Company	AS MERKO EHITUS
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Attachments:
- MerkoEhitu-10002562281-en.pdf (http://oam.fi.ee/en/download?id=4014)
- MerkoEhitu-10002562282-en.pdf (http://oam.fi.ee/en/download?id=4015)
- MerkoEhitu-10002562284-et.pdf (http://oam.fi.ee/en/download?id=4016)
- MerkoEhitu-10002562285-et.pdf (http://oam.fi.ee/en/download?id=4017)

Currency

Title 2019 6 months and II quarter consolidated unaudited interim report

COMMENTARY FROM MANAGEMENT

The decrease in revenue that continued in Q2 2019 for Merko Ehitus was an expected development due to the completion of major projects that had been under construction at the group's subsidiaries, the general market situation and the decline in the secured order book. Revenue for the second quarter was EUR 77 million and for the first half-year, EUR 154 million, representing a decrease of 16% compared to the year before. Sales revenue for six months decreased year-over-year in Estonia and Latvia, but increased in Lithuania and Norway.

The group's profit before taxes in Q2 was EUR 4.5 million and for the first half-year EUR 7.5 million - an increase of 6.7% from the year before. Net profit in Q2 was impacted by income tax expenses on dividends paid in the amount of EUR 2.7 million. Profitability in Q2 was also influenced by the fact that due to timing of project completion, the subsidiaries of the group sold significantly fewer apartments compared to Q2 last year. At the same time, preliminary sales of apartments are going according to plan and the number of apartments to be handed over to buyers in the second half-year on the basis of preliminary sale contracts is growing. Net profit attributable to equity holders of the parent in Q2 was EUR 1.7 million and for the first half-year EUR 4.5 million.

With construction orders generally declining, very strong competition and pressure on prices persist on the main contractors' market. In this type of market situation, the group's subsidiaries are focusing first and foremost on projects where it is possible to create value added for the customer in terms of quality of project management, where pricing is fair and contractual risks are distributed in a reasonable manner. Considering the rapid growth of input prices that has taken place in recent years, especially in terms of the cost of workforce, it is extremely important for the normal development of the construction market that there is a good cooperation between the parties of the construction process, and that liability and risk are balanced appropriately.

The group's secured order book balance decreased by the end of June 2019 to EUR 172 million, decreasing 30% compared to the level in the same period last year (EUR 247 million). At the same time, EUR 86 million in new contracts were signed in the first half-year, this being 27% more than in the same period last year (EUR 68 million). The largest contracts signed were for the renovation of the Aaspere-Haljala road section as well as construction of Türi Basic School and Laima chocolate factory. In addition to the abovementioned, the largest projects in progress were construction works of water supply and sewerage piping in Metsanurme, Kasemetsa and Üksnurme area, the commercial building at Pärnu mnt 186, construction of undersea electric power cables of Suur Väin and Väike Väin straits, the student home for Rakvere Vocational School and the reconstruction and dredging of the Port of Hundipea; in Latvia, Lidl's logistics centre and Alfa shopping centre; in Lithuania, Neringa hotel, Quadrum office building, and a private school; and in Norway, the Tesla service centre and the renovation of the office building at Møllergata 23-25.

Strategically, Merko Ehitus is increasingly focused on the apartment development business area. Investments into apartment development have grown significantly and in the first half-year, the group invested close to EUR 40 million into projects in progress. In addition, in Q2 the group purchased a large development area in Vilnius for EUR 13 million. The planned total investment volume for this year in apartment developments is on the order of EUR 100 million. In Estonia, Latvia and Lithuania, the group currently has a total of more than 1,000 apartments in development. The biggest projects in Tallinn are the Uus-Veerenni and Pikaliiva residential projects, in Riga, the Gai?ezers and Viesturd?rzs development projects, and, in Vilnius, the Vilneles slenis and Rinktin?s Urban developments.

In Q2, the group sold 37 apartments compared to 117 in Q2 last year. The reason for the lower number is the fact that previous larger development projects have been completed and the apartments largely sold. At the end of the first half-year, there were about one hundred apartments in the three Baltic states in total that were ready to be sold and not covered by preliminary contracts. New projects are in the construction phase and Merko will start selling some of them as they are finished at the end of this year and most of them next year, in 2020.

The apartment markets in Tallinn and Vilnius continue to favour well-prepared projects with high-quality execution, which offer integral living environments. Riga's apartment market continues to be less active with the sales potential being higher for projects that are more precisely targeted to market expectations. For the real estate market as a whole, the question remains about the current and future developments in the Baltic banking sector. This pertains to both the sufficiency of competition between banks, regulations and the rigidity of their interpretations in selecting customers, as well as the general risk appetite of banks when it comes to financing both the developers and home buyers. In case of unfavourable developments, banking activities may start curtailing the general economic activity of the Baltic states, including the normal functioning of the real estate market.

OVERVIEW OF THE II QUARTER AND 6 MONTHS RESULTS

PROFITABILITY
2019 6 months profit before tax was EUR 7.5 million and Q2 2019 was EUR 4.5 million (6M 2018: EUR 7.1 million and Q2 2018: EUR 5.8 million), which brought the profit before tax margin to 4.9% (6M 2018: 3.8%).

Net profit attributable to equity holders of the parent in 6 months 2019 was EUR 4.5 million (6M 2018: EUR 6.7 million) and Q2 2019 net profit attributable to equity holders of the parent was EUR 1.7 million (Q2 2018: EUR 5.6 million). 6 months net profit margin was 2.9% (6M 2018: 3.6%). Net profitability was influenced by, among other things, a significantly increased income tax expense: in Q2, the group's income tax expense on paid dividends was EUR 2.7 million greater than the year before. There was no income tax expense on the dividends paid in 2018 - the dividends were distributed from dividends paid by foreign subsidiaries to the parent.

REVENUE
Q2 2019 revenue was EUR 77.4 million (Q2 2018: EUR 103.3 million) and 6 months revenue was EUR 154.2 million (6M 2018: EUR 183.7 million). 6 months revenue has decreased by 16.0% compared to same period last year. The share of revenue earned outside Estonia in 6 months 2019 was 57.0% (6M 2018: 52.6%).

SECURED ORDER BOOK
As at 30 June 2019, the group's secured order book was EUR 172.1 million (30 June 2018: EUR 247.0 million). In 6 months 2019, group companies signed new contracts in the amount of EUR 86.0 million (6M 2018: EUR 67.5 million). In Q2 2019, new contracts were signed in the amount of EUR 53.8 million (Q2 2018: EUR 45.3 million).

REAL ESTATE DEVELOPMENT
In 6 months 2019, the group sold a total of 100 apartments (incl. 33 apartments in a joint venture); in 6 months 2018, the group sold 168 apartments (incl. 34 apartments in a joint venture). The group earned a revenue of EUR 9.2 million from sale of own developed apartments in 6 months 2019 and EUR 16.3 million in 6 months 2018. In Q2 of 2019 a total of 37 apartments (incl. 4 apartment in a joint venture) were sold. compared to 117 apartments (incl. 9 apartment in a joint venture) in Q2 2018, and earned a revenue of EUR 4.7 million from sale of own developed apartments (Q2 2018: EUR 12.0 million).

CASH POSITION
At the end of the reporting period, the group had EUR 14.0 million in cash and cash equivalents, and equity of EUR 118.5 million (41.2% of total assets). Comparable figures as at 30 June 2018 were EUR 27.2 million and EUR 119.1

million (42.8% of total assets), respectively. As at 30 June 2019, the group had net debt of EUR 48.7 million (30 June 2018: EUR 26.9 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
unaudited
in thousand euros

	2019 6 months	2018 6 months	2019 II quarter	2018 II quarter	2018 12 months
Revenue	154,202	183,650	77,357	103,340	418,011
Cost of goods sold	(139,532)	(170,621)	(68,893)	(94,394)	(384,962)
Gross profit	14,670	13,029	8,464	8,946	33,049
Marketing expenses	(1,784)	(1,729)	(933)	(923)	(3,285)
General and administrative expenses	(6,241)	(5,664)	(3,117)	(2,845)	(12,304)
Other operating income	1,230	1,695	529	843	3,527
Other operating expenses	(253)	(105)	(218)	(73)	(1,115)
Operating profit	7,622	7,226	4,725	5,948	19,872
Finance income/costs	(97)	(171)	(180)	(145)	(97)
incl. finance income/costs from sale of subsidiary and liquidation	-	(59)	-	(59)	(62)
finance income/costs from joint venture	203	226	(19)	90	653
interest expense	(286)	(309)	(151)	(156)	(652)
foreign exchange gain (loss)	(4)	(1)	(4)	-	5
other financial income (expenses)	(10)	(28)	(6)	(20)	(41)
Profit before tax	7,525	7,055	4,545	5,803	19,775
Corporate income tax expense	(2,888)	(201)	(2,813)	(111)	(375)

Net profit for financial year	4,637	6,854	1,732	5,692	19,400
incl. net profit attributable to equity holders of the parent	4,453	6,669	1,675	5,565	19,343
net profit attributable to non-controlling interest	184	185	57	127	57
Other comprehensive income, which can subsequently be classified in the income statement					
Currency translation differences of foreign entities	29	28	(3)	15	(6)
Comprehensive income for the period	4,666	6,882	1,729	5,707	19,394
incl. net profit attributable to equity holders of the parent	4,480	6,696	1,672	5,579	19,324
net profit attributable to non-controlling interest	186	186	57	128	70
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	0.25	0.38	0.09	0.31	1.09

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
unaudited
in thousand euros

	30.06.2019	30.06.2018	31.12.2018
ASSETS			
Current assets			

Cash and cash equivalents	13,980	27,230	39,978
Trade and other receivables	72,561	91,541	76,183
Prepaid corporate income tax	94	163	224
Inventories	162,829	120,467	117,992
	249,464	239,401	234,377
Non-current assets			
Investments in joint venture	935	306	732
Other long-term loans and receivables	11,418	14,861	10,391
Deferred income tax assets	-	5	-
Investment property	14,115	13,748	13,771
Property, plant and equipment	11,255	9,454	9,715
Intangible assets	727	574	671
	38,450	38,948	35,280

TOTAL ASSETS	287,914	278,349	269,657

LIABILITIES			
Current liabilities			
Borrowings	31,786	16,202	19,900
Payables and prepayments	88,748	92,638	77,016
Income tax liability	2,854	375	381
Short-term provisions	6,276	4,487	8,100
	129,664	113,702	105,397
Non-current liabilities			

Long-term borrowings	30,921	37,894	24,266
Deferred income tax liability	1,556	1,335	1,481
Other long-term payables	2,473	1,500	2,179
	34,950	40,729	27,926
TOTAL LIABILITIES	164,614	154,431	133,323
EQUITY			
Non-controlling interests	4,763	4,789	4,577
Equity attributable to equity holders of the parent			
Share capital	7,929	7,929	7,929
Statutory reserve capital	793	793	793
Currency translation differences	(694)	(675)	(721)
Retained earnings	110,509	111,082	123,756
	118,537	119,129	131,757
TOTAL EQUITY	123,300	123,918	136,334
TOTAL LIABILITIES AND EQUITY	287,914	278,349	269,657

Interim report and the investor presentation are attached to the announcement and are also published on NASDAQ Tallinn and Merko's web page (group.merko.ee (http://group.merko.ee/en/)).

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AS Merko Ehitus (group.merko.ee (http://group.merko.ee/en/)) group consists of

Estonia's leading construction company AS Merko Ehitus Eesti, the Latvian-market-oriented SIA Merks, UAB Merko Statyba operating on the Lithuanian market, and the Norwegian construction company Peritus Entreprenør AS. Besides provision of construction service as a main contractor, the group's other major area of activity is apartment development. As at the end of 2018, the group employed 764 people, and the group's revenue for 2018 was EUR 418 million.