

# MERKO EHITUS GROUP

## 12 months and Q4 2015 interim report

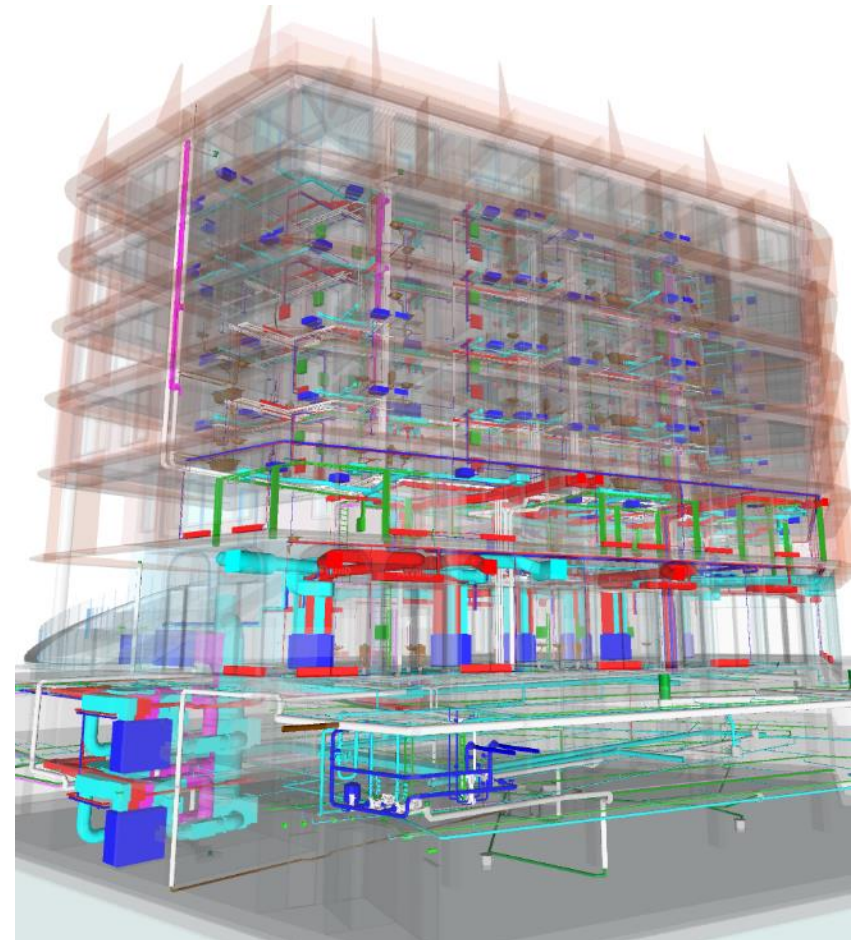
February 2016



- 
- A large, modern, curved building with a glass facade reflecting the sky and sun. The building is the Liepaja Concert Hall. The sun is visible through the glass, creating a bright reflection. The sky is blue with some clouds. The building has a white balcony or walkway on the lower level.
1. Key highlights
  2. Business review
  3. Financial position
  4. Market outlook

# Merko group key highlights 12M 2015

- Revenue EUR 66m in Q4 and 2015 12m EUR 251m remain on par with 2014.
- Q4 profit exceeded expectations.
- Expected growth in revenues and strong performance in Lithuania. Giving continuing construction services revenue growth outside Estonia, approximately 38% (12M 2014: 32%) of total revenues.
- Secured order book up 38% y-o-y. Low level new contracts in Latvia.
- The share of real estate development up to 28% (12M 2014: 18%) of total revenues.
- Sold 403 apartments and started construction of 574 new apartments. New land plot acquisitions in Estonia and Lithuania.



***Merko is actively using Building Information Modeling (BIM) with the intention to offer clients more integraal, higher-quality service and improve the co-operation between different parties.***

# Merko group key financial highlights

<i>EUR millions</i>	12M 2015	12M 2014	Variance	Q4 2015	Q4 2014	Variance
Revenue	<b>251.0</b>	252.3	-0.5%	<b>66.4</b>	70.1	-5.2%
Gross profit	<b>23.0</b>	24.7	-7.1%	<b>7.7</b>	8.5	-9.1%
Gross profit margin (%)	<b>9.1</b>	9.8	-6.6%	<b>11.6</b>	12.1	-4.2%
EBITDA	<b>15.5</b>	16.4	-5.7%	<b>5.6</b>	6.2	-11.0%
Profit before tax	<b>11.7</b>	13.3	-12.1%	<b>4.7</b>	5.3	-12.3%
Net profit, attr. to equity holders of the parent	<b>10.0</b>	12.4	-19.5%	<b>4.4</b>	4.8	-7.3%
Earnings per share (EPS), in euros	<b>0.56</b>	0.70	-19.5%	<b>0.25</b>	0.27	-7.3%
Secured order book	<b>246.9</b>	179.1	+37.9%	<b>246.9</b>	179.1	+37.9%
Employees	<b>791</b>	765	+3.4%	<b>791</b>	765	+3.4%

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

# Revenues and gross profit Q4 2015

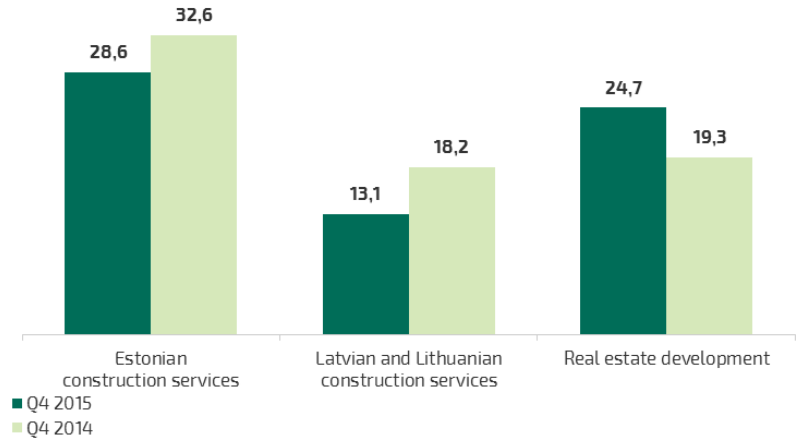
## REVENUES

- Real estate development segment thriving as quarterly revenues are up by 28% y-o-y. Mainly related to handing over of more units.
- Estonian construction service segment decreases (down by 12%) as anticipated and Latvian and Lithuanian construction service segment revenues decrease (down by 17%) due to smaller order book than the previous year.

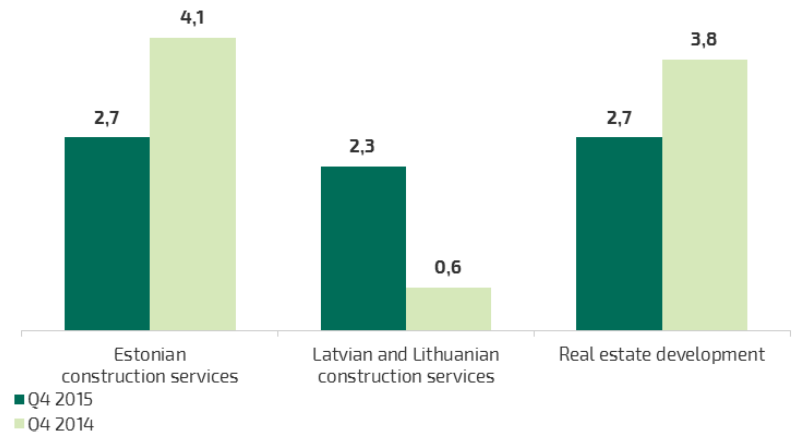
## GROSS PROFIT

- Gross margin of 12% at the same level. Supported by real estate segment.
- Main contribution still from Estonian construction service segment (35% of total), followed close by real estate development and Latvian and Lithuanian construction service and segments.
- Each real estate development project return is influenced by project specific cost structure, incl. the cost of land. Q4 profitability impacted by impairments carried out.

GROUP QUARTERLY REVENUE BY SEGMENT  
in million euros



GROUP QUARTERLY GROSS PROFIT BY SEGMENT  
in million euros

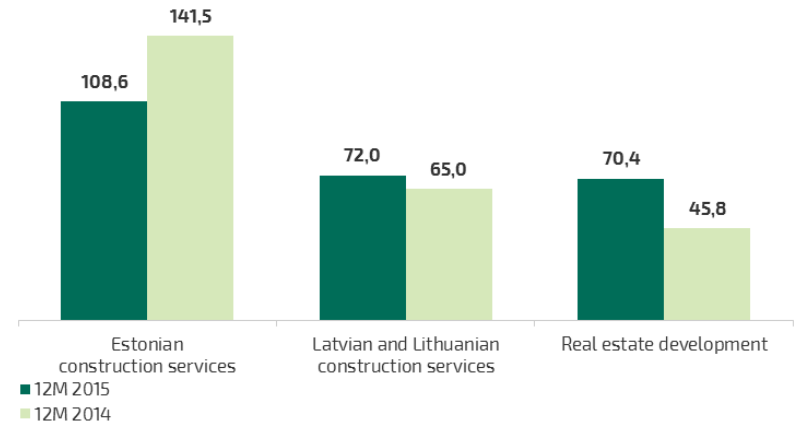


# Revenues and gross profit 12M 2015

## REVENUES

- Strong performance from real estate development (revenues up by 54% y-o-y), Latvian and Lithuanian construction service segment (up by 11%).
- Revenues from our first electrical engineering project in Latvia and pile works contract in Finland.
- Decrease of Estonian construction service segment (down by 23%). Changes in business mix, no comparable amount of engineering projects and lower level of activities in buildings construction compared to last year.

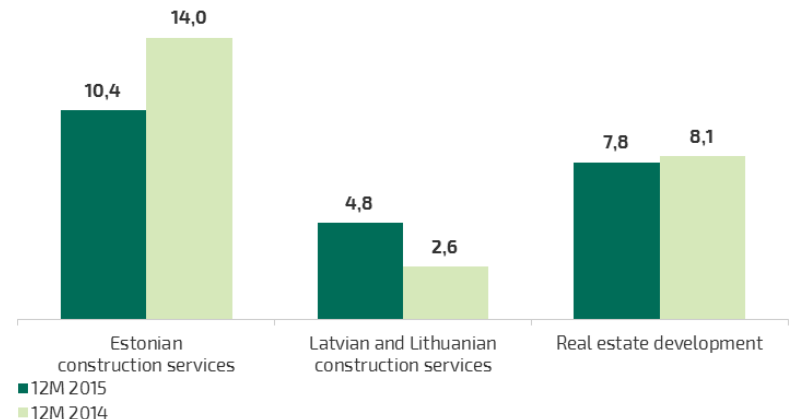
GROUP REVENUE BY SEGMENT  
in million euros



## GROSS PROFIT

- Profitability still under pressure, gross margin down from 9.1% to 9.8% y-o-y.
- Main contribution from Estonian construction service segment (45% of total), with real estate development segment amounting to 34% and Latvian and Lithuanian construction service to 21%.
- Good performance from both construction services segments.

GROUP GROSS PROFIT BY SEGMENT  
in million euros

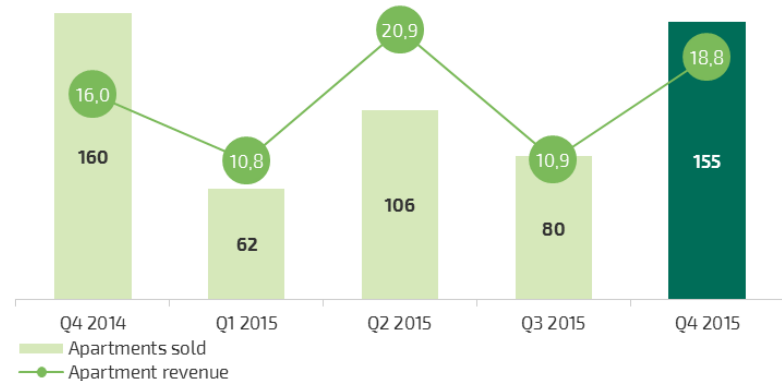


# Real estate development - apartments

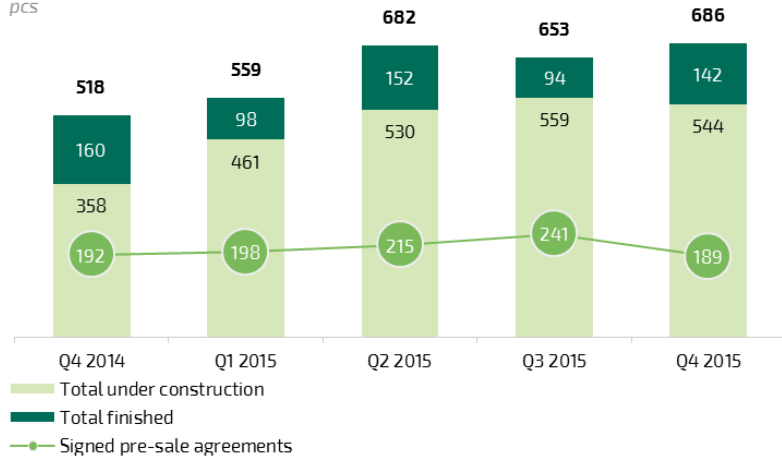
**Q4 projects launched as planned. Closely monitoring increased supply in Tallinn and Vilnius, to be prepared for longer sales periods.**

- 403 apartments sold in 12M (12M 2014: 395)  
Revenue growth mainly attributable to apartments sold in a more exclusive development project than in average.
- Construction of 574 apartments launched during 12M 2015 (2014: 369).
- 498 apartments on active sale (31.12.2014: 326), out of which 61% in Estonia.
- During 12M 2015 new land plot acquisitions for EUR 12m including EUR 7m in Estonia and EUR 5m in Lithuania (12M 2014: EUR 3.2m). Release of option agreement for EUR 4.0m and acquisition of 1.7 hectares in Noblessner quarter by a joint venture.

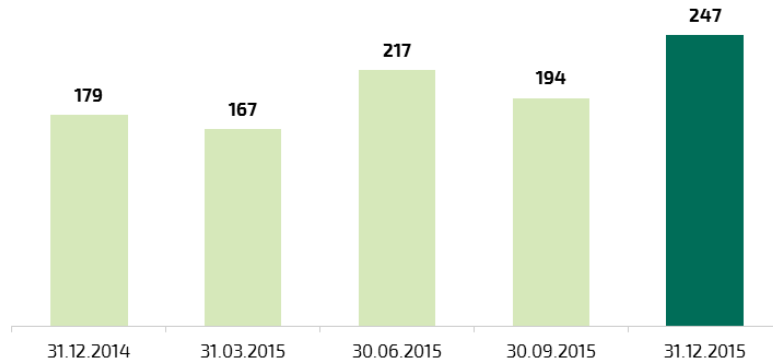
APARTMENTS SOLD AND APARTMENT REVENUE  
pcs / in million euros



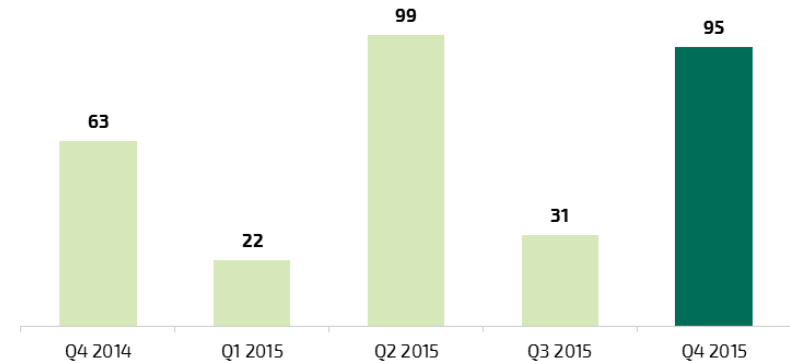
GROUP APARTMENTS INVENTORY  
pcs



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



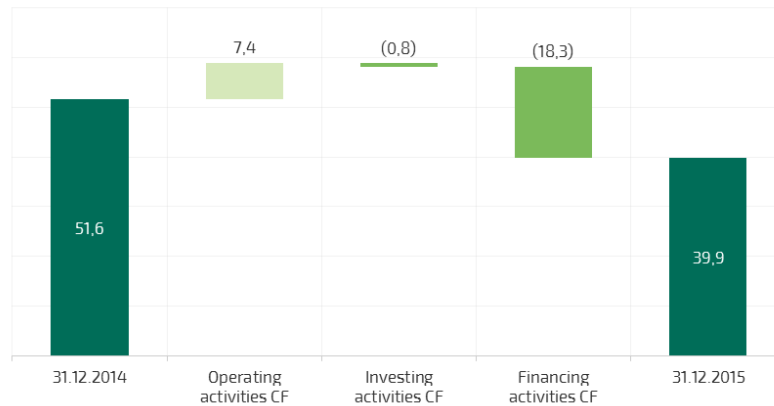
NEW CONTRACTS SIGNED  
during the period, in million euros



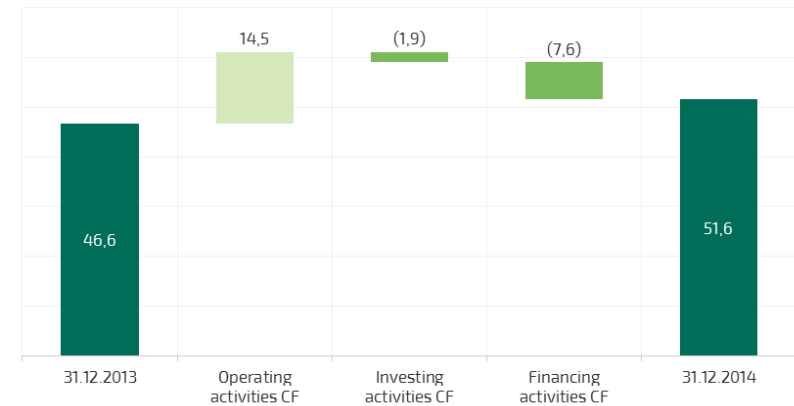
- Secured order book 38% higher y-o-y.
- Total new contracts signed 12M 2015 EUR 247m (12M 2014: 170m)
- Q4 2015 new contracts EUR 95m. Additional 1 large contract for EUR 7m signed at the beginning of Q1 2016.
- Good rate of new contracts from Estonia. In Latvia not a comparable level as in 2014, yet we continue to be very active in the Latvian market.
- Construction orders have dropped in engineering construction as expected. 2015 public orders at a very low level. Share of public orders only 20% from secured order book (12M 2014: 50%).



12M CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros

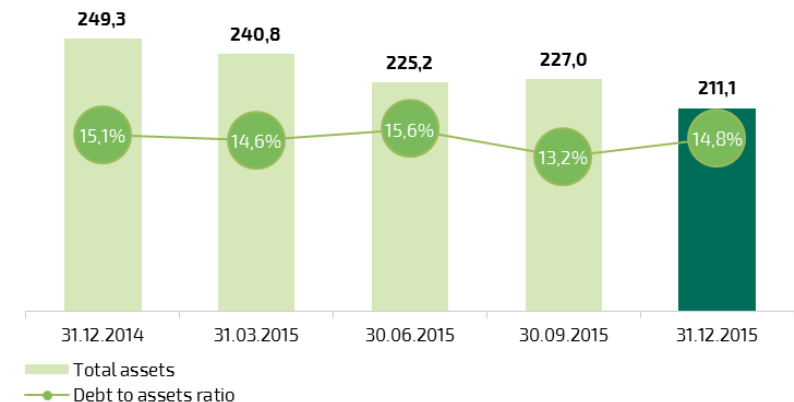


12M CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



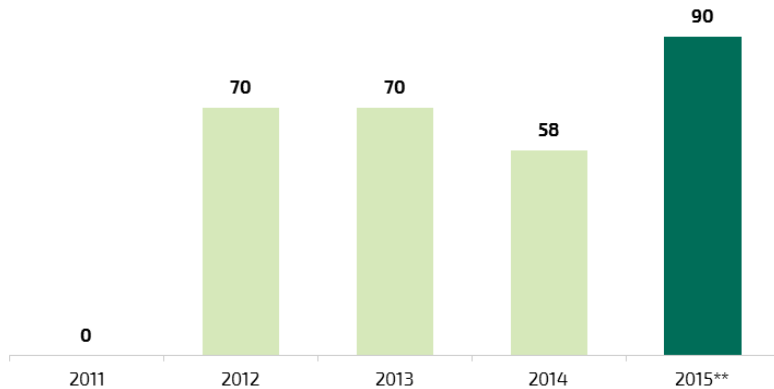
- Group's liquidity position impacted by increased level of investments in land EUR 12m, release of option (EUR 4m), dividend payment in Q2 2015 (EUR 7m) and share capital reduction payment in Q4 2015 (EUR 4m).
- The net debt amounted to EUR -9m and debt ratio at modest level of 15% (31.12.2014: EUR -14m and 15%). Strong liquidity buffer as group is still self-funding some proportion of its development projects and not used any overdraft facilities.
- Current assets are at 3.2x current liabilities (31.12.2014: 2.3x).
- Equity at 60% (31.12.2014: 51%).

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

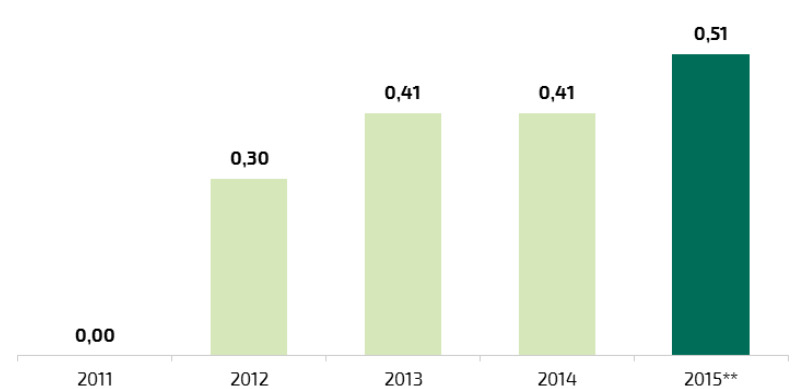


# Dividend and share capital reduction

DIVIDEND RATE  
percentages

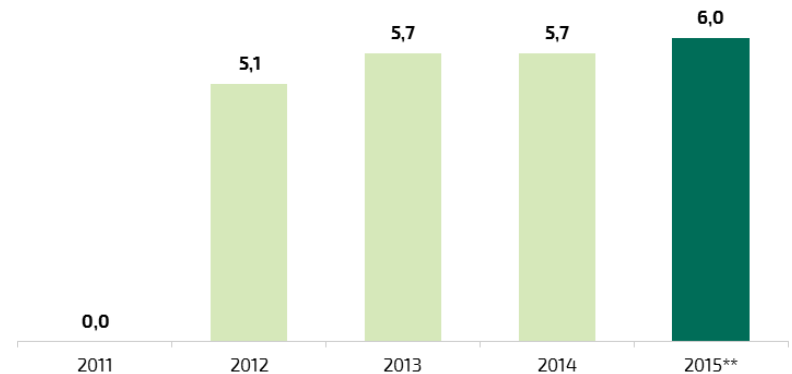


DIVIDEND PER SHARE  
in euros



- EUR 7m dividends (EUR 0.41 per share) paid in Q2 2015 and EUR 4m share capital reduction (EUR 0.23 per share) paid in Q4 2015. Including share capital reduction the 2014 pay-out ratio is 91% and yield of 9%.
- **The Management Board proposes to pay the shareholders the total amount of EUR 9m as dividends (EUR 0.51 per share) in 2016.**
- Dividend rate 90% over target of 50-70% as construction orders are limited, prices are down and the supply for apartments is increasing – improving the profitability is complicated in such market conditions.

DIVIDEND YIELD\*  
percentages

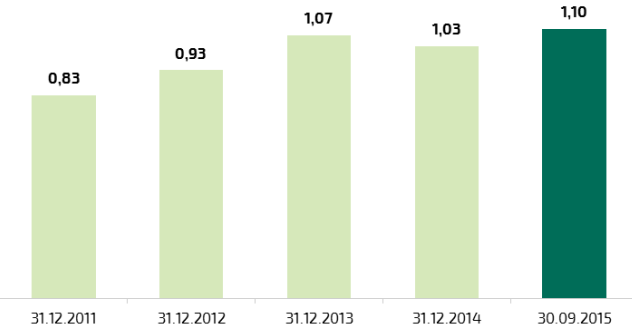


\* Using share price as at 31.12

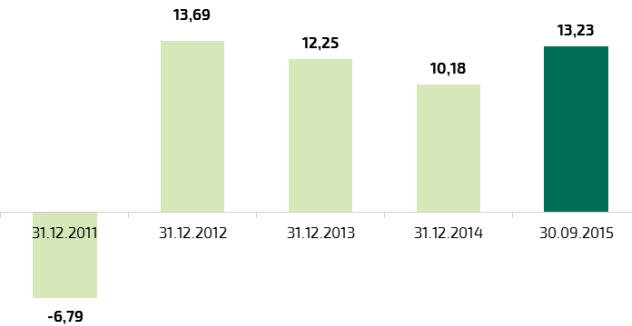
\*\* 2015 figures based on Management Board proposal

# Stock Exchange overview

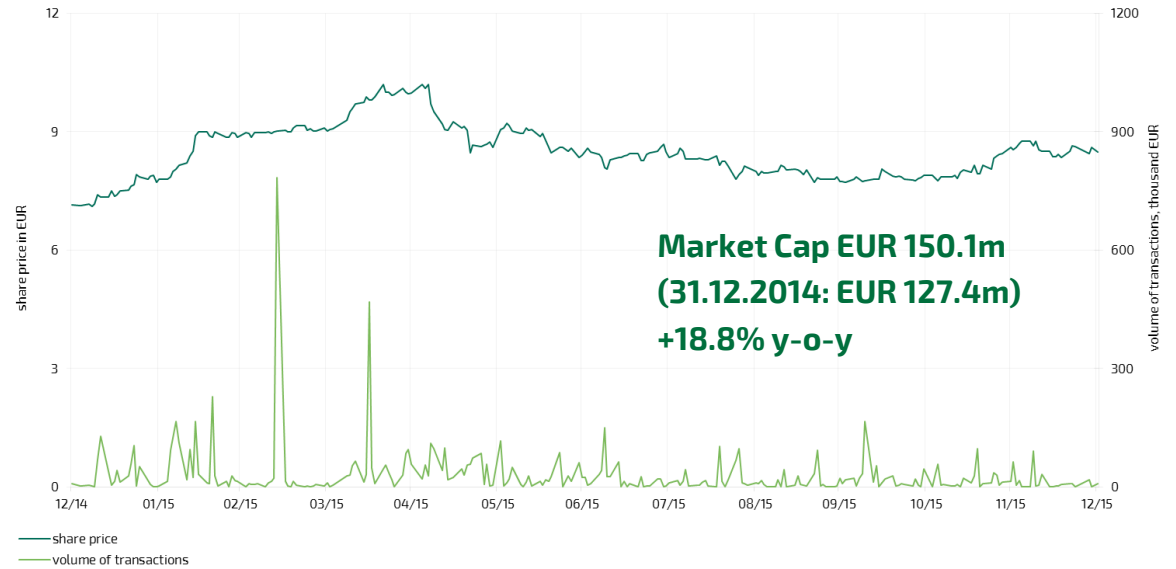
P/B RATIO  
times



P/E RATIO  
times

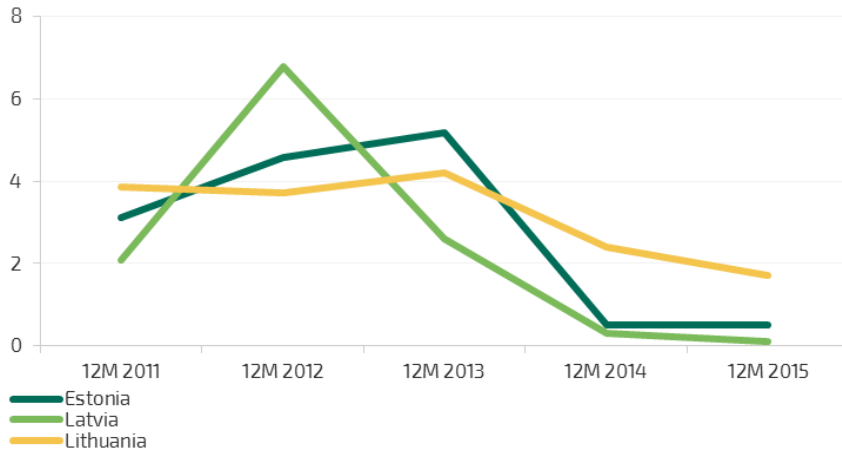


**1,624 shareholders**  
**+14.1% from 31.12.2014**



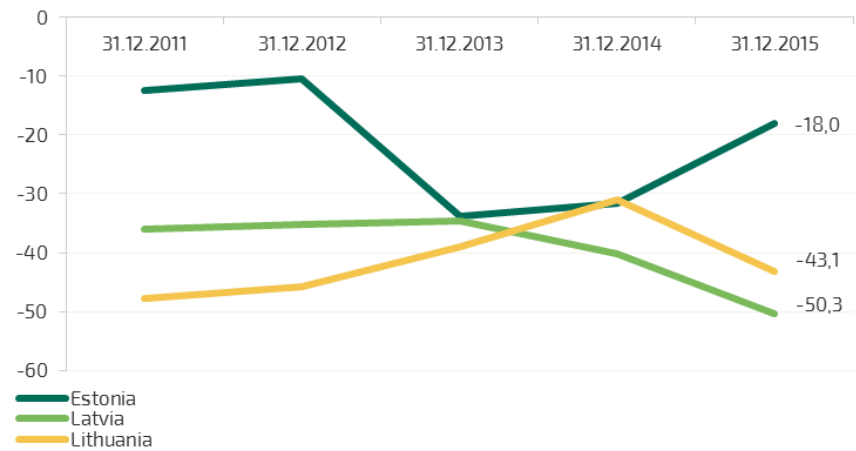
Shareholders	No of shares	% of total 31.12.2015	% of total 30.09.2015	Variance
AS Riverito (management)	12 742 686	71,99%	71,99%	-
ING Luxembourg S.A. AIF Account	974 126	5,50%	5,50%	-
Firebird Republics Fund Ltd	395 704	2,24%	2,24%	-
Skandinaviska Enskilda Banken S.A.	261 222	1,48%	1,52%	-7 900
Skandinaviska Enskilda Banken AB, Swedish clients	256 653	1,45%	1,33%	20 432
Firebird Aurora Fund Ltd	220 519	1,25%	1,25%	-
Skandinaviska Enskilda Banken AB, Finnish clients	167 966	0,95%	0,96%	-2 676
State Street Bank and Trust Omnibus Account a Fund No OM01	153 018	0,86%	0,86%	-
SEB Elu- ja Pensionikindlustus AS	145 020	0,82%	0,84%	-4 000
Clearstream Banking Luxembourg S.A. clients	141 709	0,80%	0,81%	-1 078
<b>Total largest shareholders</b>	<b>15 458 623</b>	<b>87,34%</b>	<b>87,30%</b>	<b>4 778</b>
Other shareholders	2 241 377	12,66%	12,70%	-4 778
<b>Total shares</b>	<b>17 700 000</b>	<b>100,00%</b>	<b>100,00%</b>	

12M CHANGE IN CONSTRUCTION PRICE INDEX  
percentages



Source: Local national statistical offices

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



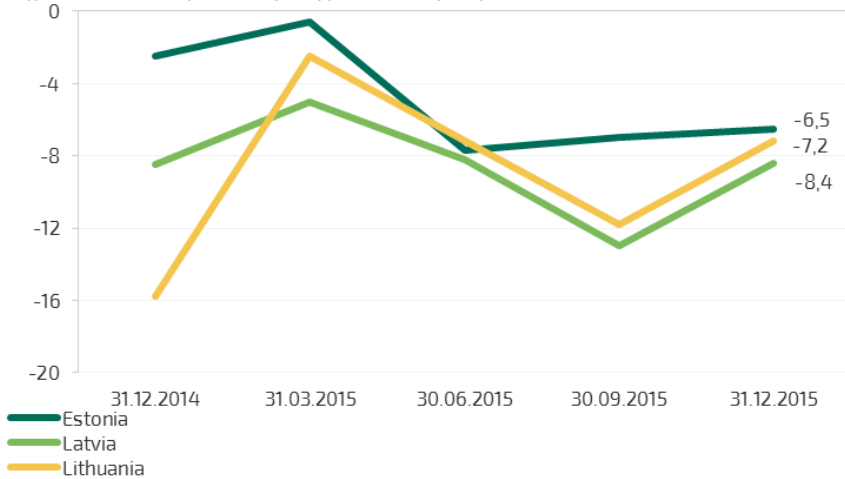
Source: European Commission Directorate-General for Economic and Financial Affairs

- 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.
- Confidence levels continue to be unfavourable in all three Baltic states. Aggressive pricing, high risks taken at tender submissions.
- Public sector orders at a low level. Private sector modest demand for business premises, investor activity on a moderate level.
- Housing development has supported construction market, particularly in Lithuania.

# Housing market in Baltics

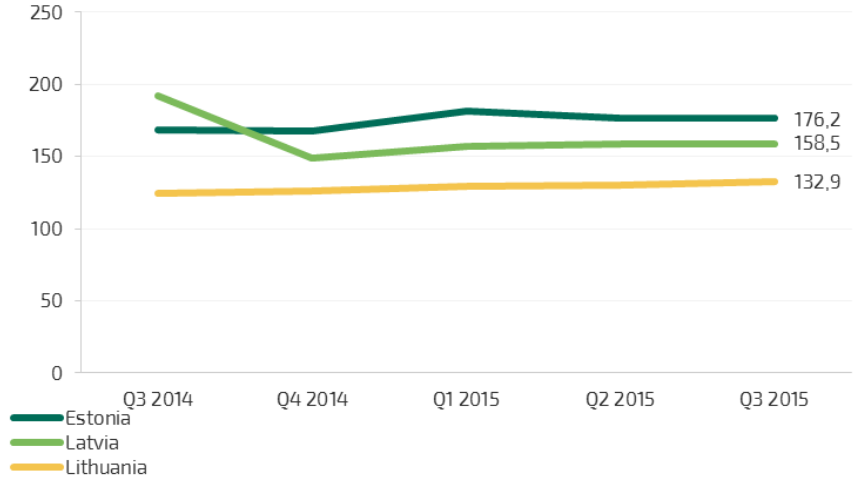
## CONSUMER CONFIDENCE INDICATOR

difference between percentages of pos. and neg. responses



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

## NEW DWELLINGS HOUSE PRICE INDEX (2010=100)

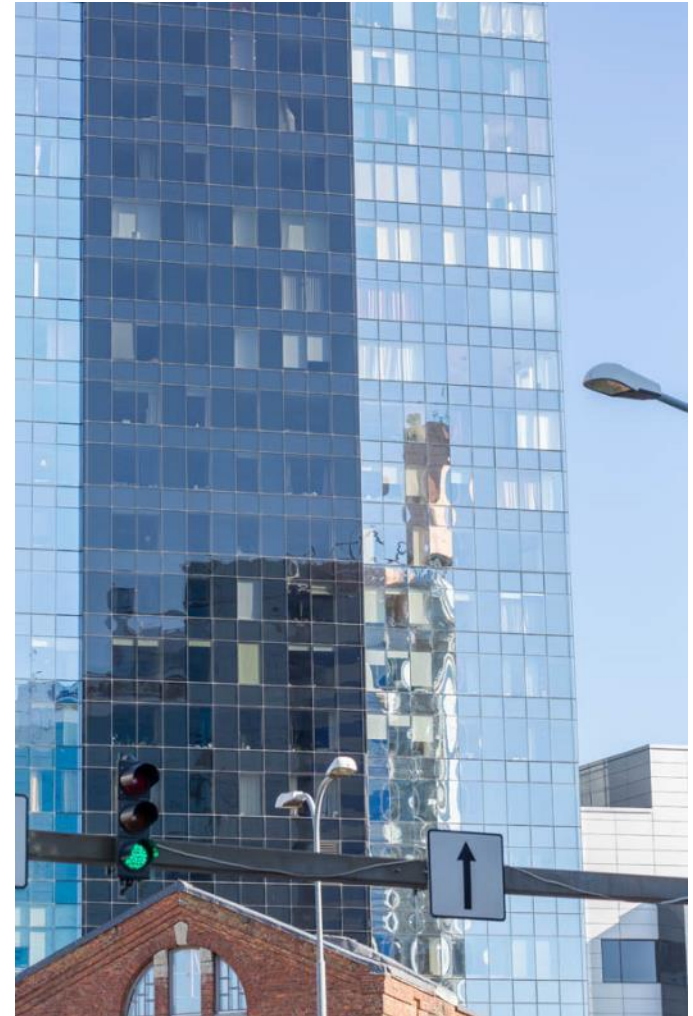


Source: Eurostat

- Demand remains for good quality and optimal price level residential premises in all Baltic capitals.
- Continuing positive macro development supported the residential market - interest rates of mortgages have remained on a low level, consumers' access to financing has remained good.
- Prices remained relatively stable over last 12 months.
- Apartment markets more active in Tallinn and Vilnius compared to Riga.

## 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.
- 2016 still challenging due to timing of EU projects' tendering.
- Strengthen our position as leading apartment developer in the Baltic. We develop modern and quality living environments.
- Solid execution of 2015 secured major projects in Estonia.
- Objective to grow in Lithuania.
- Continue ascertain our competitive advantages in Finland and Norway at an acceptable risk level. Objective to earn revenues from new markets during 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 (43% of revenue), Latvian and Lithuanian construction services (29%), Real Estate Development (28%)



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 2015  
€251 mln



31.12.2015:  
791 employees



Net Profit 2015:  
€10 mln

EBITDA 2015:  
€16 mln



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