

AS MERKO EHITUS

6 months and Q2 2016 interim report

4 August 2016

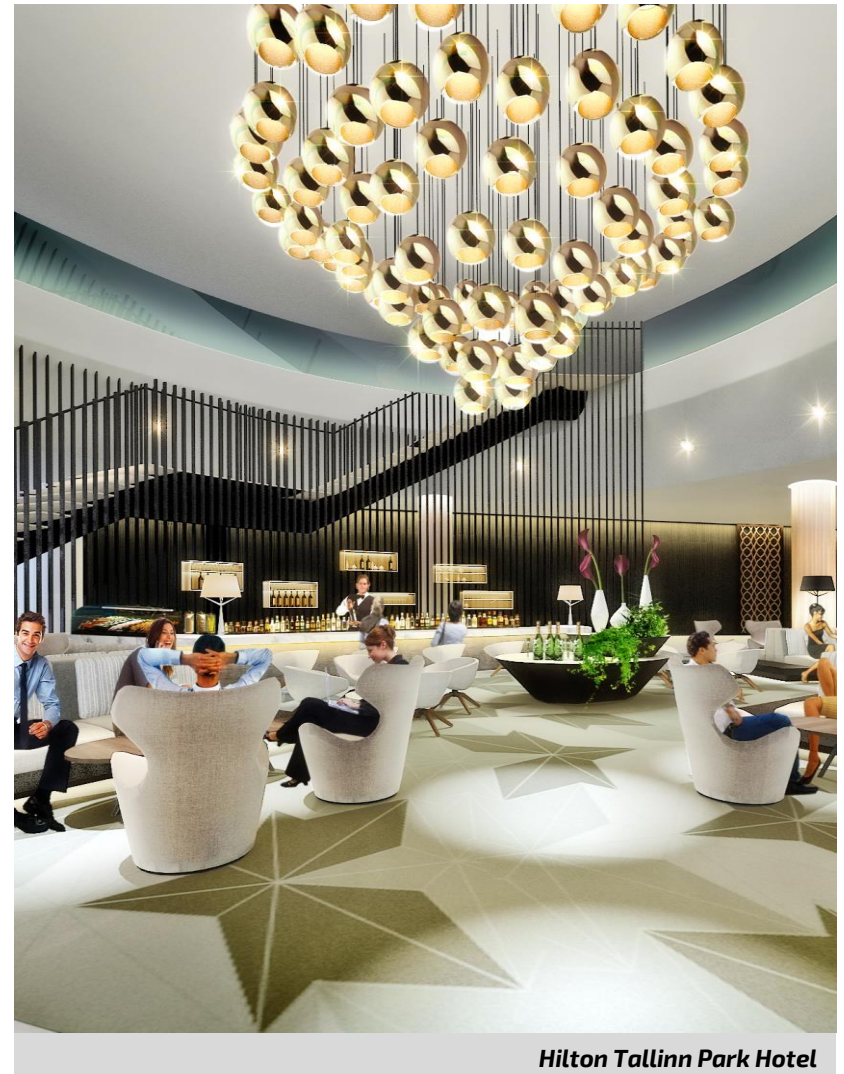


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- A photograph of the Hilton Tallinn Park Hotel, a modern building with a glass facade and a curved entrance. The building is situated on a street corner with trees and a pedestrian crossing visible in the foreground. The sky is blue with some clouds.
1. Key highlights
 3. Financial position

2. Business review
4. Market outlook

Merko group key highlights Q2 2016

- Q2 profitability improved and gross margin increased to 9.3%.
- Revenue EUR 59m in Q2 and EUR 106m in 6m lower than in 2015.
- Expected growth in revenues from general construction projects in Estonian construction service segment.
- Sale of non-strategic land plots continues in Q2 in Estonia and Lithuania.
- Secured order book strong at EUR 279m (up 2% y-o-y). Low level new contracts in Latvia and Lithuania.
- The share of real estate development at 27% (6M 2015: 28%) of total revenues.
- Sold 158 apartments and started construction of 284 new apartments.



Merko group key financial highlights

EUR million	6M 2016	6M 2015	Variance	Q2 2016	Q2 2015	Variance	2015
Revenue	105.6	116.2	-9.2%	58.7	70.6	-16.8%	251.0
Gross profit	8.5	8.9	-4.9%	5.4	5.4	+1.1%	23.0
Gross profit margin (%)	8.0	7.7	+4.6%	9.3	7.6	+21.5%	9.1
EBITDA	4.6	5.6	-17.9%	3.4	3.7	-8.3%	15.5
Profit before tax	2.7	3.6	-23.3%	2.4	2.7	-11.0%	11.7
Net profit, attr. to equity holders of the parent	1.8	2.4	-24.6%	1.7	1.6	+6.4%	10.0
Earnings per share (EPS), in euros	0.10	0.14	-24.6%	0.09	0.09	+6.4%	0.56
Secured order book	279.4	217.2	+28.7%	279.4	217.2	+28.7%	246.9
Employees	826	825	+0.1%	826	825	+0.1%	791

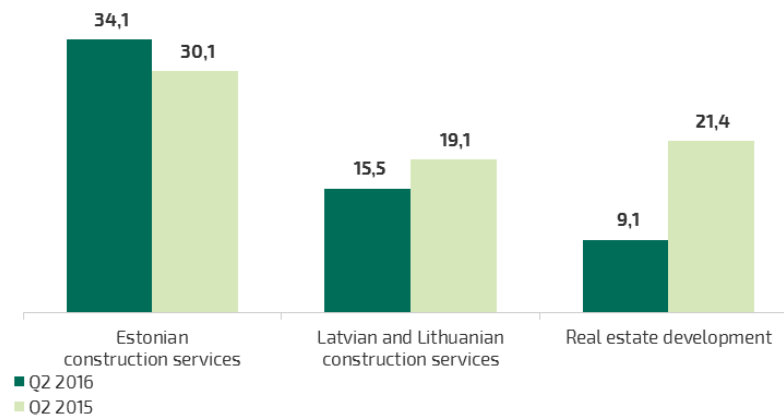
* Variance calculated based on consolidated financial statements of interim reports.

Revenues and gross profit Q2 2016

REVENUES

- Strong performance from Estonian construction service segment (revenues up by 13% y-o-y).
- Major Estonian projects started in 2015 gain momentum as design stages near finish and construction high season gets underway.
- Decrease of Latvian and Lithuanian construction service segment (down by 19%) due to lower level of construction work in Latvia. Real estate development segment (down by 57%) influenced by lack of exclusive and pricey projects such as Kentmanni last year.

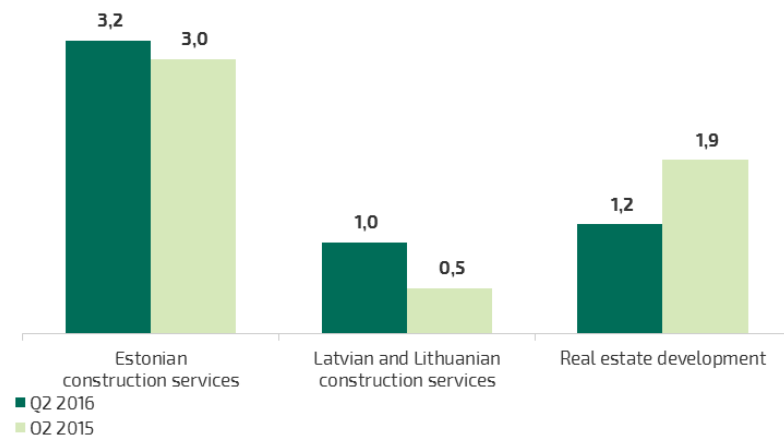
GROUP QUARTERLY REVENUE BY SEGMENT
in million euros



GROSS PROFIT

- Profitability improved as gross margin increases from 7.6% to 9.3% y-o-y.
- Main contribution from Estonian construction (59% of total), with real estate development amounting to 23% and Latvian and Lithuanian construction to 18%.
- Apartments sold in Q2 2016 have an typical average margin, however the 2015 reference period had apartment sales below the average.

GROUP QUARTERLY GROSS PROFIT BY SEGMENT
in million euros

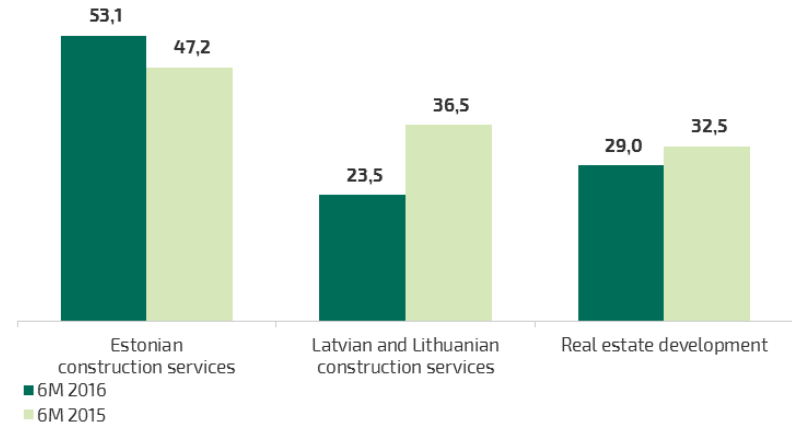


Revenues and gross profit 6M 2016

REVENUES

- Strong performance from Estonian construction service (revenues up by 13% y-o-y).
- Continuing decline of public orders (only 20% share in portfolio). Civil engineering construction volumes in a slump which has affected profitability.
- Decrease of Latvian and Lithuanian construction service segment (down by 36%) due to lower level of construction work in Latvia and real estate development segment (down by 11%). Real estate development segment revenue supported by sale of land plots.

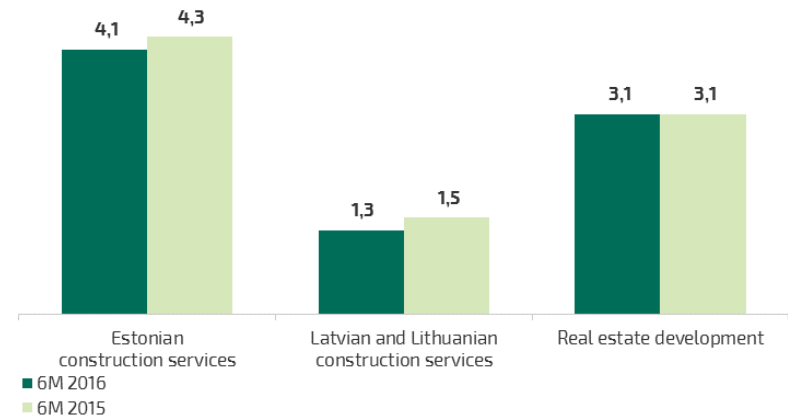
GROUP REVENUE BY SEGMENT
in million euros



GROSS PROFIT

- Profitability still under pressure, gross margin down from 8.9% to 8.5% y-o-y.
- Main contribution from Estonian construction (49% of total), with real estate development amounting to 36% and Latvian and Lithuanian construction to 15%.
- Management not fully satisfied with results of construction services segments due to Baltic construction market developments.
- Margin of land plots sold below segment average.

GROUP GROSS PROFIT BY SEGMENT
in million euros

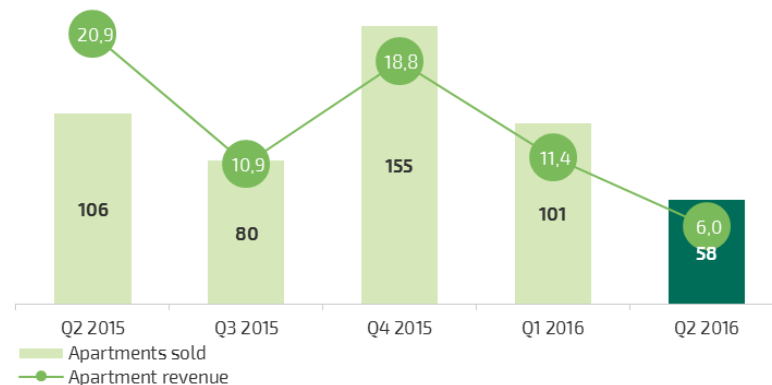


Real estate development - apartments

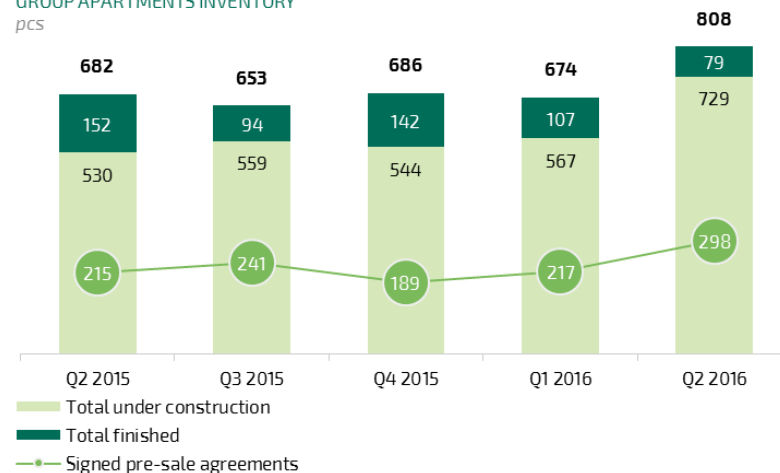
Q2 projects launched as planned. Closely monitoring increased supply in Tallinn and Vilnius, to be prepared for longer sales periods.

- 159 apartments sold in 6M (6M 2015: 168; 12M 2015: 403) for EUR 17.4m (6M 2015: EUR 31.7m; 12M 2015: EUR 61.4m).
- Construction of 284 apartments launched during 6M 2015 (6m 2015: 335; 12M 2015: 574) and invested EUR 25.1m in apartment construction (6M 2015: EUR 19.1m; 2015: EUR 42.4m). Noblessner Homeport – major new development project launched in Q2 2016.
- Plan to launch construction of 500-550 new apartments in 2016 and total investment in apartment construction will be in the range of EUR 45-50m.
- 510 apartments on active sale out of which 57% in Estonia.
- During 6M 2016 sale of non-strategic land plots for EUR 8.6m including EUR 5.6m in Estonia (6M 2015: EUR 0.2m), EUR 2.6m in Latvia and EUR 0.4m in Lithuania. Margin of land plot sales below segment average.
- Progress with Zakusala development area in order to launch construction in 3-5 years' time.

APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros



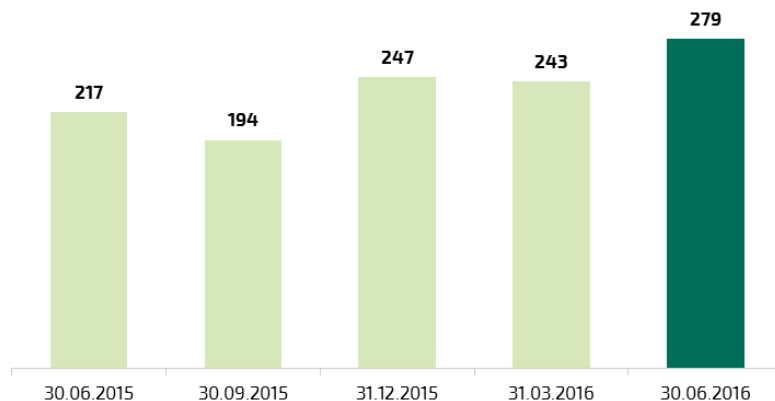
GROUP APARTMENTS INVENTORY
pcs



Secured Order Book

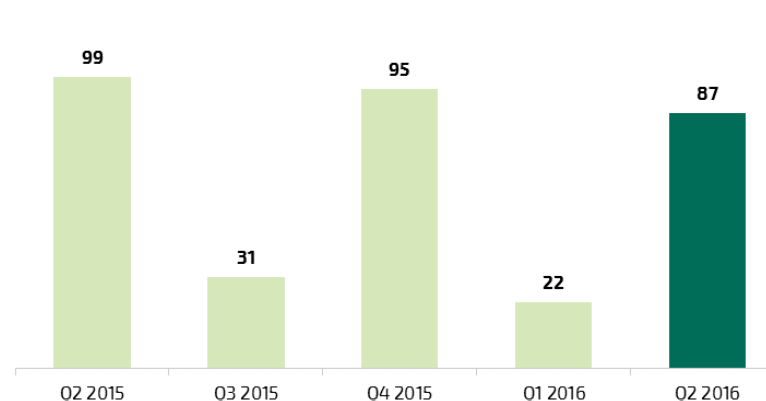
SECURED ORDER BOOK

at the end of the period, in million euros



NEW CONTRACTS SIGNED

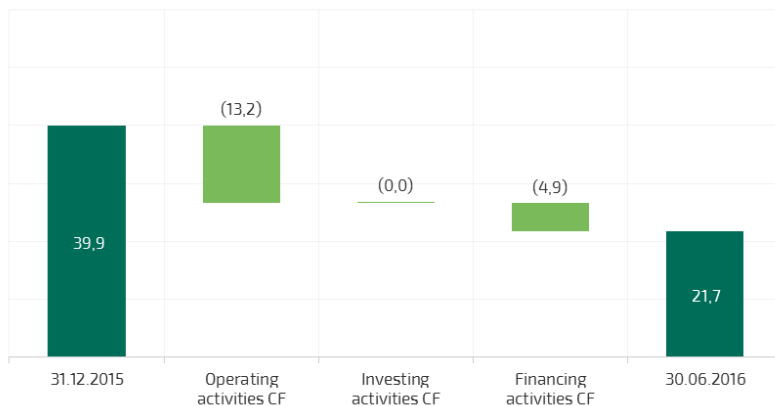
during the period, in million euros



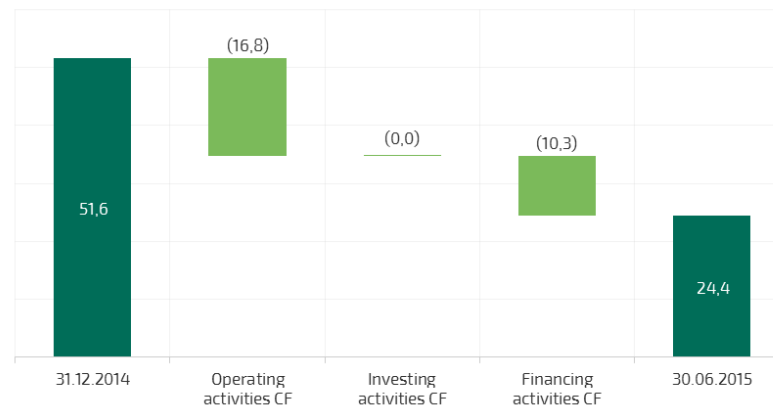
- Secured order book 29% higher compared to same period last year (EUR 279m as at 30.06.2016 vs EUR 217m as at 30.06.2015).
- Total new contracts signed 6M 2016 EUR 109m (6M 2015: 121m; 12M 2015: 247m).
- Q2 2016 new contracts EUR 87m (incl. a contract with joint venture for EUR 20m, to construct phase I in Noblessner development). Additional contract for EUR 5m signed in Latvia at the beginning of Q3 2016.
- Construction orders have dropped in engineering construction as expected. 2016 public orders still at a very low level. Share of public orders at approx. 20%.

Financial position

6M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros

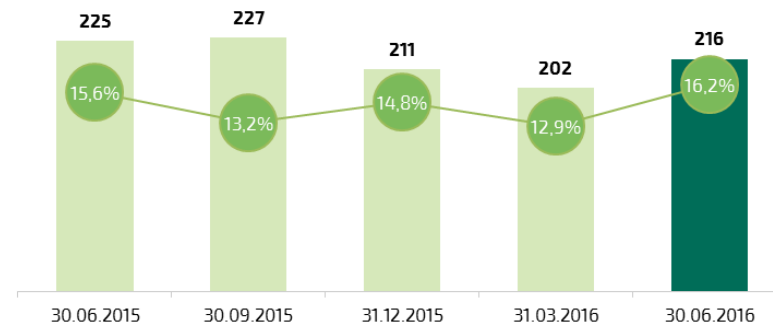


6M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



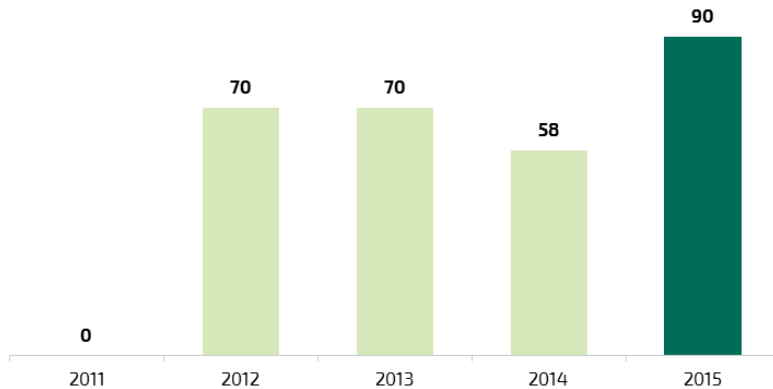
- Group's liquidity position maintained, cash at EUR 21.7m.
- The net debt amounted to EUR 13m and debt ratio at 16% (30.06.2015: EUR 11m and 16%; 31.12.2015: EUR -9m and 15%). Strong liquidity buffer as group is still self-funding a large proportion of its own development projects and has not used overdraft facilities.
- Current assets are at 2.8x current liabilities (30.06.2015: 2.5x; 31.12.2015: 3.2x).
- Equity at 55% (30.06.2015: 54%; 31.12.2015: 60%).

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

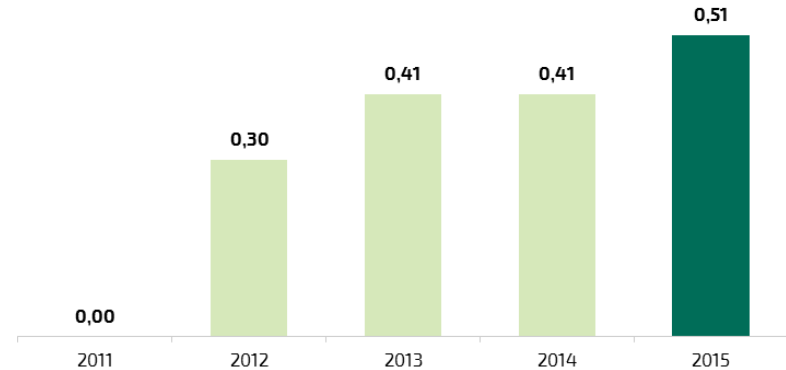


Dividend

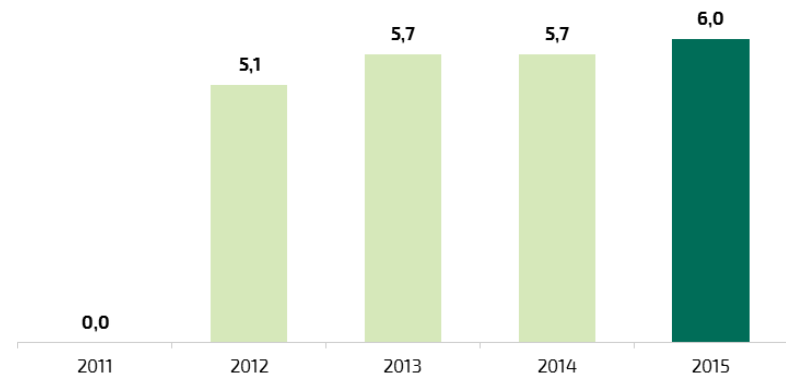
DIVIDEND RATE
percentages



DIVIDEND PER SHARE
in euros



DIVIDEND YIELD *
percentages

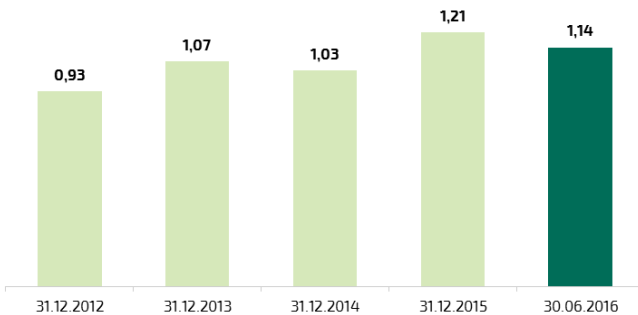


- EUR 9m dividends (EUR 0.51 per share) paid in Q2 2016.
- 2016 dividend rate at 90% and gives a yield of 6%.
- Dividend rate of 90% was over target (50-70%), as construction orders are limited, prices are down and the supply for apartments is increasing – improving the profitability is complicated in such market conditions.

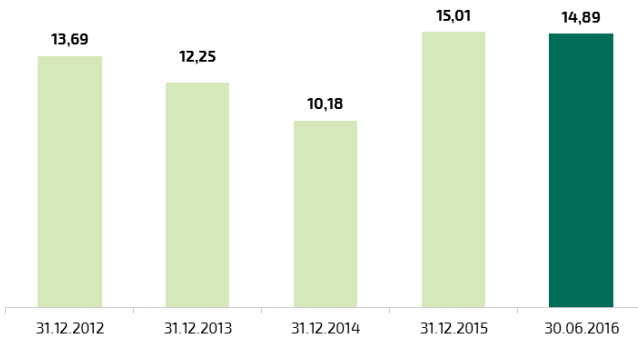
* Using share price as at 31.12

Stock Exchange overview

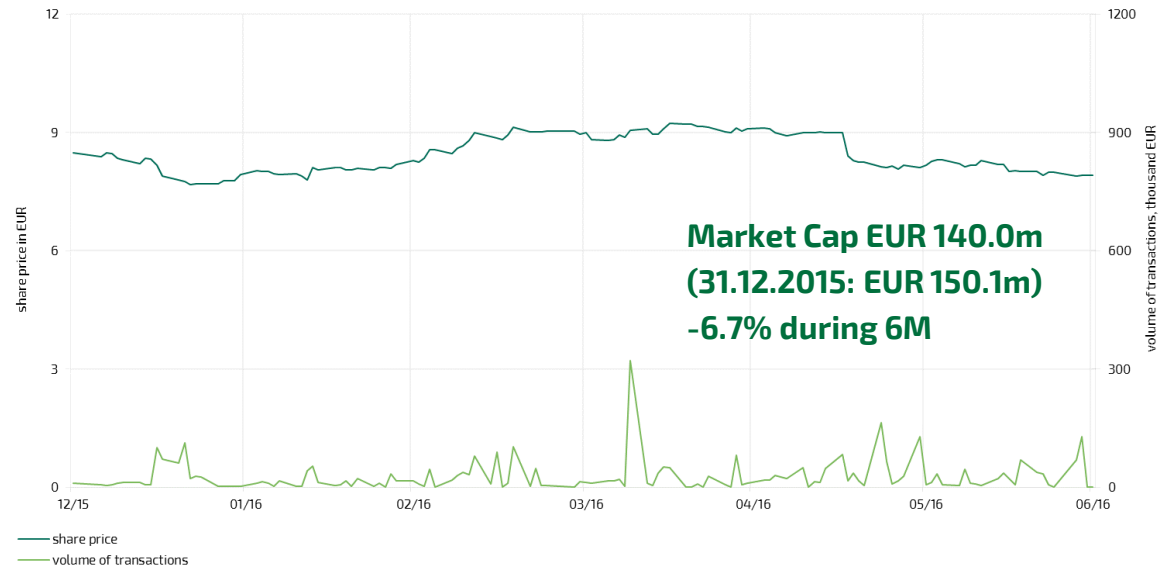
P/B RATIO
times



P/E RATIO
times



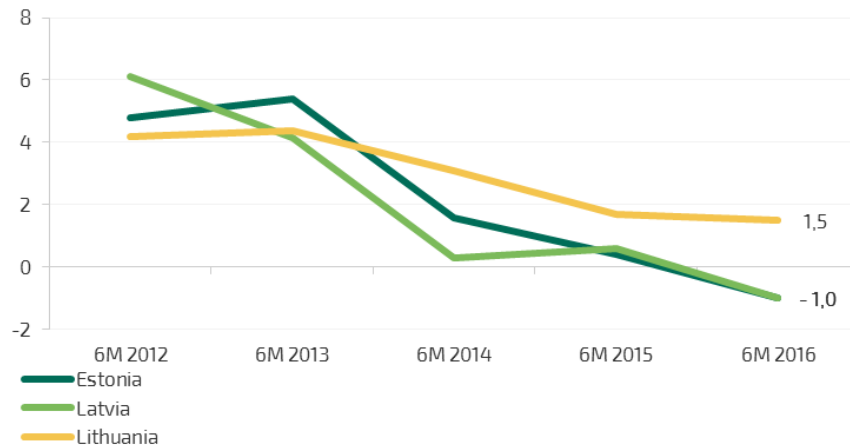
1,758 shareholders
+8.3% from 31.12.2015



Shareholders	No of shares	% of total 30.06.2016	% of total 31.03.2016	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	395 704	2,24%	2,24%	-
Skandinaviska Enskilda Banken AB, Swedish clients	282 663	1,60%	1,48%	20 962
SEB S.A. UCITS client assets	232 222	1,31%	1,48%	-29 000
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%	0,82%	-1 133
Clearstream Banking Luxembourg S.A. clients	143 054	0,81%	0,80%	1 100
Swedbank AS	111 051	0,63%	0,74%	-19 247
Total largest shareholders	15 398 930	87,00%	87,16%	-27 318
Other shareholders	2 301 070	13,00%	12,84%	27 318
Total shares	17 700 000	100,00%	100,00%	

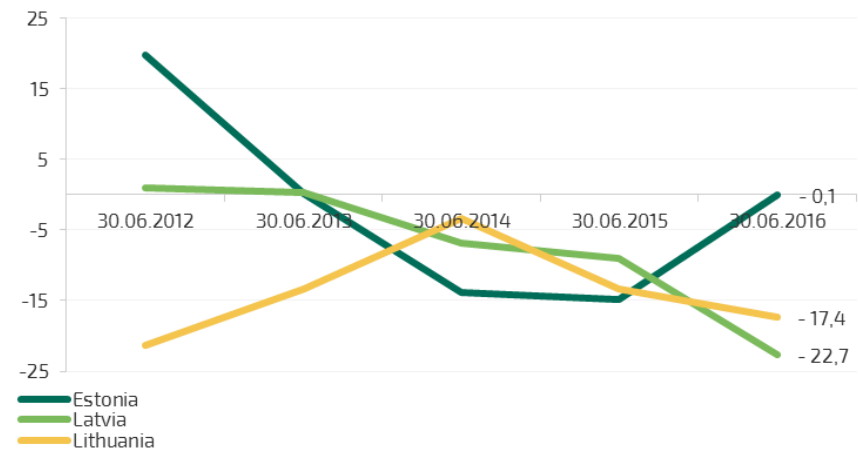
Baltic's construction market

6M CHANGE IN CONSTRUCTION PRICE INDEX
percentages



Source: Local national statistical offices

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



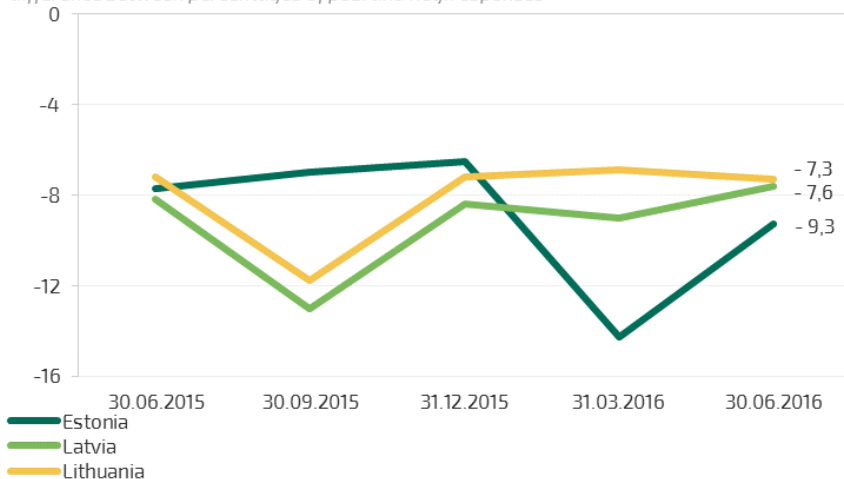
Source: European Commission Directorate-General for Economic and Financial Affairs

- Marginal 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.
- Confidence levels continue to be unfavourable in all three Baltic states, above all in Latvia and Lithuania where private sector orders have not filled the gap left by missing public orders. 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 the construction market.

Housing market in Baltics

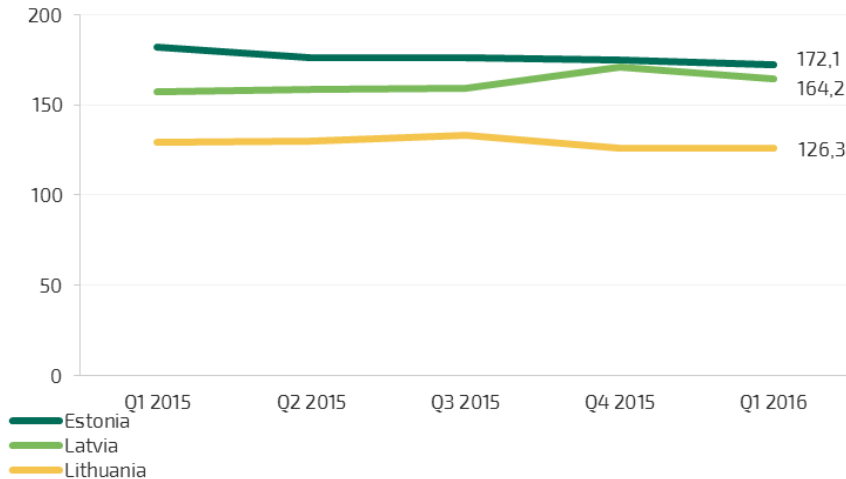
CONSUMER CONFIDENCE INDICATOR

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 supporting the residential market – interest rates of mortgages expected to remain at a low level, consumers' access to financing has remained good.
- Prices remained relatively stable over last 12 months. Consumer prices expected to marginally increase starting H2 2016.
- Apartment markets remain strong, especially in Tallinn and Vilnius. We expect the Riga's apartment market to become more active as the supply of new apartments has been at a very low levels.
- Although construction prices are stable, the prices of land plots have increased, which hampers the addition of new developments.

Future perspectives 2016+

Leading regional construction company. Preferred general contractor to private clients and large projects.

- To distinguish with the best and most motivated specialist and construction managers, to be a reliable partner and hold a high standard of quality.
- We believe that public procurement tenders for facilities and public buildings will start to activate in Q3-Q4 2016 with the support of EU funding.
- Acquisition of majority share in Norwegian company has created the basis for Norwegian market entry. 2016-2017 objective to increase revenues outside Baltics.
- Continue to develop the new capabilities: digitalization, building information modelling.
- Although Rail Baltic remains a vision in the coming years, it's realisation will lead to a significant increase in construction volumes starting from 2019.

A trusted brand and high construction quality in apartment development.

- Continue investments in residential real estate development in 3 Baltic capitals, develop modern and quality living environment. 2016 planned investments of EUR 40-45m.



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 and Lithuania



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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