

MERKO EHITUS GROUP

6 months and Q2 2015 interim report

August 2015



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Merko group key highlights 6M 2015

- 6M results in line with expectations and reflect the developments on the Baltic construction market started in 2014.
- Group profitability burdened by higher tax expense on dividends paid in Q2 and lower margin from some real estate development projects.
- Achieving last year's profitability will not be easy, considering also that there are no similar volumes of civil engineering projects compared to last year.
- Secured order book turned to growth. Large contracts signed in Estonia in Q2. However keeping the level is challenging.
- Continuing construction services revenue growth outside Estonia, approximately 31% of total revenues.
- The share of real estate development up to 28% (6M 2014: 18%) of total revenues.
- Sold 168 apartments and started construction of 335 new apartments. New land plot acquisitions in Estonia.



Merko group key financial highlights

<i>EUR millions</i>	6M 2015	6M 2014	Variance	Q2 2015	Q2 2014	Variance	2014
Revenue	116.2	113.7	+2.2%	70.6	64.8	-8.9%	252.3
Gross profit	8.9	10.1	-11.3%	5.4	6.1	-12.5%	24.7
Gross profit margin (%)	7.7	8.9	-13.2%	7.6	9.5	-19.6%	9.8
EBITDA	5.6	6.1	-9.3%	3.7	4.3	-13.6%	16.4
Profit before tax	3.6	4.7	-23.9%	2.7	3.6	-23.1%	13.3
Net profit, attr. to equity holders of the parent	2.4	4.4	-44.5%	1.6	3.6	-55.9%	12.4
Earnings per share (EPS), in euros	0,14	0.25	-44.5%	0,09	0.21	-44.5%	0.70
Secured order book	217,2	191.6	+13.3%	217,2	191.6	+13.3%	179.1
Employees	825	851	-3.1%	825	851	-3.1%	765

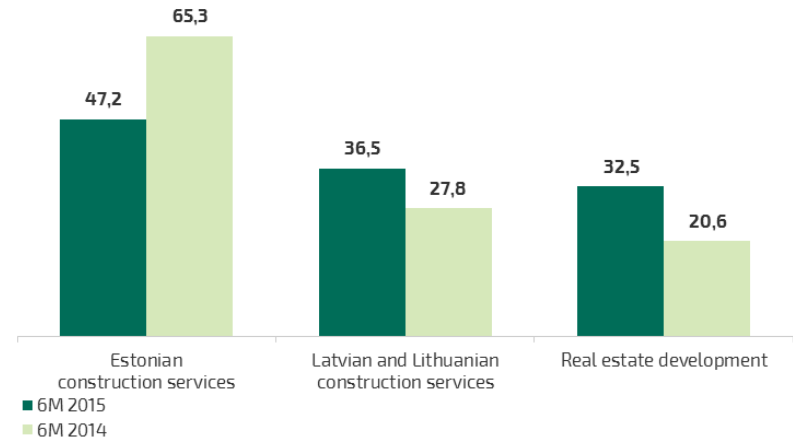
* Variance calculated based on consolidated financial statements of interim reports

Revenues and gross profit 6M 2015

REVENUES

- Strong performance from real estate development (revenues up by 57.4% y-o-y), Latvian and Lithuanian construction service segment (up by 31.5%) .
- Revenues from our first electrical engineering project in Latvia.
- Decrease of Estonian construction service segment (down by 27.7%). Changes in business mix, no comparable amount of engineering projects and lower level of activities in buildings construction compared to last year.

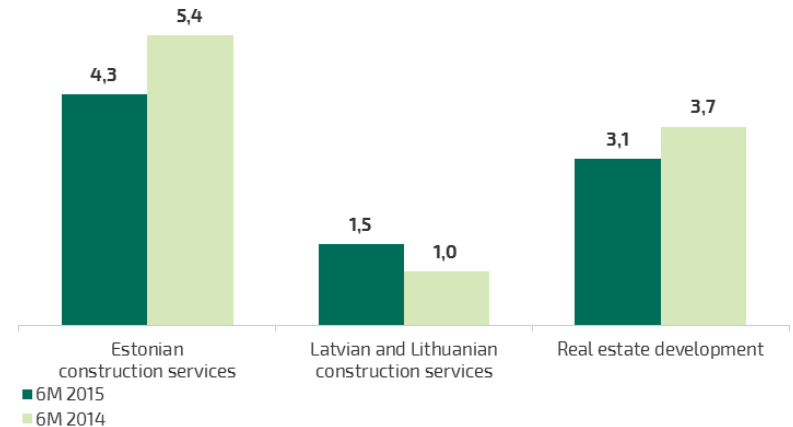
GROUP REVENUE BY SEGMENT
in million euros



GROSS PROFIT

- Gross margin down from 8.9% to 7.7% y-o-y.
- Main contribution from Estonian construction service segment (48.4% of total), with real estate development segment amounting to 34.5% and Latvian and Lithuanian construction service to 17.1%.
- Good performance from Estonian construction service segment, despite the decline in sales volumes, mainly supported by the slight decrease in input prices and internal efficiencies, which may not necessarily continue over the whole of 2015.
- Keeping the profitability level is challenging, as group doesn't have similar volume of civil engineering projects.

GROUP GROSS PROFIT BY SEGMENT
in million euros



Revenues and gross profit Q2 2015

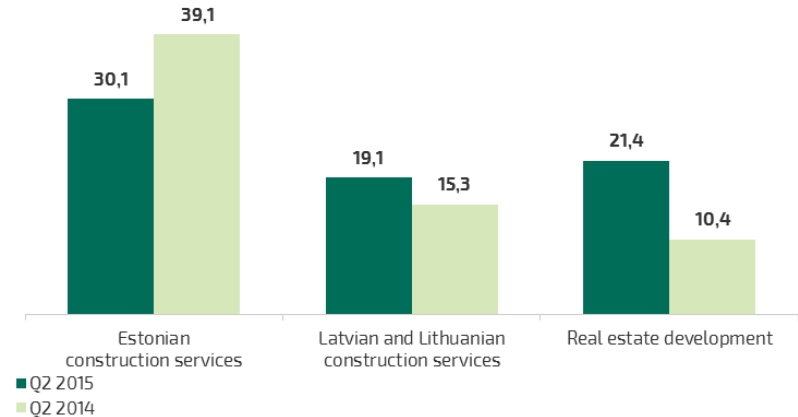
REVENUES

- Real estate development segment thriving as quarterly revenues are up by 107.0% y-o-y. Mainly related to sales of apartments in more exclusive developments.
- Latvian and Lithuanian construction service segment revenues increase (up by 24.0%) and Estonian construction service segment decreases (down by 23.0%) as anticipated.

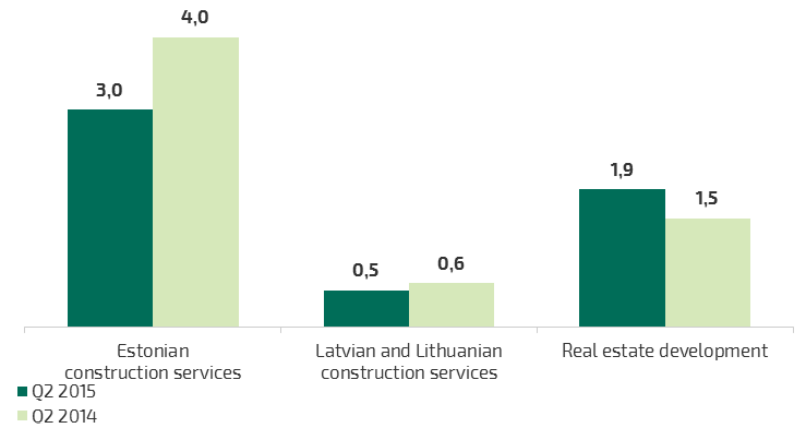
GROSS PROFIT

- Gross margin down from 9.5% to 7.6% y-o-y.
- Main contribution still from Estonian construction service segment (54.5% of total), followed by real estate development and Latvian and Lithuanian construction service and segments (35.6 and 9.9% respectively).
- Real estate development segment gross margin decline (down 5.6 pp) as we sold some apartments in our own development projects with lower return, that were started at a time, in order to create the basis for improving future return on capital. Each real estate development project return is influenced by project specific cost structure, incl. the cost of land.

GROUP QUARTERLY REVENUE BY SEGMENT
in million euros



GROUP QUARTERLY GROSS PROFIT BY SEGMENT
in million euros

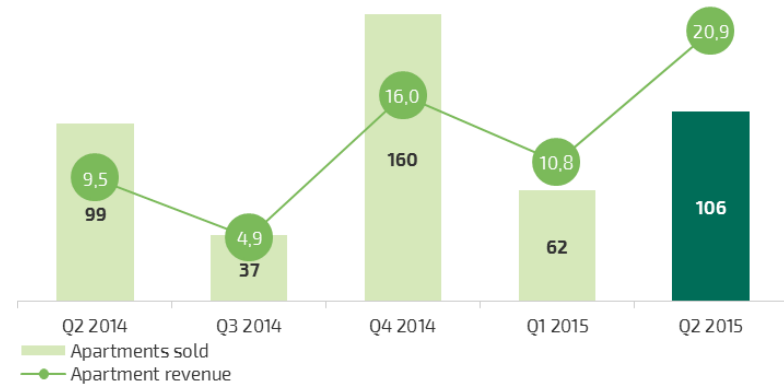


Real estate development - apartments

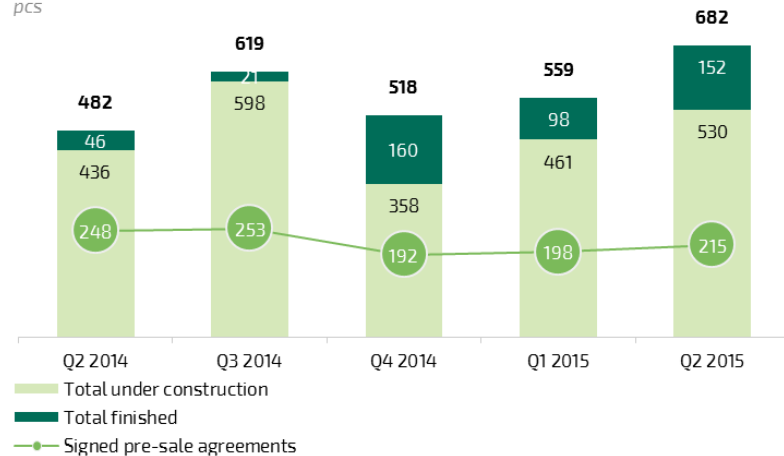
Good reservation and conversion rate in the launched projects. Closely monitoring increased supply in Tallinn and Vilnius, to be prepared for longer sales periods.

- 57.4% increase of revenues compared to 6M 2014, however lower level of units (168 pcs compared to 198 pcs in 6M 2014). Revenue growth mainly attributable to apartments sold in a more exclusive development project than in average.
- Construction of 335 apartments launched during 6M 2015 (6M 2014: 136; 2014: 369), Q2 2015 launched 232.
- 467 apartments on active sale (30.06.2014: 234; 31.12.2014: 326), out of which 45% launched in Q2.
- Plan to launch construction of 500-550 new apartments in 2015 and total investment in apartment construction will be in the range of EUR 45-50m.
- During 6M 2015 new land plot acquisitions in amount of EUR 6.6m in Estonia (6M 2014: EUR 1.2m). Additionally a notarized contract of sale of registered immovables signed to realise the option agreement for EUR 4.0m and a contract to acquire 1.7 hectares of land in Noblessner quarter by a joint venture.

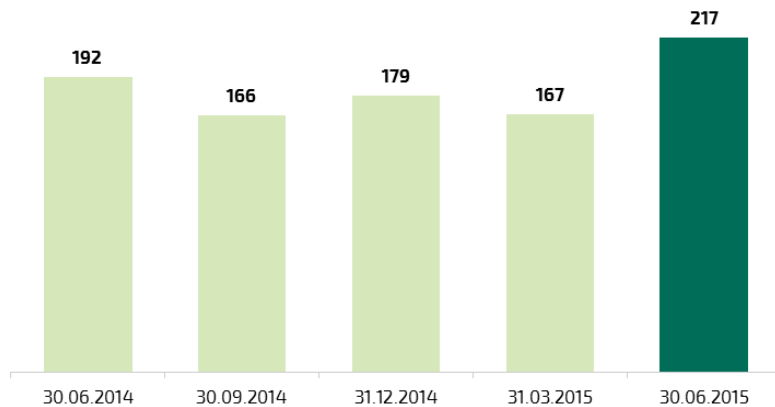
APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros



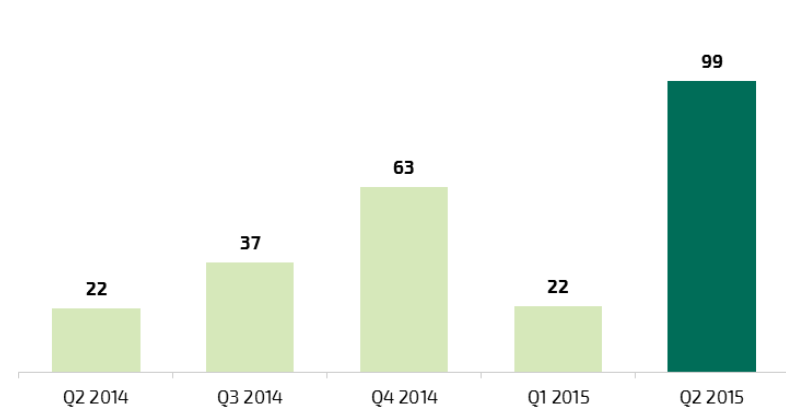
GROUP APARTMENTS INVENTORY
pcs



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

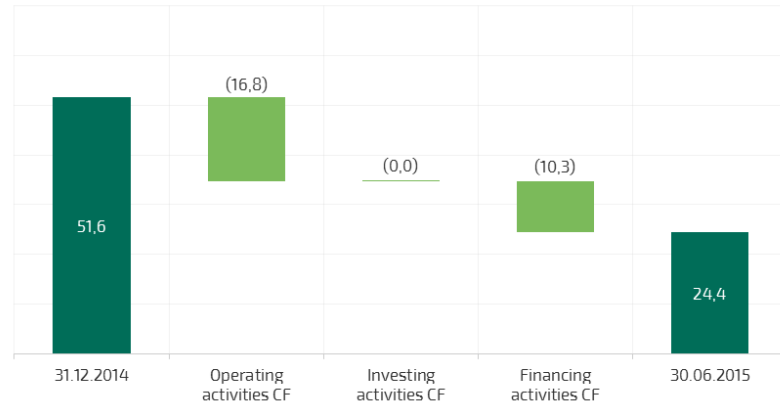


NEW CONTRACTS SIGNED
during the period, in million euros

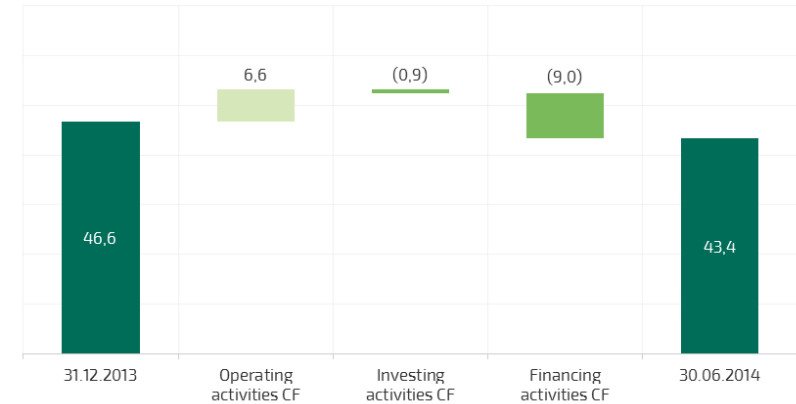


- Secured order book 13.3% higher compared to same period last year at EUR 217.2m (30.06.2016: EUR 191.6m).
- Q2 2015 new contracts signed EUR 98.9m vs EUR 21.7m in Q2 2014. Major project for design and construction of shopping and entertainment centre T1 in Tallinn for EUR 70.0m signed in Q2 2015.
- 6M 2015 private sector orders account for the majority proportion of new contracts secured. The continuing low level of public tenders due to delays with opening of new EU funding period. Secured order book constitutes approx. 75% of private sector orders.
- Challenge for next 12 months to maintain the group's secured order book at the level of 2014 or growing it.
- Merko is 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. First contract in Finland for pile works in amount of EUR 3.0m signed in Q2 2015.

6M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros

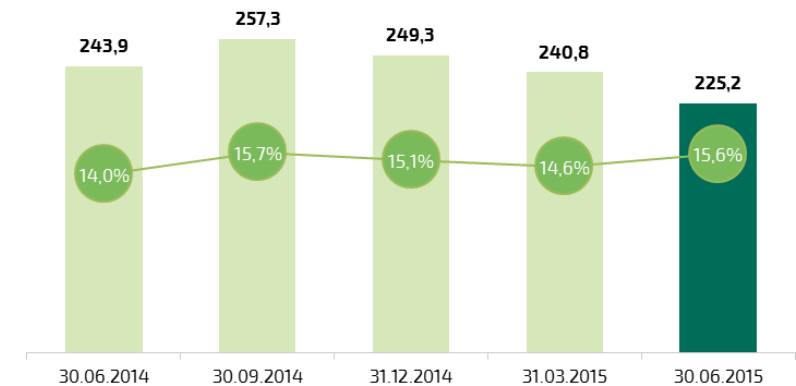


6M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



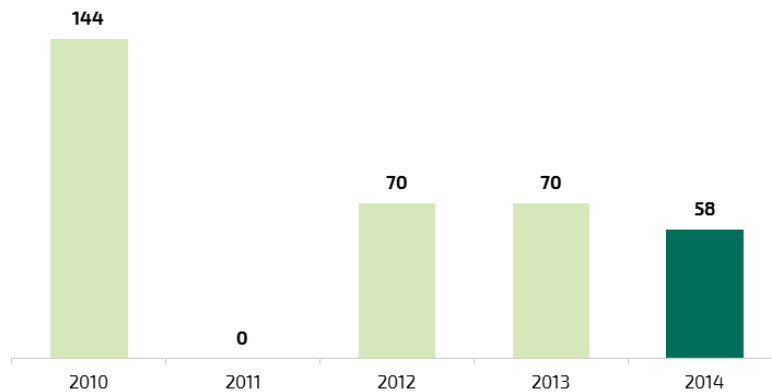
- Group's liquidity position at a lower level, cash at EUR 24.4m (31.12.2014: EUR 51.6m) mainly due to investments in land, release of option and dividend payment in Q2 2015.
- The net debt amounted to EUR 10.7m and debt ratio at modest level of 15.6% (31.12.2014: EUR -13.9m and 15.1%). Strong liquidity buffer as group is still self-funding large proportion of its development projects and not used any overdraft facilities.
- Current assets are at 2.5x current liabilities (31.12.2014: 2.3x).
- Equity at 54.3% (31.12.2014: 51.0%).

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

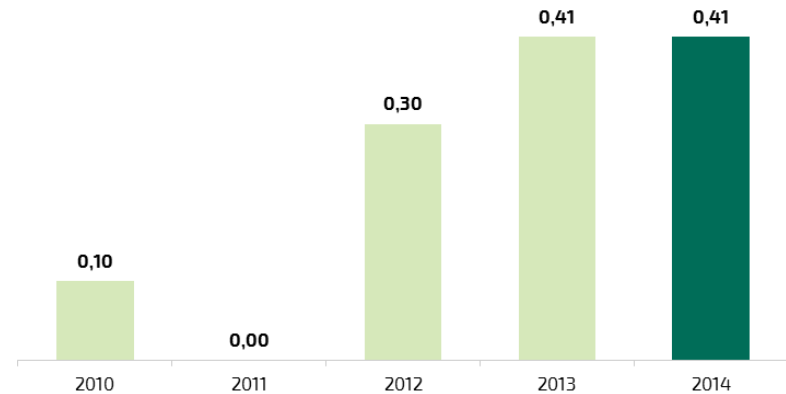


Dividend and share capital reduction

DIVIDEND RATE
percentages

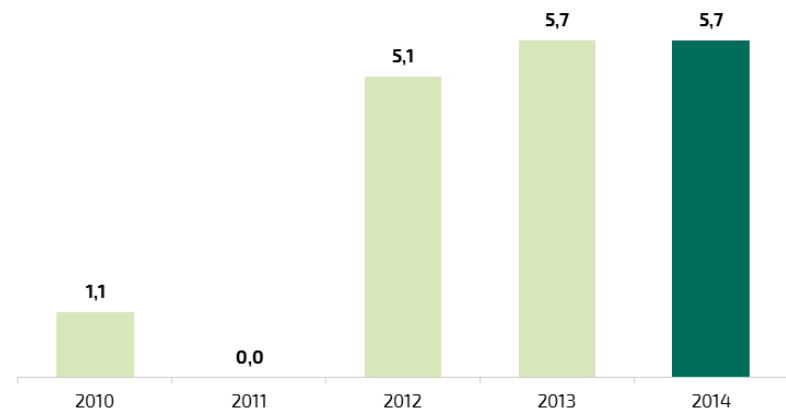


DIVIDEND PER SHARE
in euros



- Dividend pay-out ratio according to long-term financial objectives: 50-70% of the annual profit.
- EUR 7.3 million dividends (EUR 0.41 per share) paid in Q2 2015.
- The registration of share capital reduction in the amount of EUR 4.1 million (EUR 0.23 per share), as decided by AGM in April 2015, is in progress. The payment expected in Q4 2015.

DIVIDEND YIELD*
percentages



* Using share price as at 31.12

Stock Exchange overview

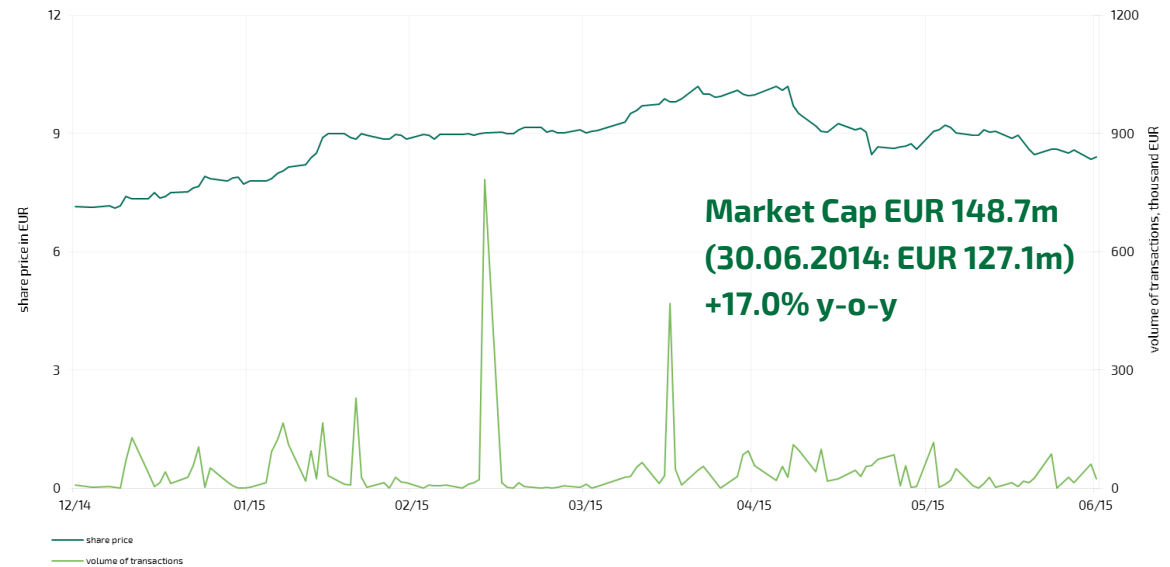
P/B RATIO
times



P/E RATIO
times



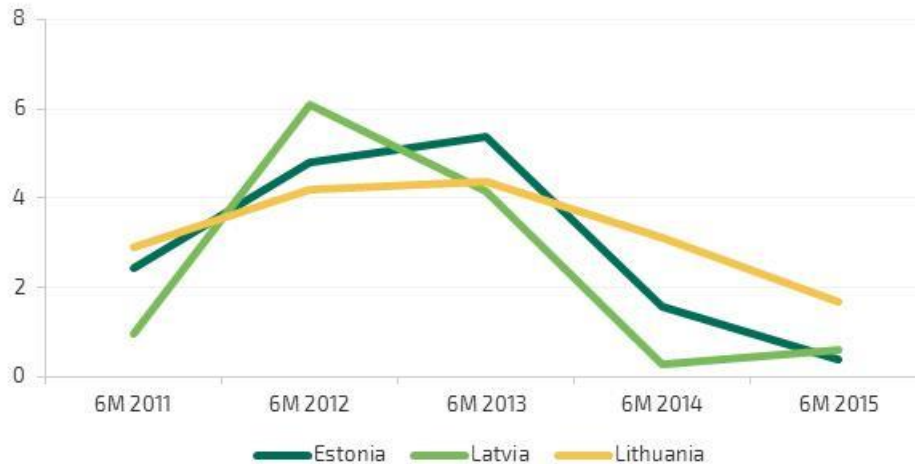
1,566 shareholders
+10.5% from 31.12.2014



Shareholders

Shareholders	No of shares	% of total 30.06.2015	% of total 31.03.2015	Variance
AS Riverito (management)	12 742 686	71,99%	71,99%	-
ING Luxembourg S.A. AIF Account	974 126	5,50%	5,50%	-
Firebird Republics Fund Ltd	395 704	2,24%	2,24%	-
Skandinaviska Enskilda Banken S.A.	269 122	1,52%	1,77%	-44 952
Skandinaviska Enskilda Banken AB, Swedish clients	228 501	1,29%	1,42%	-22 771
Firebird Aurora Fund Ltd	220 519	1,25%	1,25%	0
Skandinaviska Enskilda Banken AB, Finnish clients	170 642	0,96%	1,09%	-22 227
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	142 622	0,81%	0,81%	-515
Total largest shareholders	15 444 960	87,26%	87,77%	-90 465
Other shareholders	2 255 040	12,74%	12,23%	90 465
Total shares	17 700 000	100,00%	100,00%	

6M CHANGE IN CONSTRUCTION PRICE INDEX
percentages



Source: local statistical services

CONSTRUCTION CONFIDENCE INDICATOR
difference between percentages of pos. and neg. responses



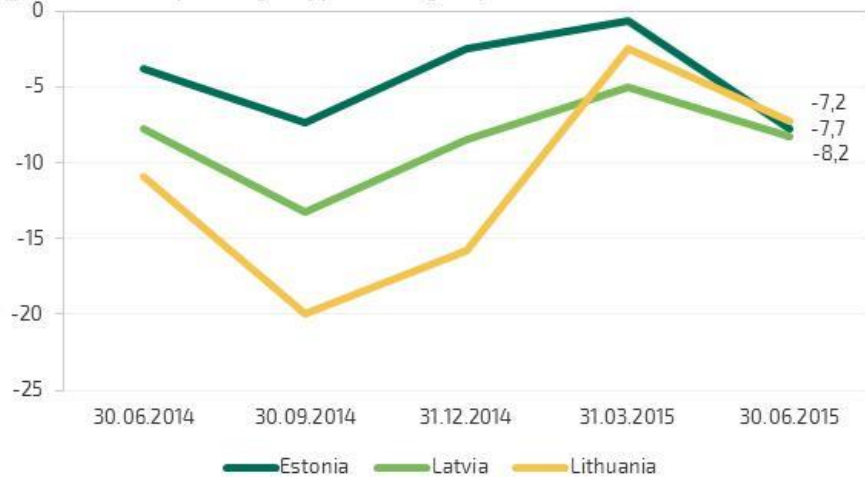
Source: local statistical services

- Marginal increase in construction prices, main impact due to labour force costs. No significant pressure on input prices expected as weak outlook for overall market growth during 2015.
- Confidence levels continue to be unfavourable in all three Baltic states. Aggressive pricing, high risks taken at tender submissions.
- Public sector orders continue to be at a modest level with regard to external networks and due to new EU funding period.
- Commercial real estate development is limited by the lack of developers own equity and the weakened investment confidence. Development projects are optimised.
- Housing development has supported construction market, particularly in Lithuania.

Housing market in Baltics

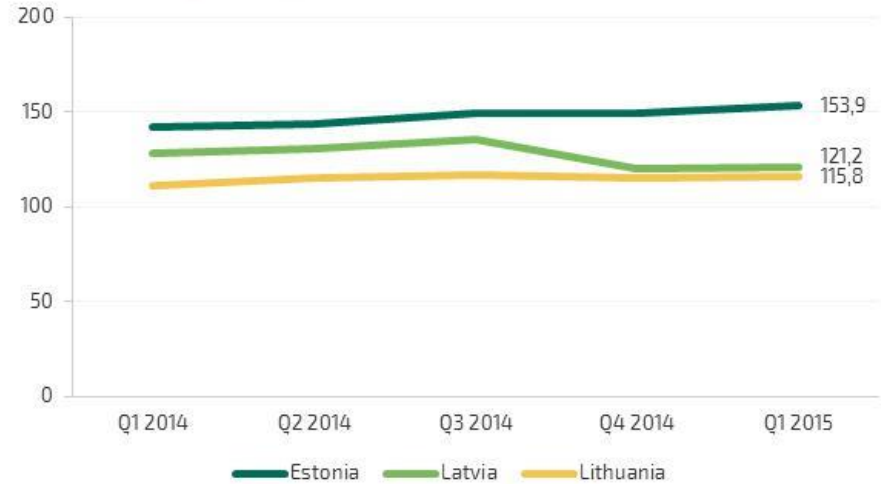
CONSUMER CONFIDENCE INDICATOR

difference between percentages of pos. and neg. responses



Source: Local statistical services

HOUSE PRICE INDEX (2010=100)



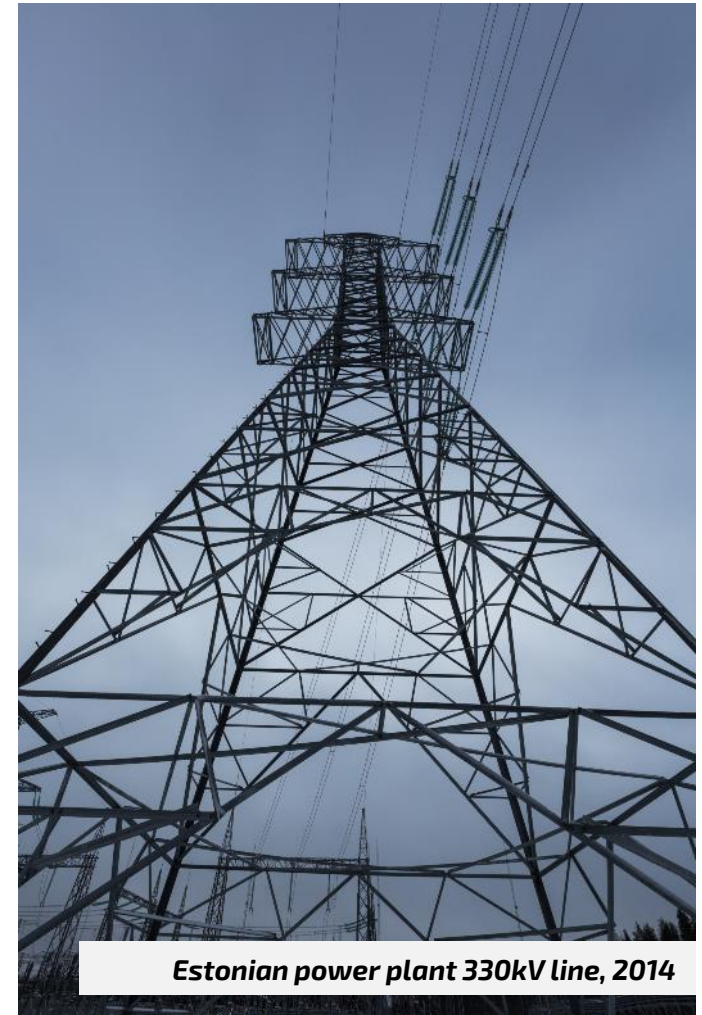
Source: Eurostat

- Consumer confidence at a same level.
- Demand remains for good quality and optimal price level residential premises in all capital cities.
- Interest rates on mortgages remained on a low level, consumers accessing the financing at a good level.
- Prices remained relatively stable over last 12 months in Estonia and Lithuania. Slight decrease in prices during Q4 2014 in Latvia due to euro and changes related to resident permits.
- Apartment markets more active in Tallinn and Vilnius compared to Riga.

Orders not increasing and pricing competition tightening in Baltic construction market

Focus for next year: private sector orders and apartment development + internal efficiency

- Private sector focus in general construction. Increased effort on design and built contracts with aim to provide optimal outcome for the clients.
- For selected clients, who order construction services, and at acceptable conditions possibility to offer co-financing.
- Continuing new apartment development: 2015 plan to invest 45-50 million euros.
- Elering and Eesti Energia investments will not decrease in the near future, supports the electrical engineering market.
- Cost efficiency in-lined with the volumes of construction orders. Development possibilities for the best project managers and engineers.



Long term outlook

Long term outlook: the leading Baltic construction and development business

- Post 2015-2016 EU funds will support the increase in civil and public sector building orders.
- Strengthen our position as leading apartment developer in the Baltic. We develop modern and quality living environments.
- Objective to grow in Lithuania.
- Tax and regulatory developments support more level playing field.
- Develop new capabilities: as example model designing.
- Continue ascertain our competitive advantages in Finland and Norway at an acceptable risk level. Objective to earn revenues from new markets during 2015-2016.





The largest listed construction company in the Baltics

Wide scope of construction services:

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

Estonian construction services (56% of revenue), Latvian and Lithuanian construction services (26%), Real Estate Development (18%)



Share quoted on Nasdaq OMX Tallinn since 1997

Competitive advantages:

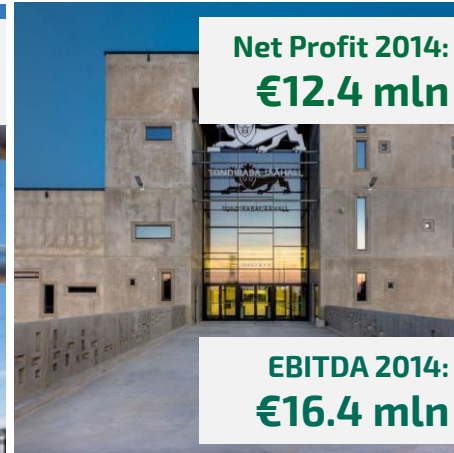
- Broad range of construction services and products, comprehensive solutions offered to clients
- Experienced project managers and engineers
- Longstanding experience on the subcontractors and suppliers market
- Innovative technological approaches and construction solutions
- Strong financial capability
- Inventory of residential development projects



Revenue in 2014
€252.3 mln



31.12.2014:
765 employees



Net Profit 2014:
€12.4 mln

EBITDA 2014:
€16.4 mln



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