



# Merko Ehitus Group 6 months and II quarter 2014

August 2014





1. Key highlights
2. Business review at segment level
3. Financial position

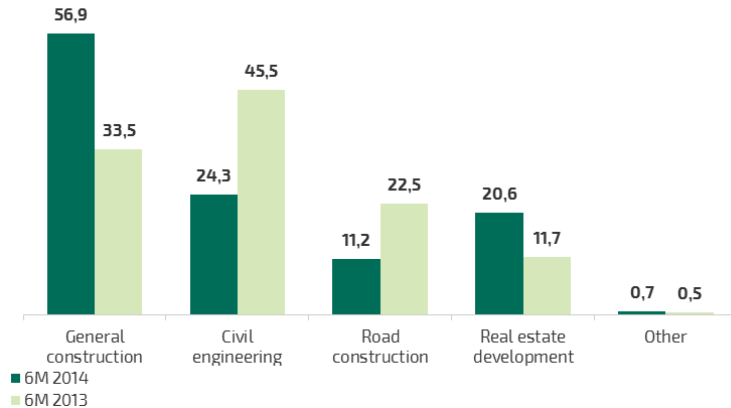
4. Market outlook
5. Group in brief

<i>EUR millions</i>	6M 2014	6M 2013	Variance	Q2 2014	Q2 2013	Variance	12M 2013
Revenue	<b>113.7</b>	113.7	0.0%	<b>64.8</b>	65.9	-1.6%	262.7
Gross profit	<b>10.1</b>	9.8	+2.6%	<b>6.1</b>	5.6	+9.9%	22.7
Gross profit margin (%)	<b>8.9</b>	8.6	+2.6%	<b>9.5</b>	8.5	+11.7%	8.6
EBITDA	<b>6.1</b>	6.3	-3.0%	<b>4.3</b>	3.4	+24.5%	15.1
Net profit, attributable to equity holders of the parent	<b>4.4</b>	4.0	+7.7%	<b>3.6</b>	2.3	+59.8%	10.4
Earnings per share (EPS), in euros	<b>0.25</b>	0.23	+7.7%	<b>0.21</b>	0.13	+59.8%	0.59

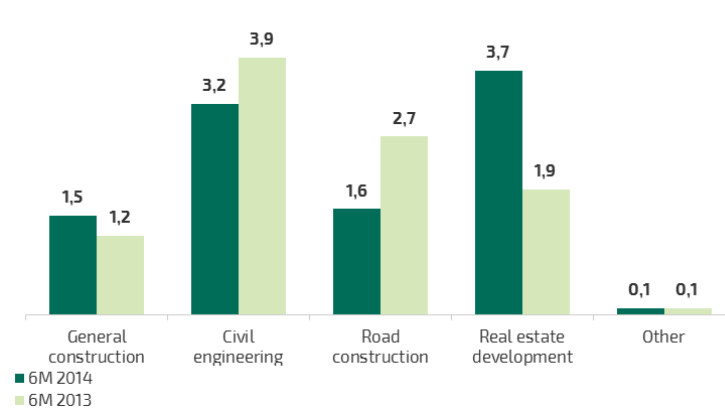
*\* Variance calculated based on interim consolidated financial reports*

- ❖ **Revenue:** remained unchanged during the 6M period compared y-o-y. Approximately 1/3 of revenues from outside Estonia, mainly contributed by Latvia.
- ❖ **Profitability:** increased mainly due to increase of volumes in real estate development segment and increase of margins in civil engineering segment; negative impact from tight competition and the resulting pressure on margins in general construction segment.
- ❖ **Cash position:** at EUR 43.4m (30 June 2013: EUR 33.8m; 31 December 2013: EUR 46.6m).
- ❖ **Secured order book:** Q2 2014 new contracts signed in the amount of EUR 21.7m (Q2 2013: EUR 51.3 million), balance at EUR 191.6m (30 June 2013: EUR 184.4m; 31 December 2013: EUR 213.7m).
- ❖ **Dividend payment:** the AGM of shareholders decided to pay the total amount of EUR 7.3m as dividends, which totals to EUR 0.41 per share and equals to dividend rate of 70% for 2013.
- ❖ **Changes in group structure:** the group has sold its 80% share in subsidiary Gustaf Tallinn OÜ in Q1 and acquired the remaining 7,5% share in subsidiary AS Gustaf in Q2.

GROUP REVENUE BY SEGMENT  
in million euros



GROUP GROSS PROFIT BY SEGMENT  
in million euros



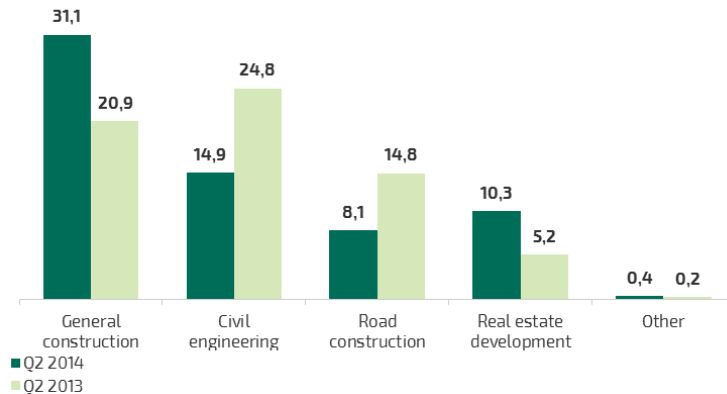
## REVENUES

- ❖ Strong performance from real estate development (revenues up by 77.0% y-o-y) and general construction segment (up by 70.0%). Decrease of revenues in road construction (down by 50.4%) and civil engineering segment (down by 46.6%).
- ❖ The share of Latvian revenue has increased from 15.4% to 25.6%, which is an ongoing trend in 2014.

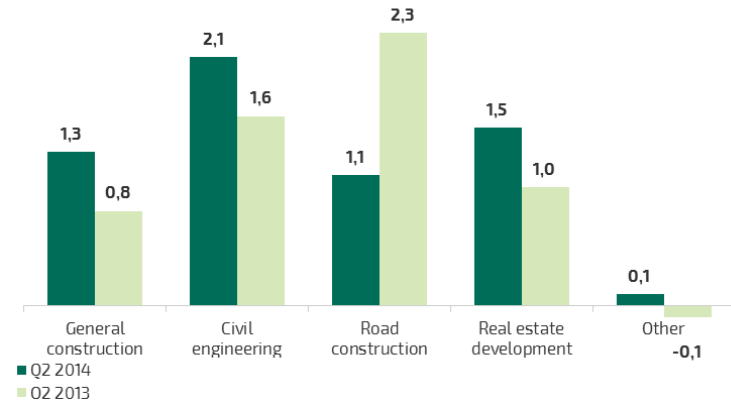
## GROSS PROFIT

- ❖ Main contribution from real estate development (37.1% of total) and engineering segment (31.3%).
- ❖ Gross margin up from 8.6% to 8.9%.

GROUP QUARTERLY REVENUE BY SEGMENT  
in million euros



GROUP QUARTERLY GROSS PROFIT BY SEGMENT  
in million euros



## REVENUES

- ❖ Real estate development segment revenues (up by 58.5% y-o-y). Decrease of revenues in road construction segment (down by 60.3%) and civil engineering segment (down by 54.7%).
- ❖ Private sector orders have not increased for the group at the volumes anticipated at the beginning of the year.

## GROSS PROFIT

- ❖ Main contribution from engineering segment (34.7% of total) and real estate development (24.4%).
- ❖ Gross profit margin up from 8.5% to 9.5%. Positive impact from civil engineering segment.

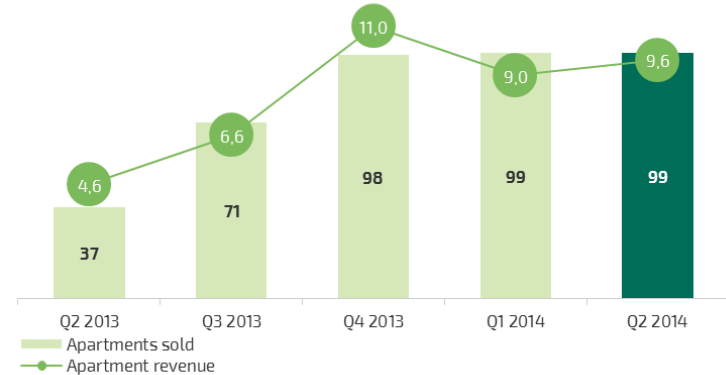
# Real estate development – apartments

Objective to keep the adequate level of inventory to meet the market demand, new project launch depending on market conditions at the time.

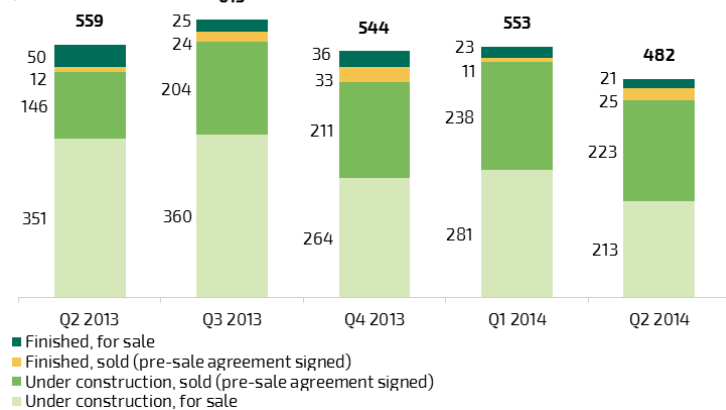
## REVENUES

- ❖ 198 apartments sold (handed over) and revenues of EUR 18.6m during 6 months 2014 (6 months of 2013: 94 apartments, EUR 10.8m; 12 months of 2013: 263 apartments, EUR 28.3m).
- ❖ 234 apartments on active sale (30.06.2013: 401; 31.12.2013: 300).
- ❖ Construction of 136 apartments launched during 6 months of 2014 (6 months of 2013: 271; 12 months of 2013: 409 apartments).
- ❖ Depending on market developments plan to start construction of 500-550 new apartments in Baltics in 2014. Currently slight delay due to technical design and permits.
- ❖ During 6 months new land plots for development acquired and option realised to acquire Rästa 18, Tallinn land plot in total of EUR 2.5m .

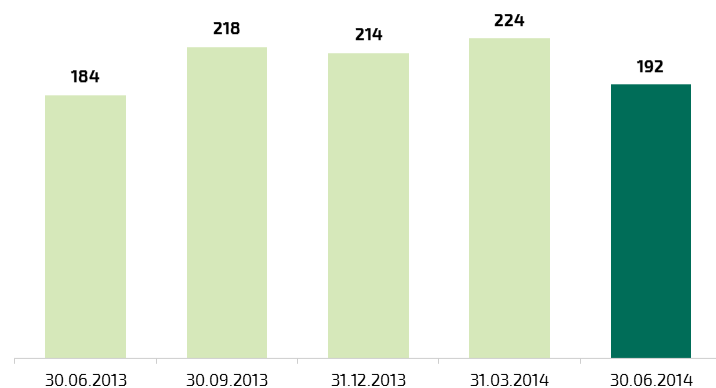
APARTMENTS SOLD AND APARTMENT REVENUE  
pcs / in million euros



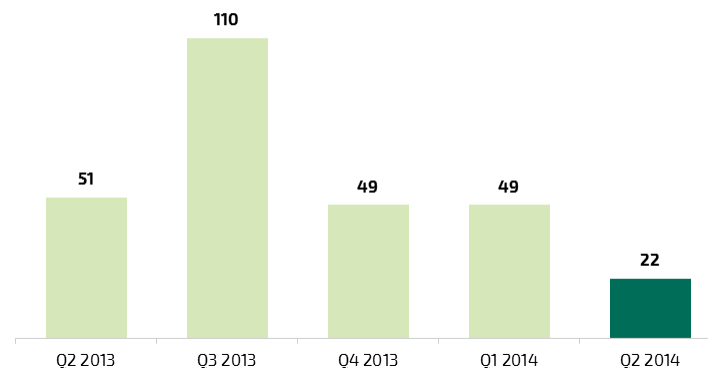
GROUP APARTMENTS INVENTORY  
pcs



SECURED ORDER BOOK  
at the end of the period, in million euros

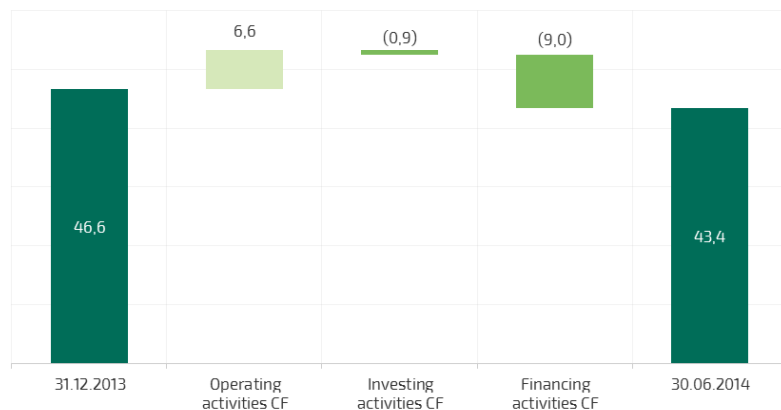


NEW CONTRACTS SIGNED  
during the period, in million euros

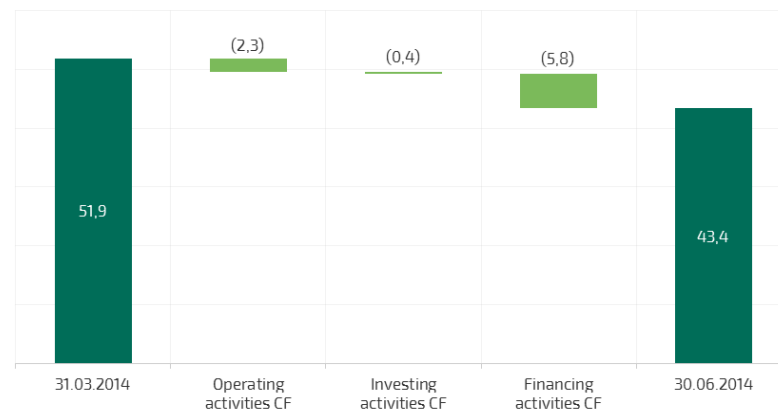


- ❖ Secured order book at EUR 191.6m (an increase by 3.9% compared to Q2 2013 and a decrease by 10.3% compared to the end of 2013).
- ❖ EUR 21.7m worth of new contracts signed in Q2 2014 compared to EUR 51.3m during Q2 2013.
- ❖ Continuing decrease in the volume of public tenders due to expiry of the previous EU budget period. However the new contracts signed relate mainly to public orders in Q2 and signing of private sector orders has not been at the expected level.
- ❖ Challenge for next 12 months to keep the current volume of new contracts.
- ❖ Given the weak growth outlook of Baltic construction market, the group has started to follow developments and opportunities near abroad. Although the growth prospective are not as good in Scandinavia, Merko has selectively and on a project basis started to participate in Sweden, Finland and Norway on construction tenders to acquire the experience and knowledge to qualify on tenders, as well as understanding the risk profiles.

6M CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros

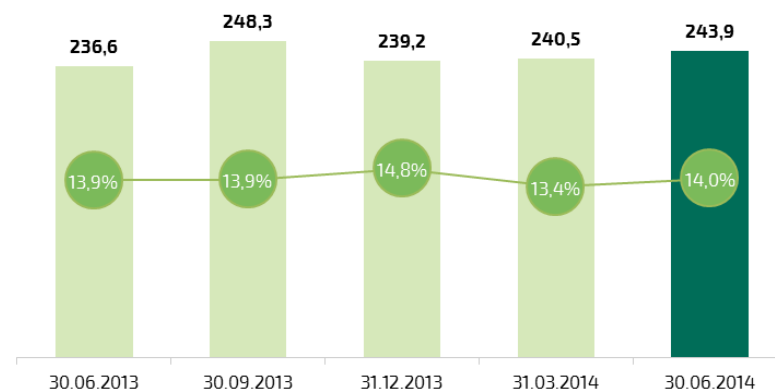


QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



- ❖ Group's cash position at EUR 43.4m (30.06.2013: EUR 33.8m; 31.12.2013: EUR 46.6m).
- ❖ The net debt amounted to EUR –9.3m and debt ratio is at a modest level of 14.0% (30.06.2013: EUR -1.0 and 13.9%; 31.12.2013: EUR -11.2 and 14.8%).
- ❖ Current assets are at 2.0x current liabilities (30.06.2013: 1.9x; 31.12.2013: 2.0x).
- ❖ Equity at 48.8% (30.06.2013: 48.8%; 31.12.2013: 50.9%).

TOTAL ASSETS AND DEBT TO ASSETS RATIO  
in million euros / percentages





# Market outlook and 2014 focus

## Construction market

- ❖ Group's outlook largely unchanged compared to previous quarter.
- ❖ Uncertainty over the escalation of events in Ukraine, will have direct influence on exports and hence direct impact on Baltic economies.
- ❖ A decrease of a 10-15% in construction volumes is expected in the Baltic States, primarily in Estonia, during 2014.
- ❖ Continuing decrease of public sector procurements due to the end of EU funding period 2007-2013 and uncertainties around distribution of fund in EUs budget period 2014-2020. Overall EU budget level increased, however lower level allocation in construction will be expected. We estimate that more public tenders will be from 2015 and 2016.
- ❖ Positive trends from private sector as the market is picking up. The number of projects launched by private sector shows a positive trend. Nevertheless the private sector will not be able to compensate in the full reduction in procurement by the public sector (specially external networks).
- ❖ Market becomes more competitive and aggressive on margins, especially in general construction segment. Strong pressure to reduce prices from customers side due to the overall shrinkage of construction market. This leads to a challenging position to keep the profitability levels.

## Real estate development

- ❖ Steady improvement in all three Baltic States. Number of transactions has shown a steady growth trend due to limited supply of new flats during the last few years. The price per m2 has shown only marginal growth in 2014 and mainly for prime location quality real estate.
- ❖ Good potential to start new developments in all Baltic capitals, however more selective in Vilnius.
- ❖ Increased apartment offering in the future may influence price stabilisation and the prolongation of sales periods.

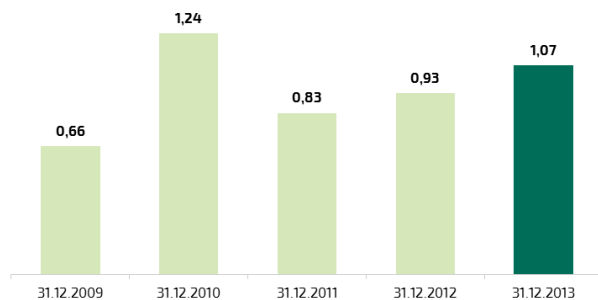
## Focus

- ❖ Key challenge to increase and also keep the 2013 level of secured order book. Closely following the development in the nearby markets and opportunities. Aim to increase the construction contracts from abroad.
- ❖ Active positioning in residential real-estate.
- ❖ Mitigation of project management risks and improvement of control systems.
- ❖ A greater focus on costs. Harmonisation of group structure and business needs. Keeping and recruiting the best employees.

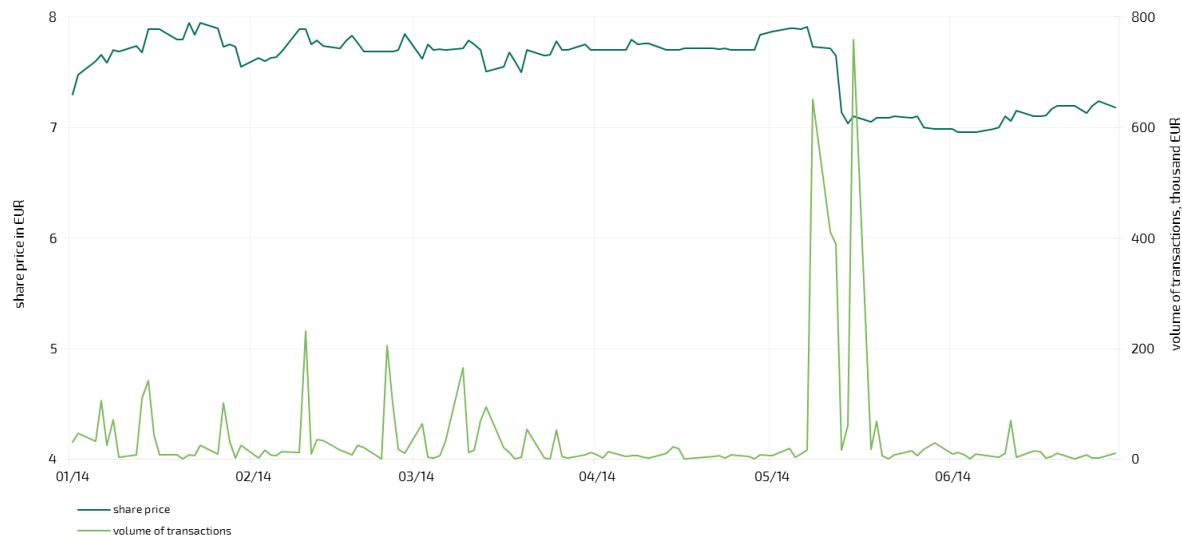
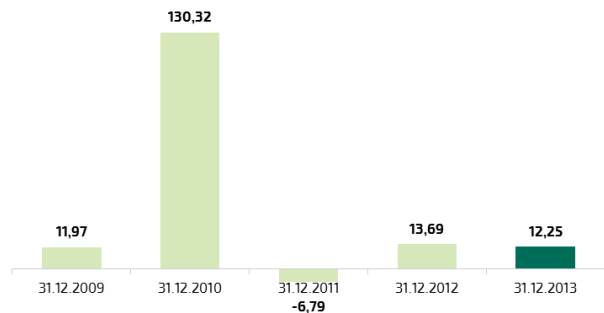
# Stock Exchange overview

Market Cap at EUR 127.1m  
(30.06.2013: EUR 114.0m).  
Up by 11.5% y-o-y basis.

P/B RATIO  
times



P/E RATIO  
times



## Shareholders

Shareholders	No of shares	% of total 30.06.2014	% of total 31.03.2014	Variance
AS Riverito (management)	12 742 686	71,99%	71,99%	-
ING Luxembourg S.A. AIF Account	974 126	5,50%	5,50%	-
Skandinaviska Enskilda Banken S.A.	479 527	2,71%	2,72%	-1 852
Skandinaviska Enskilda Banken AB, Swedish clients	305 060	1,72%	1,72%	-
Firebird Republics Fund Ltd	302 395	1,71%	1,71%	-
Firebird Avrora Fund Ltd	170 000	0,96%	0,32%	114 226
State Street Bank and Trust Omnibus Account a Fund No OM01	153 018	0,86%	0,86%	-
SEB Elu- ja Pensionikindlustus AS	148 020	0,84%	0,84%	-
Clearstream Banking Luxembourg S.A. clients	143 652	0,81%	0,80%	2 600
Skandinaviska Enskilda Banken AB, Finnish clients	131 692	0,74%	0,75%	-705
<b>Total largest shareholders</b>	<b>15 550 176</b>	<b>87,84%</b>	<b>87,21%</b>	<b>114 269</b>
Other shareholders	2 149 824	12,16%	12,79%	-114 269
<b>Total shares</b>	<b>17 700 000</b>	<b>100,00%</b>	<b>100,00%</b>	



The largest listed construction company in the Baltics

### Construction services:

- General construction
- Engineering construction
- Road construction

### Own developed real estate projects

Operates in Estonia (81% of revenue), Latvia (17%), Lithuania (2%)



Revenue in 2013  
€262.7 mln



31.12.2013:  
860 employees



Net Profit 2013:  
€10.4 mln

EBITDA 2013:  
€15.1mln

Share quoted on Nasdaq OMX Tallinn since 1997





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