

Merko Ehitus Group 3 months 2014

May 2014





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

4. Dividends
5. Market outlook
6. Group in brief

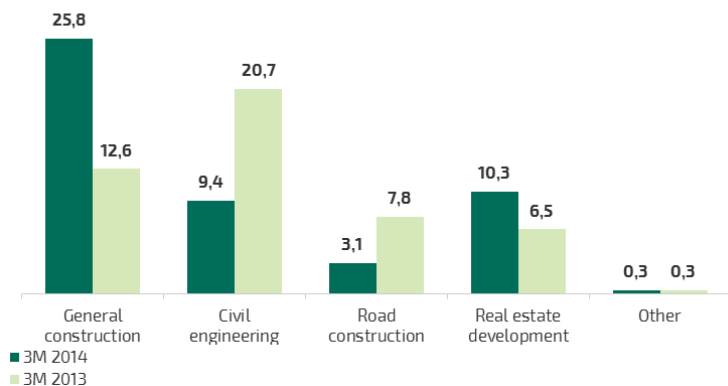
EUR millions	3M 2014	3M 2013	Variance	12M 2013
Revenue	48.9	47.9	+2.1%	262.7
Gross profit	3.9	4.2	-7.1%	22.7
Gross profit margin (%)	8.1	8.8	-9.0%	8.6
EBITDA	1.9	2.9	-35.6%	15.1
Net profit, attributable to equity holders of the parent	0.7	1.8	-59.8%	10.4
Earnings per share (EPS), in euros	0.04	0.10	-59.8%	0.59

* Variance calculated based on interim consolidated financial reports

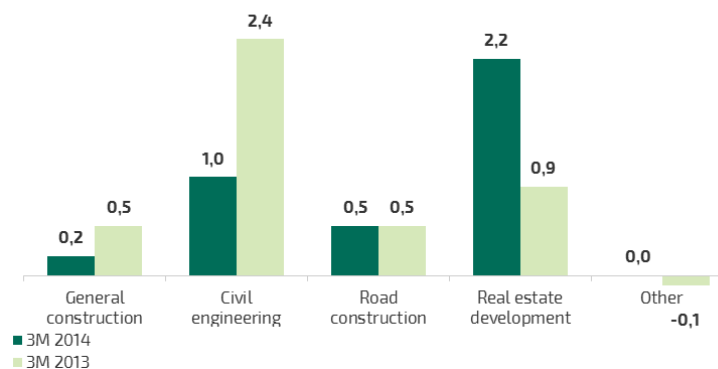
- ❖ **Revenue:** increased 2.1% during the 3M period compared y-o-y. Almost 1/3 of revenues outside Estonia, mainly contributed by Latvia.
- ❖ **Profitability:** decreased mainly due to tight competition in general construction segment and decrease of volumes in civil engineering segment. Net profit level exceptionally effected by dividend tax expense of Gustaf Tallinn OÜ in amount of EUR 0.3m.
- ❖ **Cash position:** at EUR 51.9m (31 March 2013: EUR 35.8m; 31 December 2013: EUR 46.6m).
- ❖ **Secured order book:** signed new contracts in the amount of EUR 48.6m (Q1 2013: EUR 44.6 million), balance at EUR 224.0m (31 March 2013: EUR 193.4m; 31 December 2013: EUR 213.7m).
- ❖ **Dividend payment:** the AGM of shareholders decided to pay the total amount of EUR 7,257,000 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 it's 80% share in subsidiary Gustaf Tallinn OÜ.

Business review – 3 months

GROUP REVENUE BY SEGMENT
in million euros



GROUP GROSS PROFIT BY SEGMENT
in million euros



REVENUES

- ❖ Strongest performance from general construction segment (revenues up by 105.4% y-o-y), that is also supported by increased real estate development segment (up by 58.5%). Decrease of revenues in road construction segment (down by 60.3%) and civil engineering segment (down by 54.7%).
- ❖ Private sector orders increased as ongoing trend but the largest proportion of revenues is still related to public sector orders.
- ❖ The share of Latvian revenue has increased from 17.4% to 28.6%, which is an ongoing trend in 2014.

GROSS PROFIT

- ❖ Main contribution from real estate development (56.9% of total) and engineering segment (26.1%).
- ❖ Gross margin down from 8.8% to 8.1%. Negatively impacted by the profitability of general construction segment and the decrease of volumes in civil engineering segment. On the other hand the margin has been supported by road construction segment and the higher profitability from real estate development segment.

Real estate development – apartments

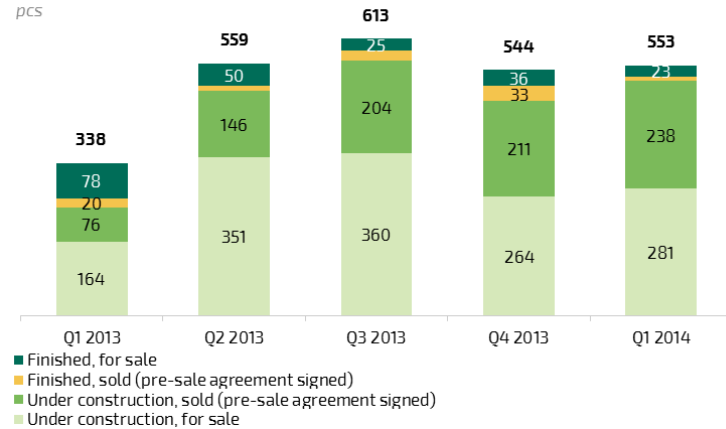
MARKET

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

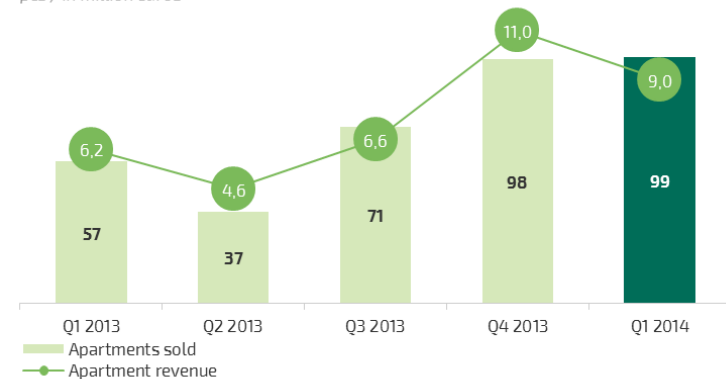
REVENUES

- ❖ 99 apartments sold (handed over) and revenues of EUR 9.0m during 3 months 2014 (12 months of 2013: 263 apartments, EUR 28.3m).
- ❖ 300 apartments on active sale (31.03.2013: 242; 31.12.2013: 300).
- ❖ Construction of 108 apartments launched during 3 months of 2014 (3 months of 2013: 93; 12 months of 2013: 409 apartments).
- ❖ Depending on market developments plan to start construction of 500-550 new apartments in Baltics in 2014.
- ❖ Total investment in new and ongoing projects approximately EUR 45-50m in 2014.

GROUP APARTMENTS INVENTORY
pcs

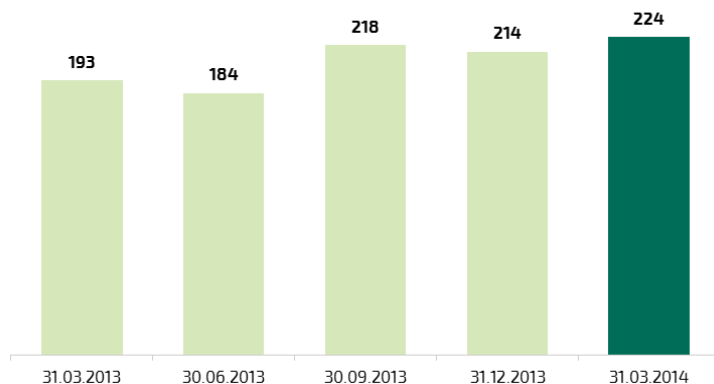


APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros

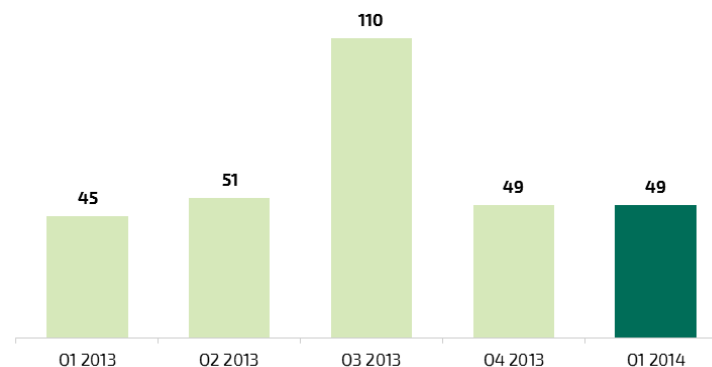


Solid secured order book

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

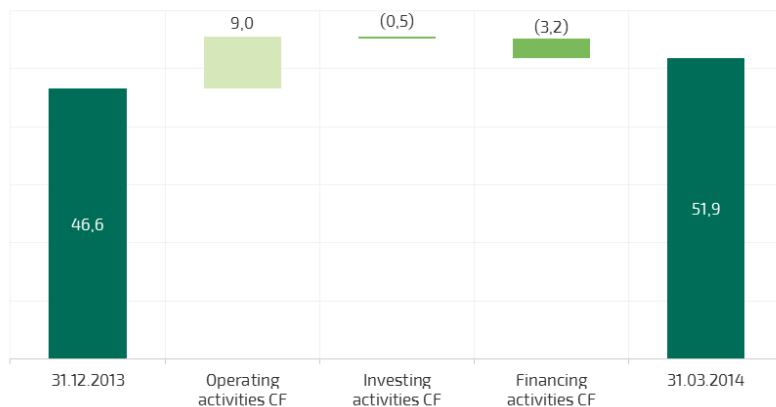


NEW CONTRACTS SIGNED
during the period, in million euros

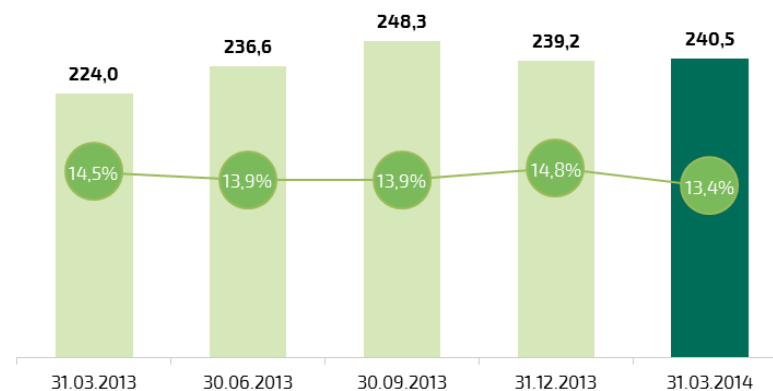


- ❖ Secured order book at EUR 224.0m (an increase by 15.8% compared to Q1 2013 and by 4.8% compared to the end of 2013).
- ❖ EUR 48.6m worth of new contracts signed in Q1 2014 compared to EUR 44.6m during Q1 2013.
- ❖ There is a decreasing trend for public orders, however the new contracts signed relate mainly to public orders in Q1.
- ❖ Steady decrease in the volume of public tenders due to expiry of the previous EU budget period.
- ❖ 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 perspectives 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.

CHANGE IN CASH AND CASH EQUIVALENTS
in million euros

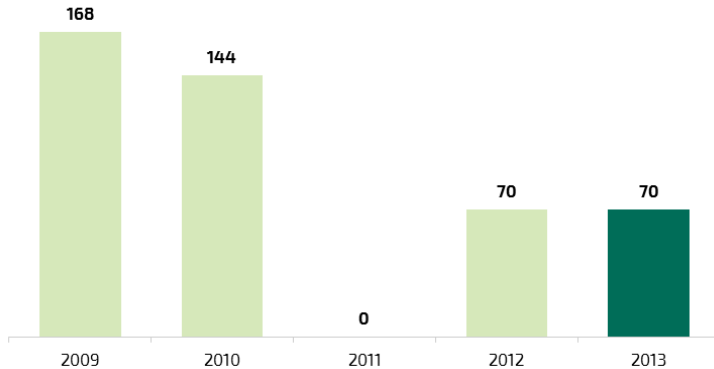


TOTAL ASSETS AND DEBT TO ASSETS RATIO
in million euros / percentages

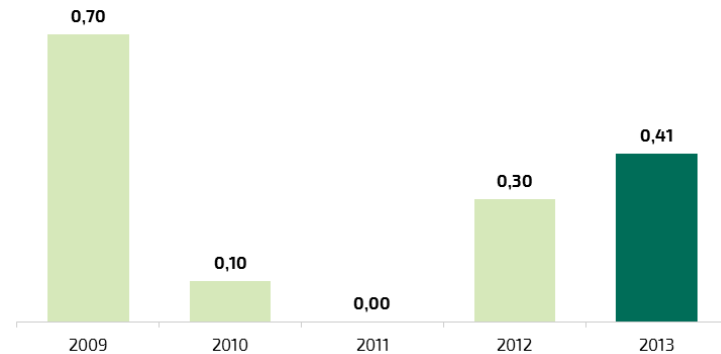


- ❖ Group's cash position at EUR 51.9m (31.03.2013: EUR 33.3m; 31.12.2013: EUR 46.6m).
- ❖ The net debt amounted to EUR –19.8m and debt ratio is at a modest level of 13.4% (31.03.2013: EUR –3.4 and 14.6%; 31.12.2013: EUR -11.2 and 14.8%).
- ❖ Current assets are at 2.0x current liabilities (31.03.2013: 2.2x; 31.12.2013: 2.0x).
- ❖ Equity at 51.0% (31.03.2013: 52.9%; 31.12.2013: 50.9%).

DIVIDEND RATE
percentages

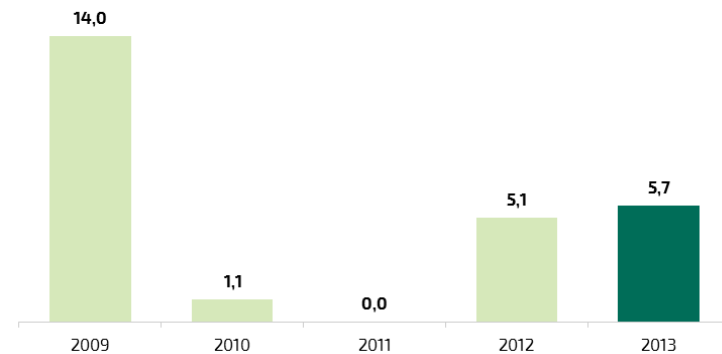


DIVIDEND PER SHARE
in euros



- ❖ Dividend pay-out ratio according to long-term financial objectives: 50-70% of the annual profit.
- ❖ The annual general meeting of shareholders approved the Supervisory Boards proposal to pay the total amount of EUR 7.3 million as dividends (EUR 0.41 per share) in 2014.
- ❖ Dividend payment to the shareholders will take place on 20th May 2014.

DIVIDEND YIELD
percentages



Market outlook and 2014 focus

Construction market

- ❖ Group's outlook largely unchanged compared to previous quarter.
- ❖ A decrease of 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.
- ❖ 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. This leads to a challenging position to keep the profitability levels.

Real estate development

- ❖ Number of transactions and price per m2 have shown growth trend due to low interest rates and limited supply of new flats during the last few years.
- ❖ Good potential to start new developments in all Baltic capitals, however more selective in Vilnius. Supply of new apartments on sale to increase during 2014.
- ❖ Increased apartment offering in the future may influence price stabilisation and the prolongation of sales periods.

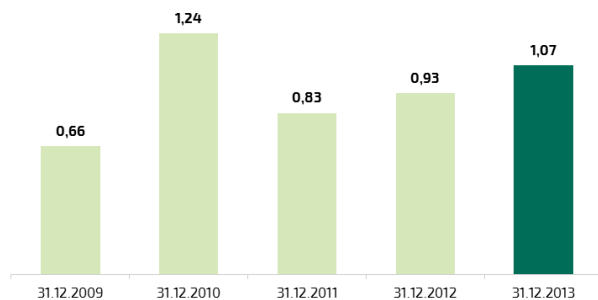
Focus

- ❖ 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.

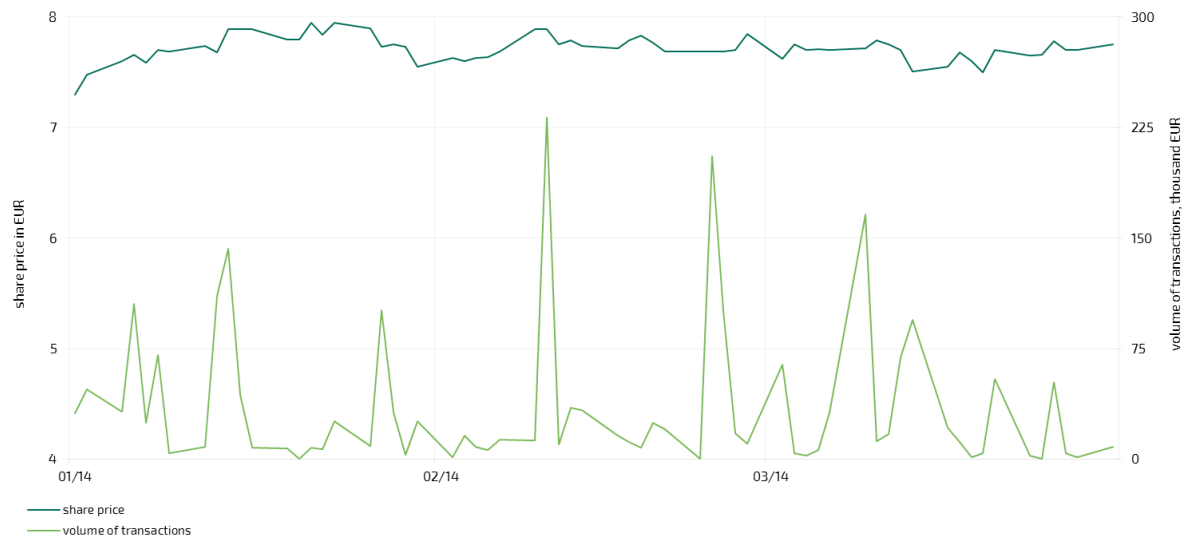
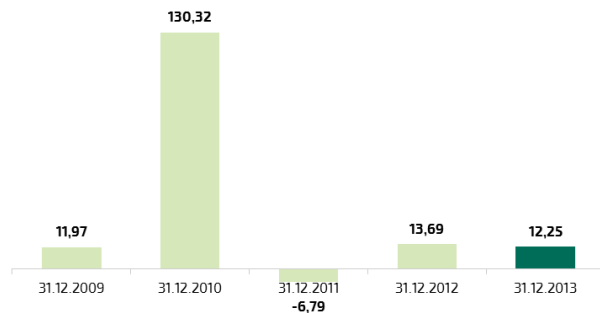
Stock Exchange overview

Market Cap at EUR 137.2m
(31.03.2013: EUR 127.1m).
Up by 7.9% y-o-y basis.

P/B RATIO
times



P/E RATIO
times



Shareholders

Shareholders	No of shares	% of total 31.04.2014	% of total 31.12.2013	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.	481 379	2,72%	2,72%	-
Skandinaviska Enskilda Banken AB, Swedish clients	305 060	1,72%	1,86%	-25 000
Firebird Republics Fund Ltd	302 395	1,71%	1,71%	-
Gamma Holding OÜ	198 182	1,12%	1,07%	9 420
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%	0,72%	20 000
Clearstream Banking Luxembourg S.A. clients	141 052	0,80%	0,80%	-210
Skandinaviska Enskilda Banken AB, Finnish clients	132 397	0,75%	0,76%	-2 585
Total largest shareholders	15 578 315	88,01%	87,99%	1 625
Other shareholders	2 121 685	11,99%	12,01%	-1 625
Total shares	17 700 000	100,00%	100,00%	



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





Andres Trink

Chief Executive Officer

E-mail: andres.trink@merko.ee



Signe Kukin

Chief Financial Officer

E-mail: signe.kukin@merko.ee

AS Merko Ehitus

Delta Plaza, 7th floor

Pärnu mnt. 141, 11314 Tallinn, Estonia

Phone: +372 6501 250

www.merko.ee

- ❖ This presentation has been prepared by AS Merko Ehitus (the Company) solely for your use and benefit for information purposes only. By accessing, downloading, reading or otherwise making available to yourself any content of the presentation, in whole or in part, you hereby agree to be bound by the following limitations and accept the terms and conditions as set out below.
- ❖ You are only authorized to view, print and retain a copy of the presentation solely for your own use. No information contained in the presentation may be copied, photocopied, duplicated, reproduced, passed on, redistributed, published, exhibited or the contents otherwise divulged, released or disseminated, directly or indirectly, in whole or in part, in any form by any means and for any purpose to any other person than your directors, officers, employees or those persons retained to advise you, who agree to be bound by the limitations set out herein.
- ❖ The presentation does not constitute or form part of, and should not be construed as, an offer, solicitation or invitation to subscribe for, underwrite or otherwise acquire, any securities of the Company or any member of its group nor should it or any part of it form the basis of, or be relied on in connection with, any contract to purchase or subscribe for any securities of the Company or any member of its group, nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Any person considering the purchase of any securities of the Company must inform himself or herself independently before taking any investment decision. The presentation has been provided to you solely for your information and background and is subject to amendment. Further, the information in this presentation has been compiled based on information from a number of sources and reflects prevailing conditions as of its date, which are subject to change.
- ❖ The information contained in this presentation has not been independently verified. The information in this presentation is subject to verification, completion and change without notice and the Company is not under any obligation to update or keep current the information contained herein. Accordingly, no representation or warranty, express or implied, is made or given by or on behalf of the Company or any of its respective members, directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this presentation, and any reliance you place on such information or opinions will be at your sole risk. Neither the Company nor any of its respective members, directors, officers or employees nor any other person accepts any liability whatsoever for any loss howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith.
- ❖ This presentation includes "forward-looking statements," which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets," "believes," "expects," "aims," "intends," "will," "may," "anticipates," "would," "plans," "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Accordingly, any reliance you place on such forward-looking statements will be at your sole risk. These forward-looking statements speak only as at the date as of which they are made, and neither the Company or any of its respective agents, employees or advisors intends or has any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained herein to reflect any change in the Company. Past performance of the Company cannot be relied on as a guide to future performance. No statement in this presentation is intended to be a profit forecast.