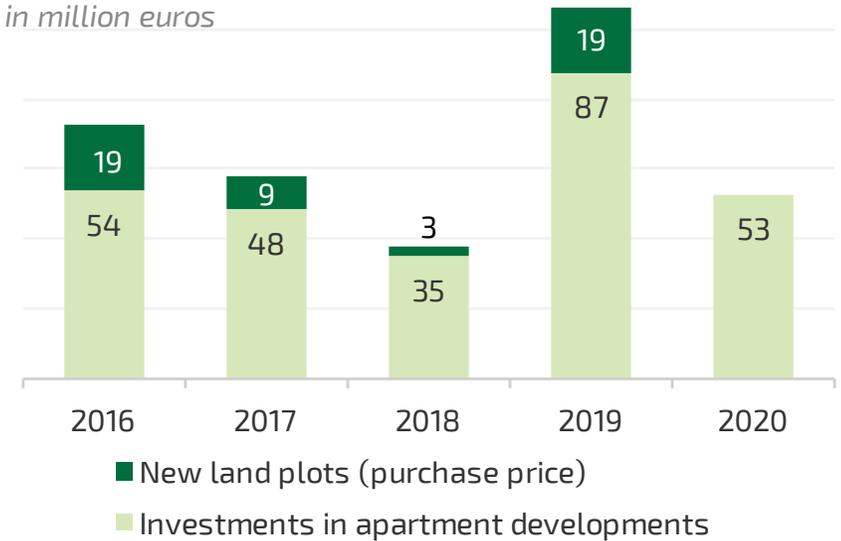
NUMBER OF APARTMENTS SOLD AND LAUNCHED

pcs



**INVESTMENTS IN APARTMENT
DEVELOPMENT PROJECTS AND LAND PLOT
ACQUISITIONS**

in million euros



- ❑ Final agreements signed for sale of 895 new apartments. All-time annual record
- ❑ Construction of 698 new apartments started in the Baltics, 53 million euros invested. Majority of investments into started developments will be made during 2021
- ❑ As at 31 December 2020, 61 million euros worth of land plots on balance sheet. Potential building rights for more than 8,000 apartment units (total in Estonia, Latvia, Lithuania)

Selection of ongoing residential development projects



*Erminurme 1st stage,
Tartu: 18 apts. (2021)*



*Vilnelės Skverai residential quarter 1st stage,
Vilnius: 243 apts. (2022)*



*Lahekalda residential area 2nd stage,
Tallinn: 96 apts. (2021)*



Uus-Veerenni 3rd stage, Tallinn: 59 apts. (2021)



Merks Viesturdārzs 2nd stage, Riga: 167 apts (2022)

Construction market developments

Delayed effects of the pandemic

❑ **In the Baltics**, minimal decrease of construction market volumes: -0.8%

❑ **Estonia** -3.2%

❑ **Latvia** +0.8%

❑ **Lithuania** -0.4%

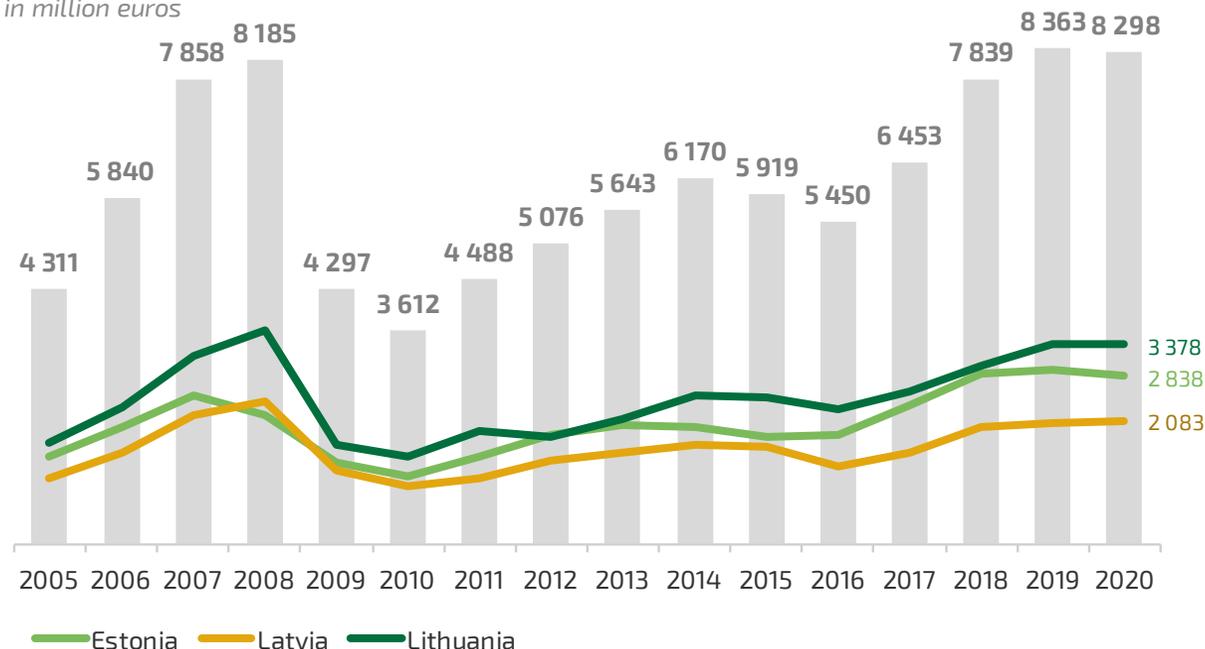
❑ **Large construction projects** were not stopped, existing contracts were not terminated, supply chains remained mostly intact, impact of virus on construction sites limited

❑ **Decline in construction activity** started before the pandemic. Due to pandemic, recovery of private sector demand prolonged. Public sector demand essential.

❑ **Construction prices** in 2020 mostly unchanged. Major decrease in prices as feared or hoped in spring did not materialise

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

in million euros



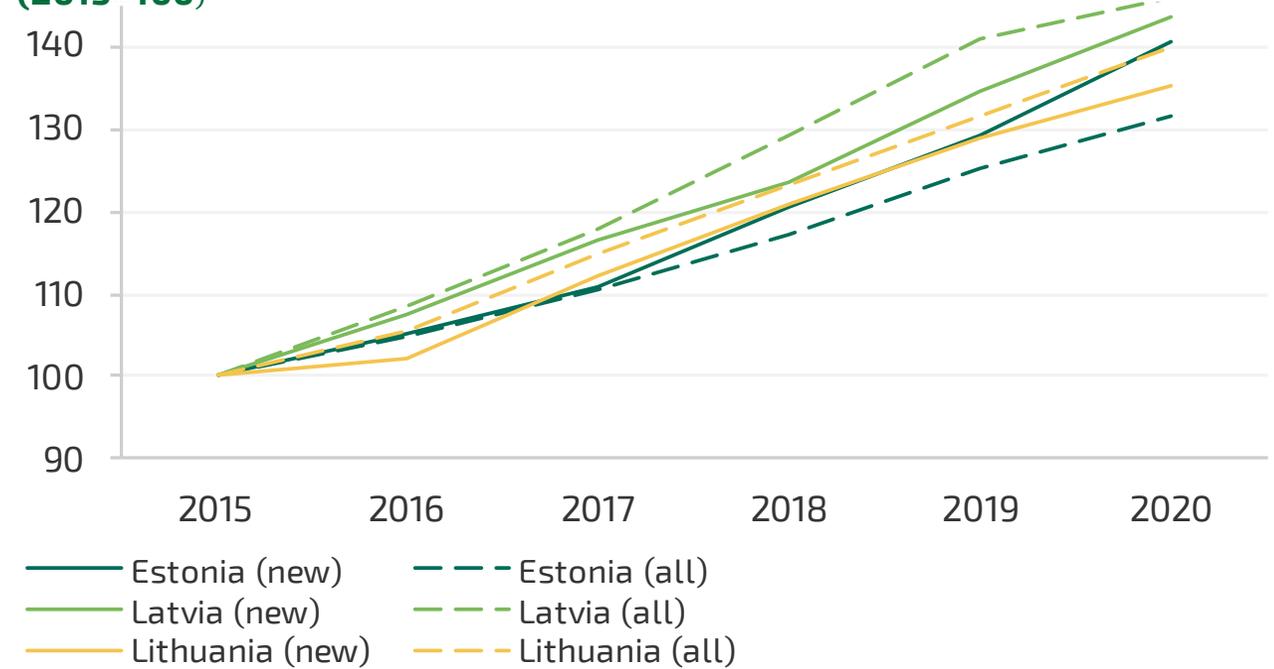
❑ **Restart of global economy** in 2021 together with massive money-printing has a direct impact on increase of commodity prices. This is starting to show also in construction input prices. Main contractors need to consider that when signing contracts or be prepared to start absorbing losses

Residential real estate market

Rapid return of demand

- ❑ In spring, in the first months of the pandemic, the sales of apartments decreased to a minimum. This was not, however, followed by decrease in prices – there was no air in the prices to vent, developers were on strong financial standing, governments reacted with support measures, and banks continued their business constructively
- ❑ In the second half of the year transaction volumes recovered, at times climbing to new record levels. As developers had put new developments on hold in spring, demand exceeded supply, which has started to lift prices
- ❑ Still, the prices of new apartments in Estonia and Latvia during 2016-2020 have increased only 3% more than the average income, while in Lithuania new apartments, compared to averages wages, have actually become 13% more affordable
- ❑ The question is how long this increased demand will hold and when the supply will catch up

NEW AND ALL (dotted line) DWELLINGS HOUSE PRICE INDEX (2015=100)



Merko Ehitus strategic directions

Input prices, demand returning, apartments' market volume

- Long-term directions have remained the same – profitable growth in apartment development and construction services with focus on current home markets
- Increase in input prices is becoming a new challenge. Buffers need to be sufficient when signing contracts, main contractors cannot carry the price increase risk alone
- Market is showing signs of recovering demand both in construction and apartments, but developments are choppy. In order to react quickly to changing conditions, flexibility must be retained.

Construction for clients:

- ❑ Finalization of large objects and managing risks
- ❑ Preferred partner for clients who value reliability and quality
- ❑ Selective participation in construction tenders. Efficiency of bidding resources
- ❑ Internal efficiency and cost savings, incl. with the help of technology. Continue with expanding the usage area of building information modeling (BIM)
- ❑ Flexibility also to construct smaller objects

Development of residential real estate:

- ❑ Interest in our apartment developments is high. To meet the demand we are finishing ongoing development projects with good pace, while at the same time starting also new projects
- ❑ Our ambition to sell the best apartments of their price range while covering different segments has not changed
- ❑ Focus on the capitals of the Baltic states
- ❑ Integral development concept for large development areas
- ❑ Ensuring investment capability

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