

AS MERKO EHITUS

9 months and Q3 2016 interim report

3 November 2016



Kindergarten and school buildings complex in Pinki



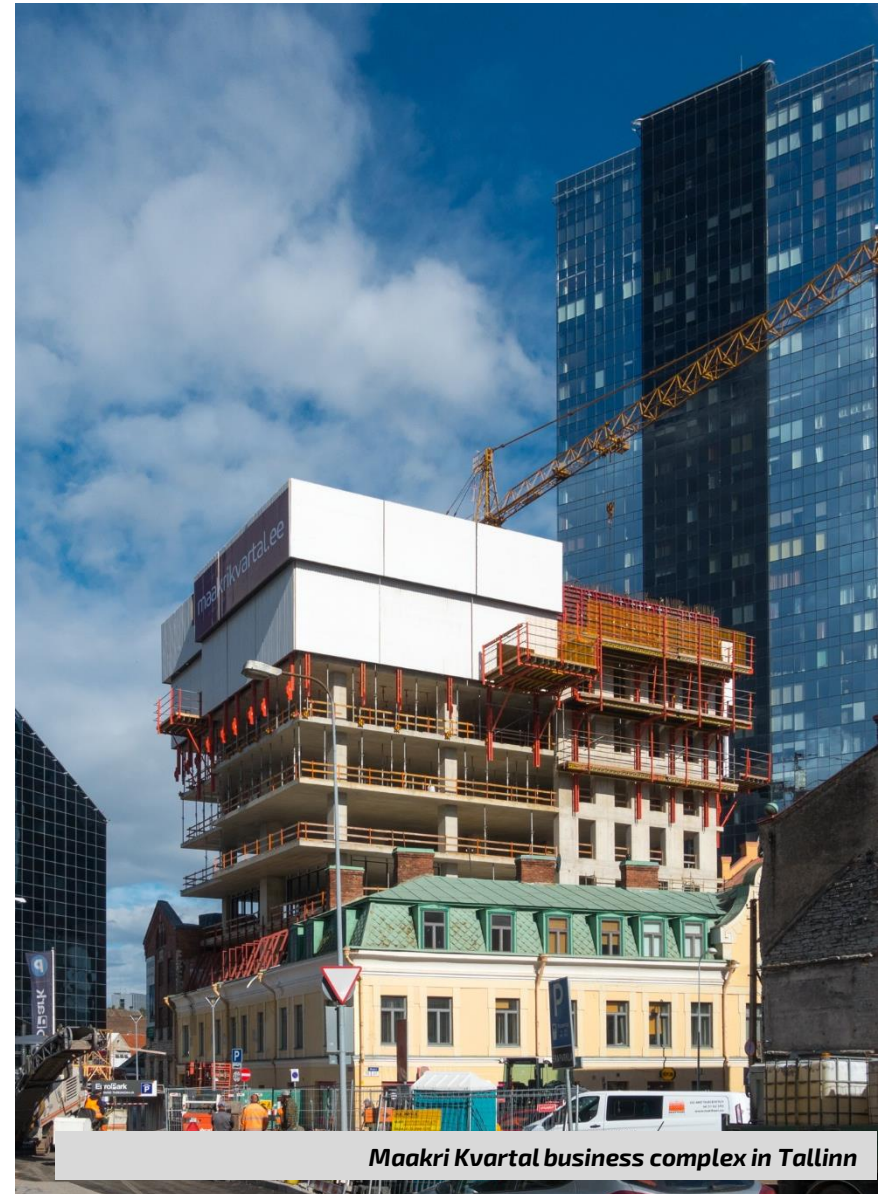
Kivimäe 32 apartment development

1. Key highlights
3. Financial position

2. Business review
4. Market outlook

Merko group key highlights

- Revenue EUR 68m in Q3 on par and EUR 173m in 9m lower than in 2015.
- Both 9M and Q3 profitability down and operating margin decreased to 3.5% and 4.4%, respectively.
- Expected growth in revenues from general construction projects in Estonian construction service segment.
- Sale of non-strategic land plots continues in 2016 in Estonia and Lithuania.
- Secured order book strong at EUR 256m (up 32% y-o-y). Low level new contracts in Latvia and Lithuania.
- The share of real estate development at 26% (9M 2015: 25%) of total revenues.
- Sold 268 apartments and started construction of 284 new apartments.



Maakri Kvartal business complex in Tallinn

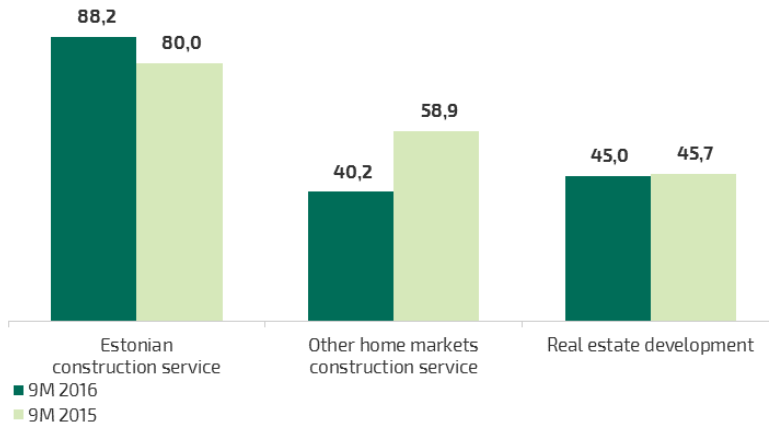
Merko group key financial highlights

| <i>EUR million</i> | 9M 2016 | 9M 2015 | Variance | Q3 2016 | Q3 2015 | Variance | 2015 |
|---|---------|---------|----------|---------|---------|----------|-------|
| Revenue | 173.4 | 184.6 | -6.1% | 67.8 | 68.4 | -0.8% | 251.0 |
| EBITDA | 8.4 | 9.9 | -15.3% | 3.9 | 4.4 | -12.2% | 15.5 |
| EBITDA margin (%) | 4.9 | 5.4 | -9.9% | 5.7 | 6.4 | -11.5% | 15.5 |
| Operating profit | 6.1 | 7.6 | -20.4% | 3.0 | 3.7 | -18.5% | 12.5 |
| Operating profit margin (%) | 3.5 | 4.1 | -15.3% | 4.4 | 5.4 | -17.8% | 5.0 |
| Profit before tax | 5.7 | 7.0 | -18.7% | 3.0 | 3.5 | -14.0% | 11.7 |
| Net profit, attr. to equity holders of the parent | 4.7 | 5.6 | -15.1% | 2.9 | 3.1 | -7.9% | 10.0 |
| Earnings per share (EPS), in euros | 0.27 | 0.31 | -15.1% | 0.16 | 0.18 | -7.9% | 0.56 |
| Secured order book | 256.4 | 279.4 | +32.5% | 256.4 | 279.4 | +32.5% | 246.9 |
| Employees | 816 | 826 | +2.3% | 816 | 826 | +2.3% | 791 |

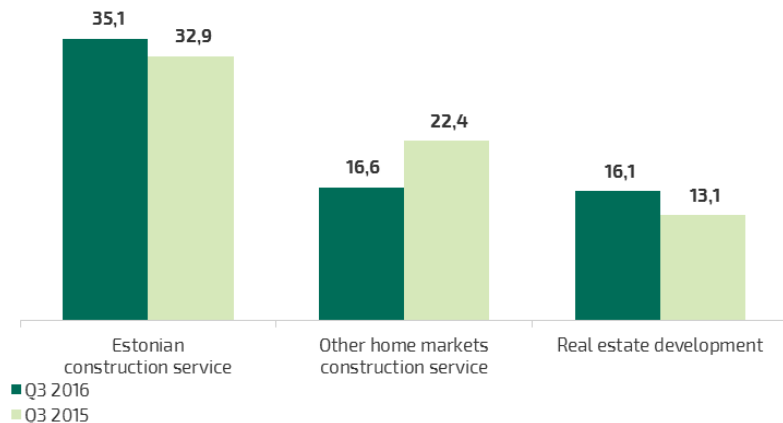
* Variance calculated based on consolidated financial statements of interim reports.

Business review 9M and Q3 2016

GROUP REVENUE BY SEGMENT
in million euros



GROUP QUARTERLY REVENUE BY SEGMENT
in million euros



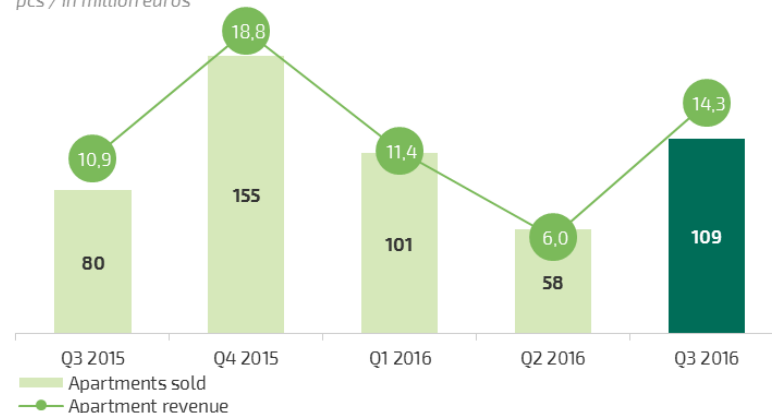
- Q3 2016 revenue (EUR 67.8m) on par with last year's results (EUR 68.4m). 9M 2016 revenue (EUR 173.4m) below managements expectations mainly because revenue has been held back by slower than planned start of major construction projects in Estonia due to circumstances related to client side - projects design and related approvals/permits have been delayed.
- Main revenue contribution from Estonian construction services (approx. 50% of total), with real estate development and other home markets construction services segments both amounting to approx. 25%.
- Decrease of other home markets construction service segment due to lower level of construction work in Latvia and Lithuania.
- Real estate development segment revenue in 9M 2016 supported by sale of land plots. 2016 apartment sales revenues will probably not meet expectations as finalisation of sales in two finished apartment buildings have been delayed in local municipalities and will be partly carried forward to 2017.
- Profitability still under pressure. Continuing decline of public orders (only 20% share in portfolio). Civil engineering construction volumes in a slump which has affected profitability.
- Apartments sold in 9M 2016 have an typical average margin, however the reference period had apartment sales below the average. Margin of land plots sold in 2016 below real estate development segment average.

Real estate development - apartments

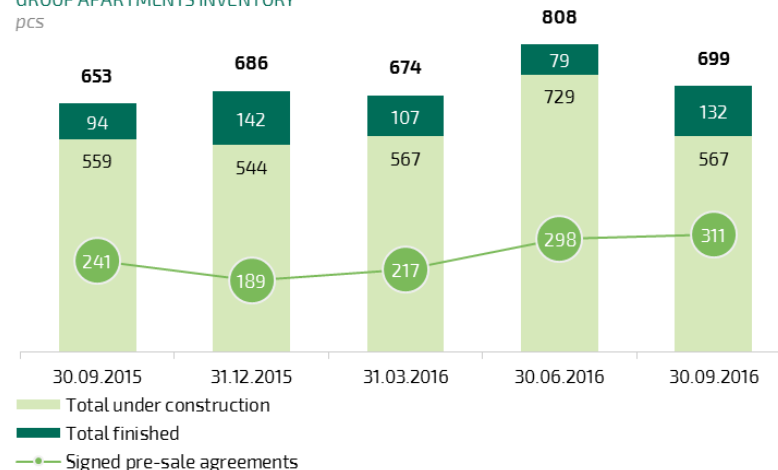
9M projects launched as planned. Closely monitoring increased supply in Tallinn and Vilnius, to be prepared for longer sales periods.

- 268 apartments sold in 9M (9M 2015: 248; 12M 2015: 403) for EUR 31.7m (9M 2015: EUR 42.6m; 12M 2015: EUR 61.4m).
- Construction of 284 apartments launched during 9M 2016 (9M 2015: 386) and invested EUR 39.1m in apartment construction (9M 2015: EUR 30.1m).
- Plan to launch construction of 450 new apartments in 2016 – approx. 100 less than planned at the start of the year due to delays in obtaining building permits. Total investment in apartment construction will remain unchanged in the range of EUR 45-50m.
- 388 apartments on active sale out of which 58% in Estonia.
- During 9M 2016 sale of non-strategic land plots for EUR 8.8m, including EUR 5.8m in Estonia (9M 2015: EUR 1.0m), EUR 2.6m in Latvia and EUR 0.4m in Lithuania (9M 2015: EUR 1.1m). Margin of land plot sales below segment average.
- At the beginning of Q4 2016 new land plot acquisition for EUR 2m in Lithuania.
- Progress with Zakusala development area in order to launch construction in 3-5 years' time.

APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros

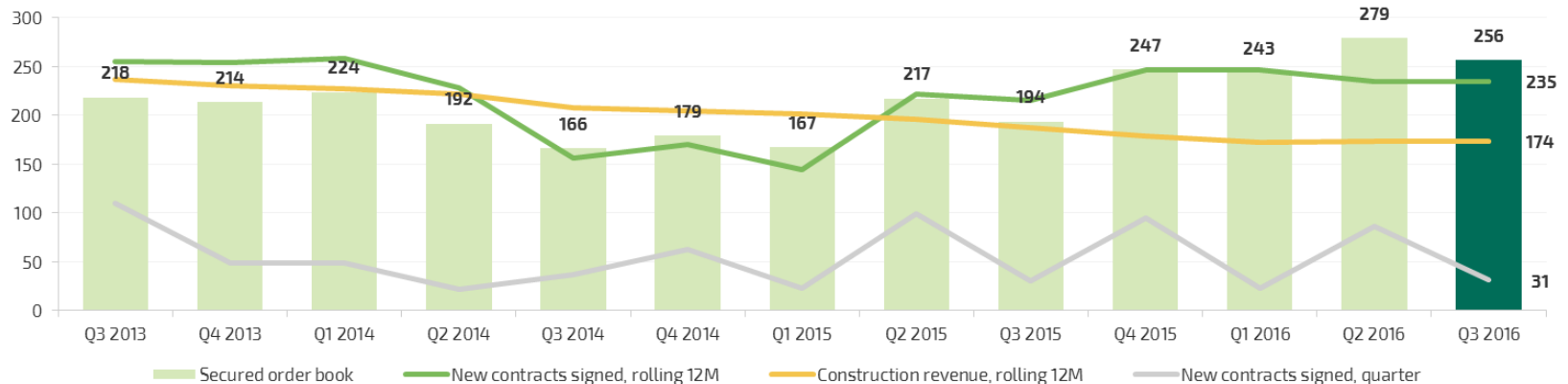


GROUP APARTMENTS INVENTORY
pcs



Secured Order Book

SECURED ORDER BOOK
in million euros



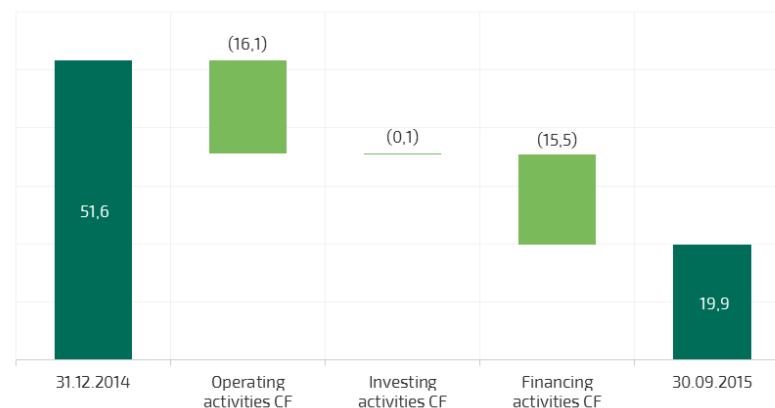
- Secured order book at EUR 256m.
- 32% higher compared to same period last year.
- Total new contracts signed 9M 2016 EUR 140m (9M 2015: 152m).
- Q3 signed preliminary sales agreement to sell upon completion "ibis" hotel complex to be built on Merko's land plot in Vilnius, Lithuania. Contract value EUR 8.5m and hotel will be completed by summer 2018.
- Additional three large contracts for EUR 23m signed at the beginning of Q4.
- 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

9M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros

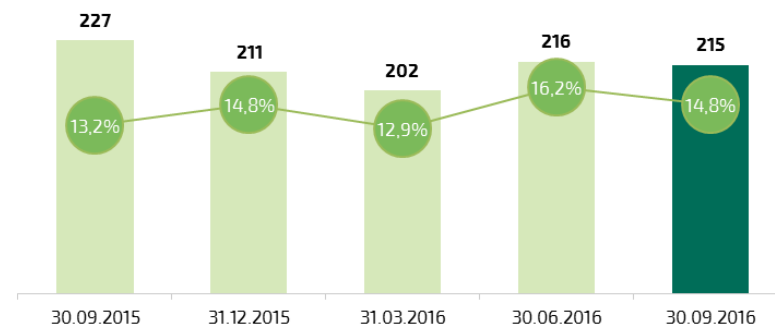


9M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



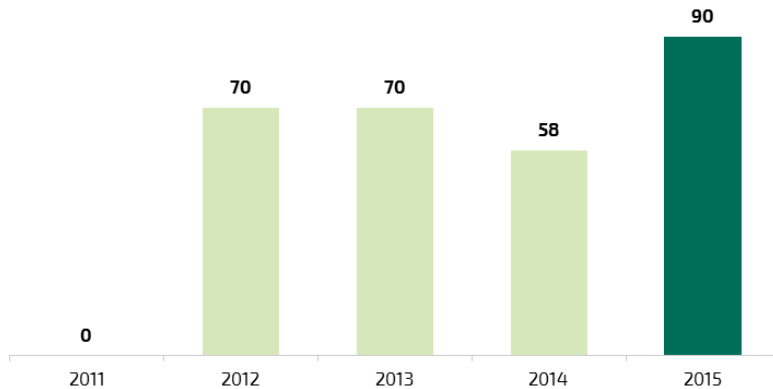
- Group's liquidity position maintained, cash at EUR 20.8m.
- The net debt amounted to EUR 11m and debt ratio at 15% (30.09.2015: EUR 10m and 13%). Strong liquidity buffer as group is still self-funding a large proportion of its own development projects and has not used any overdraft facilities.
- Current assets are at 3.1x current liabilities (30.09.2015: 2.4x).
- Equity at 57% (30.09.2015: 53%).

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

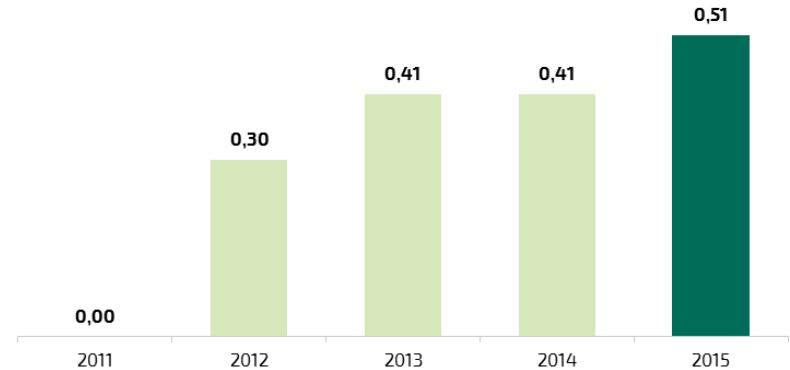


Dividends

DIVIDEND RATE
percentages

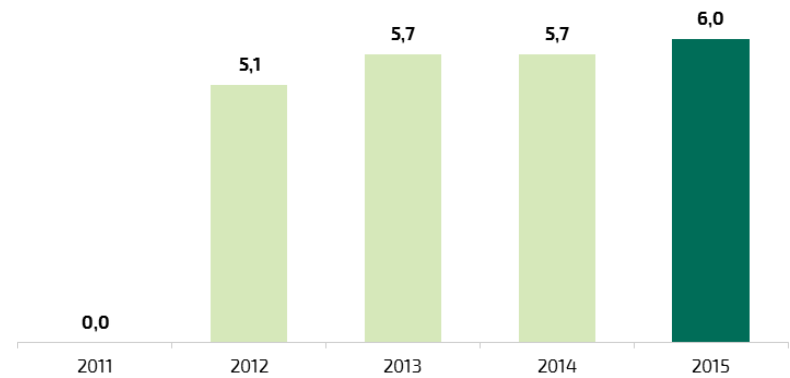


DIVIDEND PER SHARE
in euros



- 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.

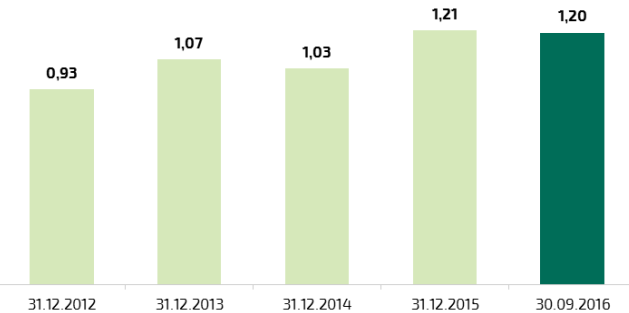
DIVIDEND YIELD*
percentages



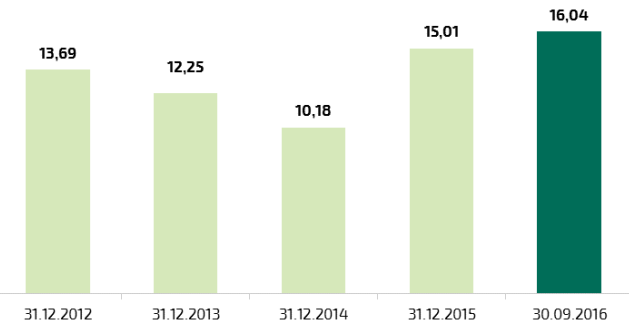
* Using share price as at 31.12

Stock Exchange overview

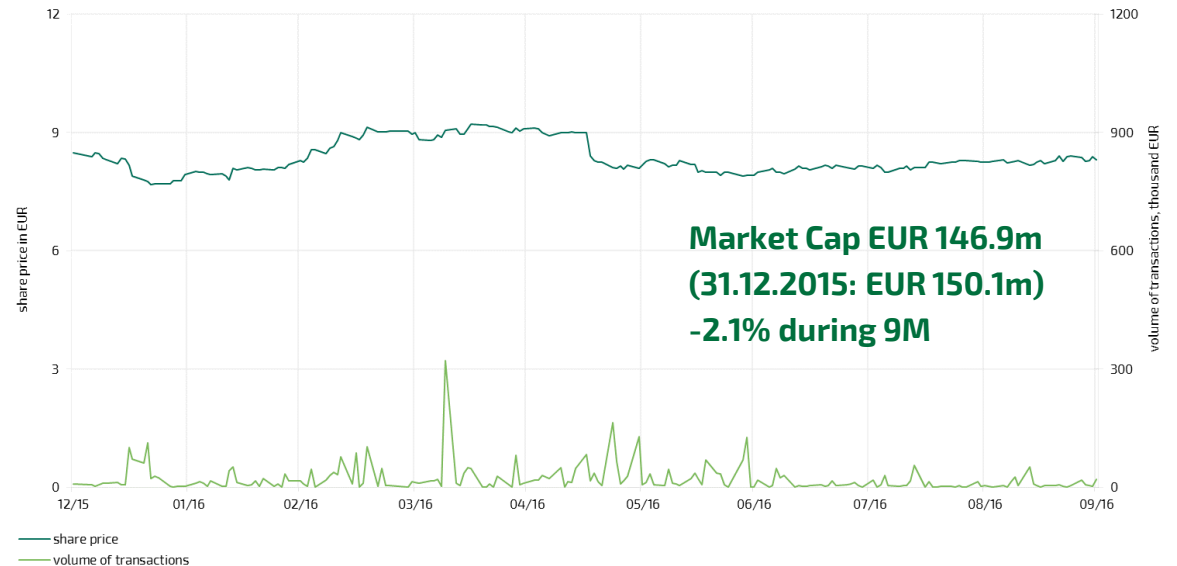
P/B RATIO
times



P/E RATIO
times



1,777 shareholders
+9.4% from 31.12.2015

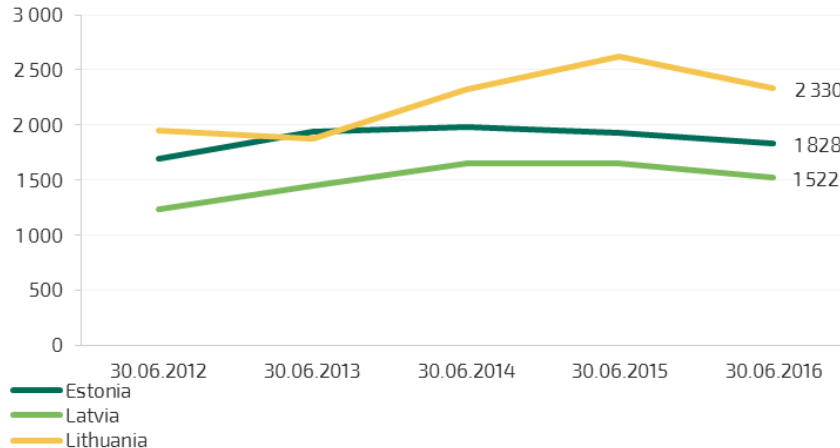


| Shareholders | No of shares | % of total 30.09.2016 | % of total 30.06.2016 | Variance |
|--|-------------------|-----------------------|-----------------------|----------------|
| AS Riverito (management) | 12 742 686 | 71,99% | 71,99% | - |
| ING Luxembourg S.A. AIF Account | 974 126 | 5,50% | 5,50% | - |
| Firebird Republics Fund Ltd | 424 452 | 2,40% | 2,24% | +28 748 |
| Skandinaviska Enskilda Banken AB, Swedish clients | 278 663 | 1,57% | 1,60% | (4 000) |
| 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% | - |
| Swedbank AS | 112 721 | 0,64% | 0,63% | +1 670 |
| Total largest shareholders | 15 425 348 | 87,14% | 87,00% | +26 418 |
| Other shareholders | 2 274 652 | 12,86% | 13,00% | (26 418) |
| Total shares | 17 700 000 | 100,00% | 100,00% | |

Baltic's construction market

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

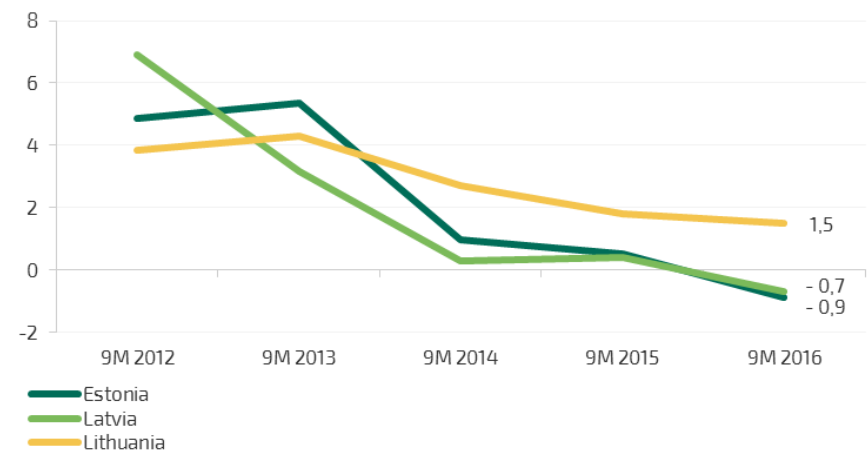
in million euros



Source: Local national statistical offices

9M CHANGE IN CONSTRUCTION PRICE INDEX

percentages



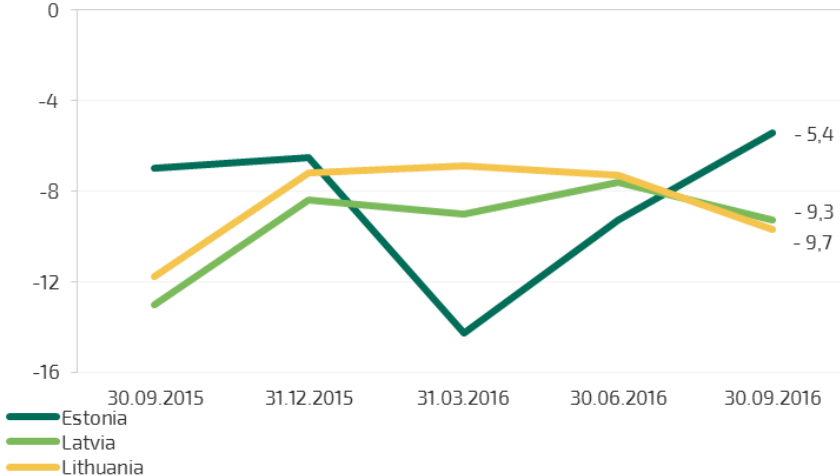
Source: Local national statistical offices

- 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

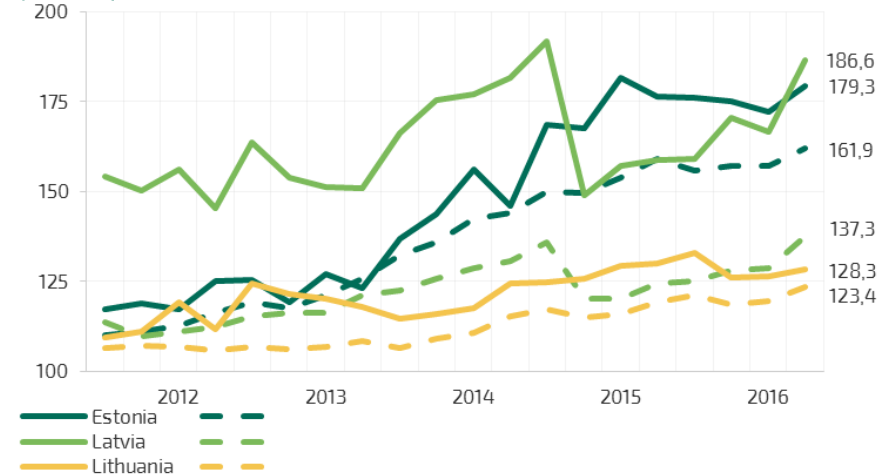
CONSUMER CONFIDENCE INDICATOR

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 less active and has not reached the expected 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 starting end of 2016.
- 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 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 2017 with the support of EU funding.
- Acquisition of majority share in Norwegian company has created the basis for Norwegian market entry. Focus on building up project management system to pave way to concluding larger general contracting agreements in the years ahead. 2016-2017 objective to increase revenues outside Baltics.
- Continue to develop the new capabilities: digitalization, building information modelling (BIM).
- 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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