



# YIT in Russia

Timo Lehtinen, CFO  
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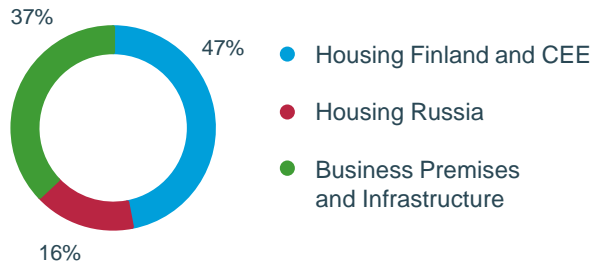
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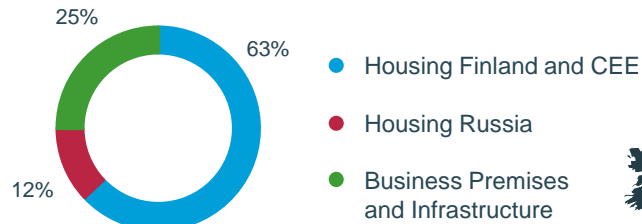


# YIT – A real estate developer and construction company with solid track record

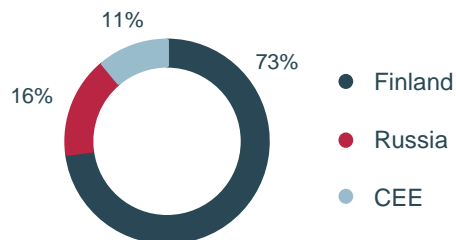
## Revenue by segment, EUR 1.7 billion



## Operating profit\* by segment, EUR 76 million



## Revenue by geographical area, POC



Figures based on segment reporting (POC), %-shares excluding other items  
\*Excluding adjustments.

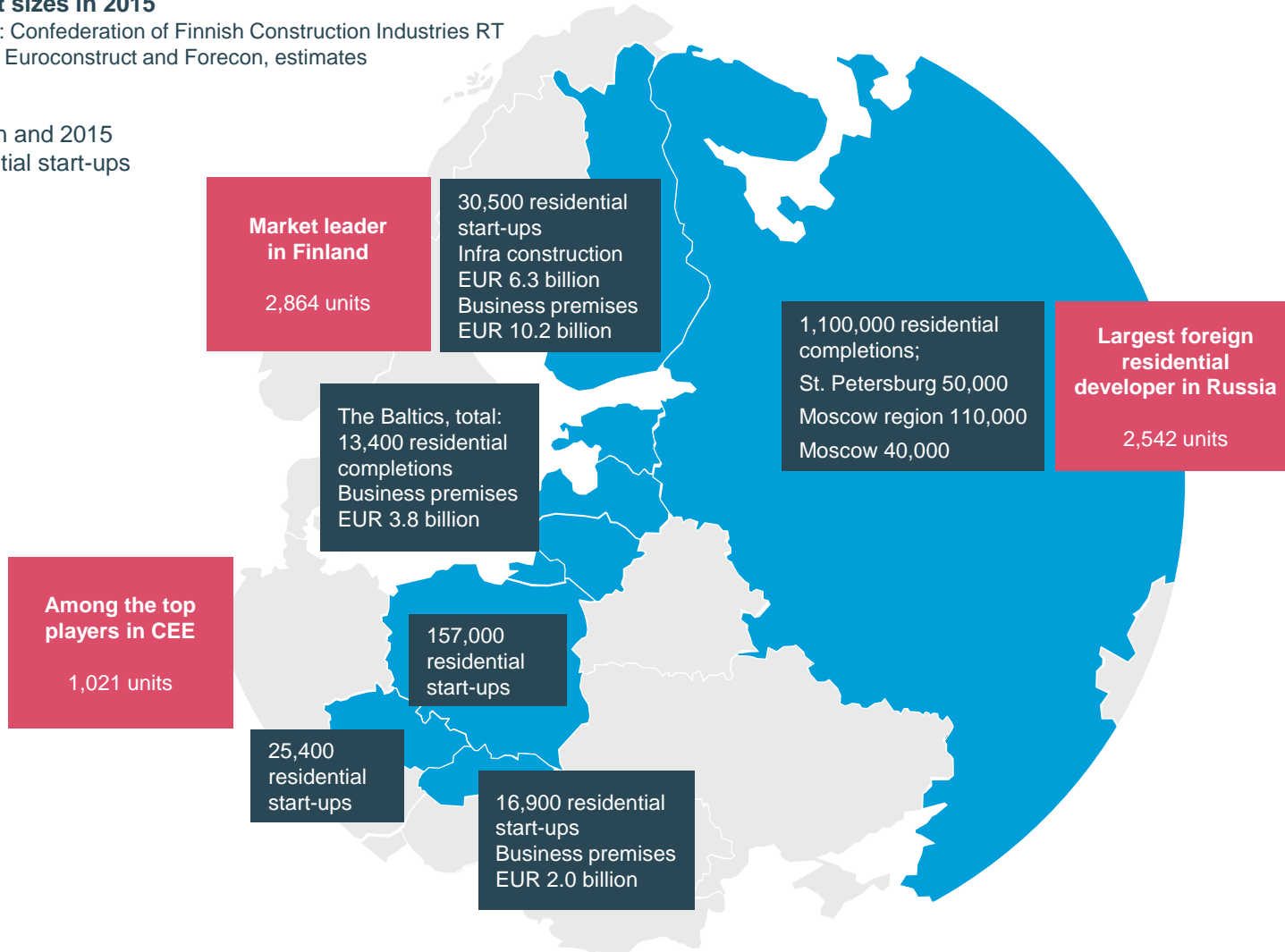
# Strong market position in all markets – Largest foreign residential developer in Russia

## Market sizes in 2015

Finland: Confederation of Finnish Construction Industries RT  
Others: Euroconstruct and Forecon, estimates

## YIT

Position and 2015 residential start-ups



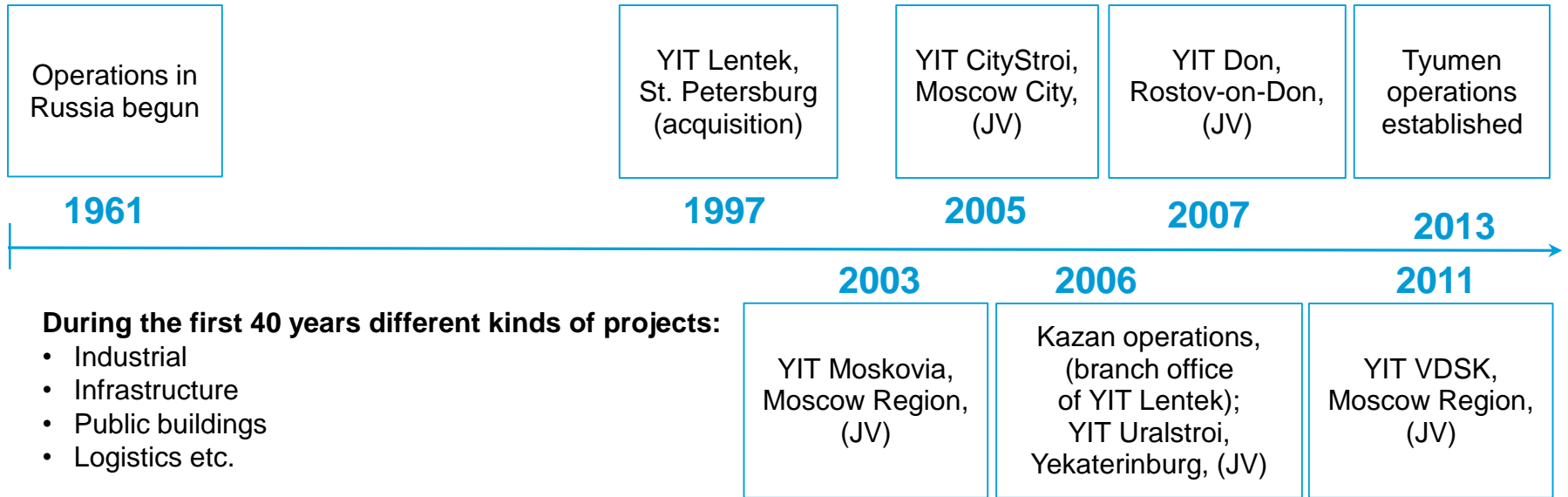
# 1

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## YIT's Russian operations in brief



# 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

## 2015 figures

Revenue	EUR 266 million
Adjusted operating profit	EUR 10.9 million
Operative invested capital	EUR 363 million
ROI-%	0.2%
Plot reserves, 12/2015	EUR 175 million 2,193,000 m <sup>2</sup>
Employees, 12/2015	1,980
Residential start-ups	2,542
Apartments under construction, 12/2015	8,100



# 2

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## Operating environment

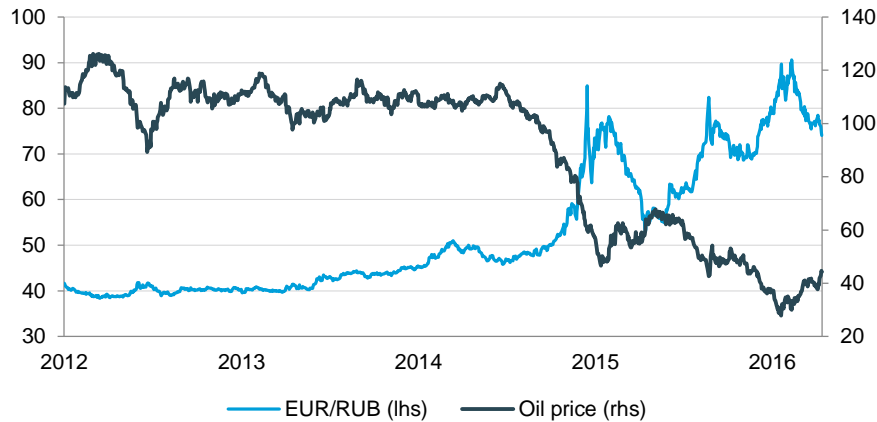


Residential area in Dom Oborony  
Tyumen, Russia

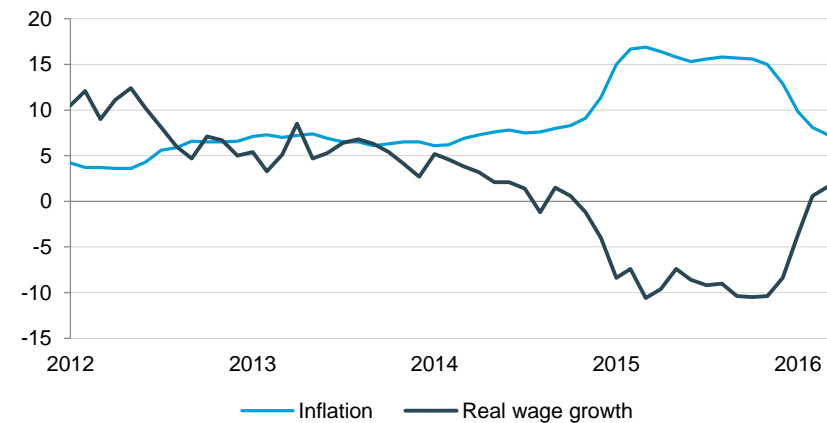


# Operating environment remains challenging despite recent macroeconomic stabilisation

EUR/RUB exchange rate and oil price (\$/bbl) development



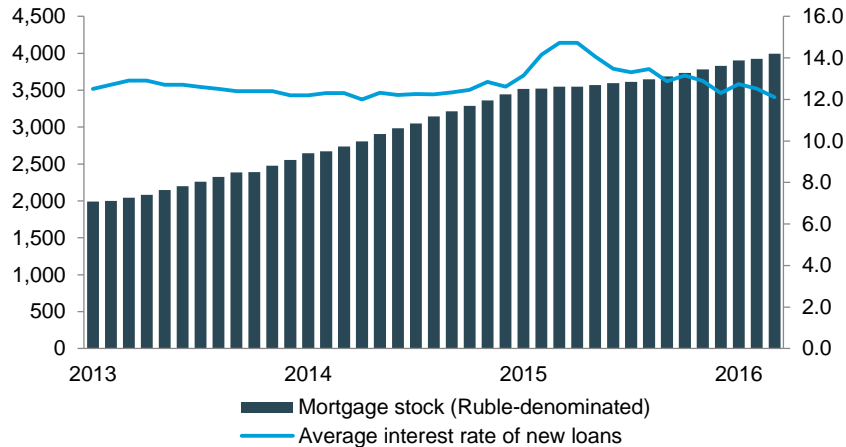
Inflation and real wage growth, %



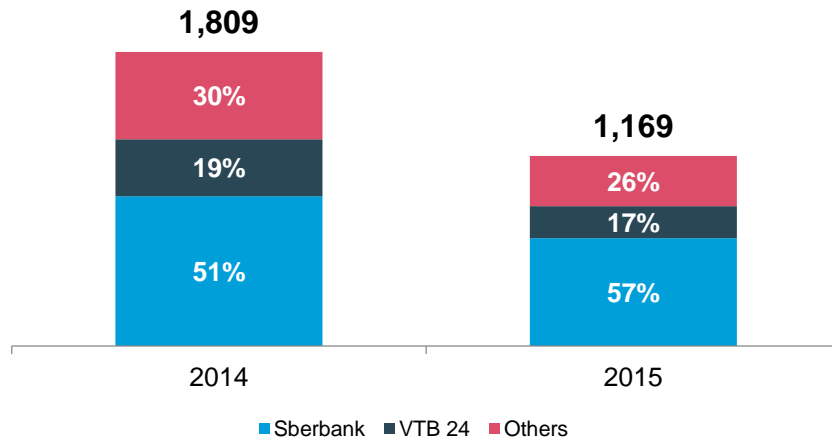
- The ruble has recovered from the weak levels seen in the end of 2015
- Significant regional differences in economic development
- Inflation has moderated recently
- Construction costs have increased but less than CPI
- Real wages not decreasing anymore, but household consumption expected to stay weak
- Housing demand focuses especially on small apartments
- Residential prices have been stable recently in nominal terms

# Government subsidies supporting the mortgage market

## Mortgage market development



## Issued mortgages and market shares in 2015 (2014), RUB billion and %



- The mortgage stock has continued to grow
- Mortgage interest rates for new apartments at around 12% due to government mortgage subsidy program
  - Launched in late March 2015, extended to the end of 2016
  - Size RUB 16.5 billion in 2016, 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
- The amount of issued mortgages decreased in 2015
  - The importance of government controlled banks has grown

# 3

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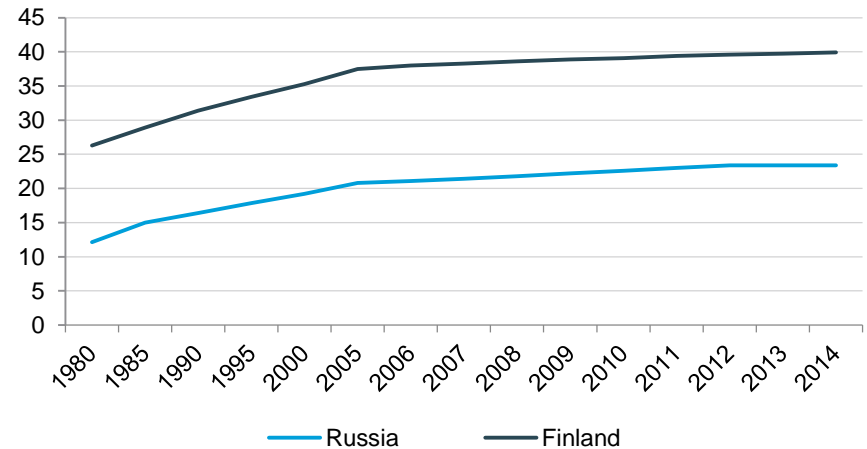
## Strategy for the Russian operations



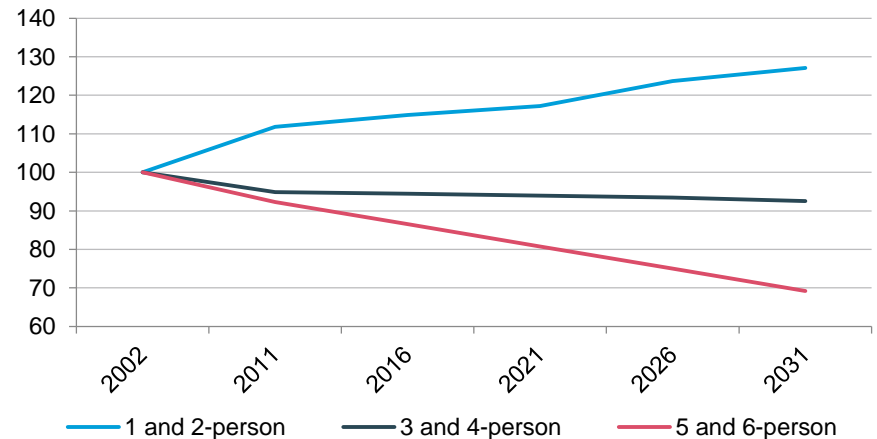
# Fundamental need for new apartments in Russia

- 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



# YIT Service Russia – New recently established business unit

- Initial idea to strengthen the YIT brand
- New unit established to better exploit the opportunities in serving the over 20,000 existing YIT customers
- The business unit is responsible for the maintenance of the delivered YIT projects in all operating cities
- Revenue generation from after sales maintenance and increased apartment quality and sales price on a longer run
- Idea is to lengthen the value chain by offering additional services



# 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



# 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, new modern and energy efficient prefabricated house taken into production

## 2. Restructuring the operations

- Renewed business unit structure
- Fixed cost adjustments to match the decrease in sales and production volumes

## 3. Capital efficiency

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



# Housing Russia in the context of YIT's strategy

## Improving profitability

- Improve the affordability of apartments
- Fixed cost adjustments to match the decrease in sales and production volumes

## Growth initiatives

- Operations in all current locations continue with reduced risk level
- Readiness to ramp up production

## Work to improve capital efficiency continues

- The capital release program continues, aim is to complete it by the end of 2016
- Target is to reduce the operative invested capital





# Defensive mode, maintaining ability to ramp up

	<b>“New normal”</b>	<b>Significant deterioration in the operating environment</b>
<b>Plot acquisitions</b>	Carefully selected plot acquisitions	Stop plot acquisitions
<b>Start-ups</b>	Maintain at least critical volume in all units	High selectivity
<b>Construction</b>	As planned	Slowdown, however filling contractual obligations
<b>Pricing</b>	Dynamic pricing to keep the sales in line with progress in construction	Accelerate sales with pricing
<b>Costs</b>	Reduce fixed costs Redesign some projects	Restructuring and major adjustments of size of operations

# 4

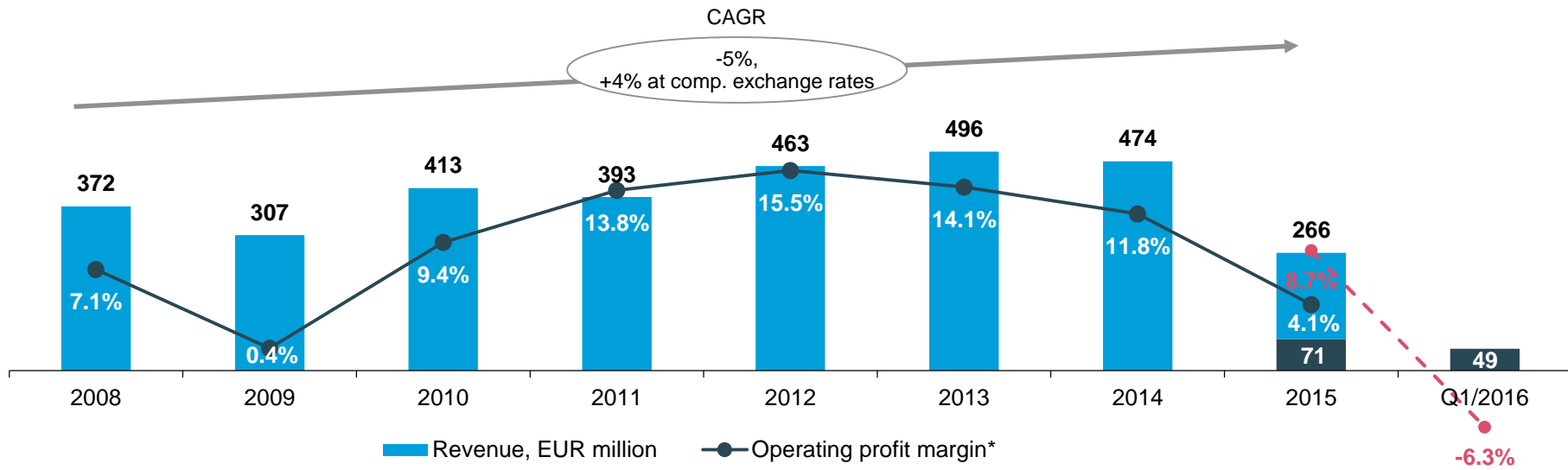
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## Financial performance



# Housing Russia: Long-term development

2008	2009	2010	2011	2012	2013	2014	2015	Q1/2016
<ul style="list-style-type: none"> <li>Prices declined</li> <li>Profitability hit as volumes declined</li> </ul>	<ul style="list-style-type: none"> <li>Residential prices stabilised in H2</li> <li>Fixed cost cuts</li> </ul>	<ul style="list-style-type: none"> <li>Slight increases in residential prices</li> </ul>	<ul style="list-style-type: none"> <li>Prices increased (regional differences)</li> </ul>	<ul style="list-style-type: none"> <li>Prices increased and good residential sales</li> <li>Improving margins</li> </ul>	<ul style="list-style-type: none"> <li>Stable residential prices</li> <li>Sales volume continued to develop positively</li> </ul>	<ul style="list-style-type: none"> <li>Increased uncertainty and weakening ruble</li> <li>Revenue grew 15% y-o-y at comp. exchange rates</li> </ul>	<ul style="list-style-type: none"> <li>Profitability burdened by lower revenue and weakened project margins, among other things</li> </ul>	<ul style="list-style-type: none"> <li>Profitability weighed down by lower revenue and changes in pricing in certain projects</li> </ul>
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 10.9 million	EBIT*: EUR -3.1 million



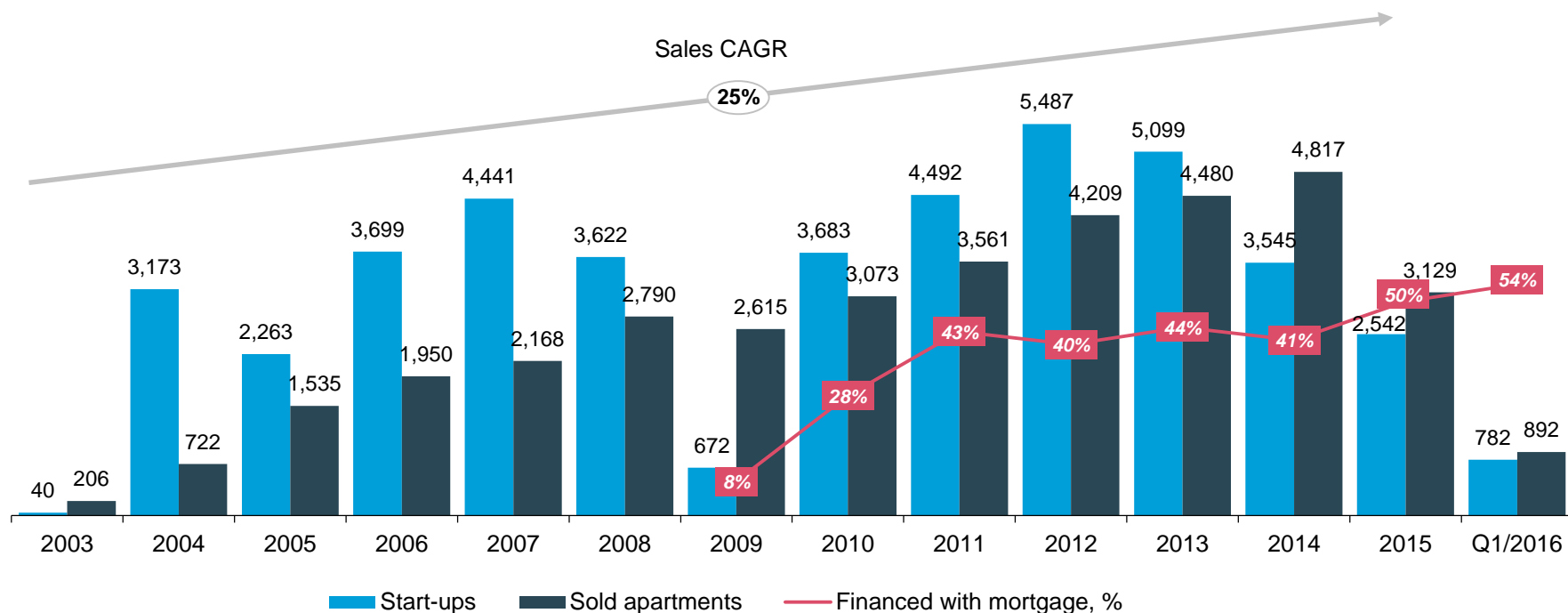
\*Excluding adjustments

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 segments estimated true share of the fixed costs.

# Risk level reduced by lowering start-ups

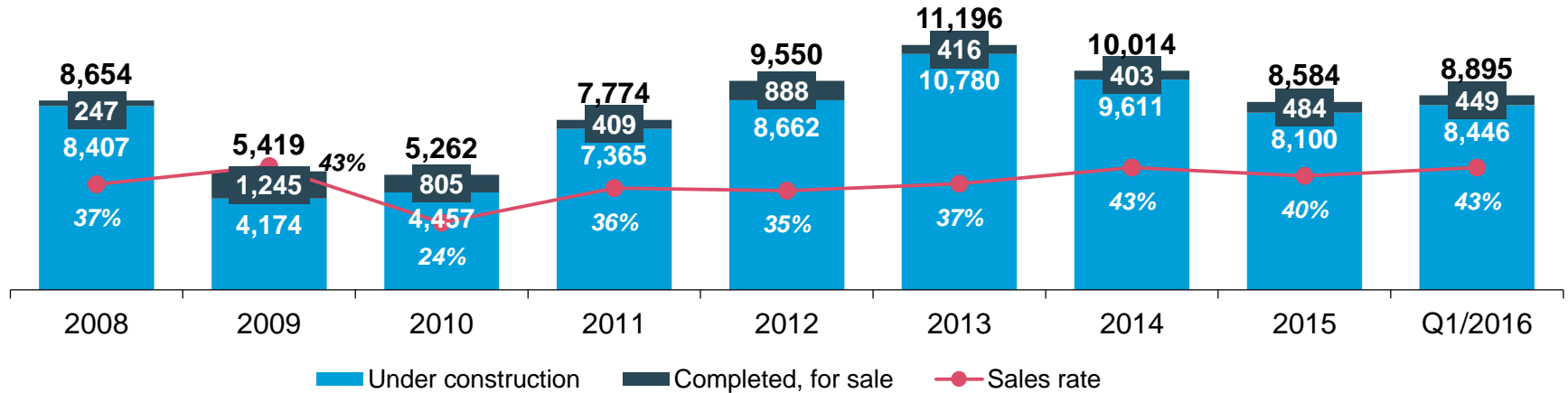
- Start-ups focused on maintaining critical volume in all operating cities
- Good readiness to ramp up the production when operating environment allows

Start-ups and sold apartments, units

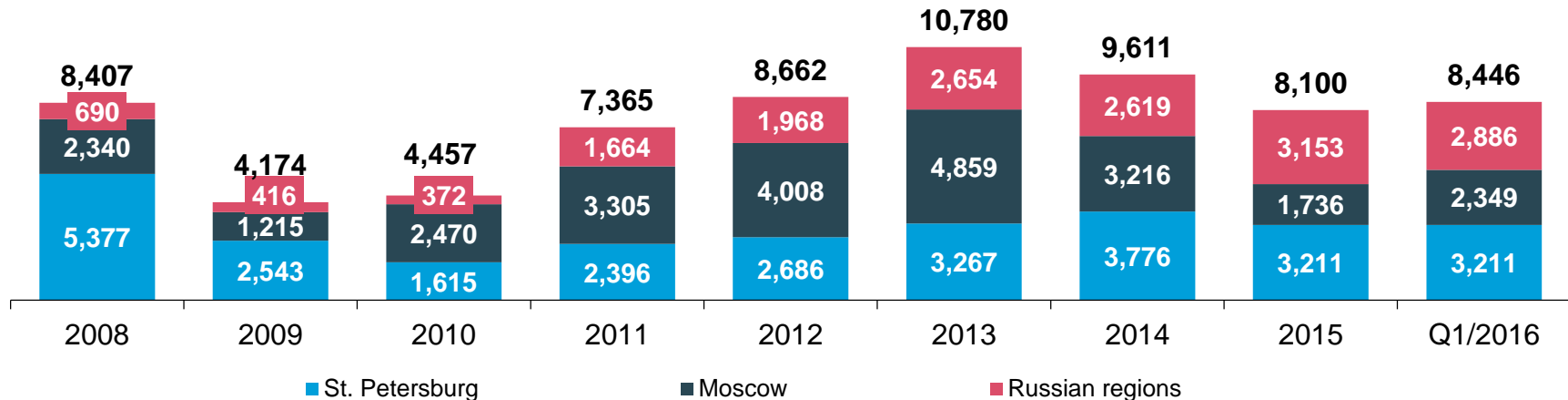


# Sales risk has decreased

Apartment inventory at the end of the period, units

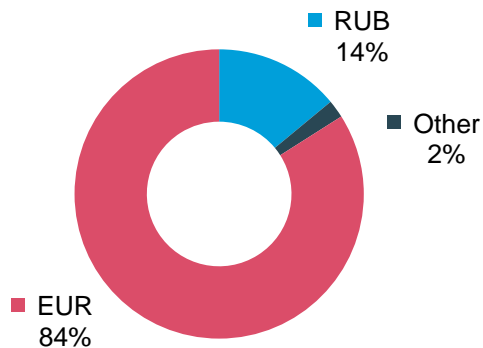


Apartments under construction by business unit at the end of the period, units



# Ruble strengthened in Q1/2016, Positive translation difference of close to EUR 16 million

## Revenue split Q1/2016



## Impact of changes in foreign exchange rates (EUR million)

	Q1/2016
Revenue, POC <sup>1)</sup>	-7.7
EBIT, POC <sup>1)</sup>	0.4
Order backlog, POC <sup>2)</sup>	27.5
Equity, IFRS (translation difference) <sup>2)</sup>	15.7

<sup>1)</sup> Compared to the corresponding period in 2015

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

## 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 114.9 million in 3/2016 to Russian subsidiaries
- Equity and equity-like investments in foreign currency not hedged
  - Considered to be of permanent nature
  - FX changes recognized as translation difference in equity
  - Exposure in Russian subsidiaries: EUR 225.9 million in 3/2016

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## Looking ahead and conclusions



# Outlook for 2016, Russia

## Market expectations

- Weak visibility
- Construction cost inflation to moderate
- Residential prices stable in nominal terms
- Residential demand to focus on small apartments



## Operative targets

- The demanding market situation in Russia is expected to keep the profitability of Housing Russia on a low level
- Target to have positive operating profit and cash flow for the year 2016
- Invested capital to be reduced by maintaining the good sales volume (units)



# Conclusion

Operating environment remains challenging in Russia

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

Target to reduce the amount of invested capital

Fundamental need for new apartments in Russia

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



Pushkin residential area  
St. Petersburg, Russia

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