

# AS MERKO EHITUS

## 6 months and Q2 2017 interim report

10 August 2017



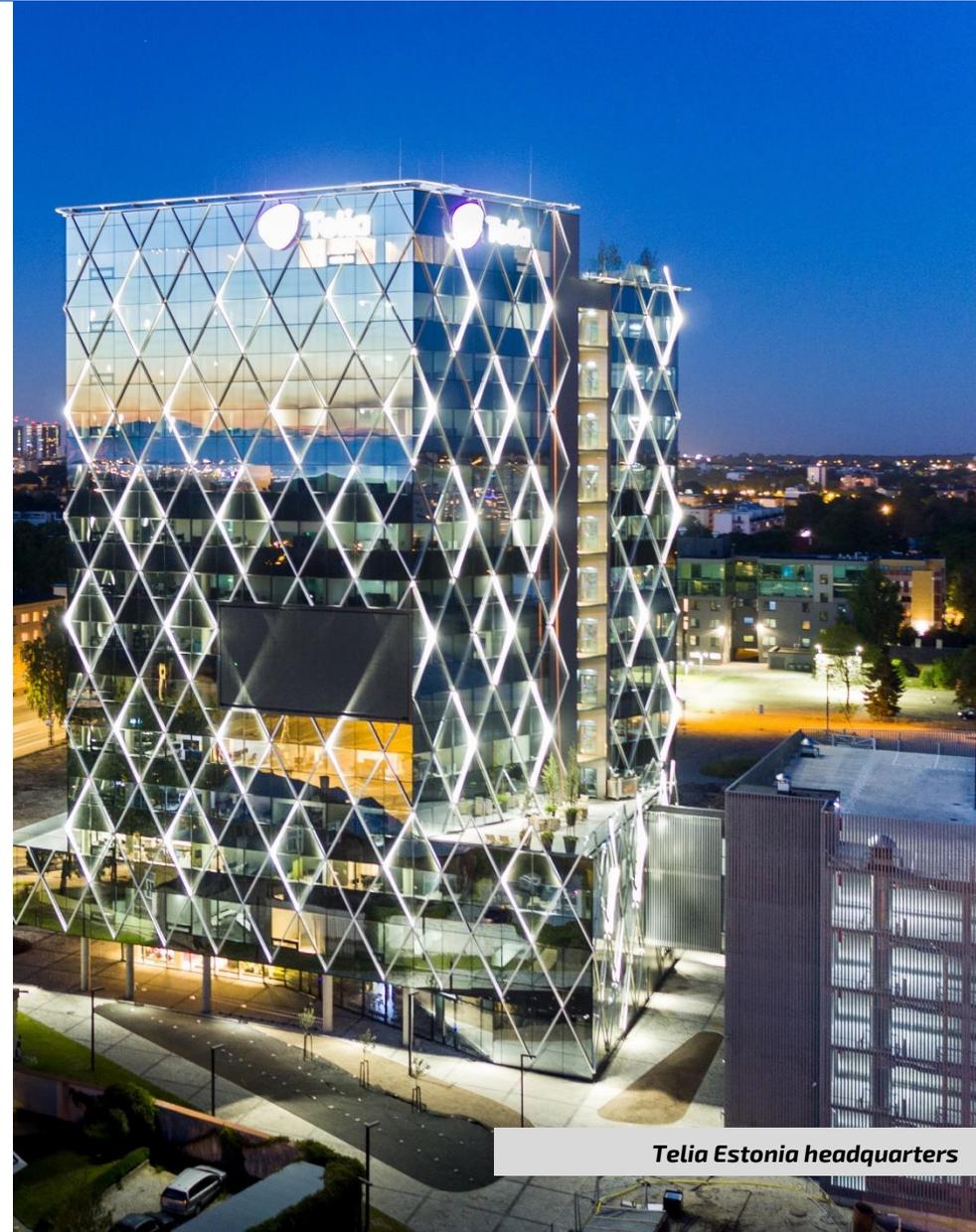
*Juuliku road junction and road section construction*



1. Key highlights
3. Financial position

2. Business review
4. Market outlook

- ❑ Revenue EUR 71m in Q2 and EUR 129m in 6M up approx. 22% compared to 6M 2016.
- ❑ Strong apartment sales in 6M 2017.
- ❑ Revenue increased on all group's home markets.
- ❑ Profitability from construction services remains under pressure. Shortage of workforce and stability of suppliers.
- ❑ Secured order book strong at EUR 388m (up 39% y-o-y). Increase in Latvia.
- ❑ 6M 2017 sold 239 apartments and started construction of 385 new apartments.
- ❑ The group continued to implement its long-term apartments development strategy by investing a total of EUR 22m, including EUR 4m in new land plots.



Telia Estonia headquarters

# Merko group key financial highlights

<i>EUR million</i>	<b>6M 2017</b>	<b>6M 2016</b>	<b>Variance</b>	<b>Q2 2017</b>	<b>Q2 2016</b>	<b>Variance</b>
Revenue	<b>128.8</b>	105.6	+22.0%	<b>70.7</b>	58.7	+20.3%
EBITDA	<b>6.0</b>	4.6	+32.4%	<b>4.1</b>	3.4	+22.5%
EBITDA margin (%)	<b>4.7</b>	4.3		<b>5.9</b>	5.8	
Operating profit	<b>4.7</b>	3.1	+53.1%	<b>3.5</b>	2.6	+33.4%
Operating profit margin (%)	<b>3.7</b>	2.9		<b>4.9</b>	4.4	
Profit before tax	<b>4.4</b>	2.7	+59.1%	<b>3.3</b>	2.4	+33.8%
Net profit, attr. to equity holders of the parent	<b>3.2</b>	1.8	+76.2%	<b>2.2</b>	1.7	+27.5%
Earnings per share (EPS), in euros	<b>0.18</b>	0.10	+76.2%	<b>0.12</b>	0.09	+27.5%
Secured order book	<b>387.5</b>	279.4	+38.7%	<b>387.5</b>	279.4	+38.7%
Employees	<b>803</b>	826	-2.8%	<b>803</b>	826	-2.8%

\* Variance calculated based on consolidated financial statements of interim reports.

# Business review 6M and Q2 2017

## GROUP REVENUE BY SEGMENTS

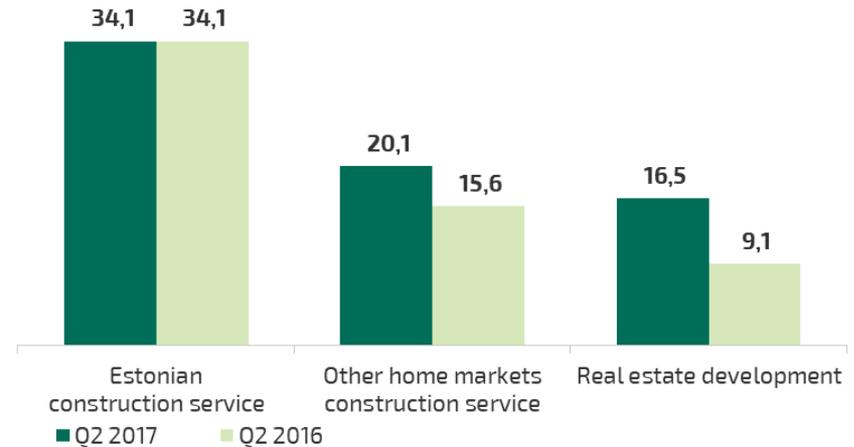
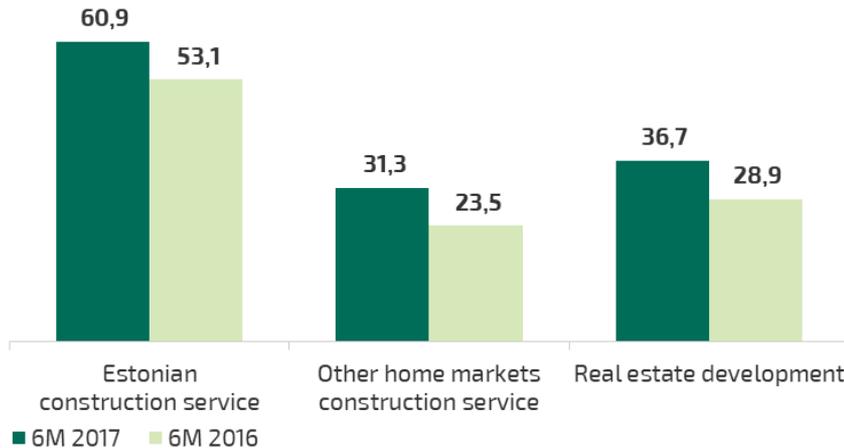
in million euros

2017: EUR 128.8m  
2016: EUR 105.6m

## GROUP QUARTERLY REVENUE BY SEGMENTS

in million euros

2017: EUR 70.7m  
2016: EUR 58.7m



- ❑ The sales growth in all business segments increased total revenue level, but profitability from construction sector remains under pressure.
- ❑ The construction services revenue has been in line with managements expectations as several large-scale projects that lagged in the last year gained momentum in 2017. Public investments in infrastructure projects have remained in a slump.
- ❑ Real estate development segment revenues are strong in 6M 2017.
- ❑ Profitability continues to be under pressure. Price competition in construction procurements is extremely tight, slimming down the margins and forcing both main contractors and contracting entities to take higher risks.
- ❑ Availability of workforce and stability of suppliers is complicated.
- ❑ Efficiency and management of contractual risks is becoming very important.

**Tallinn and Vilnius markets stabilizing, demand remains strong with some longer sales periods. Riga still slow, expectations for growth remain.**

- ❑ Apartment sales as per expectations.
- ❑ 239 (incl. 1 in joint venture) apartments sold for EUR 26.9m in 6M (6M 2016: 159 and EUR 17.4m).
- ❑ Construction of 385 apartments launched during 6M 2017 (6M 2016: 284) and invested EUR 18.4m in apartment construction (6M 2016: EUR 25.1m).
- ❑ Land plot acquisition in Riga for EUR 4m in Q1 2017. (Rūpniecības street, approx. 350 apartments).
- ❑ 444 apartments on active sale out of which approx. 48% in Estonia.
- ❑ Solid land plot portfolio of EUR 67m (30.06.2016: EUR 50m):
  - ❑ Estonia EUR 27m
  - ❑ Latvia EUR 32m
  - ❑ Lithuania EUR 8m
- ❑ 31 July 2017, purchased properties in Lasnamäe, Tallinn to support group's long-term residential development strategy in Estonia. (approx. 1,500 apartments).

**APARTMENT REVENUE AND APARTMENTS SOLD**  
in million euros / pcs

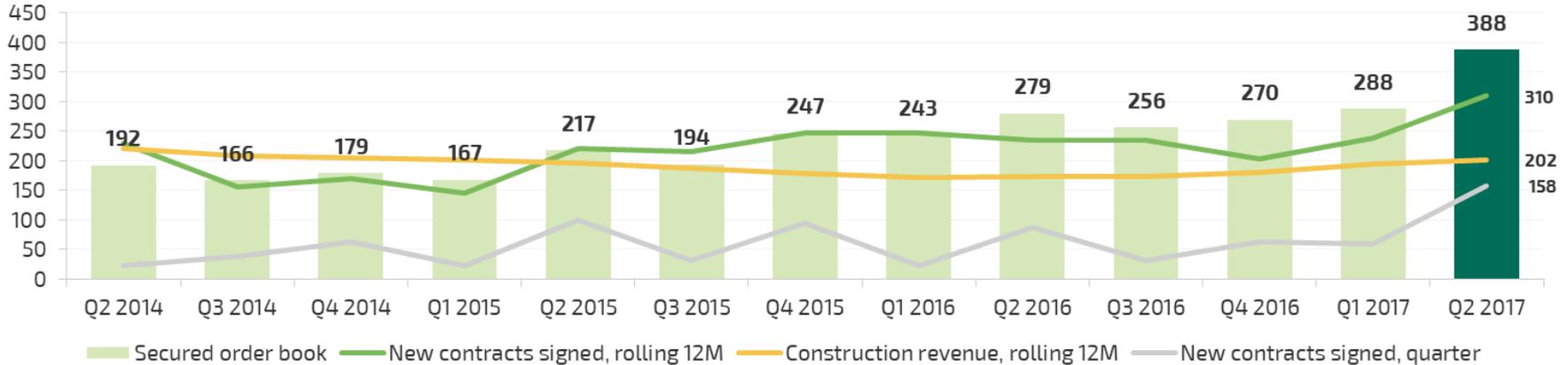


**GROUP APARTMENTS INVENTORY**  
pcs



## SECURED ORDER BOOK

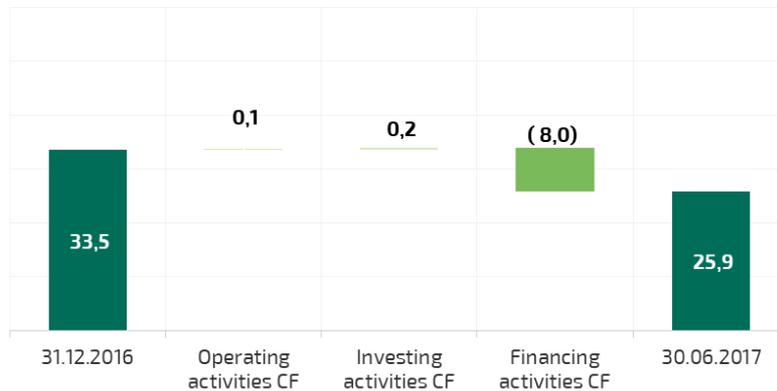
in million euros



- ❑ Secured order book strong at EUR 388m (30.06.2016: EUR 279m). A very good level of new contracts in Latvia.
- ❑ Total new contracts signed 6M 2017 EUR 217m (6M 2016: EUR 109m; 12M 2016: EUR 202m), incl. EUR 100m Multifunctional Centre Akropole contract in Latvia.
- ❑ The construction volumes of new commercial buildings in Tallinna and Vilnius are stabilising. Road and infrastructure procurements are on the way in Estonia; in Lithuania we expect more public sector orders. In Latvia a number of procurements for commercial buildings and public sector projects are in preparation; Norway is still moderately active for both new building's construction and renovation.

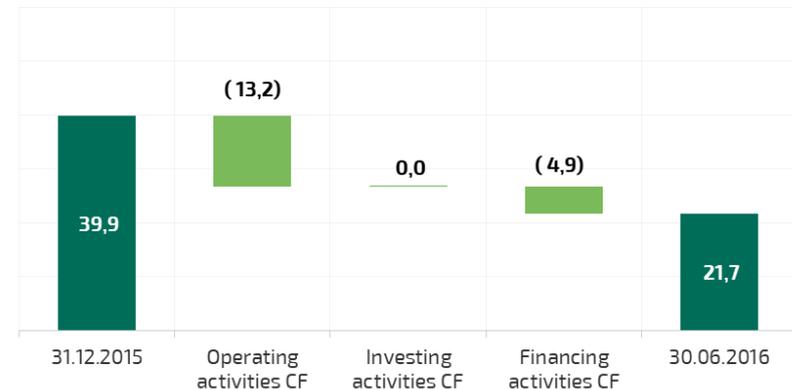
## CHANGE IN CASH AND CASH EQUIVALENTS

in million euros



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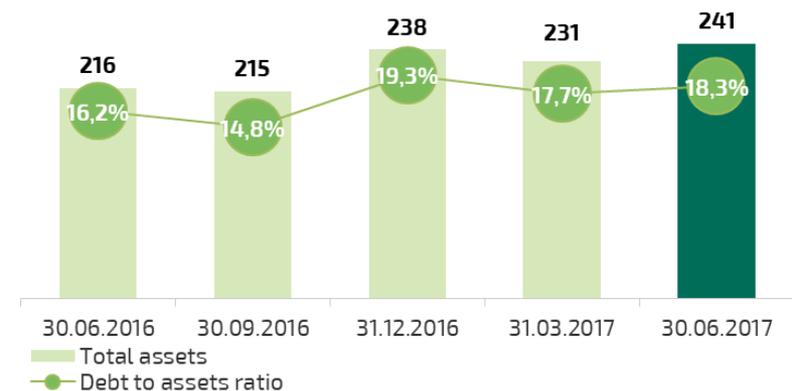
in million euros



- ❑ Liquidity position maintained strong, cash at EUR 26m (30.06.2016: EUR 22m).
- ❑ Net debt amounted to EUR 19m and debt ratio at 18% (30.06.2016: EUR 13m and 16%). Group is self-funding a large proportion of its own development projects construction activities and has not used any overdraft facilities.
- ❑ Current assets are at 2.8x current liabilities (30.06.2016: 2.8x).
- ❑ Equity at 49% (30.06.2016: 55%).

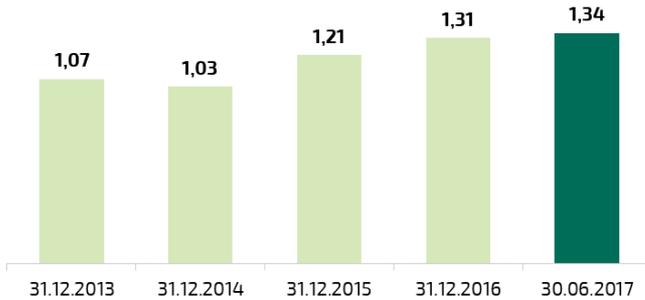
## TOTAL ASSETS AND DEBT TO ASSETS RATIO

in million euros / percentages

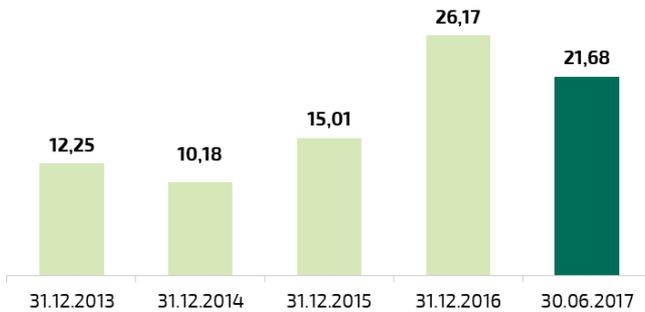


# Stock Exchange overview

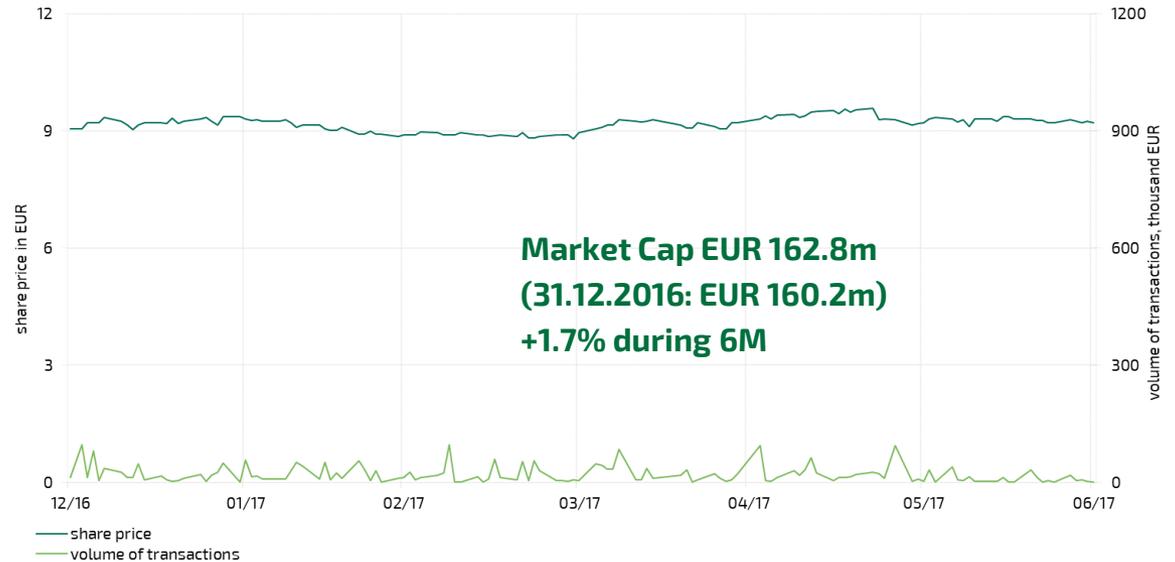
**P/B RATIO**  
times



**P/E RATIO**  
times



**1,955 shareholders**  
**+8.0% from 31.12.2016**

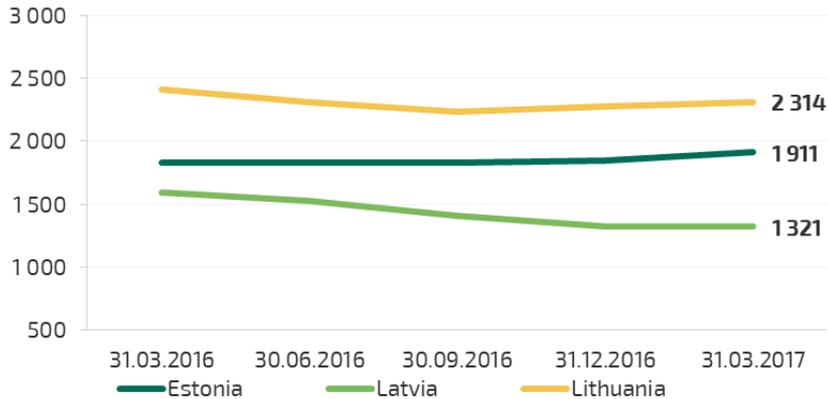


## Shareholders

	Number of shares	% of total 30.06.2017	% of total 31.03.2017	Variance
AS Riverito	12 742 686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	974 126	5.50%	5.50%	-
Firebird Republics Fund Ltd	363 094	2.05%	2.05%	-
SEB S.A. UCITS client assets	232 222	1.31%	1.31%	-
Firebird Avrora Fund Ltd	220 519	1.25%	1.25%	-
Skandinaviska Enskilda Banken AB, Swedish customers	21 566	1.22%	1.29%	(12 221)
State Street Bank and Trust Omnibus Account a Fund No OM01	153 018	0.86%	0.86%	-
OÜ Midas Invest	149 525	0.84%	0.78%	1104
SEB Elu- ja Pensionikindlustus AS	143 887	0.81%	0.81%	-
Firebird Fund L.P.	131 331	0.74%	0.74%	-
<b>Total largest shareholders</b>	<b>15 131 974</b>	<b>86.59%</b>	<b>86.65%</b>	<b>(1 181)</b>
Total other shareholders	2 373 932	13.41%	13.35%	1181
<b>Total</b>	<b>17 700 000</b>	<b>100%</b>	<b>100%</b>	<b>-</b>

## BALTIC STATES CONSTRUCTION MARKETS (WITH OWN FORCES) ROLLING 12 MONTHS

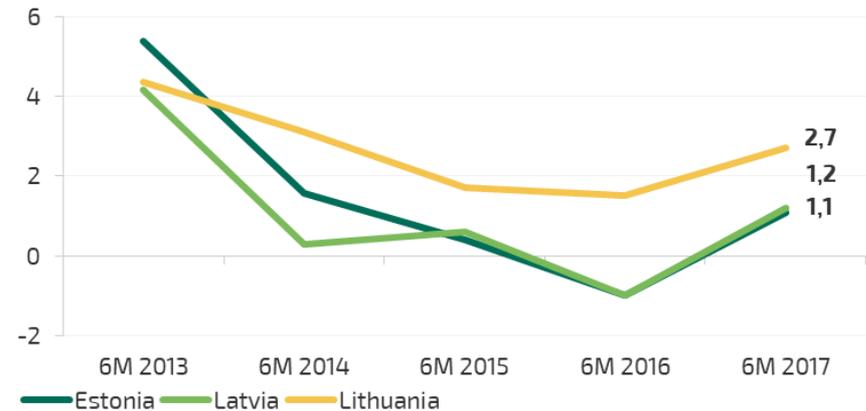
in million euros



Source: Local national statistical offices

## 6 MONTHS CHANGE IN CONSTRUCTION PRICE INDEX

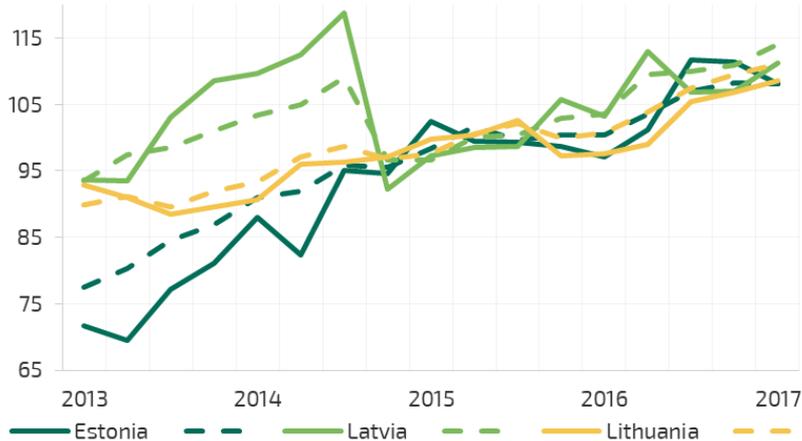
percentages



Source: Local national statistical offices

- ❑ **Estonia:** development of new commercial buildings is stabilising. Public procurements for buildings at a moderate pace. Larger construction projects in the industrial and logistics sectors, and in roads.
- ❑ **Latvia:** a number of construction procurements for commercial buildings and public sector buildings are in preparation. The residential real estate remains passive. Several large-scale engineering infrastructure sites will shortly be put to tender, including railway infrastructure construction.
- ❑ **Lithuania:** demand for new commercial buildings is stabilising. Public sector buildings are coming to tender. The apartment building market in Vilnius continues to be active, transaction activity is stabilising.
- ❑ **Norway:** market is moderately active. The pace of new apartment buildings has decreased. Public sector investments into infrastructure.

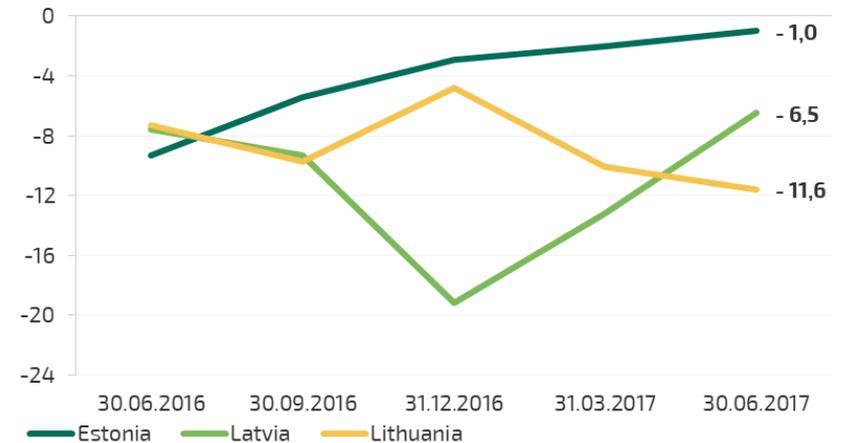
**NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX (2015=100)**



Source: Eurostat

**CONSUMER CONFIDENCE INDICATOR**

*difference between percentages of pos. and neg. responses*



Source: European Commission Directorate-General for Economic and Financial Affairs

- ❑ In 2017 apartment market continued to stabilise in Tallinn and Vilnius and the trend is expected to continue. Riga's apartment market still less active, but with gradual increases in the activity level.
- ❑ Supply levels still strong in Tallinn and Vilnius, however demand remains for good quality and optimal price level residential premises in all Baltic capitals.
- ❑ Prices for new apartments has started decrease in Estonia. The price level has been more stable in Lithuania and has shown steady increase in Latvia.
- ❑ The macroeconomic environment continues to be favourable for supporting apartment buyers' position – growth of income, low interest rates and relatively good availability of bank loans.
- ❑ Although construction prices are stable, the prices of land plots have increased, which hampers the addition of new developments.

## Estonian construction service

- ❑ Internal efficiency
- ❑ Road and other infrastructure tenders
- ❑ Close cooperation with private customers

## Other home markets construction service

- ❑ Continue search for growth outside Estonia
- ❑ In Latvia active participation in both private and public sector tenders in buildings segment. Large projects risk management.
- ❑ In Lithuania actively enter the public tenders market
- ❑ In Norway increase revenue and develop new buildings general contracting capability
- ❑ Continue searching competitive advantages in the Finnish market

## Real estate development

- ❑ Real estate development continuingly a strategic business area
- ❑ 2017 plan to launch construction of 650 (incl. joint ventures) new apartments and the investment in apartment construction in the range of EUR 45m
- ❑ Product development



*Maakri Kvartali business complex (2018): EUR 30m*



The largest listed construction company in the Baltics

## Wide scope of construction services:

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

Home markets: Estonia, Latvia, Lithuania and Norway



Revenue in 2016  
€252 mln



31.12.2016:  
797 employees

Net Profit 2016:  
€6.1 mln



EBITDA 2016:  
€11 mln

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



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