

# AS MERKO EHITUS

## 12 months and Q4 2016 interim report

9 February 2017





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# Merko group key highlights

- Revenue EUR 79m in Q4 higher and EUR 252m in 12M on par with 2015.
- Strong apartment sales in Q4.
- As expected growth in revenues from general construction projects in Estonian construction service segment.
- Both Q4 and 12M profitability down. Not satisfied with the profitabilities from the construction segments.
- The group continued to implement its long-term apartments development strategy by investing a total of EUR 73m, including EUR 19m in new land plots.
- Secured order book strong at EUR 270m (up 9% y-o-y).
- The share of real estate development at 31% (12M 2015: 28%) of total revenues.
- 2016 sold 493 apartments and started construction of 344 new apartments.



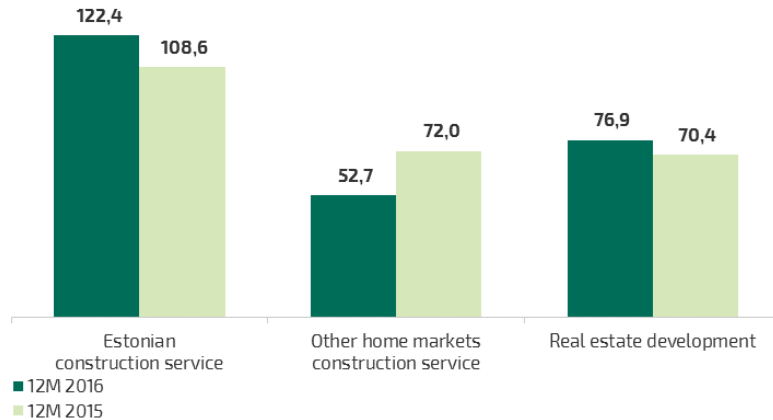
# Merko group key financial highlights

<i>EUR million</i>	<b>12M 2016</b>	12M 2015	Variance	<b>Q4 2016</b>	Q4 2015	Variance
Revenue	<b>252.0</b>	251.0	+0.4%	<b>78.6</b>	66.4	+18.3%
EBITDA	<b>11.2</b>	15.5	-27.7%	<b>2.8</b>	5.6	-49.8%
EBITDA margin (%)	<b>4.4</b>	15.5	-28.0%	<b>3.6</b>	5.7	-57.5%
Operating profit	<b>7.7</b>	12.5	-38.2%	<b>1.6</b>	4.9	-66.2%
Operating profit margin (%)	<b>3.1</b>	5.0	-38.5%	<b>2.1</b>	7.3	-71.4%
Profit before tax	<b>7.3</b>	11.7	-37.7%	<b>1.6</b>	4.7	-66.5%
Net profit, attr. to equity holders of the parent	<b>6.1</b>	10.0	-38.8%	<b>1.4</b>	4.4	-68.3%
Earnings per share (EPS), in euros	<b>0.35</b>	0.56	-38.8%	<b>0.08</b>	0.25	-68.3%
Secured order book	<b>269.6</b>	246.9	+9.2%	<b>269.6</b>	246.9	+9.2%
Employees	<b>797</b>	791	+0.8%	<b>797</b>	791	+0.8%

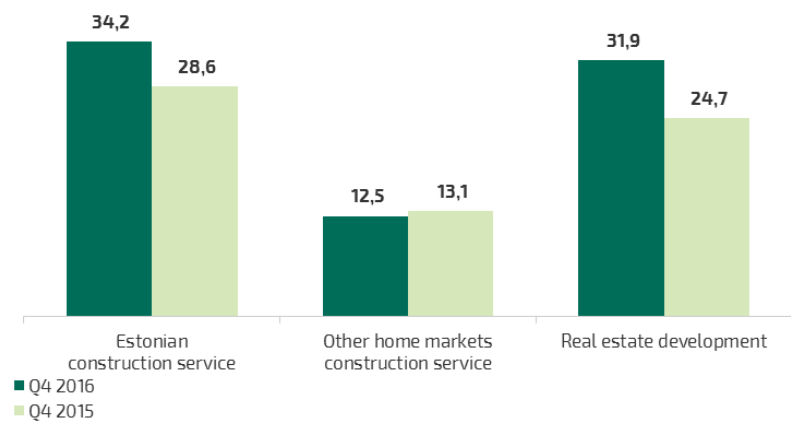
\* Variance calculated based on consolidated financial statements of interim reports.

# Business review 12M and Q4 2016

GROUP REVENUE BY SEGMENT  
in million euros



GROUP QUARTERLY REVENUE BY SEGMENT  
in million euros



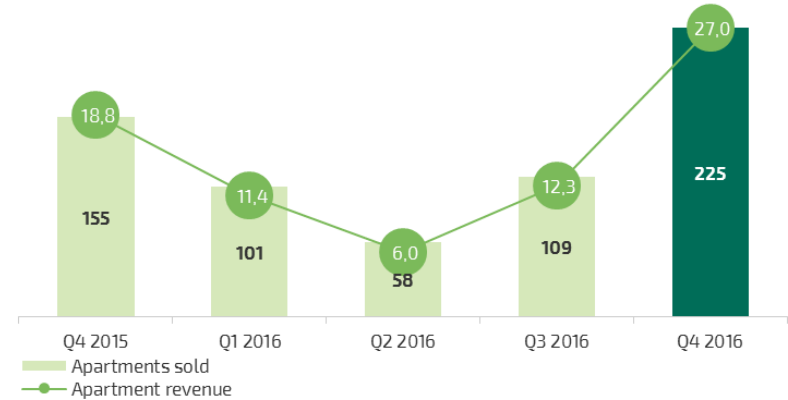
- The growth in residential development and private sector orders allowed us to maintain revenue on last year's level, but we are not satisfied with the profitability on the construction sector.
- The construction services revenue has been held back by slower than planned start of major construction projects and overall construction market that failed to show any growth. Public investments in infrastructure projects have remained in a slump. Additionally decrease of other home markets construction service segment due to lower level of construction work in Latvia and Lithuania.
- Real estate development segment revenues strong in 12M 2016. Supported also by sale of land plots and construction service of joint venture development projects, which give lower margins compared to apartments.
- 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 huge risks. Efficiency and management of contractual risks is becoming increasingly important.

# Real estate development - apartments

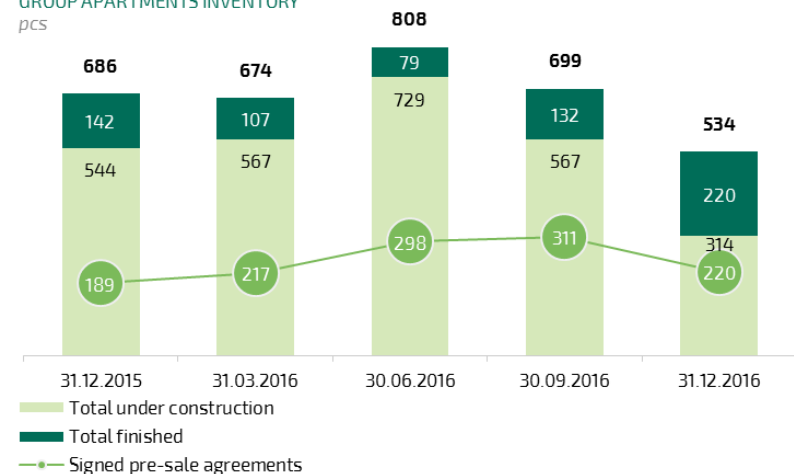
**12M projects launch not as fast as expected. Closely monitoring increased supply in Tallinn and Vilnius, to be prepared for longer sales periods.**

- 493 (incl. 21 in joint ventures) apartments sold in 12M (12M 2015: 403) for EUR 56.6m (12M 2015: EUR 61.4m).
- Construction of 344 apartments (approx. 150 less than planned, due to delays in obtaining building permits) launched during 12M 2016 (12M 2015: 574) and invested EUR 53.6m in apartment construction (12M 2015: EUR 42.4m).
- 2016 new land plot acquisitions for EUR 19m: EUR 17m in Estonia and 2m in Lithuania. Supporting our long-term strategic view in apartments development.
- 314 apartments on active sale out of which 58% in Estonia.
- During 12M 2016 sale of non-strategic land plots for EUR 9.2m, including EUR 6.2m in Estonia (12M 2015: EUR 5.4m), EUR 2.6m in Latvia and EUR 0.4m in Lithuania (12M 2015: EUR 1.2m). Margin of land plot sales below segment average.
- Solid land plot portfolio of EUR 63m. A basis for growth and financial flexibility.

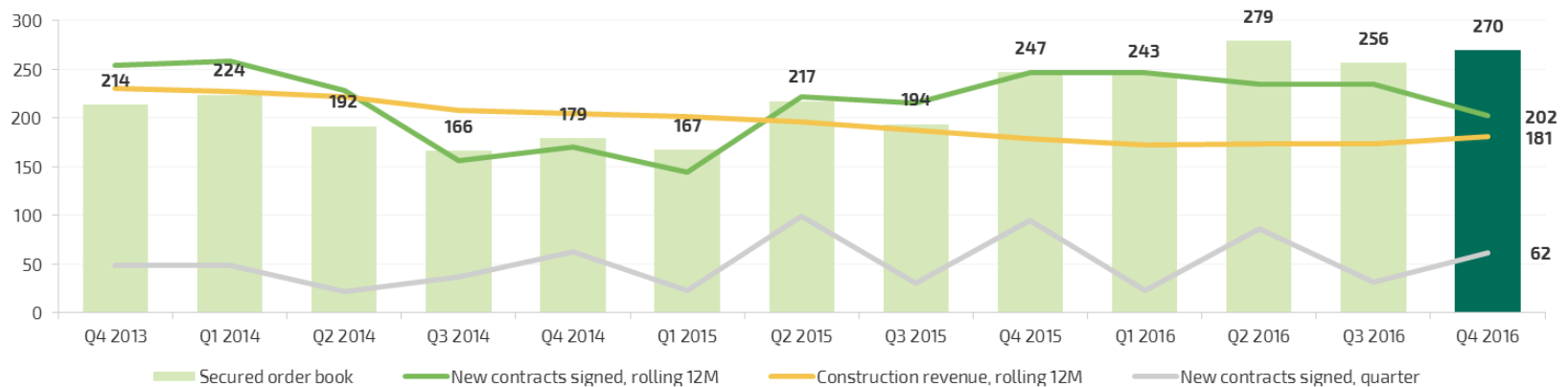
APARTMENTS SOLD AND APARTMENT REVENUE  
pcs / in million euros



GROUP APARTMENTS INVENTORY  
pcs



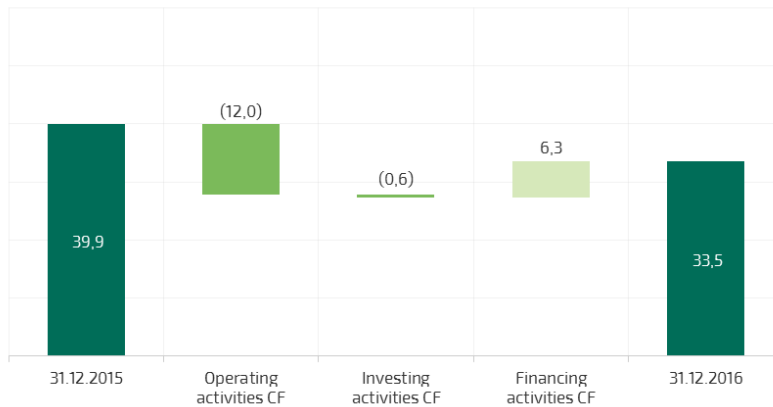
SECURED ORDER BOOK  
in million euros



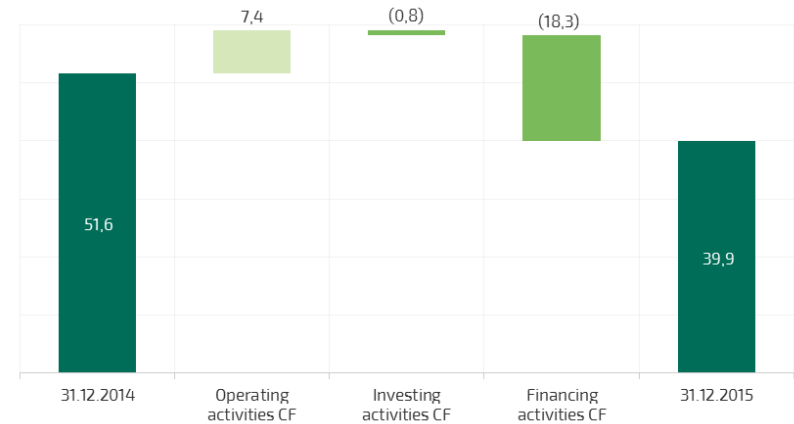
- Secured order book at EUR 270m (31.12.2015: EUR 247m). Level of new contracts in Latvia and Lithuania perceivably better than a year ago.
- 9% higher compared to same period last year.
- Total new contracts signed 12M 2016 EUR 202m (12M 2015: 247m).
- Additional two large contracts for EUR 26m signed at the beginning of 2017 (Lithuania EUR 10.5m and Estonia 15.5m).
- Construction orders have dropped in engineering construction as expected. 2016 public orders still at a very low level, expected to start growing in 2017. Share of public orders at approx. 30%.

# Financial position

12M CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros

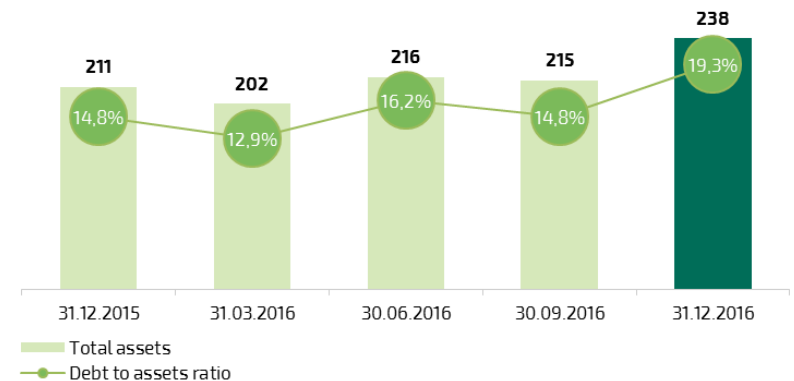


12M CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



- Despite high level investments in Q4 the liquidity position maintained strong, cash at EUR 33.5m (31.12.2015: EUR 39,9m).
- The net debt amounted to EUR 13m and debt ratio at 19% (31.12.2015: EUR -9m and 15%). 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 2.9x current liabilities (31.12.2015: 3.2x).
- Equity at 52% (31.12.2015: 60%).

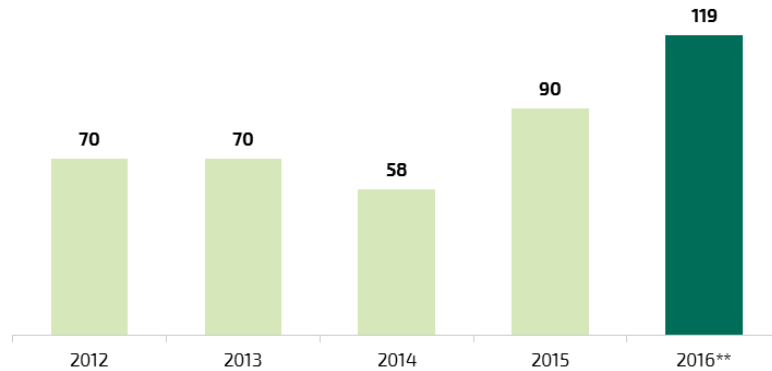
TOTAL ASSETS AND DEBT TO ASSETS RATIO  
in million euros / percentages



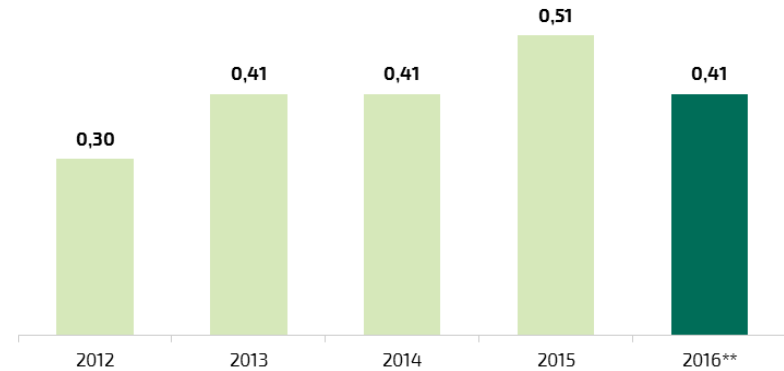


# Dividend proposal

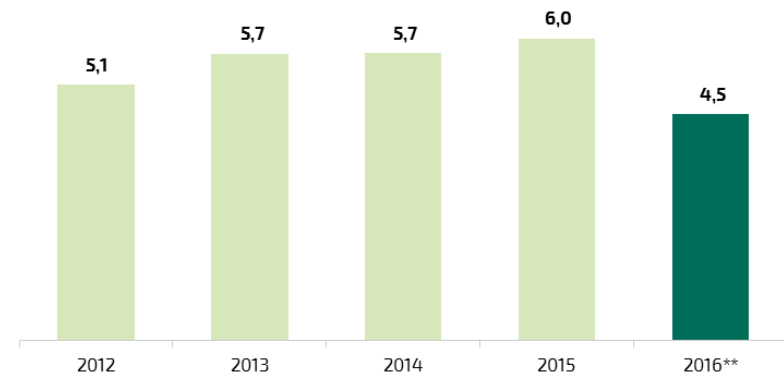
DIVIDEND RATE  
percentages



DIVIDEND PER SHARE  
in euros



DIVIDEND YIELD\*  
percentages



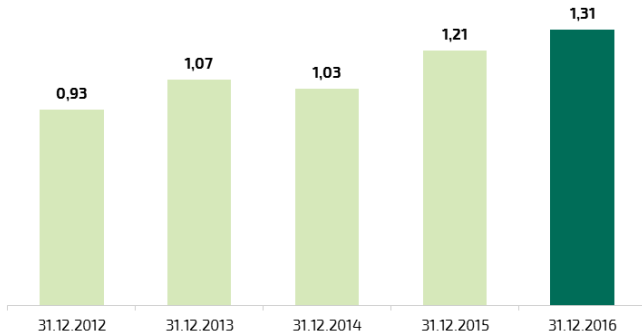
- **The Management Board proposes to pay the total amount of EUR 7.3m as dividends (EUR 0.41 per share) in 2017.**
- 2016 dividend rate of 119% and yield\* 4.5%.
- To pay in excess of the financial target of 50-70%, is reflecting following factors:
  - Group's 2016 return on equity level;
  - Group's strong liquidity position which has ensured investment capabilities;
  - Overall construction market growth perspectives, where civil engineering procurement volumes shall start picking up.

\* Using share price as at 31.12

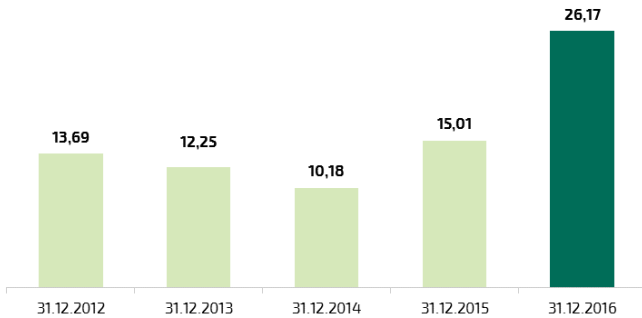
\*\* 2016 figures based on Management Board proposal

# Stock Exchange overview

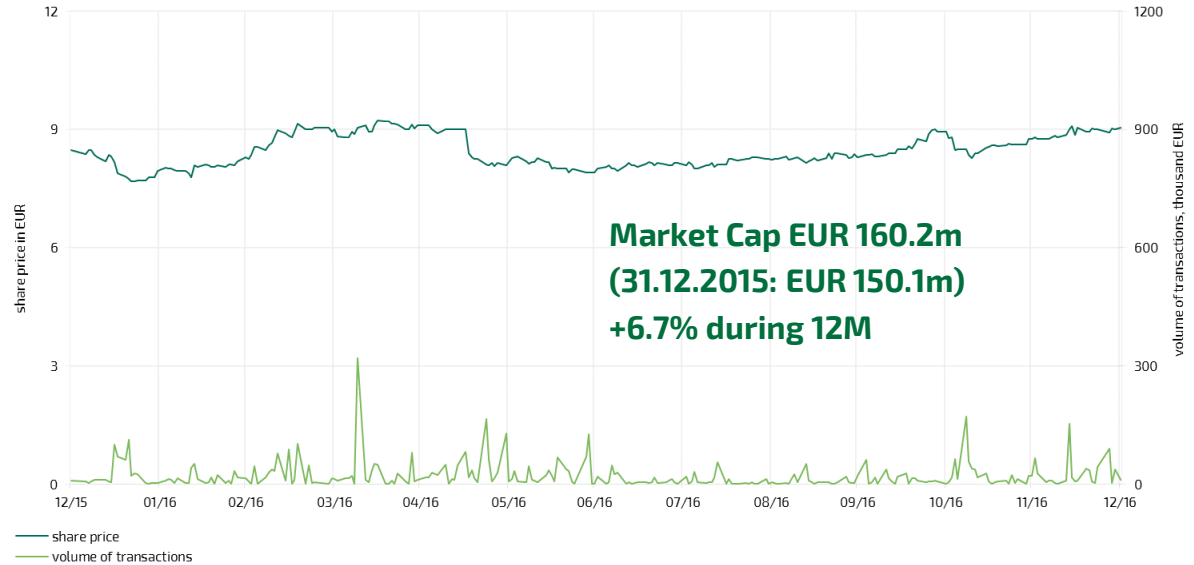
P/B RATIO  
times



P/E RATIO  
times



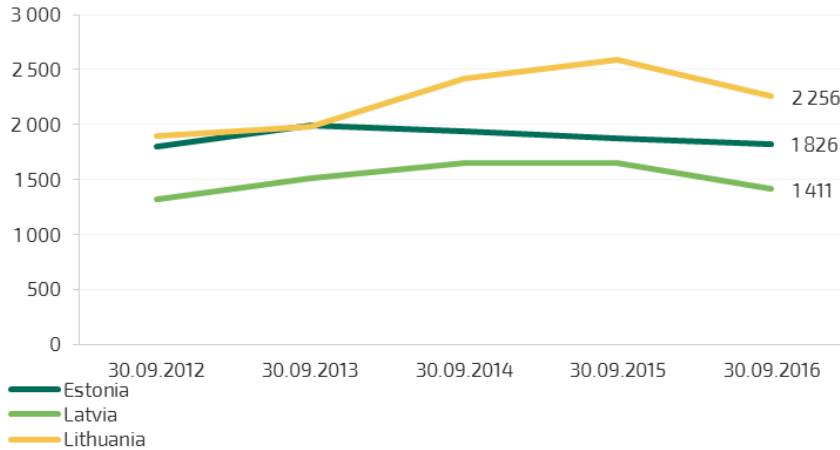
**1,813 shareholders**  
**+11.6% from 31.12.2015**



Shareholders	No of shares	% of total 31.12.2016	% of total 30.09.2016	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	389 432	2,20%	2,40%	(35 020)
Skandinaviska Enskilda Banken AB, Swedish clients	260 813	1,47%	1,57%	(17 850)
SEB S.A. UCITS client assets	232 222	1,31%	1,31%	-
Firebird Aurora Fund Ltd	220 519	1,25%	1,25%	-
State Street Bank and Trust Omnibus Account a Fund No OM01	153 018	0,86%	0,86%	-
SEB Elu- ja Pensionikindlustus AS	143 887	0,81%	0,81%	-
Clearstream Banking Luxembourg S.A. clients	143 054	0,81%	0,81%	-
OÜ Midas Invest	138 185	0,78%	0,47%	+55 043
<b>Total largest shareholders</b>	<b>15 397 942</b>	<b>86,98%</b>	<b>86,97%</b>	<b>+2 173</b>
Other shareholders	2 302 058	13,02%	13,03%	(2 173)
<b>Total shares</b>	<b>17 700 000</b>	<b>100,00%</b>	<b>100,00%</b>	

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

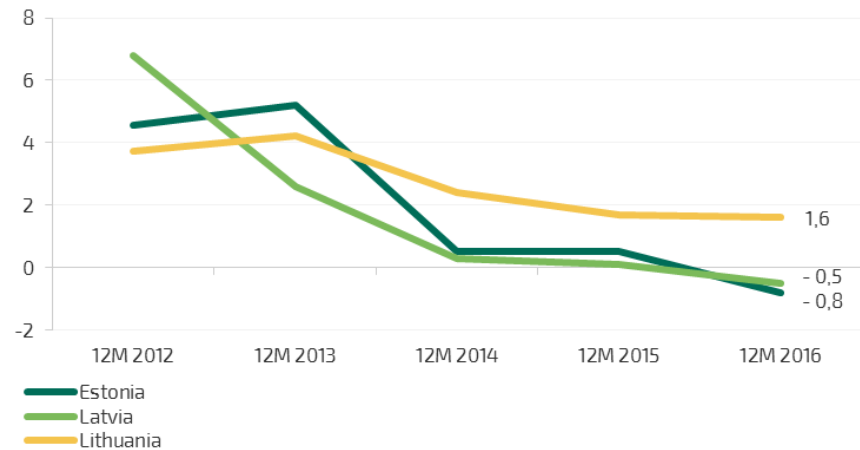
in million euros



Source: Local national statistical offices

12M CHANGE IN CONSTRUCTION PRICE INDEX

percentages



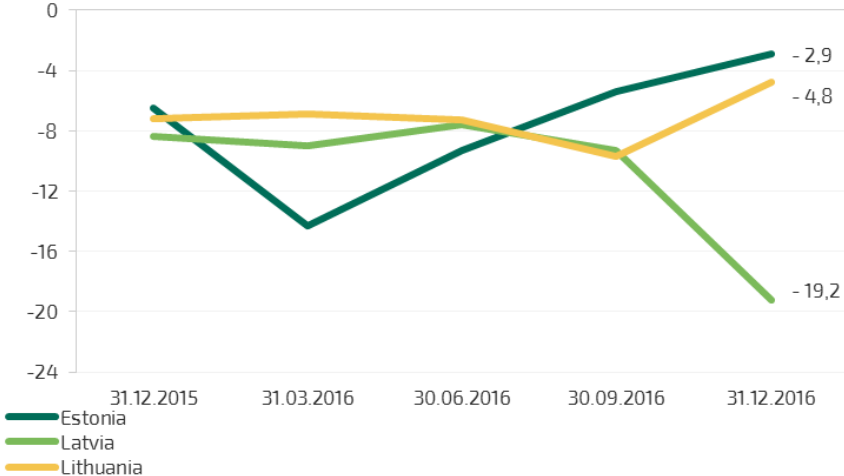
Source: Local national statistical offices

- Volumes of construction orders has continued to be at a low, for both infrastructure but also commercial and public buildings. At the same time the housing construction market is set to remain relatively active.
- Developments in the construction sector will be influenced by the activity level of public sector contracts, as it is clear that there is no growth in private sector order volumes.
- Private sector's modest demand for business premises, investor activity on a moderate level and no significant growth in sight.
- Marginal changes in total construction prices, as labour force costs continue to increase. No significant pressure on input prices expected as weak outlook for overall market growth. Input prices may come under temporary pressure as multiple major construction sites are in progress simultaneously.

# Housing market in Baltics

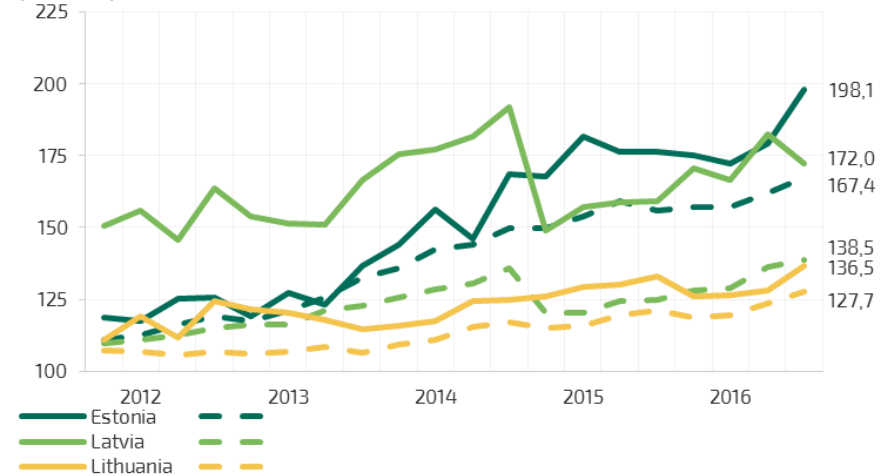
## CONSUMER CONFIDENCE INDICATOR

difference between percentages of pos. and neg. responses



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

## NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX (2010=100)



Source: Eurostat

- Apartment market has continued to stabilise in Tallinn and Vilnius. Riga's apartment market still less active, but with gradual increases in the activity level.
- Increased supply in Tallinn and Vilnius, however demand remains for good quality and optimal price level residential premises in all Baltic capitals.
- Prices remained relatively stable over last 12 months. Consumer prices expected to marginally increase in 2017.
- Continuing positive macro development supporting the residential market – salaries growth, low interest rates and consumers' access to financing has remained good.
- Although construction prices are stable, the prices of land plots have increased, which hampers the addition of new developments.

# Future perspectives for 2017+

## **Estonian construction services**

- To maintain the lead position in general contracting.
- To seize any opportunity to boost profit by enhancing internal efficiency.

## **Other home markets**

- Target revenue share of 50%, by growing businesses in Latvia, Lithuania and Norway.
- Latvia to remain competitive in most private and public sector procurements.
- Lithuania keep the market share of private international orders, and start participation in public procurements.
- In Norway our long-term objective is to develop the capacity for major construction projects and gain the clients' trust as a company operating on the local market.

## **A trusted brand and high construction quality in apartment development.**

- Real estate development remains our key business area.
- 2017 plan to launch construction of 650-700 (incl. 60-160 in joint ventures) new apartments and the investment in apartment construction in the range of EUR 45m.
- Land plot acquisitions to support long-term strategy.



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

# Merko Group in brief



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



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

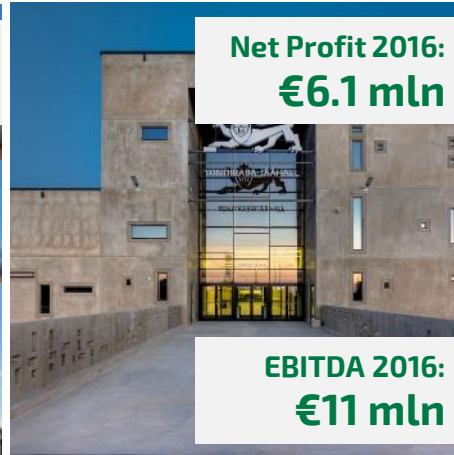


Revenue in 2016  
€252 mln



31.12.2016:  
797 employees

Net Profit 2016:  
€6.1 mln



EBITDA 2016:  
€11 mln



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