

Conference Title: YIT Corporation's Half-Year Report for January-June 2019

Date: Thursday, 25 July 2019

Conference Time: 10:00 UTC+02:00

Hanna Jaakkola: Good, beautiful and hot July morning for everyone. Welcome to YIT's headquarters in Käpylä. We are about to present our Q2 results today. And the agenda is pretty traditional. Our president and CEO, Kari Kauniskangas, and CFO, Ilkka Salonen, will present the results. My name is Hanna Jaakkola. I am head of IR. All the materials that we are presenting here is available on our web pages. And we will take first the questions from the audience here after the presentations, and then from the conference call line. There has been a lot of events and changes lately. And Kari will go through the segment chart later on in the presentation, and explain in a bit more detail what has happened and how does that affect our reporting.

But if they think about the big picture, paving and mineral aggregates numbers are out from the figures we are presenting now. They are in discontinued businesses. But without further ado, Kari the stage is yours.

Kari Kauniskangas: Good morning also on my behalf. During the spring, we prepared two strategic actions, first connected to Russian operations and then secondly connected to Nordic. Paving and mineral aggregate businesses and the final decisions were made at the end of June and at the beginning of July. Overall performance in Q2 was a solid of continued operations. But first I will go shortly that the key decisions.

YIT decided to sell its Nordic paving and mineral aggregate businesses to Peab at the beginning of July. The transaction includes our paving and mineral aggregate operations in Finland, Sweden, Norway and Denmark as well as respective assets and personnel. The deal will be closed at earliest at the beginning of 2020 when all needed permissions from the authorities has been obtained.

And during this year, paving will be part of YIT overall. Transaction price is approximately €280 plus operative leases. We will have a capital gain around a bit more than €40 million at the beginning of next year after all purchase price appreciations and goodwill that have been allocated to sold operations. Cash flow impact will be €240 million at the beginning of next year.

And what is not included is our paving operations in Russia, which separately was announced to be closed or sold by the end of this year. Also, road maintenance business which from the beginning of this July will be part of infrastructure projects and in reporting already in Q2. And our operations in Baltic countries where we also have paving, that will continue as a part of infrastructure projects segment.

This move supports YIT's strategy. And our strategic targets remain unchanged. With the transaction, our business portfolio will be streamlined. The balance sheet will be further strengthened. And the seasonal earnings volatility of the company will decline. It can be even sold at in coming years in Q1, if we are able to make also positive operating profit time to time. Even there still are some seasonality effect.

With the help of this cash flow which we will receive from the transaction, we will be able to lower our gearing, race ahead of time to a level in line with our strategic goals as well as to invest in our large urban development projects as planned, and also to invest growth in service businesses. After transaction, our businesses will be strongly interconnected through urban development which is the core of YIT.

Also, client base of continuing businesses is much more similar now on. We feel this transaction financially very solid. And we're also very satisfied with the transaction price and terms of the transaction. We also appreciate that the buyer is an industrial buyer who wants to develop and

grow the business. The business is in their core, and they will benefit also the size and economies of scale in that piece.

At the end of June, we also announced considerable steps in Russia to reduce capital and enhance profitability in line with our strategy. We will focus our operations in cities which business has remained profitable through the Russian recession in St Petersburg, Kazan, Yekaterinburg and Tyumen. In addition, living services will continue. We also decided to discontinue residential operations in Moscow, Moscow Region, and Rostovon-Don as well as close contracting unit and close or sell paving unit in Russia.

Overall, our capital employed will reduce around €100 million. And we expect to get positive cash flow impact of €50 million within two years. As said, both decisions support the execution of our strategy. The key target of the strategy has been to improve profitability and strengthen the financial stability of the company. Sold or closed businesses made last year around €750 million revenue and the loss was €30 million.

This year we expect that also those businesses will be positive. And as said, strategic goals remains unchanged including the target to provide €100 million positive profit from non-cyclical businesses. We expect that the paving operation profit will be replaced by other businesses within three years. Possible amendments to group strategy due to these transactions and changes will be published in Capital Markets Day at the end of September.

And then to the results of Q2. First of all, it's important to understand all the impact of these decisions. First decision concerning Russian operations, all those five units that we are going to close will be adjustments and excluded from adjusted operating and adjusted figures overall. The second decision connected to selling Nordic paving and mineral aggregate businesses, those businesses are reported as discontinued operations.

And third because we don't have any more paving segment in asset reporting segment, paving Russia will be reported as other segment and road maintenance will be also organically part of infrastructure project from now on. So, the figures that we are following and guiding are in units in blue boxes or blue frames in this slide. These businesses are called continuing businesses.

It is clear that those two decisions were remarkable in highlights of Q2. And overall the impact of those will be almost €300 million in cash flow during two years. A few other points, we have a very strong backlog of orders. It actually increased almost €300 million from the end of March. And it's almost on the same level than a year ago in the peak of this cycle. In Housing Finland and CEE, the profitability came back to a strong and good level, 10.2% as we indicated.

It's of course supported by a big amount of completions in Helsinki area. And in addition to good profitability, I am also proud that we have been able to sell quite well. Residential sales continued on a stable level in both Finland and CEE. We also sold a thousand apartments to institutional investors during the quarter in new buildings. The construction of those projects will start during the autumn and support our profit revenue at the end of the year and during next year.

As you noticed, we have restated all the figures from last year and at the beginning of the year. And figures look a bit different than a quarter ago. Our restated adjusted operating profit increased. And the profitability improved on a level of 4%. The result improvement was mainly driven by those segments for last year, which last year underperformed in Housing Russia and infrastructure projects.

Revenue was stable year on year. And order backlog increased, especially in infrastructure projects and business premises. Then some comments segment by segment. In Housing Finland and CEE, a number of completions was on a good level. And that supported both revenue and profitability which was above 10%, driven by good development especially in Housing Finland.

In Housing Russia, we had only two completions and also the revenues of contracting business is clearly declining when the projects are now completed or in a completion in the later state of construction. Revenue of business premises increased slightly and the revenues stayed on the same level than a year ago. In infrastructure projects, we already see a turnaround, some signs of turnaround when the profitability came on a positive side, and it's on an improving trend.

Synergies which we have also reported since the merger of YIT and Lemminkäinen, we have already done actions which will lead to €46 million savings. Of those will be reported in financial statement already roughly €38 million to €42 million by end of this year. We will fulfill all the promises in this area that we have given. The integration costs overall will stay below €40 million maximum.

Two changes made in market outlook, first connected to housing in Finland. We have now four stable segments behind in terms of consumer demand, consumer sales, and also the amount of institutional investors. And our outlook is that the demand will stay stable also in coming quarters. The decline in demand in that market happened at the end of Q2 a year ago. So, it's exactly one year ago.

The other change is connected to infrastructure area in Finland. New government in their program announced that they will increase the amount of investments to maintaining the infrastructure in Finland, and the extra investments will be €300 million per annum. Also, that they will do a long-term investment plan how they are planning to invest in Finnish infrastructure overall. And there are also plans to have bigger projects. So, we feel all these change is positive, and are supporting the long-term outlook of this segment. In short term, we have an understanding that the decline in the demand in this area is now stabilized and the outlook is stable.

In all other business areas and countries, no changes in outlook. In CEE, the demand is expected to stay on a good level that it has been also in the past. And in Scandinavia, the demand of infrastructure projects is growing.

Sustainable development is one key drivers of the development in the whole construction industry in coming years. To gain benefit from this area, we decided a year ago to establish the development program Green Growth. At the end of last year, we made a materiality matrix together with our stakeholders and an independent third party. We have also set forth this year targets and actions how to improve our status in these areas.

The big one important example is that we are developing our capability to make carbon calculations of all of our projects. That capability is needed to set significant and measurable targets to reduce our own carbon footprint, but also the carbon footprint of the lifecycle of our products.

Then a few comments concerning segments. As said, we made a significant amount of deals and sales to institutional investors of new projects which will be started during the second half of this year. Those projects will support our revenue and profit in the last quarter and during the next year. Due to strong financial position of YIT, we have also been able to continue plot acquisitions. And we have increased amount of startups. Last autumn, we started roughly 400 units per quarter in Finland, in first quarter 500, and now we've increased the amount of startups at the level of 650 per quarter. Those startups are supporting also the profitability and profit potential for next year, and giving more visibility to that year as well. In Q2, and in Q3 completions in Finland in this segment will be on a very low level. And those completions will happen, not in Helsinki region but in northern part of Finland. Also in CEE countries, I mean the number of completions will be low. And those will be – the projects to be completed are mainly located in Baltics.

That will lead to a situation that in Q3 Housing Finland and CEE revenue and operating profit will be on a low level. But again, in Q4, we will be back on strong figures both in terms of completions

and revenue and operating profit, we will have several completions in Helsinki region and Prague which are strong cities in terms of operating profit and profitability.

In Russia, housing sales has stayed on the same level than in the first quarter, a bit down from the last year. On 1st July this year, changes in legislation and in Law 214 connected to housing sales to consumers was taken into use. That has impacted some uncertainty among clients. But in the long term, we believe that it will be positive because number of players will come down. Smaller players will disappear from the market. And also, we believe that it will lead to increasing prices of the apartment step by step during coming years.

The changes made – the decision made and changes made after that in reporting had a €3 million positive impact of the result of that segment in Q2. But it will have overall around €1.5 million negative impact to this segment result for 2019 full-year result.

Completions of this segment will mainly happen in the last quarter. So, both revenue and operating profit of this segment is – or will be recognized in Q4. And it's good to remember that half of the completions during this year will be in those units which will be closed during the coming years.

In business premises, we increased the backlog of orders by adding several significant projects to the backlog like hospital extension in Vaasa, Hamburger Börs in Turku, and several lifecycle projects. We also announced that Tripla Mall will be opened in October this year. And, overall, the lease of Tripla Mall and Tripla offices has proceeded well. The occupancy rate in Mall of Tripla is already 94%.

In infrastructure projects, we see a turnaround in the result starting to show already. During the quarter, we changed the Blominmäki waste water treatment plant contract model from project management to cost plus fee based contract. That had some negative impact to the result of Q2 because the profitability level of cost plus fee project is lower than what was our original target. But

at the same time, that change was important due to the reason that the project will be more costly than estimated due to postponement and problems in design delivery which is on the responsibility of client.

Several big projects was added to a backlog of orders like RaideJokeri in Helsinki light railway, in Henriksdal waste water tunnel in Stockholm, and several others. So, the old segment structure backlog of orders increased close to a level of €1 billion. And when we add also road maintenance backlog of orders, the overall backlog is €1.3 billion in this level. The margin level of the order backlog is clearly better in the new projects than in the old ones. So, we are proceeding in the right track to making turnaround in profitability of this segment.

In partnership properties, we have prepared valuation models for the ownership that we have. And we will do fair valuation to Tripla Mall and possibly also to E18 Hamina-Vaalimaa during this year. Big projects, we have done a lot of work to proceed in these areas, but no new announcement during the quarter. Then a few words concerning discontinued operations.

So, Paving Finland, Sweden, Norway, Denmark and mineral aggregate divisions. Figures are quite surprising. It's a masterpiece of our accounting to deliver all the figures based on all those decisions made by the Board of Directors during end of June and at the beginning of July. But to make it more simple, if we compare the same businesses to last year, the result in Q2 was €4.2 million lower than a year ago. So, the performance was not the best. There were a few reasons.

In Finland, several bigger paving projects postponed from Q2 to Q3 and Q4. In Denmark, the start of the year was very slow. And in mineral aggregates, the demand has clearly been on a lower level than a year ago which indicates that the overall construction activity in Finland is slightly decreasing.

At the same time, we have a record high backlog of orders for this segment or for these operations being around €300 million. And also results in Norway and Sweden have taken a clear step further from the last year. Now I give turn to Ilkka to give some financial figures and our key ratios.

Ilkka Salonen: Yes, good morning everyone. A short update about our financial position and the key ratios from the operating cash flow side, in Q2 minus 51. If we look at the second quarter, we increased our investment for the plot. And, of course, that's also reflecting what comes to increasing start ups what we have done in Q2. Of course, the deviation between the two quarters or quarter on quarter from the last year. There were quite a lot of structural changes or things we did last year. We established a plot fund. We released capital from Russia. We sold a plot to one joint venture. And also, we took some of the best practices from both companies what comes to the cash flow management for example factory.

Then if we look at the net debt side, yes, net debt is decreasing. And it has to be decreasing because our target is unchanged when it comes to the gearing level, 30-50%. And the maturity structure is quite stable. One thing which is good to mention over here is also that we have repaid a €100 million old bond where the interest rate was more than 7%. Totally if we look at the – after the merger what we have been able to build up our funding portfolio interest paid in Q2 this year was a little bit more than 9 million and last year more than 15 million.

And, of course, this, let's say the highest, of course the bond was paid away. The interest paid will decrease further. In the gearing side, yes, 70.7. And if we look at our guidance for the rest of the year, it will go down to a healthy level as well as adjusted equity ratio and net debt to adjusted EBITDA. And as the transaction of Nordic paving or when we are closing the deal in the beginning of the next year, it will have a clear positive impact for the ratios as well.

We also announced today that we are buying back our own shares for long-term incentive program. Of course, that's available due to the cash position what we have and the liquidity what we have. That was shortly about the financial position.

Then to the structural changes what we have made. Unfortunately, the IFRS figures are not the most clearest ones due to the changes. But one which is good to rewind over there is that the capital employed in the past, it includes the paving activities. And from the – starting from the June, they are not including. And, of course, the other point is that half of the capital employed is actually tied for the housing business in Finland and the CEE countries. Now I will pass to Kari back.

Kari Kauniskangas: Okay, then a few words concerning the outlook. First the completions of projects are quite important in terms of profitability per quarter. And as you know in Finland, this year will be around 1000 completions less than a year ago which will be seen in the overall operating profit of Housing Finland and CEE. Now especially in Q3, the completion numbers are at very low level.

And as said already earlier, completions will not happen in Helsinki, nor Bratislava or Prague, but in rest of Finland and Baltics. And that leads to a situation that in Housing Finland and CEE, the revenue and operating profit in Q3 will be on a low level. And also, you can see that in the fourth quarter, we will be back on strong figures when we will also have several completions in the Helsinki Region, Prague and Bratislava.

What's going to be also seen from this slide is that the number of completions in Finland and CEE next year will be already quite close to this year's figures. And still during Q3, we will have an opportunity to have startups in both Finland and CEE when there will be projects that will be completed by end of next year. In Russia, all projects that will be completed by end of next year are already started. And the coming startups are then going to complete in 2021.

And as said, half of these completions in Russia this year are in units that will be closed. And the result of those projects will be excluded from adjusted operating profit. So, in big picture, the guidance for this year has stayed stable through the year. At the beginning of July, we made a small adjustment driven by this paving transaction. Now we slightly narrow the ranges within the old guidance, both in terms of revenue and adjusted operating profit of the year. And as know, this midpoint of adjusted operating profit stays untouched, and midpoint of revenue increases by one percentage point. The guidance for the year is that the revenue will be within the range of plus 5% to minus 3%. And that the operating -- adjusted operating profit of continuing operations will be between €160 million and €200 million. And also, that in Q3, we expect adjusted operating profit after all these changes in reporting structure being weak due to a small number of completions in housing segments. So, more accurately that we expect that adjusted operating profit in the third quarter will decrease from the comparison period and it will be clearly positive. In Q4, we expect extremely strong quarter driven by completion of Mall of Tripla, and also a big number of housing projects to be completed in both housing segments.

And then at the end, I remind you that we will organize a Capital Markets Day at the end of September here in Helsinki. The same day will be organized in startup [inaudible] Campus Maria which also will be one of our big projects in the future.

But now if there are any questions, we are ready to answer. And let's start here from Käpylä.

Speaker: Just want to go first on Nordea, a couple of questions regarding Housing Finland and CEE. Can you give some description of the sales mix in Housing Finland and CEE in Q2 compared to Q1 when the profitability obviously was very different?

Kari Kauniskangas: Yes, first of all, there was a bit more completions in Finland. And secondly quite big part of those completions was located in Helsinki Region. So, the gross margin level of completed projects was a bit higher than it was in the first quarter. I think that is the main topic.

The second topic is that we are now increasing amount of those projects that we are selling to institutional investors. Those projects will be reported according to the percentage of completion principle. Even we made a big number of deals in Q2 and at the beginning of the year, the main part of those projects will start during the autumn. So, those will have an impact in the last quarter mainly during this year. And then the main impact will be in next year.

Speaker: And the second question relates to that. And the margin in Housing Finland, in institutional sales, you probably don't want to give any absolute number. But can you say a bit about the trend?

Kari Kauniskangas: We can say that it's on the same level than it has been during the last 15 years when we are selling these kinds of projects to institutional investors. So, we are satisfied with the profitability level of those projects.

Speaker: And also, the fact that housing finance – Housing Finland turned from red to yellow. Is it mainly based on the institutional investor side?

Kari Kauniskangas: It's mainly based on the good quarters behind which were Q1 and Q2 2018. So, those are not anymore in comparison period. And rolling 12 months is now very stable. And impact – and our view is that also rolling 12 months ahead will be on the same level. So, the main reason is that the decline happened a year ago.

Speaker: Thank you. And then regarding paving, do you see any risks in – competitive risks in the deal? And can you elaborate a bit about how much the final divestment price can fluctuate depending on the performance?

Kari Kauniskangas: First of all, the buyer doesn't have any operations in Finland which are in paving area, where we have a market share which is roughly 50%. And in other countries, the combined market share is lower than 40%. So, we don't expect that there will be any problems in that area.

Speaker: And then finally regarding Mall of Tripla. Completion is approaching. Can you say anything about the rental levels achieved there, either probably that you won't disclose in absolute terms, but can you say anything about in relative terms?

Kari Kauniskangas: We are satisfied with the level that we have achieved. It's a bit higher than what was the original target when we started the project three to four years ago. And there are small parts which are also tied to revenues. So, it will also lead to a situation that we expect that rental incomes will increase when the number of clients in the shopping mall will stabilize during coming two to three years.

Speaker: Are you happy with the tenant mix, i.e., is it optimal for a potential buyer at some point?

Kari Kauniskangas: We made quite an accurate plan how to – what kind of teams we have in different areas. And, actually, we have been able to get all the players we want to that shopping mall. And we have also got some players, actually quite many players who don't have any operation so far in Finland. And we will have several flagship stores in Mall of Tripla. So, I think it's a good mix of different types of tenants.

Speaker: Okay. Thank you.

Speaker: [Inaudible]. Now when we know the pricing of Nordic paving, so how you would describe the outlook of this Nordic paving return in long term compared to those plans that YIT has for that capital, and plans to use the capital in other businesses?

Kari Kauniskangas: First of all, the price is very good also from our point of view. Whatever approach we take, if you look at expected EBIT[?] what we'd consider that could be possible done by us or the cash flows that we expected from that segment. So, from all approaches that the price and the terms and conditions of the deal are good.

This also strengthens the balance sheet, reduces the financing costs. And we are able to invest to those big projects, large urban development projects where we have good opportunities to make quite high profits and also increase the amount of service businesses. Of course, we believe that we are quite soon able to replace the profits by other businesses and the growth of current businesses with that money.

Speaker: Okay. Then YIT has a plan to increase renovation from €200 million annual sales to €400 million. How that plan is proceeding?

Kari Kauniskangas: Quite well. I think we have good teams in renovations. We have been quite successful in this year during the last 12 months actually. The backlog of orders of renovation division is strong. The expectation for operating profit is good. And main part of the growth is connected to self-developed projects or negotiation-based projects instead of fully-completed projects.

Speaker: Okay. And then final question about housing in Finland. YIT has traditional, this consumer sales and institutional investor sales. And previously I have understood that consumer sales prices are better. And at least in some days, it has been a target to increase consumer sales. But what's strategy in that area? Does YIT want to increase share of consumer sales or what is the strategy?

Kari Kauniskangas: Our strategy is that we try to keep the production volumes overall quite stable or slightly increasing. And, of course, we try to sell as many apartments to consumers as possible. But then we adjust the mix according to demand. And in case the consumer demand is in a weaker level, then we increase the amount of sales to institutional investors.

And now it's a situation that during the last 12 months, the consumer demand has been at a bit lower level. So, we have adjusted the production to consumers accordingly and increased amount of sales to institutional investors. So, I think we have been proceeding exactly according to strategy. And the answer is that we try to sell as many apartments as possible to consumers every day, every year. But it depends then on market demand.

Speaker: Yeah, thank you.

Kari Kauniskangas: It looks like that there is no more questions in Käpylä. So, if there are questions online, now it's time for questions online.

Operator: Thank you. As a reminder, to ask a question, please press star one on your telephone keypad. We will now take our first question from Ari Järvinen from Danske Bank. Please go ahead.

Ari Järvinen: Yes, hello. It's Ari from Danske. The line is okay, right?

Kari Kauniskangas: Yes.

Operator: Yes, we can hear you.

Ari Järvinen: Okay, that's great. So, related to the housing completions in Finland mainly. Could you help us understand a bit more that if the completions goes from 1000 plus units to 300, what kind of EBIT impact or delta should we expect? Some kind of help to understand the volatility on the quarterly basis on the housing EBIT.

Kari Kauniskangas: First of all, the average sales price of apartments in Helsinki Region is almost double compared to Northern Finland. So, the revenue will come down. Let's put it like so that it can be even so that there is only one digit in operating profit of that segment in terms of millions of euros.

Ari Järvinen: So, the whole segment?

Kari Kauniskangas: Yes.

Ari Järvinen: Okay. And then if we look at next year, I know you are not guiding, but you're still giving an estimate for the completions. And if I just add the group housing completions estimates, this year, the completions were 3100 plus. And in next year H1, you're forecasting 1900 units, 40% down. So, how does the EBIT generation look for 2020 in the housing business?

Kari Kauniskangas: So, if you look at the Housing Finland and CEE, this year the number of completions will be around 2600 or 2700, and in CEE around 1500. Now if you look at the figures in completion slide, we can see that based on startups done already, the number of completions in Finland will be 2200-2400, something like that. And we still have a few months' time to start projects which will be completed by end of next year.

And secondly, the number of completions in CEE based on startup decisions made already is already very close to the level that will be this year. And yes, I agree that at the beginning of next year the result will be clearly lower. The completions will be more focused to the second half of the year next year. And it's actually quite easy to understand because last autumn the number of startup for consumers was on a quite low level, around 400 units per quarter for consumers in Finland.

Ari Järvinen: Okay. And then the business premises profitability of the EBIT margin, I do understand that the completion, the sale of those projects has a big impact. But 2% EBIT margin reported on

the Q2 looks a bit low. Was there something like negative burdening or is this kind of like the base level we should expect?

Kari Kauniskangas: Let's say so that it's a bit low. We are not satisfied on that level. But that is the level at the moment.

Ari Järvinen: Okay. And then if I just go to the guidance for the full year EBIT, you narrowed the range which was pretty wide. But still like, we are almost in August now. So, could you help us understand the key elements besides the Tripla Mall, so something else which explains how to get to the low end and how to get to the high end because it looks fairly wide at this point?

Kari Kauniskangas: The fair valuation of Tripla Mall of course is it's the biggest mover. And that has the positive impact. Of course, if the housing sales is proceeding as we have planning, that will be stable. If there is decline in housing demand, that of course will have some impact. But at the moment, our expectation is that the demand will continue as it has been.

Ari Järvinen: Okay. That's all from me. Thank you.

Operator: We will now take our next question from Anssi Kiviniemi[?] from SEB. Please go ahead.
Your line is open.

Anssi Kiviniemi: Yeah, hi. It's Anssi from SEB. Thanks for taking my questions. First of all, a couple of so to speak housekeeping questions. On Russia, you highlighted that the parts of the business that you are divesting or closing down won't be part of the adjusted EBIT. Could you give us a little bit indication on how big part – what is the number for these businesses that you expect to deliver in EBIT terms in 2019? Thanks.

Kari Kauniskangas: Do you, Ilkka, remember the figures? There have been so many figures that I am not sure – what is the revenue of those businesses in Russia this year that are in adjusted items.

Ilkka Salonen: I don't remember the exact figure.

Kari Kauniskangas: But let's say last year the paving business in Russia made around €50 million revenue. And housing revenue from those units that will be closed was more than €100 million.

Anssi Kiviniemi: Okay, thanks. And you don't want to give anything on EBIT line what will be the impact?

Kari Kauniskangas: The losses last year in Russia came from those units.

Anssi Kiviniemi: Okay, thanks. Then your guidance on Q3, are you expecting lower profits purely in the housing business or is there anything else that we should take into account in other segments?

Kari Kauniskangas: I think the key point is that housing segment results will be on a very low level in Q3 and back on track in Q4. We expect that other businesses are proceeding as they should proceed; especially in infrastructure projects, Q3 is their main season.

Anssi Kiviniemi: Great. That's pretty clear. Then on Q2, the Blominmäki booking, could you give us some kind of indication on that amount? How much it impacted on profit?

Kari Kauniskangas: The expected profitability of that project was reduced by around 2 percentage points. And we have to take away the profits already reported during the first year of that project. So, we are talking on figures between €1 million and €2 million.

Anssi Kiviniemi: Thanks. Then the third question or fourth question is that you highlighted in the report that you have made plot investments. I gather that's the key reason why the working capital is clearly

negative. Could you give us some kind of indication how big these investments were in Q2? Where are these plots situated? I mean are they in Yarimpa[?] or are they in Kampe[?]? And could you also comment a little bit on the market environment of buying plots? How's the competition and how's the price development been lately?

Kari Kauniskangas: First of all, we acquire plots to our own balance sheet and we also use external funds for investments. The investments where we have used our own balance sheets are made in Helsinki Region and Bratislava, something smaller also in Warsaw. And in addition, we have used those external funds for investments. Secondly, the price level of plots, I think it has stayed quite stable now during the last few quarters. Some of – maybe that's enough from that point.

Anssi Kiviniemi: Okay, thanks. Then on the urban development projects, you have a pretty nice picture there in your slides. I think, yeah, I don't remember the page. But could you comment a little bit on the expectations on urban development contracting volumes, meaning basically the business that affects this business premises? Do you expect the volumes to increase in 2020 based on this urban development projects or decrease due to the fact that Tripla has been a pretty large project for you?

Kari Kauniskangas: It is obvious that Tripla's impact to revenue and profit for this year will be significant. And we have to take into account that 40% of the revenue made during the last two, three years will be reported also during this year. So, it is obvious that the revenue of business premises next year will be lower than this year. We are not immediately able to replace all the revenue of Tripla during next year. But at the same time, the backlog of orders of that segment is quite strong which is also giving quite good visibility to next year from other perspective.

Anssi Kiviniemi: Thanks. Then on capital gains that you booked in partnership properties, Tripla will be – this year – Tripla offices were in Q4 2018. Should we expect anything coming in 2020?

Kari Kauniskangas: Yes.

Anssi Kiviniemi: Can I ask what, which projects those relate to?

Kari Kauniskangas: We will announce when we have more information. But yes, there should be also some deals for next year.

Anssi Kiviniemi: Okay, thanks. Then my last question is regarding the order backlog. And you have had a pretty good activity in terms of those orders during Q2 when order backlog has accrued nicely. It seems that you are taking a market share and thought your order backlog is going to a different direction than the overall market volumes in Finland, what are the key drivers behind this good development. Is it price? Is it quality? Is it relationships? Could you elaborate a little bit on how you get these deals?

Kari Kauniskangas: I think the key point is our personnel. Many of those projects are based on alliances lifecycle or negotiation. And in many of those projects, client has had also psychological tests and trying to look the best possible team for the projects. And our personnel has good capabilities in cooperation, good references, extremely good skills. So, that has been one of the key drivers of success in these projects that we now have added to our backlog of orders. And I have to say that it's not question only on actions made during Q2 this year. Several of those projects have been prepared already from the beginning of 2018.

Anssi Kiviniemi: Great. That's all from me. Thank you.

Operator: As a reminder to ask a question, please press star one on your telephone keypad. We will now take our next question from Olli Koponen from Inderes. Please go ahead, sir.

Olli Koponen: Hi, it's Olli Koponen from Inderes. Is the line okay?

Kari Kauniskangas: Yes.

Olli Koponen: I have a few questions left. One is on the synergies that you mentioned. But is there going to be any effects on synergies because of this paving deal?

Kari Kauniskangas: Let's say so that paving is a bit different type of business than other businesses that we have. And for instance, from IT point of view, we should have done totally separate systems to paving. Now all continuing businesses are able to operate under the same system, same softwares. And that simplifies our IT platform.

Of course, we lose some volume which means that we have to adjust our cost base accordingly. But at the same time, buyer has buy the business which is fully operational, which means that also part of resources that are serving that business will be part of the deal.

Olli Koponen: Okay. And the segments, and I only have one question regarding Housing Russia. Do you have or can you give any estimates on what is the revenue and EBIT level that Housing Russia should stabilize in 2020 or 2021?

Kari Kauniskangas: First of all, all units are profit-making units. Based on decisions made, we also adjust our fixed cost level in segment management. I have said earlier that we are satisfied when the profitability is ten or it's a good level. So, that or above of course is the target.

In short term, it depends quite heavily how the completions of projects in those units will happen. But I think within two years, we should be able to stabilize the business so that it is on a level of ten at least, next year anyway.

Olli Koponen: Okay. Thank you. That's all from me.

Operator: As there are no further questions in the queue, I would like to hand the call back to your speakers for any additional or closing remarks.

Kari Kauniskangas: If no more questions, then I thank you all. And wish you a warm summer day, and a good autumn. Thank you.