

Company AS MERKO EHITUS
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Attachments:

- MerkoEhitu-10001770631-en.pdf (<http://oam.fi.ee/en/download?id=3773>)
- MerkoEhitu-10001770633-et.pdf (<http://oam.fi.ee/en/download?id=3774>)

Currency

Title Audited annual report 2018

AS Merko Ehitus consolidated audited financial results for 2018 remain unchanged compared to the preliminary disclosure on 14 February 2019.

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

The Baltic states' construction sector continued on the rising path in 2018 and was one of the main engines driving economic growth. We were among the beneficiaries of the growth in the construction market - the group's revenue increased over 30 per cent and crossed the EUR 400 million mark for the first time. The foundation for the extraordinarily high construction volumes and rapid growth was laid in the form of large-scale construction contracts concluded several years ago. We have never had so many large projects - shopping centres, offices, hotels and public buildings - under construction at the same time in all three Baltic states than we did last year.

We are glad that besides the rapid growth in revenue, we also preserved profitability - the group's net profit also grew more than 30 per cent and net return on equity was in excess of 15 per cent, which is the best result in the last decade. The solid results can be attributed to the contributions and professionalism of our employees. We are also grateful to customers and partners who have put their trust in us.

Construction is a project-based business where we depend directly on the volume of orders on the market. Looking at the future, we must acknowledge that the rapid growth period is over on the construction market and a period of stabilization and maybe even decline is about to start. In recent years, commercial buildings have been built in the Baltics in great numbers and it will take time for the market to absorb the accrued volumes of commercial space. Construction has also become much more expensive, among other things because of rapidly growing wages and salaries. This has made real estate developers



cautious when it comes to launching new projects. We perceived a clear decline in the volume of construction orders already in the first half of 2018 and the group's secured order book decreased by close to one-third during the year. We are prepared to adapt to the construction market and our primary focus is on operating profitably. The state remains an important player on the public building and infrastructure field and we shall see what will happen on the construction market in two or three years' time, if construction of Rail Baltica should go ahead.

Alongside general contracting of construction, we have shifted our focus even more to apartment development. Merko's brand as a home developer and builder continues to be strong in all of the Baltic states. Last year was noteworthy also in the sense that we launched construction of more than 1,000 new apartments in the Baltics combined. That is almost twice as many as in past years.

We are confident in our capability to create a quality, modern living environment for smaller and larger families, for younger people and those with longer life experience, for higher income segments and more economically minded home buyers alike. Our apartment development business has a long perspective arc - we are ready to invest and offer the apartments that buyers demand in both market boom periods and more stable phases.

Merko puts a premium on quality and trustworthiness. We want to build a better future through our main activity and also by giving back to society in general. We intend to continue working with partners who share our goals and values.

BRIEF OVERVIEW OF 2018

PROFITABILITY

Net profit in 2018 was EUR 19.3 million (2017: EUR 14.7 million), having increased by 31.6% compared to last year. Net profit margin attributable to equity holders of the parent remained at 4.6% (2017: 4.6%). Profit before tax in 2018 was EUR 19.8 million (2017: EUR 18.8 million), which is equivalent to a profit before tax margin of 4.7% (2017: 5.9%).

REVENUE

Revenue in 2018 was EUR 418.0 million (2017: EUR 317.6 million), which has increased by 31.6% compared to last year. The share of revenue earned outside of Estonia was 51.5% (2017: 39.9%) and the share of revenue earned in Estonia was 48.5% (2017: 60.1%).

REAL ESTATE DEVELOPMENT

The number of apartments sold in 2018 (482 units, incl. 131 in joint venture) increased by 23.0% (2017: 392 units, incl. 17 in joint venture). This was due to an increase in the number of apartments sold in the joint project. At the same time, the revenue of own developed apartments has decreased (EUR 41.3 million) compared to last year (2017: EUR 47.1 million). The decrease in revenue was in addition caused by lower average apartment price compared to 2017.



SECURED ORDER BOOK

In 2018, group companies signed new contracts in the amount of EUR 246.4 million (2017: EUR 334.9 million). As at 31 December 2018, the group's secured order book stood at EUR 229.0 million (31 December 2017: EUR 344.4 million).

CASH POSITION

At the end of the reporting period, the group had EUR 40.0 million in cash and cash equivalents and equity EUR 131.8 million (48.9% of total assets). Comparable figures as at 31 December 2017 were EUR 39.2 million and EUR 130.2 million (47.0% of total assets) respectively. As at 31 December 2018, the group had net debt of EUR 4.2 million (31 December 2017: EUR 20.1 million).

PROPOSAL FOR DISTRIBUTION OF PROFITS

The Management Board proposes to distribute to shareholders EUR 17.7 million (EUR 1 per share) in dividends from retained earnings in 2019. This is equivalent to a 92% dividend rate for 2018.

		2018	2017	CHANGE
Revenue	million EUR	418.0	317.6	+31.6%
Operating profit	million EUR	19.9	19.5	+1.7%
Operating profit margin	%	4.8	6.2	
Net profit attributable to equity holders of the parent	million EUR	19.3	14.7	+31.6%
Net margin	%	4.6	4.6	

		31.12.2018	31.12.2017	CHANGE
Equity ratio	%	48.9	47.0	
Number of employees	people	764	757	+0.9%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousand euros

	2018	2017
Revenue	418,011	317,598
Cost of goods sold	(384,962)	(286,747)



Gross profit	33,049	30,851
Marketing expenses	(3,285)	(3,215)
General and administrative expenses	(12,304)	(11,289)
Other operating income	3,527	3,793
Other operating expenses	(1,115)	(601)
Operating profit	19,872	19,539
Finance income	8	4
Finance costs	(696)	(849)
Profit (loss) from sale and liquidation of subsidiary	(62)	14
Profit (loss) from joint ventures	653	64
Profit before tax	19,775	18,772
Corporate income tax expense	(375)	(3,020)
Net profit for financial year	19,400	15,752
incl. net profit attributable to equity holders of the parent	19,343	14,694
net profit attributable to non-controlling interest	57	1,058
Other comprehensive income (loss), which can subsequently be classified in the income statement		
Currency translation differences of foreign entities	(6)	(74)
Comprehensive income for the period	19,394	15,678
incl. attributable to equity holders of the parent	19,324	14,637
attributable to non-controlling interest	70	1,041
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	1.09	0.83

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
in thousand euros



ASSETS

Current assets

Cash and cash equivalents	39,978	39,210
Trade and other receivables	76,183	75,844
Prepaid corporate income tax	224	492
Inventories	117,992	118,421
	234,377	233,967

Non-current assets

Investments in joint ventures	732	79
Other long-term loans and receivables	10,391	17,163
Deferred income tax assets	-	5
Investment property	13,771	15,719
Property, plant and equipment	9,715	9,665
Intangible assets	671	497
	35,280	43,128

TOTAL ASSETS	269,657	277,095
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LIABILITIES

Current liabilities

Borrowings	19,900	24,218
Payables and prepayments	77,016	74,972
Income tax liability	381	413
Short-term provisions	8,100	4,569



	105,397	104,172
Non-current liabilities		
Long-term borrowings	24,266	35,138
Deferred income tax liability	1,481	1,259
Other long-term payables	2,179	1,789
	27,926	38,186
TOTAL LIABILITIES	133,323	142,358
EQUITY		
Non-controlling interests	4,577	4,567
Equity attributable to equity holders of the parent		
Share capital	7,929	7,929
Statutory reserve capital	793	793
Currency translation differences	(721)	(702)
Retained earnings	123,756	122,150
	131,757	130,170
TOTAL EQUITY	136,334	134,737
TOTAL LIABILITIES AND EQUITY	269,657	277,095

AS Merko Ehitus audited annual report for 2018 is attached to the announcement and is 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.

Attachment

* 2018 Merko Ehitus annual report (<https://ml-eu.globenewswire.com/Resource/Download/ee6ab244-c121-45ac-8940-6e5e4817ca50>)

