



# YIT in Russia

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May 22, 2015





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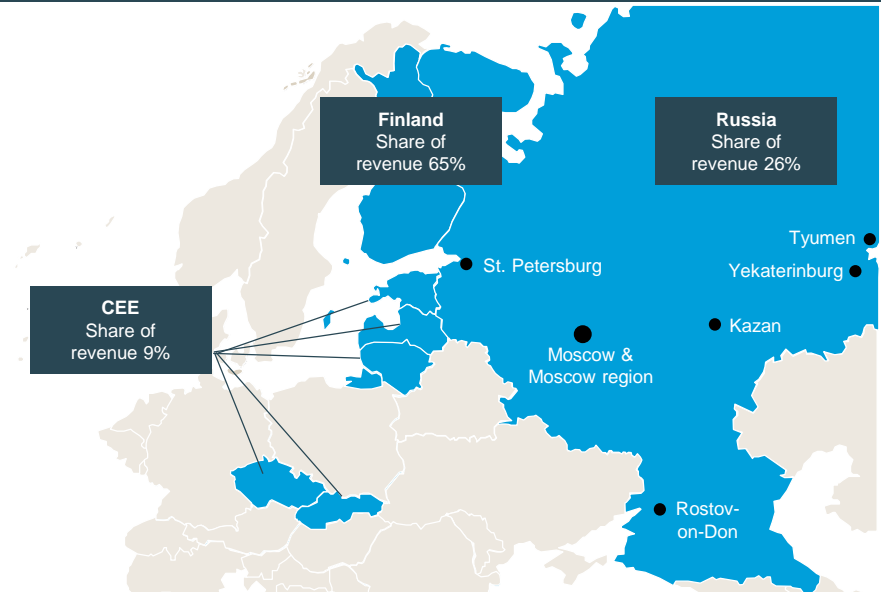
Parus  
Rostov-on-Don, Russia

# YIT – An innovative project developer and high-quality construction company

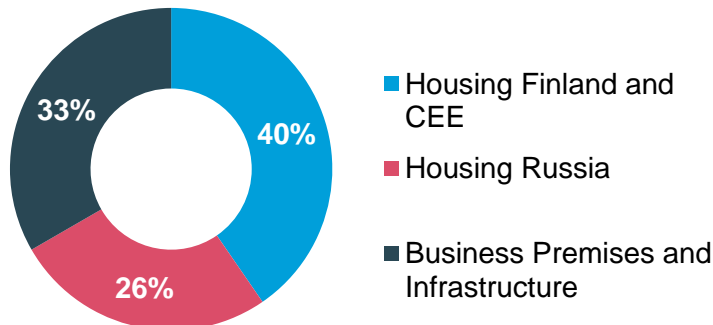
## Key investment propositions

- Strong market position and extensive experience in the main markets
  - Market leader in Finland, the largest foreign residential developer in Russia
- One of the most profitable construction companies in Europe through economic cycles
- Good corporate governance and high ethical standards

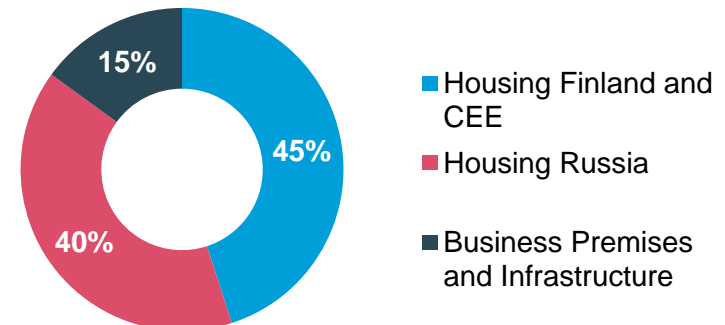
## Operations in 7 countries, 5,800 employees



## Revenue by segment 2014 (EUR 1.8 billion)



## Operating profit\* by segment 2014 (EUR 126 million)





# 1

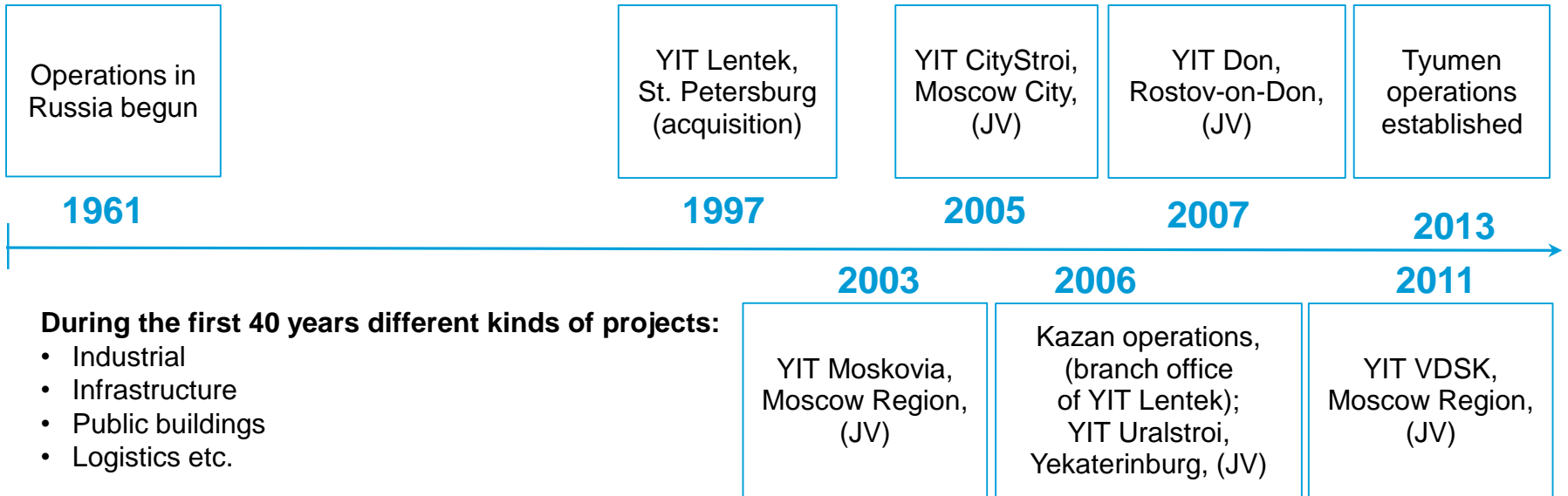
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## YIT's Russian operations in brief



Forest residential area  
Yekaterinburg, Russia

# More than 50 years' experience in Russia



Kostomuksha Industrial Complex, Republic of Karelia 1977



The State Tretyakov Gallery, Moscow 1984



Ardalin Oil Field Facilities, Timan-Pechora 1995



Toreza 44 Residential Building, St. Petersburg 2008



Residential Building in Verhnaya Pyshma, Sverdlovsk Oblast, Yekaterinburg 2014



# Housing Russia: Residential development in 7 locations

## Focus of operations

- Self-developed projects: blocks of flats, terraced houses
- Focus increasingly on large area development, executed in phases
- After-sales services and maintenance for housing

## 2014 figures

Revenue	EUR 474 million
Operating profit*	EUR 55.8 million
ROI-%	10.5%
Plot reserves	EUR 184 million 2,095,000 m2 (sellable)
Employees, 12/2014	1,980
Residential start-ups	3,545
Apartments under construction, 12/2014	9,611



\*Excluding non-recurring items



# 2

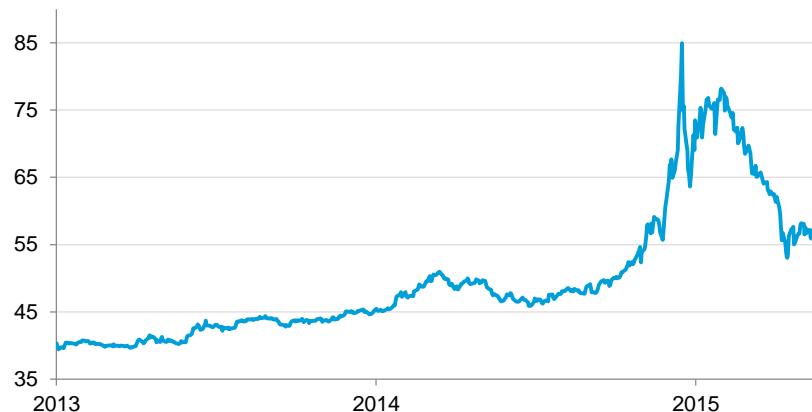
## Operating environment and market position



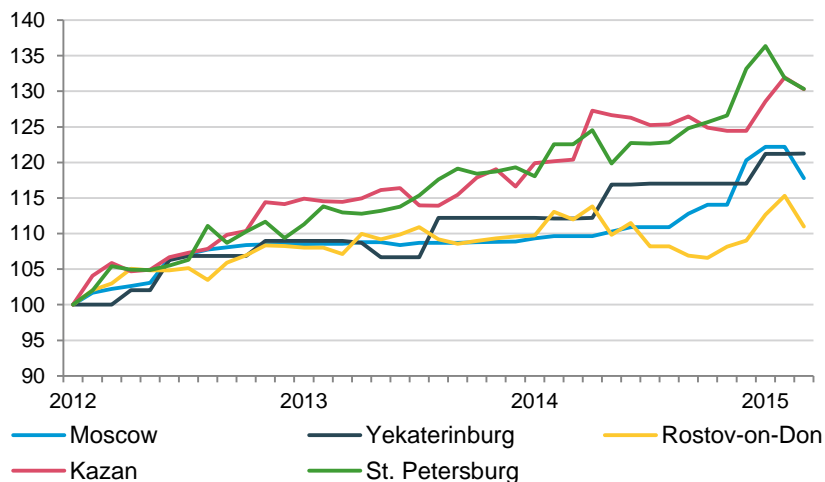
Residential area in Dom Obrony  
Tyumen, Russia

# Operating environment and residential market development in Russia

EUR/RUB exchange rate



Prices of new apartments, index (01/01/2012=100)

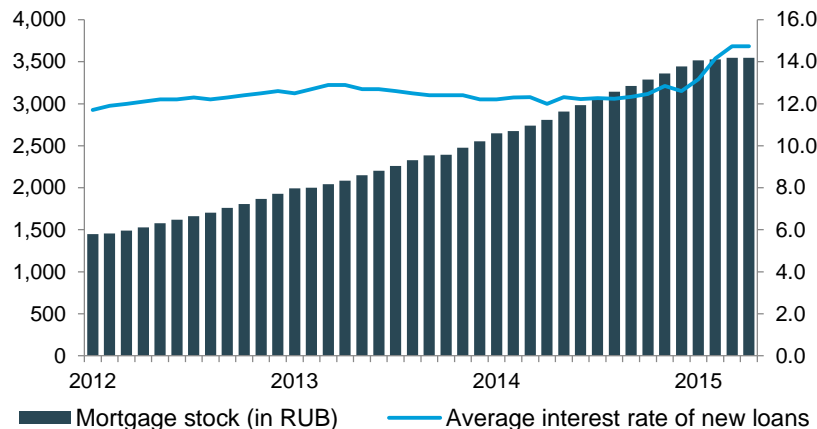


- The ruble has recovered from the weak levels seen in the end of 2014
- Inflation expectations have decreased slightly, still on a high level
- Significant regional differences in economic development
- Housing demand focuses especially on small apartments and apartments close to completion
- Residential prices have been stable recently
- Construction costs have increased but less than CPI
- Access to financing is limiting competitors' start-ups



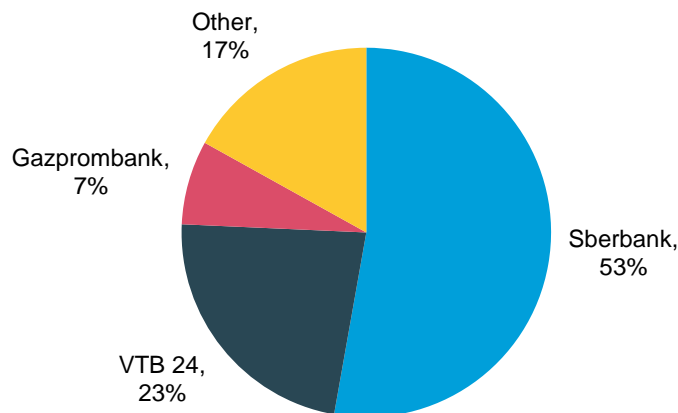
# Government subsidies supporting the mortgage market

## Mortgage market

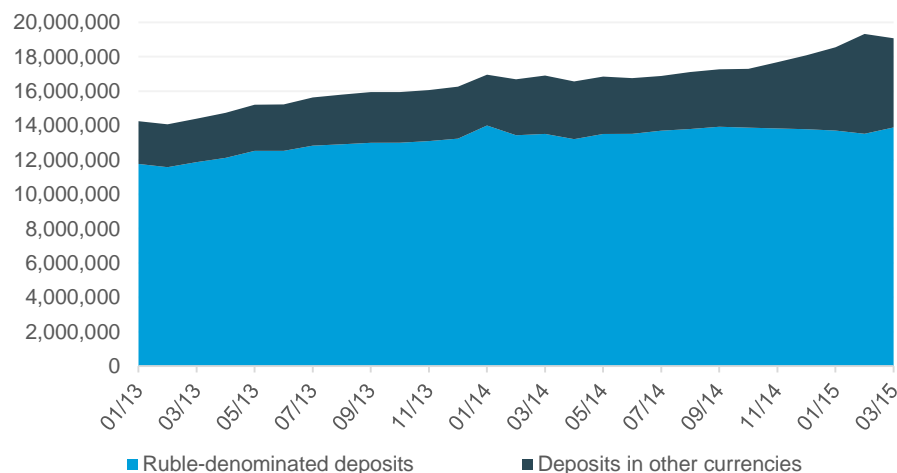


- The mortgage stock has continued to grow
- Mortgage interest rates decreased to a level of 12% due to government's new mortgage subsidy program launched in late March
  - Size RUB 20 bn, conditions; loan-to-value 80%, max. loan of RUB 8 million in Moscow and St. Petersburg, RUB 3 million elsewhere  
→ YIT has plenty of suitable apartments on offer

## Market share of the mortgage stock at the end of 2014



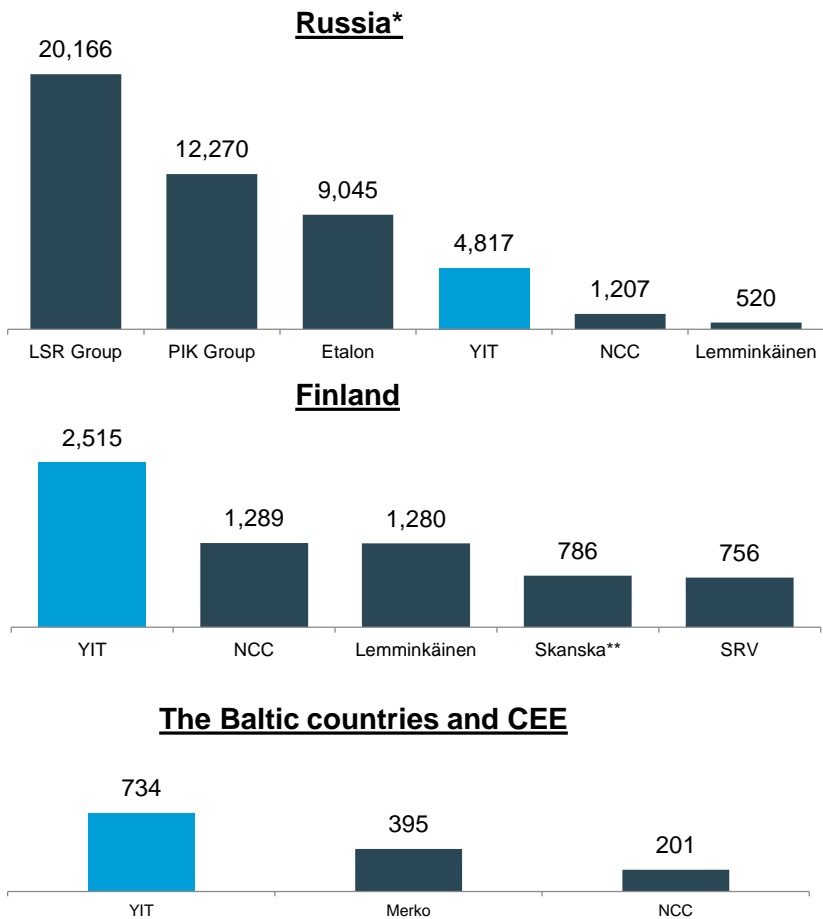
## Private persons' deposits in Russia, RUB millions



Sources: Central Bank of Russia, Sberbank, VTB 24 and Gazprombank

# YIT is the largest foreign residential developer in Russia

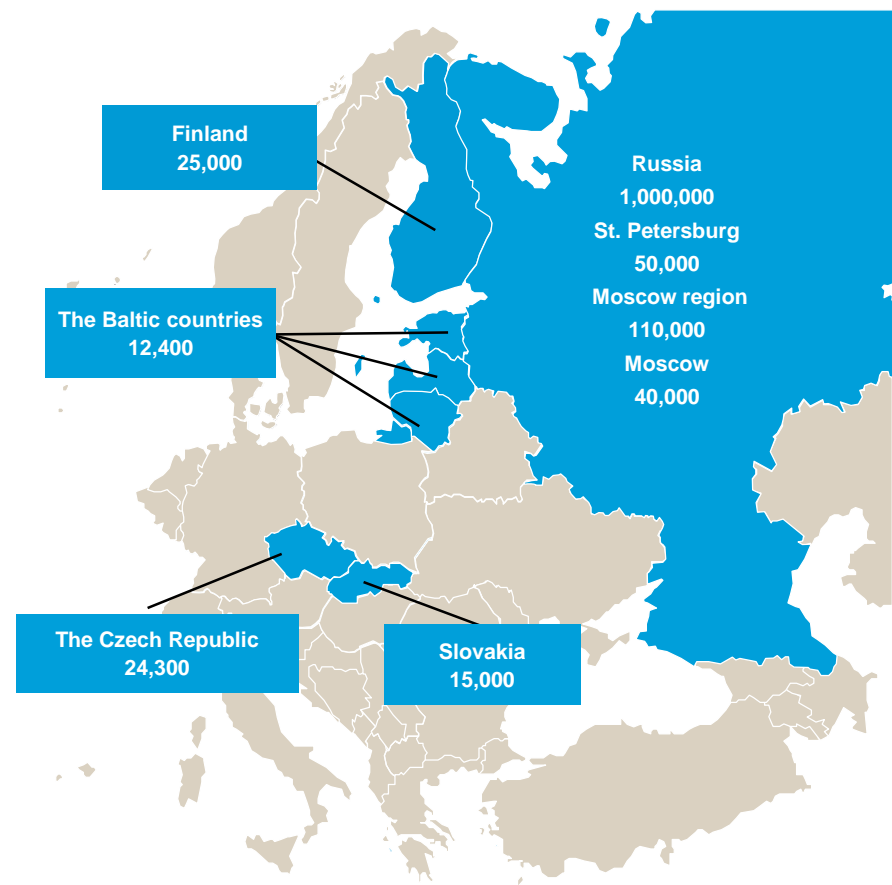
**Listed competitors in residential markets**  
Number of apartments sold in 2014



\* Companies listed outside Russia, \*\* Self-developed production

Note: LSR's and PIK's sold units calculated by dividing their "new contract sales, sq. m." by the average apartment size reported by Etalon, 50.53 sq. m.

**Residential markets in 2014E**  
Number of apartments\*\*\*



\*\*\* Source: Finland, the Czech Republic and Slovakia: Euroconstruct (start-ups) November, 2014 and Russia and the Baltics: Forecon (completions), December 2014



# 3

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## Strategy for the Russian operations

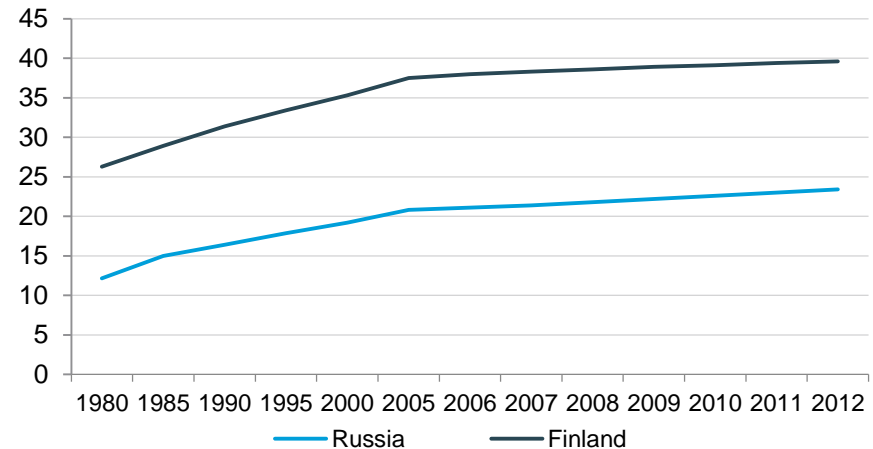


Pushkin residential area  
St. Petersburg, Russia

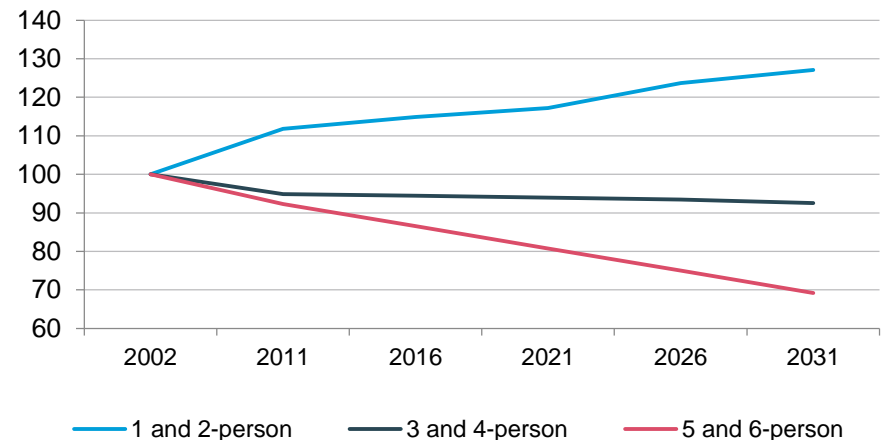
# Fundamental need for new apartments in Russia

- Several fundamentals support strong demand
  - Internal migration to growth centres
  - Poor quality of existing building stock
  - Decreasing household-size
  - Living space per capita roughly half compared to Western countries
- Developing mortgage market
  - Mortgages still below 5% of GDP
- Political support for residential construction

Availability of housing, sq. m. / person



Number of households in Russia by household size, index





# Opportunities in the market

**Long term need for new apartments**

**Service and maintenance business and YIT Plus enable leveraging the customership**

**Leveraging group-level design management know-how and concepts**

**Room for cross sales and geographical expansion**

# YIT's competitive edges in Russia

- YIT-brand associated with high quality and reliability
- Effective design of the apartments and own concepts
- Mortgage co-operation with banks supported by reliable reputation
- Superior project management skills in complex projects
- Strong plot portfolio and own sales network
- Over 50 years' experience in doing business in Russia





# Strategy for 2015-2017: Housing Russia

## Growth from self-developed projects

- Readiness to scale up/down in an environment of weak visibility

## Ensuring competitiveness and differentiation

- Concept development
- Affordable and attractive product
- Excellent customer experience

## Wider financial operating space

- Capital turnover will be improved  
→ reduction in the amount of invested capital



# Large area development offers flexibility and efficiency in production



## Novo Orlovsky, St. Petersburg

- Total area of ~570,000 sq. m.
- Nearly 10,000 apartments
- Started in December 2013
- Construction in 7 blocks and several phases including social infrastructure

## Benefits of large area development

- Opportunities for area marketing and branding
  - Better living environments
- Flexibility and volume management
- Standardization and optimization of design solutions
  - Reduction in construction costs
- Construction in phases
  - Less dependency on the permitting process
  - Easier human resource management
  - Efficiency in cash flow management



# New concepts according to demand



## Low-rise development

Short period from construction start up to hand over, 3-4 months

Less complex process with authorities

Cheaper construction cost per sq. m.

Flexibility in heating solutions



## Mini-apartments

Functional apartments

Excellent space solutions

For young families and elderly people

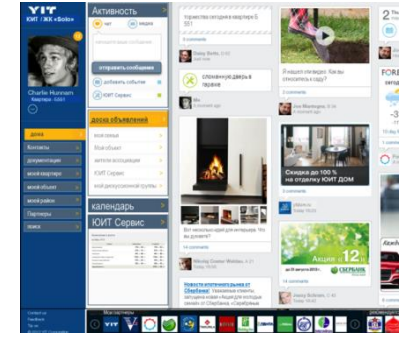


## Safe Home

Reliable and secure building operation

Access control systems

Safe playgrounds



## Home portal

Modern online-portal for living for more than 15,000 apartment owners in Russia

Features of the portal are tailored to the specific area

# Recent actions

## 1. Portfolio adjustments

- Start-ups adjusted downwards to reduce risk, readiness to increase start-ups sustained
- Large number of project completions combined with low start-ups has decreased the production volume
- Focus on small and affordable apartments

## 2. Active concept and service development

- Expansion of mini apartment and Safe Home concepts
- Service and maintenance business expanded to Kazan and Moscow City

## 3. Capital efficiency

- Modest progress in selling slow-moving assets
- Improved operational model and capital turnover





# 4

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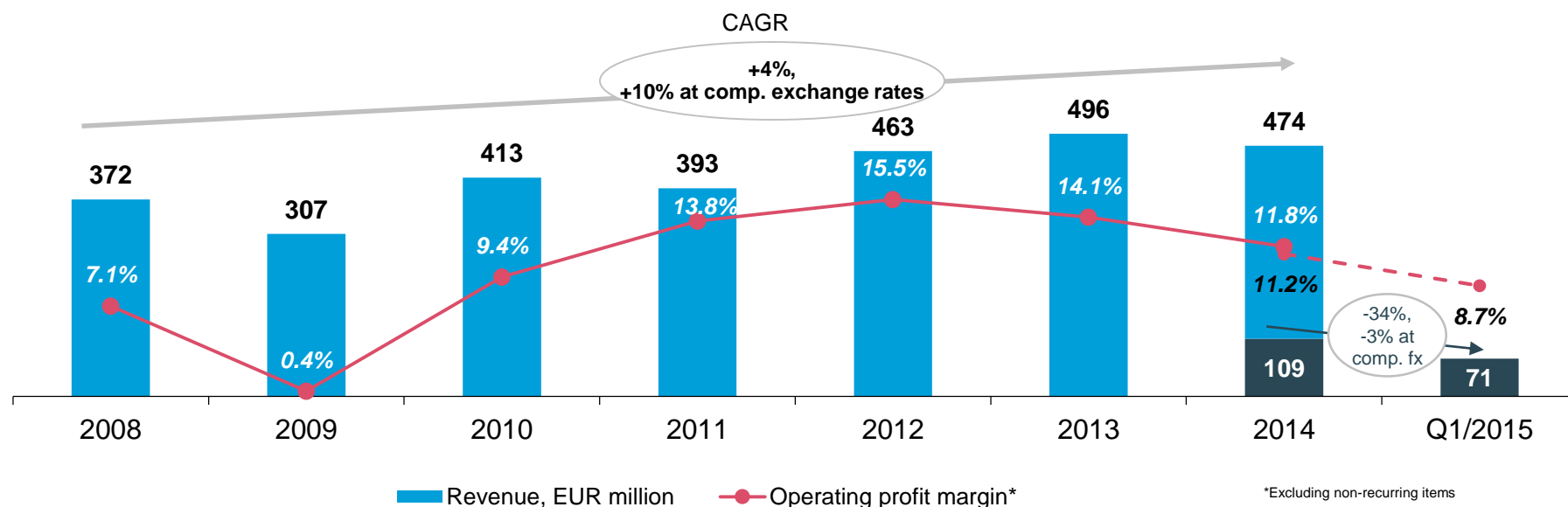
## Financial performance



Respublikanskaya,  
St. Petersburg, Russia

# Housing Russia: long-term development

2008	2009	2010	2011	2012	2013	2014	Q1/2015
Prices declined Profitability hit as volumes declined	Housing prices stabilising in H2 Fixed cost cuts	Slight increases in residential prices	Prices increased (regional differences)	Prices increasing and good residential sales Margins improving	Stable residential prices Sales volume continued to develop positively	Increased uncertainty and weakening ruble Revenue grew 15% y-o-y at comparable exchange rates	Revenue stable at comparable exchange rates Profitability decreased
EBIT*: EUR 26.0 million	EBIT*: EUR 1.0 million	EBIT*: EUR 41.0 million	EBIT*: EUR 54.0 million	EBIT*: EUR 72.0 million	EBIT*: EUR 70.2 million	EBIT*: EUR 55.8 million	EBIT*: EUR 6.2 million



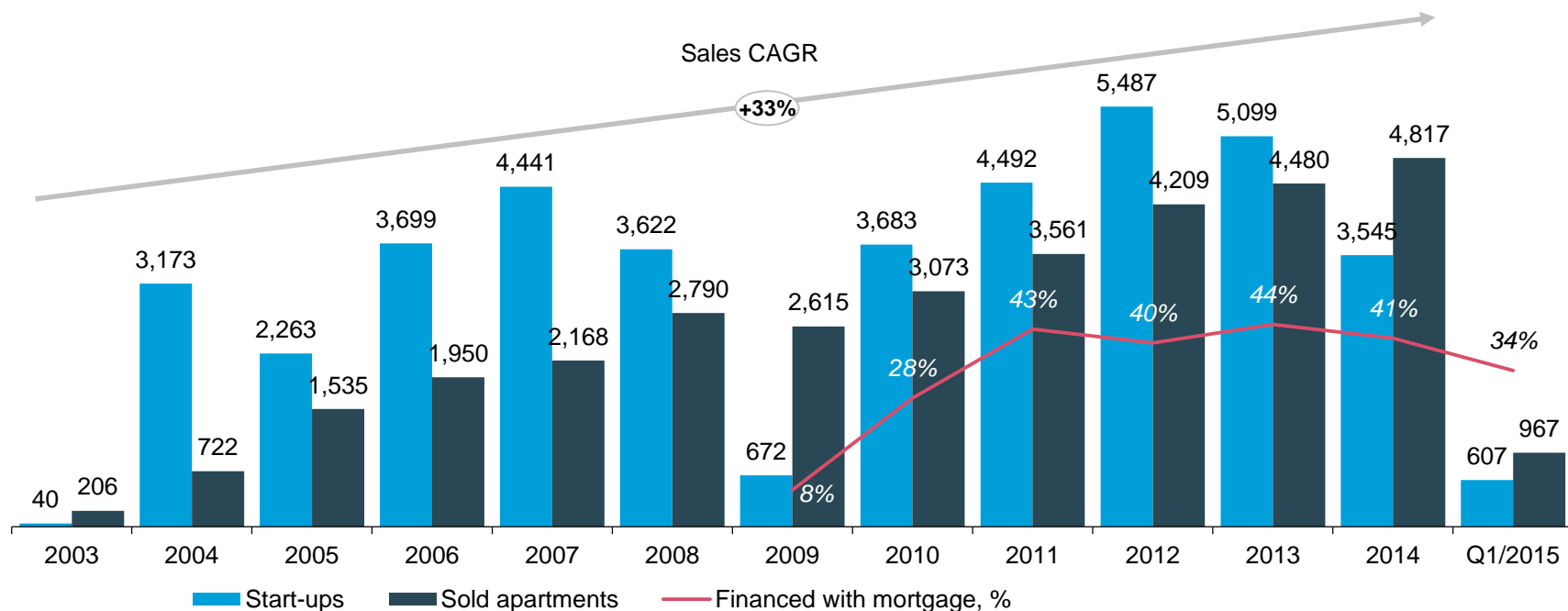
Note: The historical figures for 2008-2012 are calculated for illustrative purposes and are not completely comparable with YIT's segment structure. The main difference is in the division of fixed costs, which in the historical figures are weighted according to revenue and in the official figures are more accurately allocated according to each segment's estimated true share of the fixed costs.



# Risk level reduced by lowering start-ups

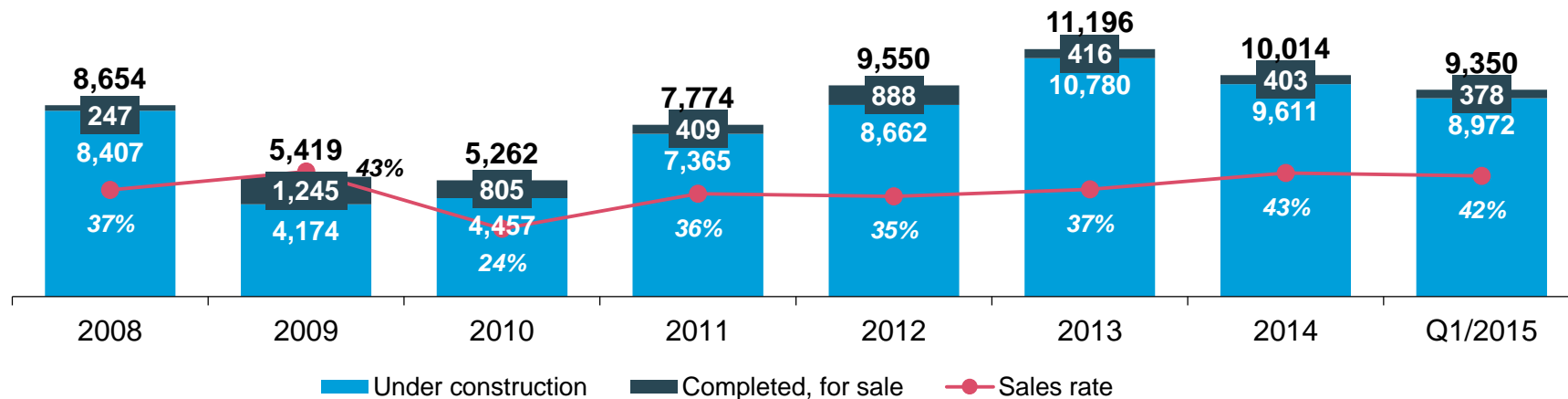
- Start-ups focused on maintaining volume in all operating cities
- Good readiness to ramp up the production when operating environment allows
- Recently, the share of cash-payers has increased

Start-ups and sold apartments, units

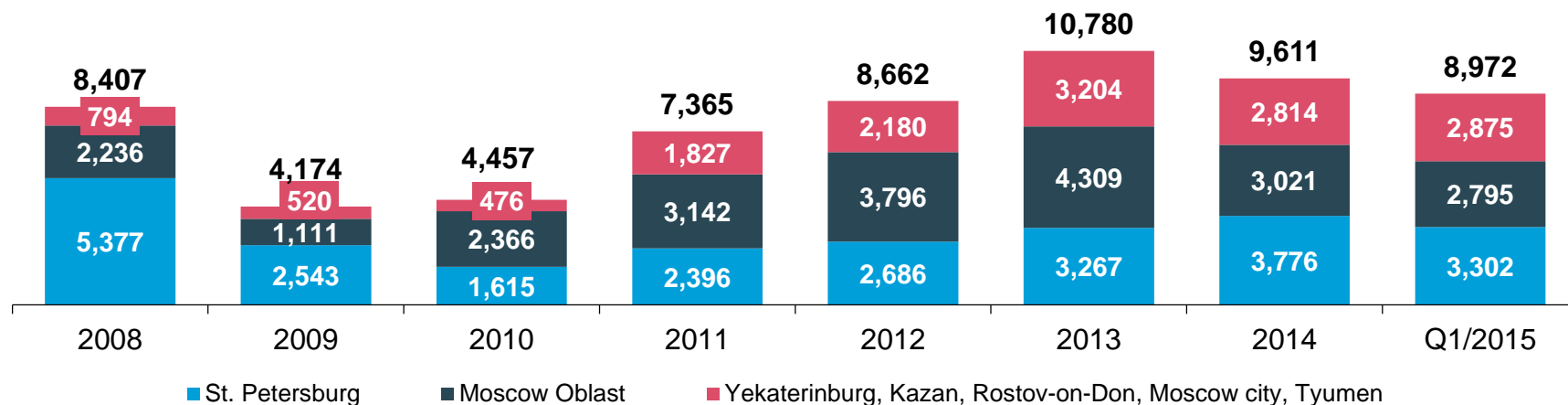


# Sales risk has decreased

Apartment inventory at the end of the period, units



Apartments under construction buy city at the end of the period, units

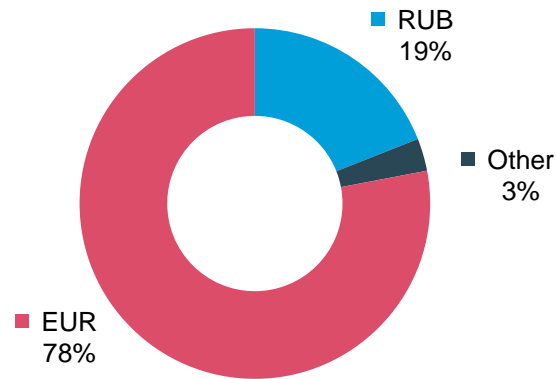




# Ruble impact in Q1/2015:

## Positive translation difference of close to EUR 50 million

Revenue split Q1/2015



Impact of changes in foreign exchange rates (EUR million)

	Q1/2015
Revenue, POC <sup>1)</sup>	-34.1
EBIT, POC <sup>1)</sup>	-2.9
Order backlog, POC <sup>2)</sup>	96.2
Equity, IFRS (translation difference) <sup>2)</sup>	47.2

<sup>1)</sup> Compared to the corresponding period in 2014

<sup>2)</sup> Compared to the end of previous quarter

- The Russian ruble has recovered from the 2014 end

### Principles of managing currency risks:

- Sales and project costs typically in same currency, all foreign currency items hedged  
→ no transaction impact
- Currency positions affecting the income statement are hedged
  - Loans to subsidiaries in local currency, EUR 82 million in 3/2015 to Russian subsidiaries
- Equity and equity-like investments in Russia not hedged
  - Considered to be of permanent nature
  - FX changes recognized as translation difference in equity
  - Total exposure: EUR 312 million in 3/2015

# Plans for alternate scenarios in Russia

	Normalized situation	Continuing uncertainty	Escalation of crisis	Large-scale conflict
Plot acquisitions	Increase plot acquisitions	Continue strategic plot acquisitions	Only critical plot acquisitions	Stop plot acquisitions
Start-ups	Increase start-ups according to growth target	Continue strategic start-ups	Only critical start-ups	Stop start-ups
Construction	As planned	As planned	As planned	Slowdown, however filling contractual obligations, stop projects with no sales
Pricing	Dynamic pricing	Dynamic pricing	Accelerate sales with pricing	Accelerate sales with pricing
Costs	Pursue improved project profitability	Pursue improved project profitability	Renegotiate subcontracts, reduce fixed costs	Restructuring and major adjustments of size of operations



# 5

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## Looking ahead and conclusions

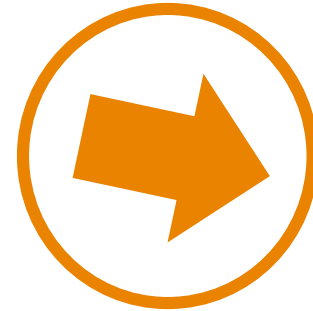


Apila residential area  
Moscow region, Russia

# Market outlook for 2015, Russia

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- Weak visibility
- Consumers' purchasing power to decrease
- Construction costs to increase
- Uncertainty in residential price development
- Residential demand to focus on small apartments that are completed or close to completion
- Mortgage rates to remain stable due to government subsidies





# Conclusion

Visibility currently weak in Russia

Risk level lowered by reducing start-ups, however a good readiness to ramp up the volume when the market allows

Long-term growth drivers of the Russian housing market are intact

YIT has a strong market position, reliable brand and solid reputation in Russia

Still a lot of potential to improve capital efficiency





**Together  
we can  
do it.**