



# YIT – More life in sustainable cities

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Carnegie Small & Mid Cap  
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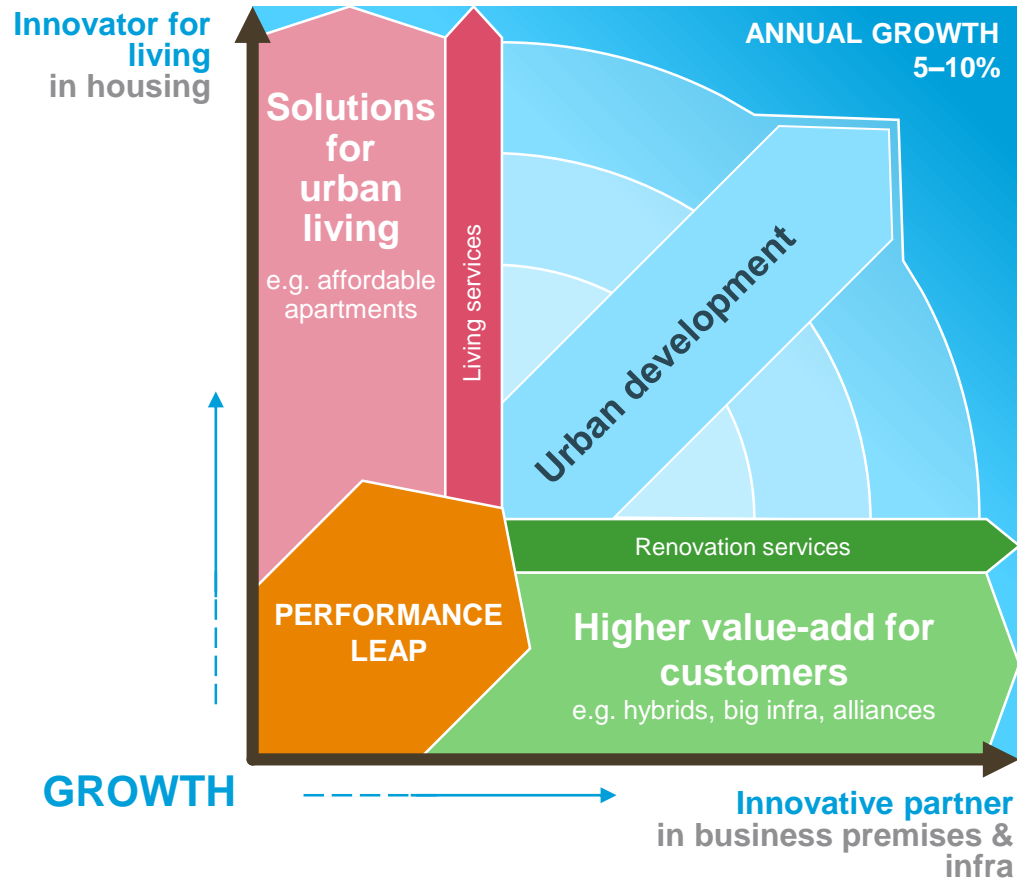
# 1

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## Merger with Lemminkäinen



# Urban development boosting balanced growth



# Need for stability over economic cycles

## CURRENT CHALLENGES

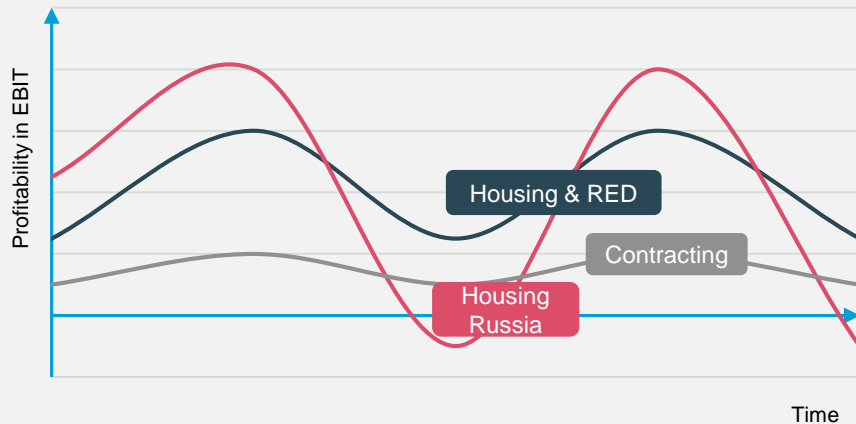
Economic uncertainty

Business  
cyclicality

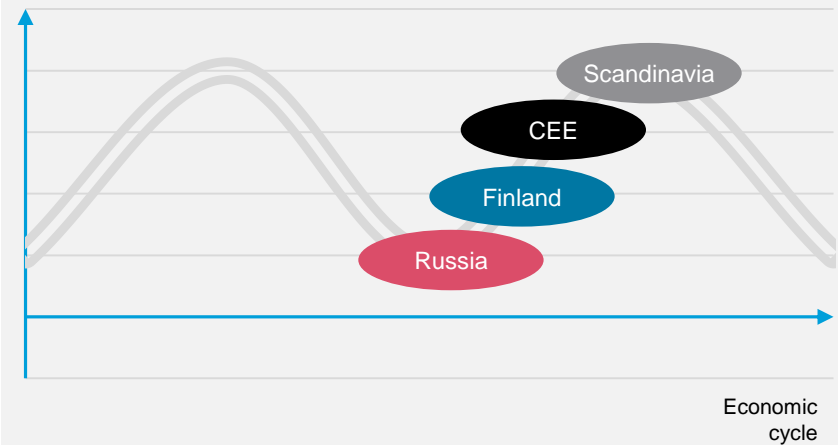
Risk aversion of  
creditors

Unbalanced capacity

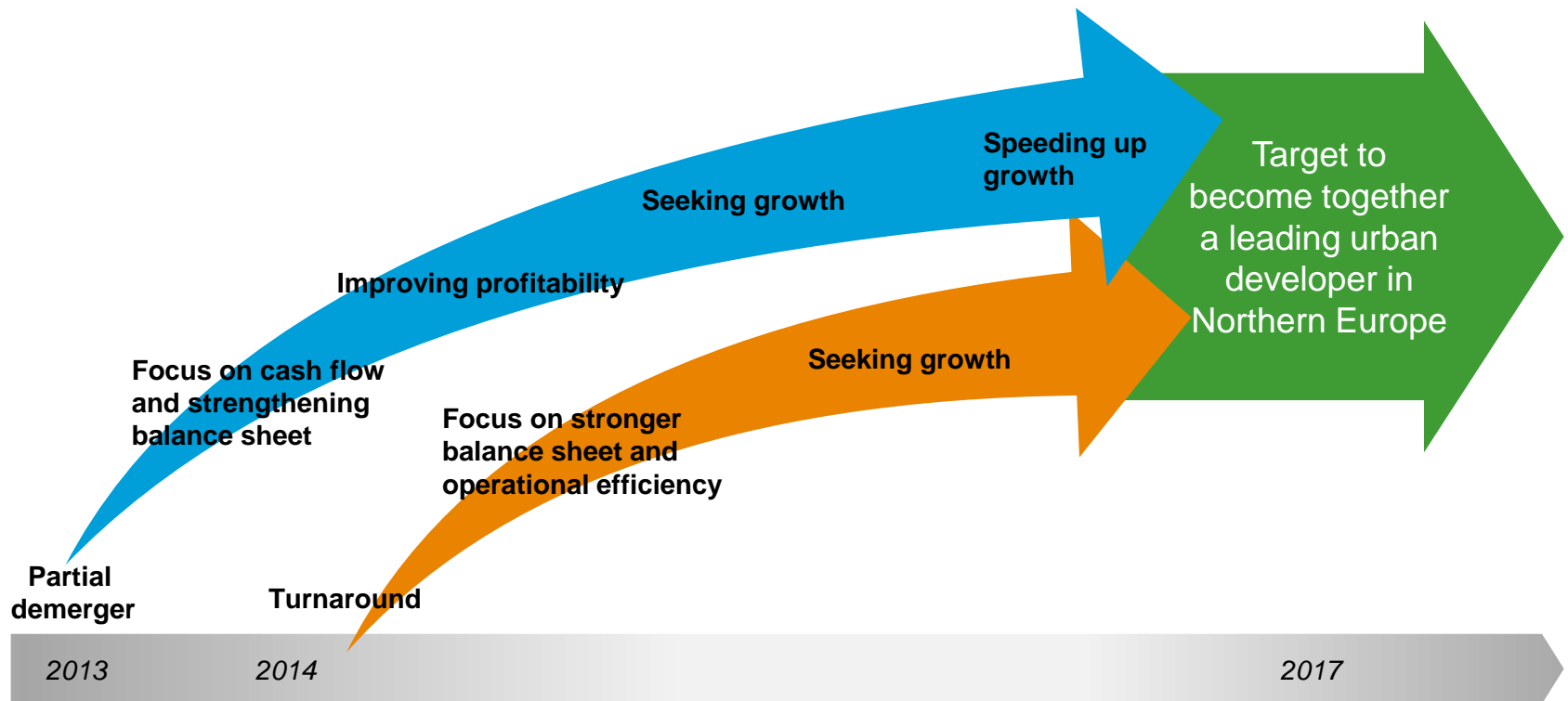
## NATURE OF BUSINESSES



## MARKETS & ECONOMIC CYCLES




# YIT's and Lemminkäinen's recent years in brief



# YIT and Lemminkäinen to combine

## Deal rationale

- 
- 1 Strong platform for growth**
    - Target to become a leader in urban development
    - More balanced business portfolio (Infra, Housing, Business Premises, Partnership Properties)
    - Wider geographical presence in several economic regions
  - 2 Synergies and improved competitiveness**
    - Good references and wide pool of professional people
    - Potential for profitability improvement
    - Wider opportunities for specialization and scale
  - 3 Improved financial position and reduced risk profile**
    - Counter cyclicity of businesses and geographies
    - Lower financing costs
    - Lower dependency on investment demand
  - 4 Enhanced investment case**
    - Significant market value, good liquidity of the share
    - Balanced and improved risk profile
    - Growing dividend expectation



# Transaction overview



The transaction would be executed as an absorption merger whereby Lemminkäinen is merged into YIT and thereafter dissolved

**3.6146** new YIT shares

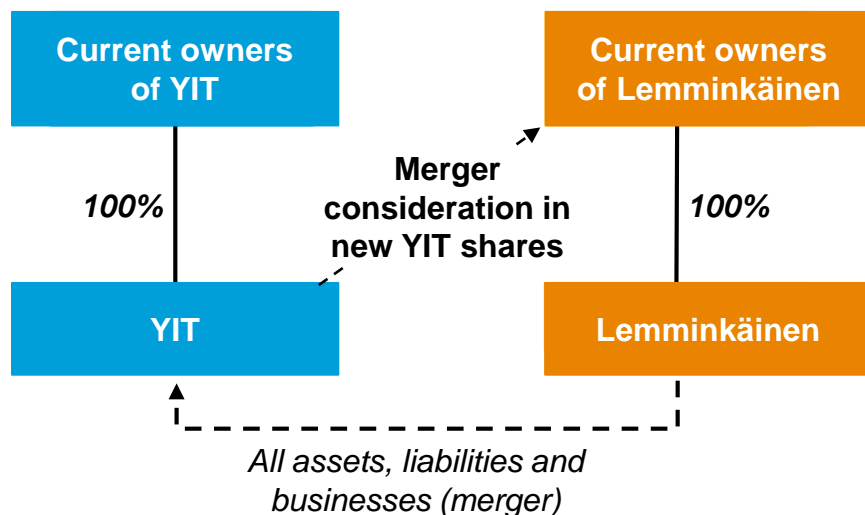
3.6146 new YIT shares would be issued for each share in Lemminkäinen as merger consideration to the shareholders of Lemminkäinen in exchange for all assets, liabilities and businesses of Lemminkäinen

**60%**

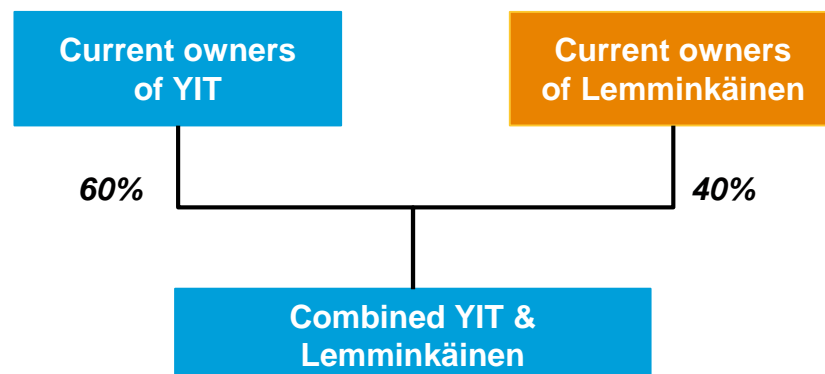
**40%**

After the transaction the current shareholders of YIT would own 60% of the combined entity whereas the current shareholders of Lemminkäinen would own 40% (assuming no redemption of opposing shareholders)

## Transaction



## Post transaction structure

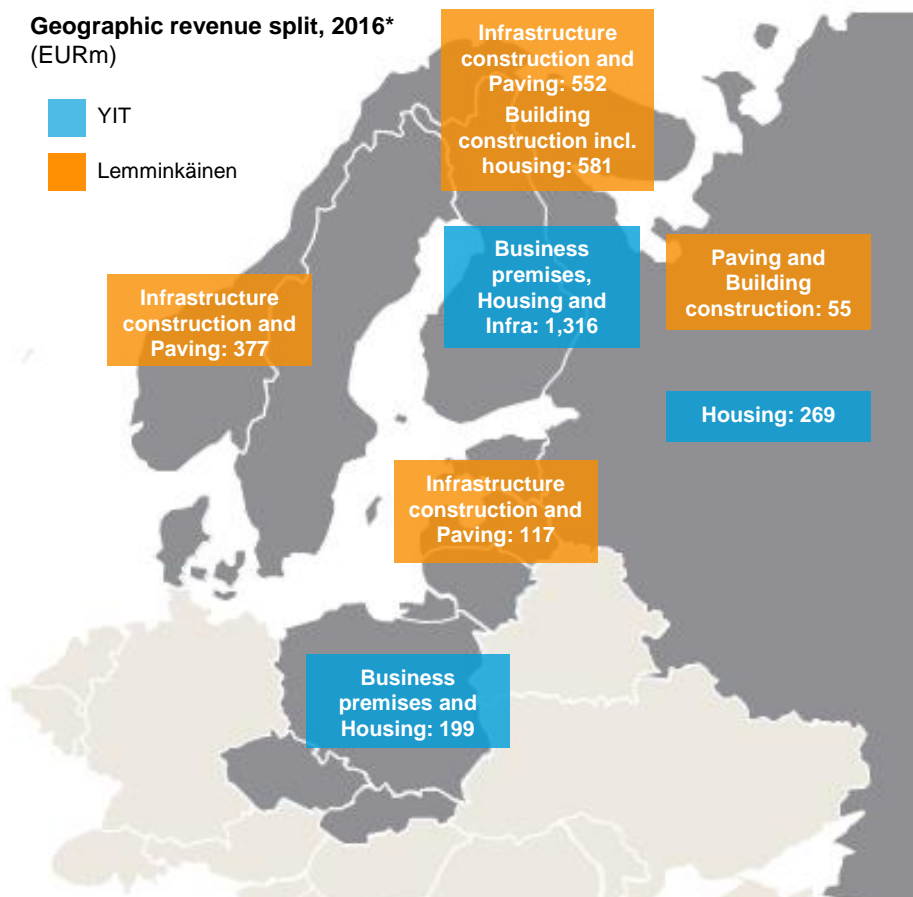




# Combined portfolio 2016

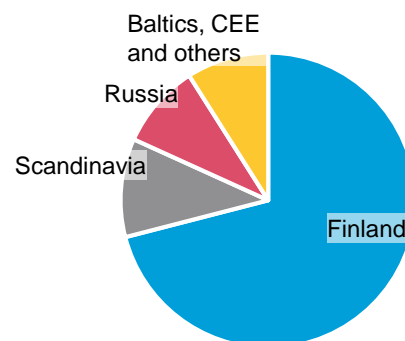
**Geographic revenue split, 2016\***  
(EURm)

YIT  
Lemminkäinen

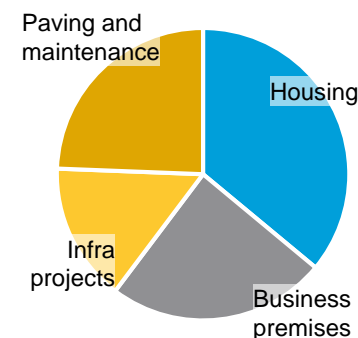


**Illustrative combined revenue splits 2016\***

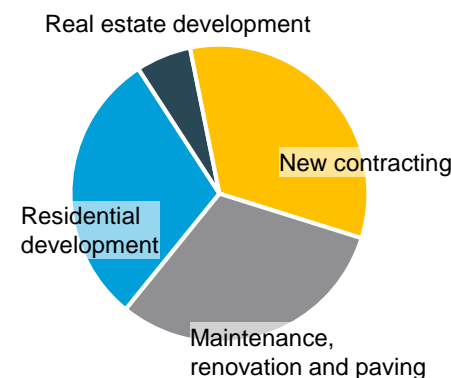
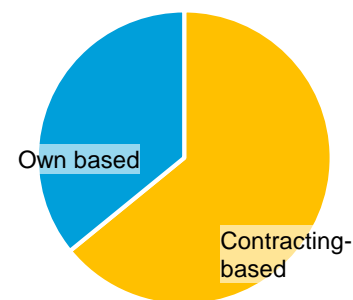
**Geographic split\***



**Operational split\***



**Business logic split\***



\* Preliminary combined high level illustrative estimates for the geographical, operational and business logic splits reflect the external and internal reporting of YIT and Lemminkäinen prepared under both POC and IFRS principles for the year 2016. Illustrative high level estimates of splits presented are based on a hypothetical situation and are not intended to project the revenue split of the Combined entity in the future. The illustrative information should not be viewed as pro forma information.

# Pro forma (IFRS) income statement information

Unaudited	1.1 - 31.12. 2016				1.1 - 30.6.2017			
EURm	Combined	Merger	YIT	Lemmin- käinen	Combined	Merger	YIT	Lemmin- käinen
Revenue	3 387.0	-11.0 <sup>1</sup>	1 678.3	1 719.7	1 679.4	-2.3 <sup>2</sup>	961.2	720.5
Operating profit	45.3	-38.7 <sup>3</sup>	17.7	66.3	-1.8	-10.2 <sup>4</sup>	25.8	-17.4
Adjusted operating profit <sup>5</sup>	61.7	-26.8	44.7	43.8	1.6	-13.1	26.9	-12.3

Note: More extensive description of the merger-related changes are available in the merger prospectus

<sup>1</sup>) Elimination of transactions between YIT and Lemminkäinen (EUR -11.0 million)

<sup>2</sup>) Elimination of transactions between YIT and Lemminkäinen (EUR -2.3 million)

<sup>3</sup>) Adjustments in Materials and supplies (EUR -3.6 million), Personnel expenses (EUR -0.0 million), Other operating expenses (EUR -12.0 million) and Depreciation, amortisation and impairment (EUR -12.1 million), and including elimination of transactions between YIT and Lemminkäinen in Revenue (EUR -11.0 million)

<sup>4</sup>) Adjustments in Materials and supplies (EUR -5.0 million), Personnel expenses (EUR 0.3 million), Other operating expenses (EUR 2.9 million) and Depreciation, amortisation and impairment (EUR -6.0 million), and including elimination of transactions between YIT and Lemminkäinen in Revenue (EUR -2.3 million)

<sup>5</sup>) Pro forma adjusted operating profit excludes pro forma adjustments that do not have a continuing impact on the Combined Company's results and which are deemed to be material items outside ordinary course of business comprising transaction costs related to the Merger. YIT defines adjusted operating profit as operating profit excluding material items outside ordinary course of business

# Synergy potential



## Short-term synergies

### Description

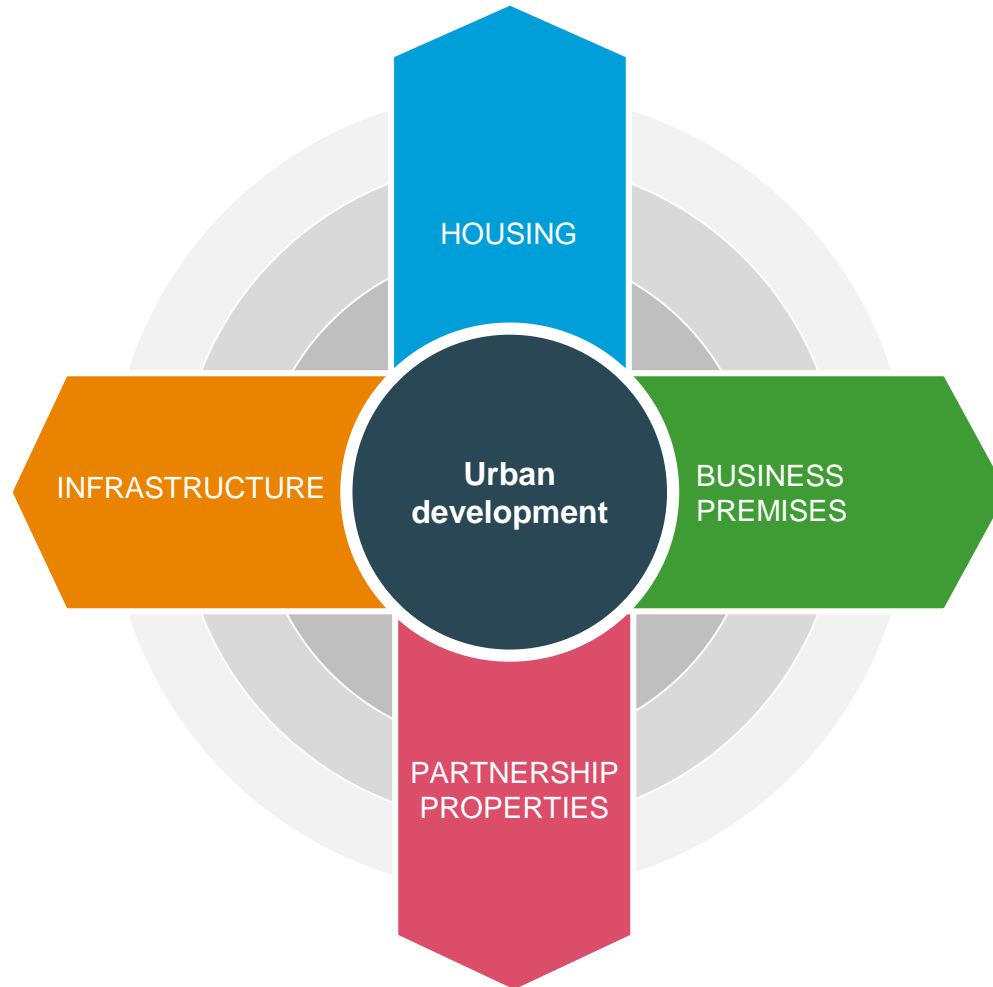
- One top management
- Combined premises and external facility services
- IT expenses
- Insurances, audit costs and other savings from being one listed entity

## Operational synergies

- Skillful pool of professionals ensuring future growth and sustainable urban development
- Unified operations and functions in overlapping areas
- New opportunities within the broadened international organization
- Best practices from both sides, harmonized processes and tools
- Scalable solutions in digitalization
- Higher volume of international sourcing

***Full EBIT improvement potential per annum  
EUR 40 million***

# Urban development boosts the growth of balanced business portfolio



## Aspects of Urban development

Ownership & services

Execution

Project development





# Preliminary financial targets

Long-term financial target	Target level
ROCE	>12 %
Dividend per share	Growing annually
Equity ratio	>40 %
Cash flow	Positive after dividend payout

*To be specified, when merger is completed and management team starts operation*



Helsinki Central Library  
Helsinki, Finland

# The combined company

## Nominees for the Board of Directors

### Board of Directors

**Matti Vuoria**  
YIT  
(Chairman)

**Berndt Brunow**  
Lemminkäinen  
(Vice Chairman)

**Erkki Järvinen**  
YIT

**Harri-Pekka Kaukonen**  
Lemminkäinen

**Inka Mero**  
YIT

**Juhani Mäkinen**  
Lemminkäinen

**Kristina Pentti-von  
Walzel**  
Lemminkäinen

**Tiina Tuomela**  
YIT

### Management

**Kari Kauniskangas**  
President and CEO

**Ilkka Salonen**  
CFO

# Post transaction ownership base (based on shareholders on August 22)

Shareholder	Shares	%-of total shares
1 Varma Mutual Pension Insurance Company	15,945,975	7.6%
2 PNT Group Oy	15,296,799	7.2%
3 Pentti Heikki Oskari Estate	8,146,216	3.9%
4 OP funds	5,927,552	2.8%
5 Forstén Noora Eva Johanna	5,115,530	2.4%
6 Herlin Antti	4,710,180	2.2%
7 Pentti Lauri Olli Samuel	4,198,845	2.0%
8 Elo Mutual Pension Insurance Company	3,549,054	1.7%
9 Ilmarinen Mutual Pension Insurance Company	3,392,535	1.6%
10 Fideles Oy	3,188,800	1.5%
11 Danske Invest funds	3,016,115	1.4%
12 The State Pension Fund	2,975,000	1.4%
13 Pentti-von Walzel Anna Eva Kristina	2,749,192	1.3%
14 Pentti-Kortman Eva Katarina	2,715,410	1.3%
15 Vimpu Intressenter Ab	2,710,950	1.3%
16 Etera Mutual Pension Insurance Company	2,662,223	1.3%
17 Pentti Timo Kaarle Kristian	2,368,575	1.1%
18 Mariatorp Oy	2,349,490	1.1%
19 Wipunen Varainhallinta Oy	2,349,490	1.1%
20 Mandatum Life Unit-Linked	2,093,580	1.0%
Top 20 total	95,461,511	45.2%
Nominee registered	40,125,404	19.0%
Other	75,512,938	35.8%
<b>Total shares</b>	<b>211,099,853</b>	<b>100.0%</b>

## Assumptions

- The post transaction shareholders of the combined entity are calculated based on the latest shareholder information and a conversion ratio of 3.6146 YIT shares for each Lemminkäinen share
- As a result of the conversion, the current shareholders of YIT (excluding shares owned by YIT Corporation) would own 60% and the current shareholders of Lemminkäinen (excluding shares owned by Lemminkäinen Corporation) would own 40% of the combined entity assuming none of Lemminkäinen shareholders demands redemption of his/her shares



# Timetable





# 1

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## Housing Finland and CEE

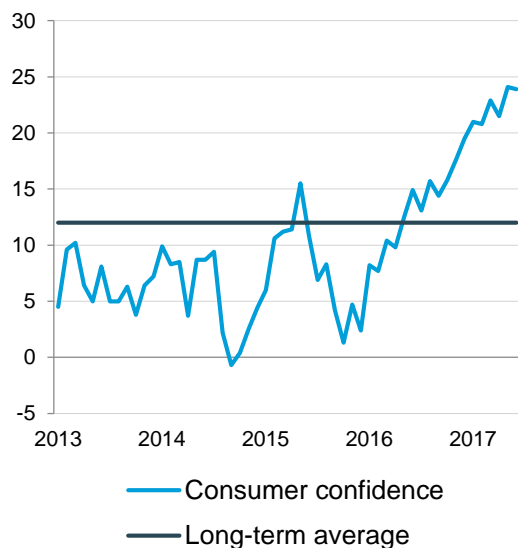


# Housing Finland and CEE

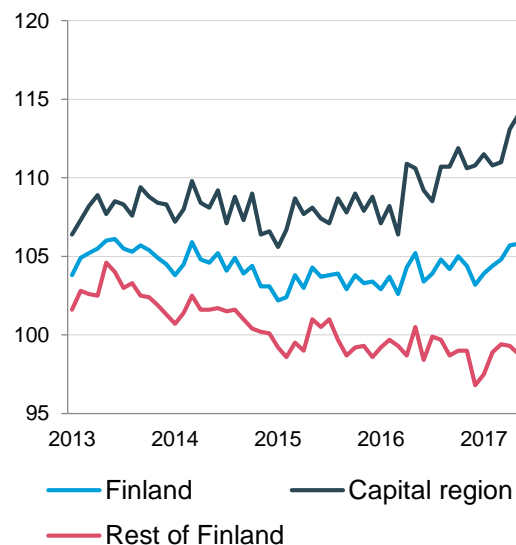
## Operating environment in Finland in Q2

- Consumer confidence was on a record high level
- Residential investors were more selective, demand focused on capital region
- Consumer demand was on a good level, no signs of overheating
- Demand especially for affordable apartments in the growth centres was on a good level
- Demand for larger apartments continued to improve
- Mortgage interest rates stayed on a low level and margins continued to decrease
- The volume of new housing loans decreased y-o-y

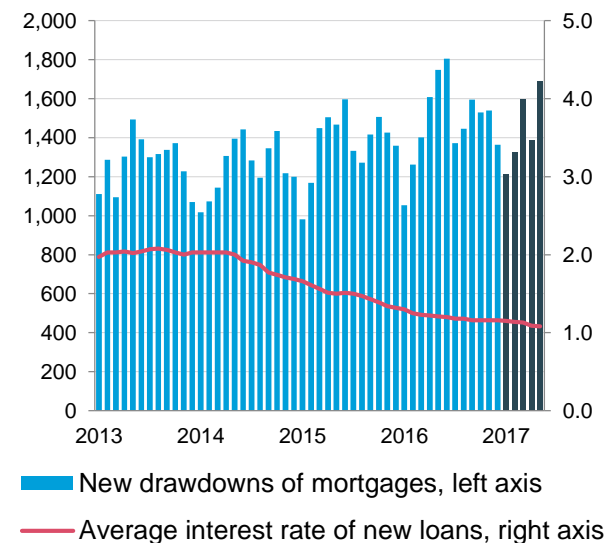
**Consumer confidence**



**Prices of old apartments  
(index 2010=100)**



**New drawdowns of mortgages and  
average interest rate (EUR million, %)**



Sources: Statistics Finland and Bank of Finland

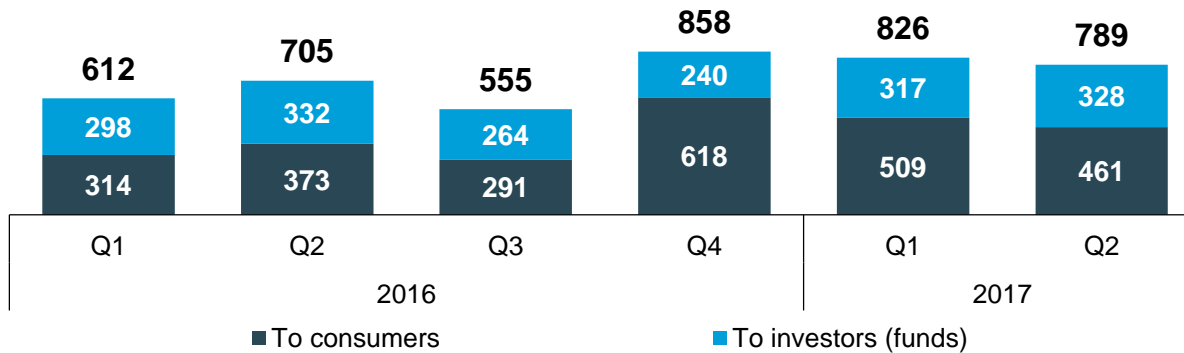
# Housing Finland and CEE

## Sales and start-ups in Finland in Q2

### Sold apartments (units)

2016: 2,730

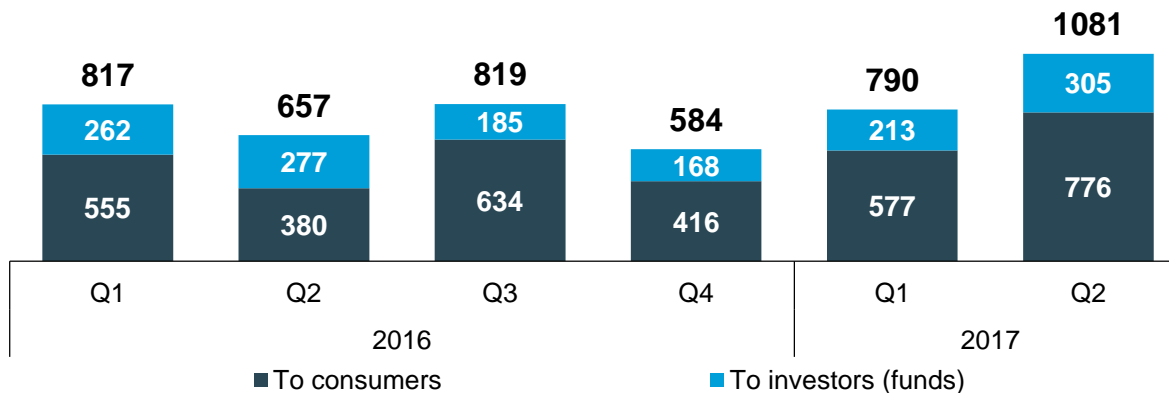
1–6/2017: 1,615



### Apartment start-ups (units)

2016: 2,877

1–6/2017: 1,871

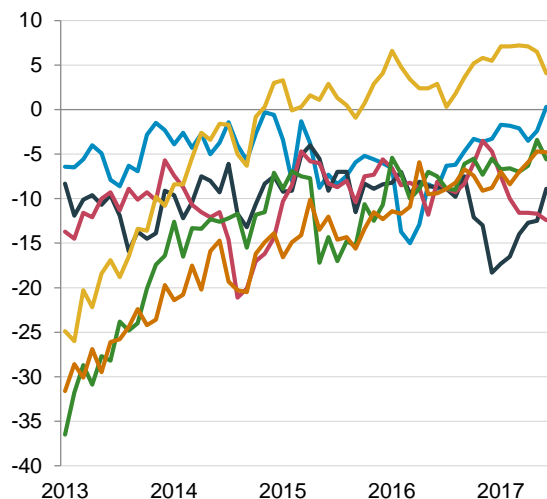


- Consumer sales increased by 23%
- Share of units sold to consumers: 58% (Q2/2016: 53%)
- 23 apartments sold in bundles to investors (Q2/2016: 54 units)
- Seven residential projects sold to investors were started in Q2
- In July, estimated sales to consumers are around 110 units (7/2016: around 90 units)

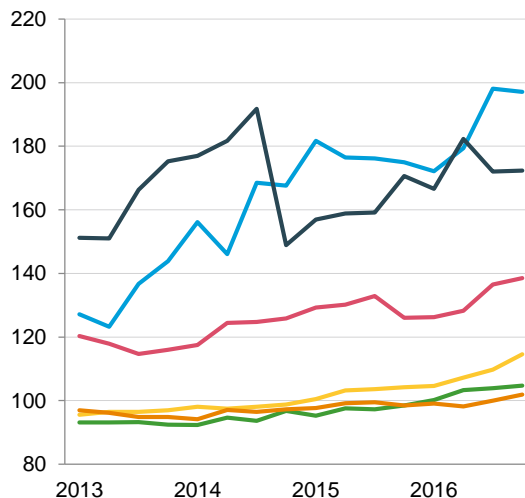
# Operating environment in the CEE countries in Q2

- Residential demand was on a good level especially in Slovakia, the Czech Republic and Latvia
- Prices of new apartments increased slightly on average
- Shortage of resources caused cost pressure especially in the Czech Republic and Slovakia
- Interest rates of mortgages remained on a low level
- Consumers' access to financing remained good

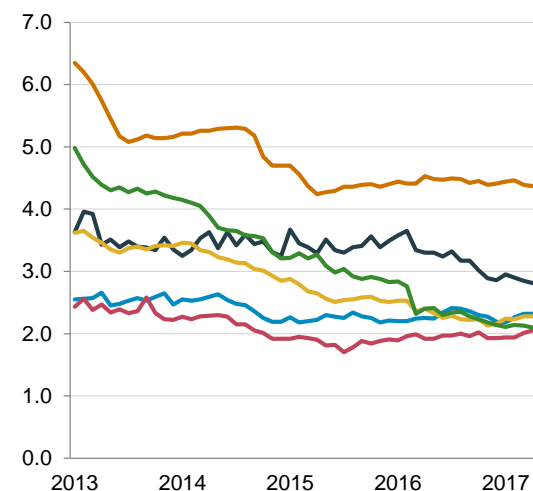
Consumer confidence



House price index, new dwellings (2010=100)



Average interest rate of mortgages (%)



— Estonia — Latvia — Lithuania — The Czech Republic — Slovakia — Poland

Sources: European Commission, Eurostat and National Central Banks

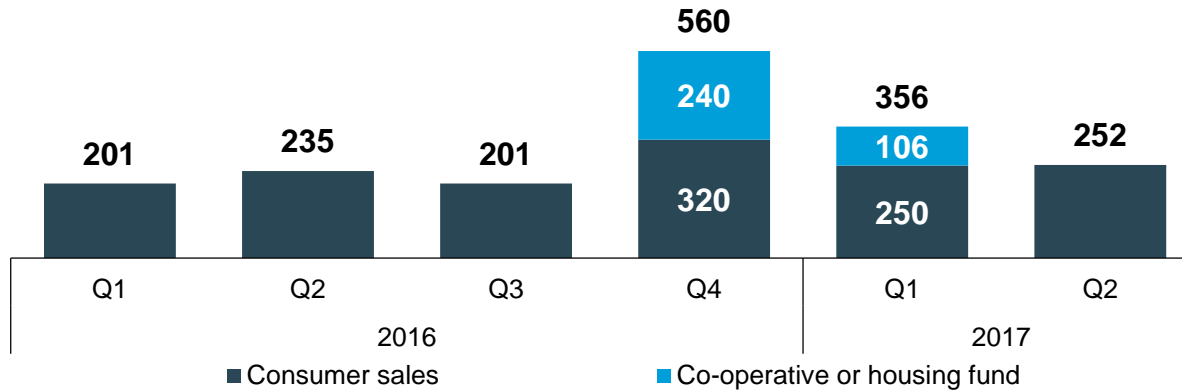


## Sales and start-ups in the CEE countries in Q2

### Sold apartments (units)

2016: 1,197

1-6/2017: 608

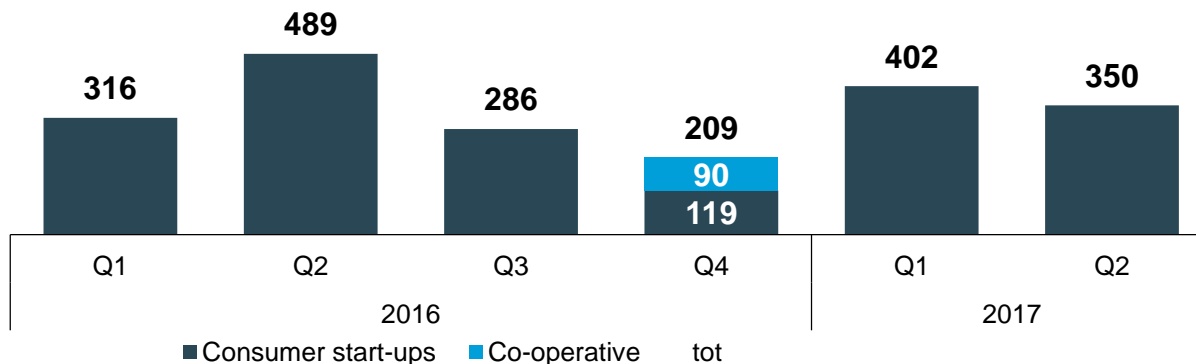


- Number of units sold to consumers grew by 7% y-o-y
- Number of start-ups decreased by 28%
- New projects started in Prague, Czech Republic; Bratislava, Slovakia and Warsaw, Poland, among others

### Apartment start-ups (units)

2016: 1,300

1-6/2017: 752

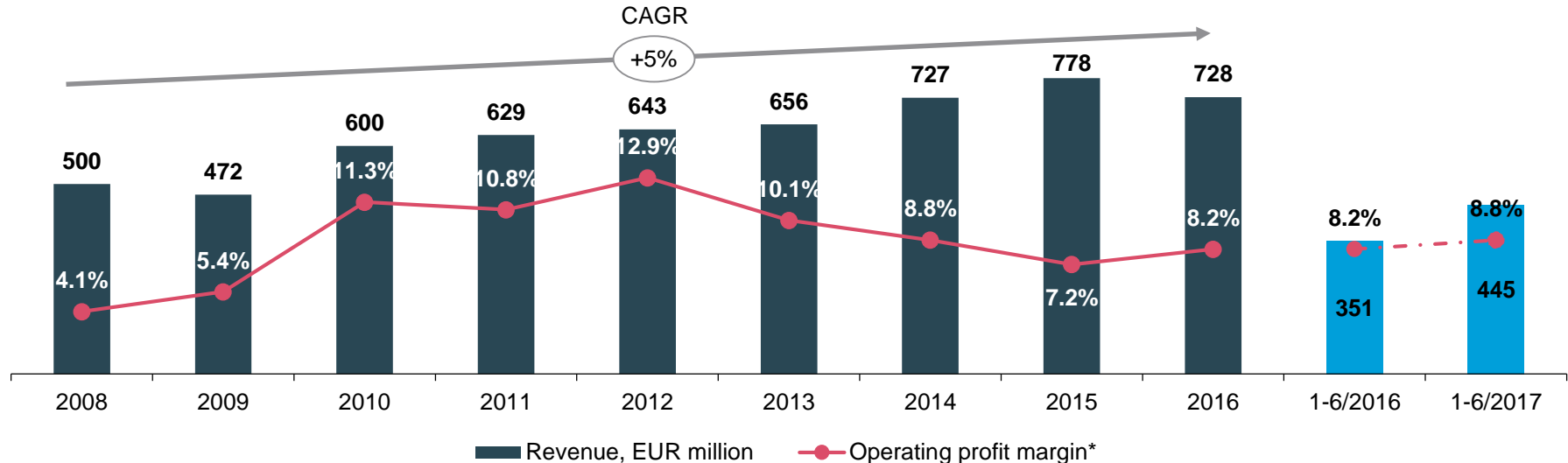


- In July, estimated sales to consumers are around 80 units (7/2016: around 60 units)

## Housing Finland and CEE

# Profitability improved in H1

- In H1, the revenue increased by 27% due to good consumer sales and plot sales
- Operating profit increased by 37% and profitability improved
- The increased share of consumer sales in Housing Finland and CEE is likely to have a moderate positive impact on the adjusted operating profit of the segment but the impacts of the shift to consumers will be visible in the result gradually.



\* 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 segment's estimated true share of the fixed costs.

# 2

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## Housing Russia



Inkeri residential project  
St. Petersburg, Russia

# Housing Russia

## Operating environment in Q2

- Consumers continued to be cautious despite the stabilisation of the Russian economy
- The decline of consumer purchase power seems to have stopped

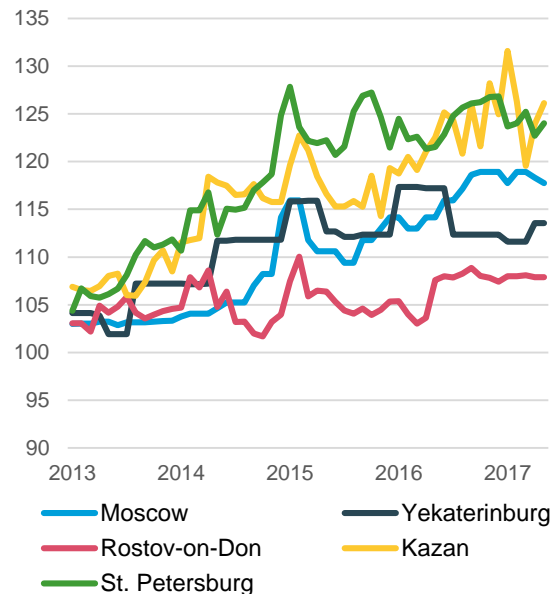
- Consumer demand for housing stayed weak
- Residential prices remained stable on average

- Mortgage interest rates for new apartments continued to decrease and are below the level of 11%
- The key rate cuts further increased expectations of a decrease in interest rates

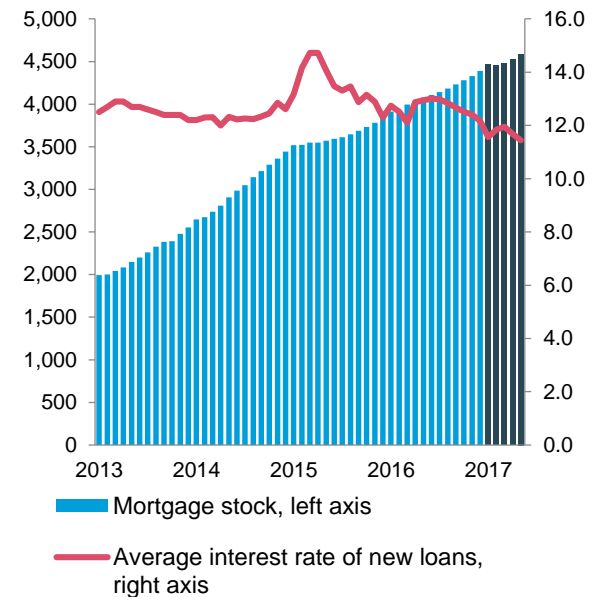
EUR/RUB exchange rate



Prices of new apartments  
(index 2012=100)



Mortgage stock and average interest rate  
(RUB billion, %)



Sources: Bloomberg, YIT and Central Bank of Russia



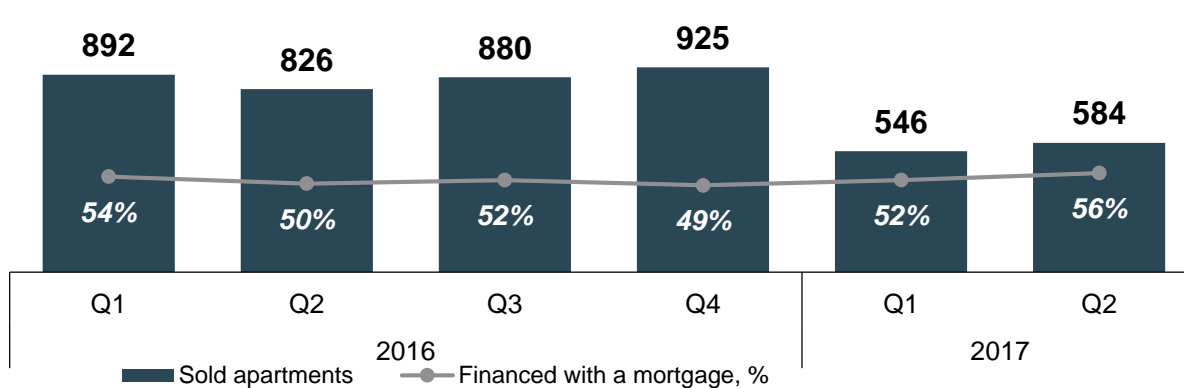
# Housing Russia

## Sales and start-ups in Q2

### Sold apartments (units) and share of sales financed with a mortgage (%)

2016: 3,523 (51%)

1–6/2017: 1,130 (54%)

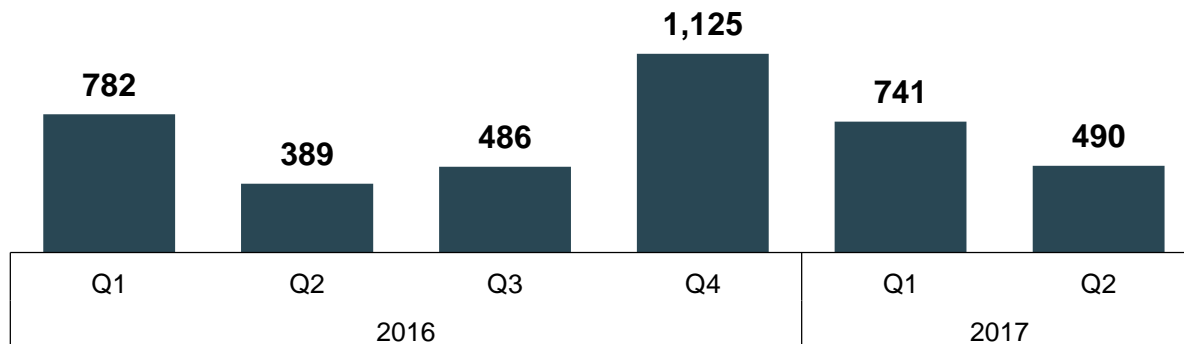


- Number of sold units decreased by 29% y-o-y
  - No changes in price lists
- Start-ups on a low level
- Share of sales financed with mortgages continued on a stable level
- In July, consumer sales estimated to be around 200 units (7/2016: around 200 units)

### Apartment start-ups (units)

2016: 2,782

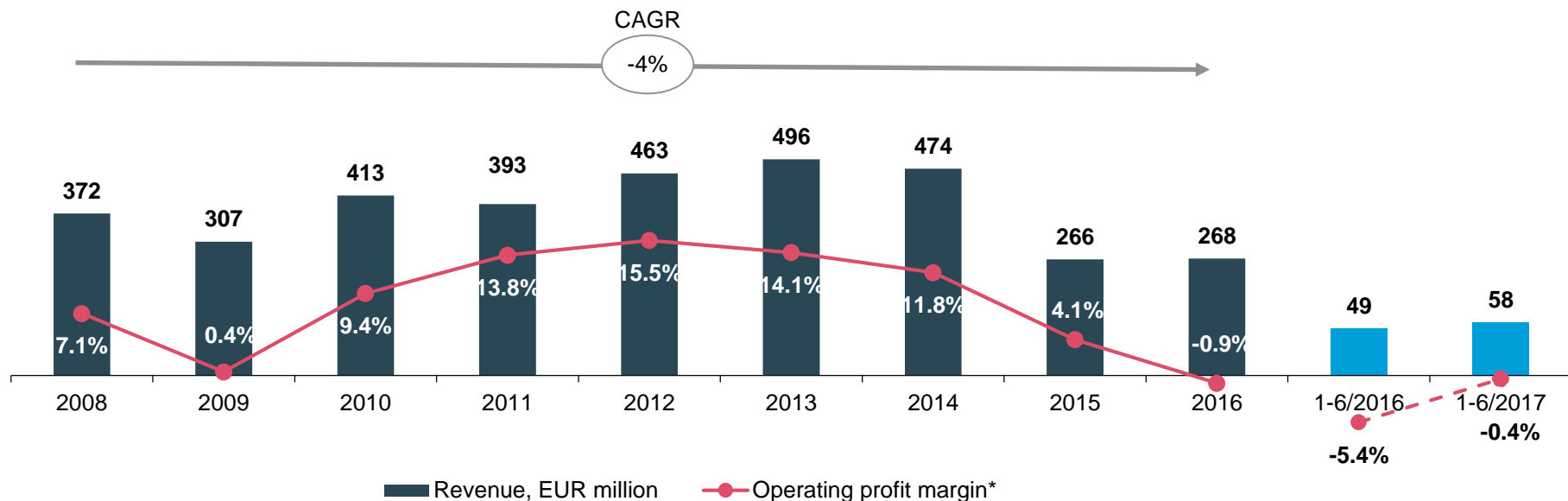
1–6/2017: 1,231



## Housing Russia

# Operating profit improved y-o-y in H1

- Revenue decreased by 9% y-o-y at comparable exchange rates due to low residential sales
- The operating profit was weighed down by the lower apartment sales compared to previous year, though better gross margin levels had a positive impact



\*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 segment's estimated true share of the fixed costs.

# 3

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## Business Premises and Infrastructure

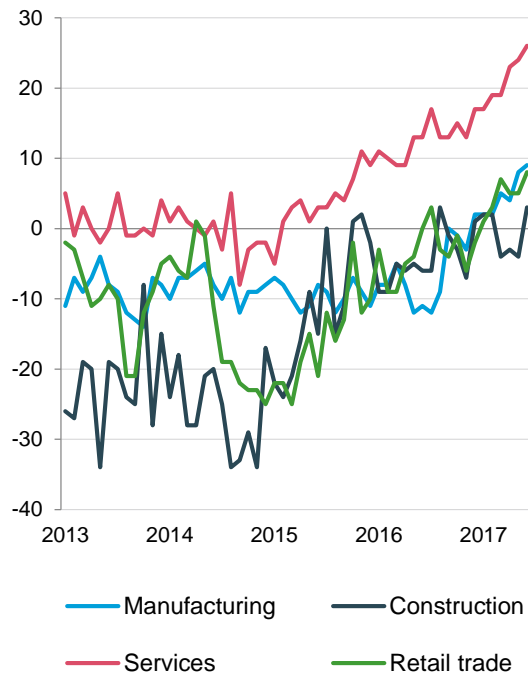


# Business Premises and Infrastructure

## Operating environment in Q2

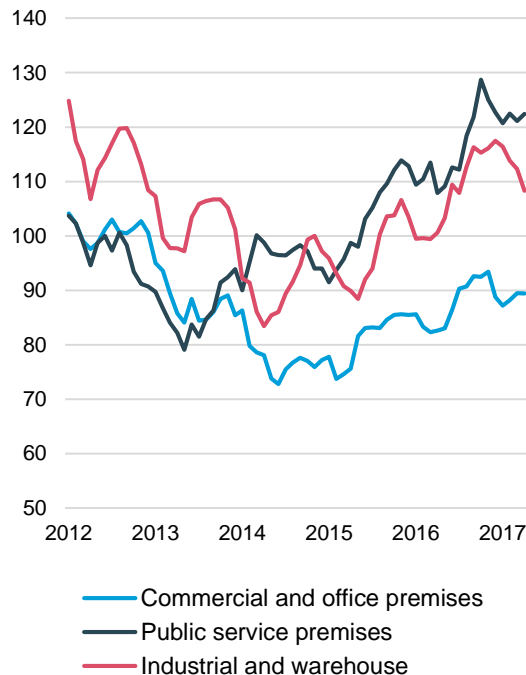
- Investor demand for business premises in prime growth centres was on a good level in Finland
- In Finland, the good overall market sentiment supported private investments

Confidence indicators in Finland



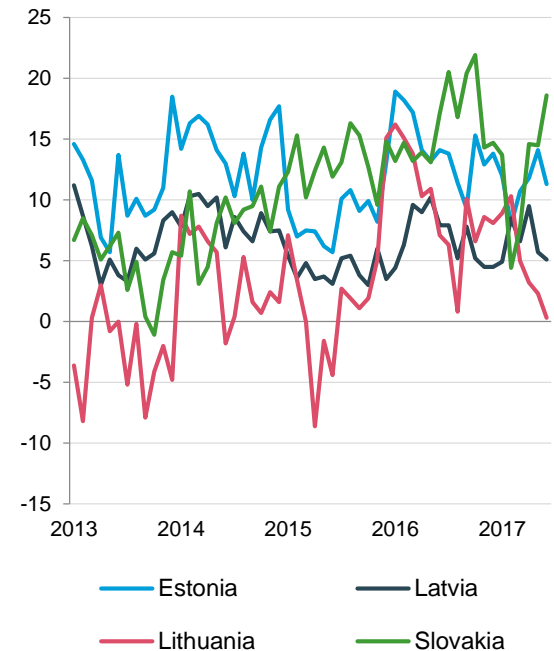
- The Finnish tender market and infrastructure market were active especially in the capital region and growth centres

Volume of new construction in Finland (index 2010=100)



- Investor demand for business premises was good in the Baltic countries and Slovakia
- Tender market remained stable in the Baltic countries

Retail trade confidence in the Baltic countries and Slovakia

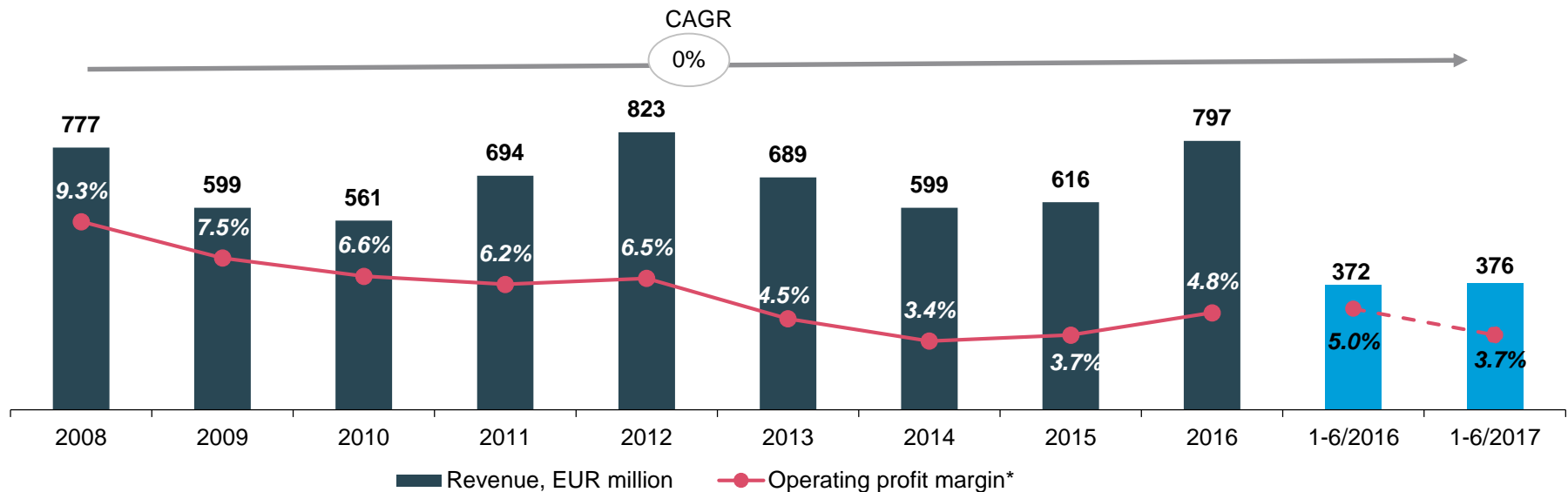


Sources: EK Confederation of Finnish Industries, Statistics Finland and European Commission

# Business Premises and Infrastructure

## Revenue stable, profitability decreased in H1

- Revenue was stable y-o-y in H1
- Profitability was low due to weakened margins in certain projects in the CEE countries and seasonality of infra



\* 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.



# Tripla project supports growth in the coming years

## Tripla project in brief

- EUR 1 billion hybrid project: offices, shopping and congress center, hotels, public transport terminal and apartments
- Combines the breadth of YIT know-how in different areas of construction
- Project length ~ 10 years, constructed in phases
- Located in Pasila ~3.5 km away from the Central Railway Station of Helsinki
- Connection point for all rail traffic in HMA
- Daily people flow through Pasila railway station ~80,000
- 500,000 persons within the reach of 30 min by public transportation

## Indicative value split

Parking and foundations

~10%

Mall of Tripla

~40-50%

Business park offices

~10%

Hotel

~5-10%

Railway station and HQ offices

~10-15%

Residential

~10-15%

## Current topics

- ✓ Final agreement on the implementation of the hotel signed in April 2017, preliminary value approximately EUR 88 million
- ✓ Leasing negotiations for office facilities under way
- ✓ Customer register is gathered for the housing construction project

Note: The charts are an illustration of YIT's perception on a general level and do not reflect the actualized figures of YIT Group.

# Mall of Tripla in a nutshell

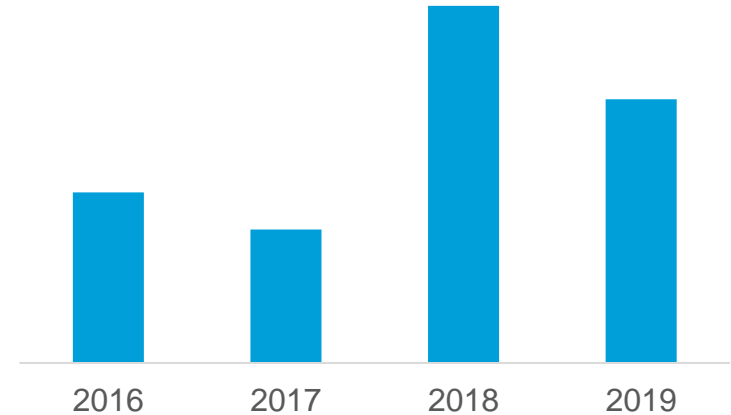
## What has been achieved so far?

- Valid building permits and required decisions from public authorities obtained
- Financing package of ~EUR 300 million secured
- Investor deals closed, value ~EUR 600 million
- Foundation works, excavation and piling done
- Revenue and profit recognition started
- Over 50% of the premises rented out, anchor tenants secured

### JOINT VENTURE PARTNERS (JV)



## Illustration of revenue recognition\*



\*Based on the assumption that YIT won't reduce its shareholding during the construction. Figures illustrative.

## Revenue recognition principles

- Revenue and EBIT recognition in line with construction progress
- However, 38.75% will be recognised as revenue and EBIT after YIT sells its share in the JV
- YIT has the right to reduce its shareholding to 20% during the construction
- YIT may sell the remainder of its shareholding at the earliest 3 years after the shopping centre is completed

# Projects in Finland in Q2

- All the large projects proceeded according to plan
- The final agreement on implementation of hotel for the Tripla project signed with value of approximately EUR 88 million
  - The occupancy rate of Mall of Tripla increased to over 50% at the end of review period ahead of schedule
- The leasing rate of the Kasarmikatu office property in Helsinki reached to 100%
  - Regarding the sales process of the project, based on the price and terms indications from potential investors and ongoing further negotiations YIT estimates that the transaction will be completed by the end of 2017



# 4

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## Looking ahead and conclusions





# Market outlook, expectations for 2017

## Finland

- Consumer demand to remain on a good level
- Investor activity to decline slightly, the importance of location remains significant
- Residential price polarisation between growth centres and other Finland to continue
- Availability of mortgages to remain good
- Tenant interest for business premises to pick up slightly in the growth centres. Investor activity on a good level, focus on especially prime locations in the capital region
- Business premises contracting to remain active
- New infrastructure projects to revitalise the market
- Construction costs expected to increase slightly
- Construction volume growth expected to slow down
- Bank regulation and increased capital requirements might have an impact on the construction and real estate development
- The increased competition for skilled labour due to high construction activity expected to continue



## Russia

- Macro environment to remain stable on the current level, the stabilisation of the economy expected to have a moderate, positive impact on the residential market
- The weakening of ruble and expectations of decrease of interest rate to influence consumer behaviour
- Residential prices stable
- Residential demand to focus on affordable apartments
- Construction cost inflation to remain on a moderate level



## CEE

- Residential demand to remain on a good level
- Good access to financing, low interest rates to support the residential demand
- Residential prices to remain stable or increase slightly
- Shortage of resources to increase construction cost inflation



# Guidance for 2017 raised (segment reporting, POC) on July 13, 2017

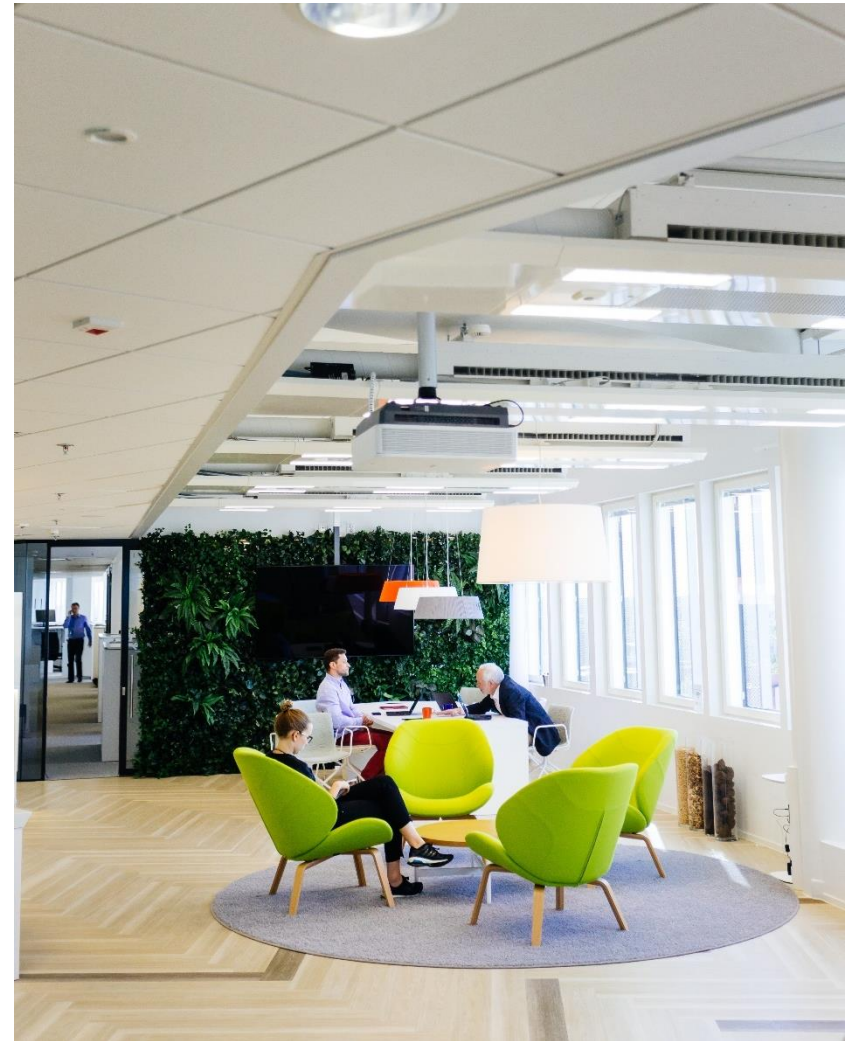
**The Group revenue** is estimated to **grow by 5–12%**.

**The adjusted operating profit<sup>1</sup>** is estimated to be in the range of **EUR 105–115 million**.

*Previously, the Group revenue was estimated to grow by 0–10% and the adjusted operating profit was estimated to be in the range of EUR 90–105 million.*

In addition to the market outlook, the 2017 guidance is based on the following factors:

- At the end of June, 58% of the Group order backlog was sold.
- Projects already sold or signed pre-agreements are estimated to contribute over half of rest of 2017 revenue.
- The increased share of consumer sales in Housing Finland and CEE is likely to have a moderate positive impact on the adjusted operating profit of the segment but the impacts of the shift to consumers will be visible in the result gradually.
- In Housing Russia, the adjusted operating profit is estimated to be positive but to remain on a low level. Capital release actions in Russia are likely to have a negative impact on the profitability.
- Regarding the sales process of the Kasarmikatu 21 office project in Helsinki, based on the price and terms indications from potential investors and ongoing further negotiations YIT estimates that the transaction will be completed by the end of 2017. The transaction has a positive impact on the Group's adjusted operating profit.



<sup>1</sup>The adjusted operating profit does not include material reorganisation costs, impairment or other items impacting comparability

# Concluding remarks

- Strong market position and long track record in solid execution through economic cycles
- Focus on improving profitability, intensifying growth and increasing capital efficiency
- Urban development involving partners as the growth engine for growth
- YIT and Lemminkäinen to combine, as announced on June 19, 2017



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**Together  
we can  
do it.**