

Conference Title: YIT Group Interim Report for Jan-Sep 2019

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Tiina Kuusisaari: Good morning, everybody, and welcome to YIT's Third Quarter Results Presentation. My name is Tiina Kuusisaari, and I am Investor Relations Manager. And our agenda today is such that our President and CEO, Kari Kauniskangas, will go through the results, together with our CFO, Ilkka Salonen. After the presentation, we will take questions from the audience here in Käpylä and then from online. So, please Kari, the floor is yours.

Kari Kauniskangas: Good morning also on my behalf. Before going through Q3 results, a short update on the strategy review that we made at the end of September. In September, we updated that. During the last 12 months we have taken decisive steps to implement our strategy. We decided to focus our operations in Russia strongly, and also at the beginning of July to sell our Nordic paving and mineral aggregates businesses. We will achieve our targeted financial stability level when the planned transaction will be closed during the first quarter next year. And now we will concentrate on improving our profitability and strengthening our non-cyclical businesses, Partnership Properties and Services.

Our main focus in coming years is to improve our operating profit and profitability and maintain and defend the strong balance sheet that we will reach at the beginning of next year. We have three strategic priorities; urban development, including all the projects that we have longer value chain and on the construction at least a decent management to gain profitability impact and the better customer benefit as well.

In addition, Partnership Properties and Services, earlier called non-cyclical businesses. In Partnership Properties, we have invested now €170 million and our message is that we are able to make 15% return on capital employed every year, this year being an exception and the profitability will be higher.

And in Services, already today we are making annually around €360 million revenue from that business and profitability is improving. That is the target that we are growing. Altogether in those two businesses, Partnership Properties and Services, we are targeting to have €100 million profit in EBIT level after the strategy period annually.

And our key focus area in short-term is improving our profitability of performance where we have lot of actions ongoing and we will boost the actions in that area where we see a lot of opportunities still in front of us.

Also, one important decision was to set ourselves sustainability targets for long-term development. First target is to halve our CO2 emissions in ten years in our own operations and materials we use in construction. The second target is that we offer that kind of buildings where it's possible we use or have a carbon-neutral life. And third target is that now when this year we have piloted to calculate those CO2 emissions, next year we start to report those also projects by project in projects which have been developed by ourselves.

Just a reminder how the reporting during this year has changed based on two big decisions made in June and July focusing operations in Russia and selling the paving – Nordic paving and mineral aggregates business. First decision closed units in Russia both in housing in Russia and paving segment is described as pink boxes and those results are excluded from adjusted operating profit.

Decision to sell Nordic paving and mineral aggregate business is handled as discontinued operations. And road maintenance, which continues – which has been earlier part of paving segment is now part of our Infrastructure projects segment. And when we are having the figures, we are following on guiding a slightly adjusted figures of these blue boxes and these businesses are called continuing businesses.

Then to the third quarter results. The result was a bit better than we expected three months ago but the result came from different sources a bit than we expected three months ago. The improvement in backlog of orders both in terms of size and average profitability in Infrastructure project is now visible also in the profitability and operating profit in third quarter being more than €11 million and 4.5%. Due to the reason that Q3 is seasonally the strongest quarter for this business, we still have opportunities to improve performance in that segment.

Housing demand of consumers in Finland has continued strong. Compared to last year, the demand has been 22% stronger and compared to second quarter even more than 40% higher level. And this is not driven by discounts given but real demand. It may be so that the strong balance sheet and financial status of YIT's good long-term work in improving customer experience and the trust of customers towards YIT are driving also the good demand for YIT's apartments.

The result in Business Premises was a disappointment for us, at the same time, it's partly based on the decision we made during the summer to put priority to complete Tripla Mall according to original target 17th October. We succeeded to do that day and the opening of mall has been a success. Tripla as a whole will be uniquely profitable for YIT and will exceed the initial targets we set when the plot was acquired 2013.

In fourth quarter, Partnership properties will recognise a significant positive effect with the fair valuation of Mall of Tripla. Operating profit in Q3 was weaker than year ago. The difference is explained by weaker profit in Business premises and also a low number of completed apartments in Housing Finland.

Revenue was stronger than a year ago and that was mainly driven by good sales of completed unsold apartments in Housing Finland. Backlog of orders has continued to strengthen giving us again more visibility for 2020. After the reporting period, we have won in addition a few significant projects to be added to the backlog of orders during next year.

Then a short overview of segments during the third quarter. In Housing Finland & CEE, strong revenue is explained by surprisingly good sales of unsold completed apartments because the number of completed apartments as such was lowest during the last few years. Big margin of that segment is not explained by discounts but actually some negative special items during the quarter of which the biggest was completion of a project from where we sold several apartments in Q1, FinCap housing fund. And the average profitability of those projects was clearly lower than what has been the average in our portfolio.

In Housing Russia, we are back on black figures. The improvement is explained by a bigger number of completed apartments but also improvement in average profitability and also the savings, synergy savings and cost structure improvement is now visible in the figures. So, the direction is right.

In Infrastructure projects, strong backlog is giving us also a strong revenue and the profitability is now developing as it should be. In Business premises, revenue continued to be on a high level but profitability was impacted. Project cost increases in completion phase of Mall of Tripla and two other large projects. With regard to Mall of Tripla, after years of construction, we are very proud to complete that on time exactly when we planned. In Partnership properties, the positive results is driven by first evaluation done in concerning E18 Hamina-Vaalimaa ownership.

Cost synergies or hard synergies forecast from the YIT and Lemminkäinen merger has been specified. The overall estimation is €48 million. And by end of this year, we will report in profit and loss statement cost savings being for the €41 million annually. Integration costs will be lower than we initially estimated being €35 million altogether. The money still used for integration is mainly used in IT and financial system harmonisation and changes there.

Some comments concerning market outlook. According to Confederation of Finnish Construction Industries, the demand or the amount of projects in business premises sites including commercial premises and also public premises, that volume will decline during next year.

In Housing CEE, Germany is impacting to the countries of Czech Republic, Slovakia and Poland. And now we have seen slightly negative macro development in Germany. Even at the moment we don't see any impact in our figures. Germany is the key country of export from all those three countries, so it may have an impact to macro development also in there. In other areas, the demand and the expected outlook is stable and actually on a good level.

Housing Finland & CEE, the quarter was actually better than we estimated three months ago. The starting point was the lowest number of completed apartments in several years. Housing sales in Finland has been stronger than we anticipated and the sales of completed unsold apartments has been surprisingly good. That supported revenue development and also operating profit development of segment.

Weak profitability is explained not by discounts but from special items of which the biggest was this completion of the project from where we sold apartments to this Fincap Housing Fund in March. Profitability of those projects has been fairly low. In the last quarter, we expect to be back on more normal figures with higher number of completed apartments, both in Finland and CEE supporting both revenue and profitability development of this segment.

Housing Russia, back on black figures. Those black columns or black parts of columns are showing number of apartments completed in units which are to be closed within one to two years. The profit of those projects are not included or are excluded from adjusted operating profit. And as said, overall profitability of projects in continuing units is increasing and the cost base is declining in [inaudible] areas so that lot of those are supporting revenue and positive development in there.

Closing of those five units that we announced at the end of June are proceeding well. Two of those units has been already closed. One in Rostov-on-Don and contracting in St Petersburg. Changes in Law, Housing Law 214 in Russia came into force at the beginning of July. And based now on few months experience, it has slowed down the authority processes including registration of new apartments. Also, we had 70 apartments sold but not registered at the end of quarter. Those will be registered in Q4 and that will support also positive development in – of that segment during the end of the year.

We have also noticed that number of new start-ups in the market overall has reduced. There are more plots for sale and some smaller companies are closing their operations or are for sale at the moment. And we estimate positive development in sales prices during coming quarters based on the development that we have seen now in past few months.

We are proud on the work done in developing and constructing Tripla projects. During the years, we had been able to increase the number of sellable square metres, the average rental levels and also based on innovative solutions, we have been able to reduce cost and shortened the schedule of the overall construction duration.

Just an example, making this temporary railway station shortened the construction duration by one year and also improved the occupational safety on site and also for external persons. In summer, we prioritised the schedule to complete Tripla Mall according to original schedule, 17th October, and the impact of that decision is now seen in Q3 figures.

Tripla as a whole will exceed clearly the original target of operating profit and the main impact of those will be seen in next quarter and in Partnership properties will recognise the fair valuation impact. The start of the Mall of Tripla has been excellent. One million visitors was exceeded after eight days from the opening day. Last, or yesterday, within two weeks, 1.6 million visitors and

clients visited on the shopping mall. The whole project will be complete during Q3 next year, one year ahead of the schedule.

So, the overall operating profit of Business premises was weak and the negative development was driven by three projects, of which Mall of Tripla was the biggest. The projects are to be completed during the Autumn or at the beginning of next year. After the reporting period, YIT won Espoo PPP project: five big schools and three big day care centres – financing, design, construction and 20 years maintenance of those. Overall, the value being €240 million. So, we are proud on that and that shows the competitiveness of YIT and the knowledge and skill that we have in-house. The backlog of orders is strong and the performance of other segments has been good from our point of view.

In Infrastructure projects, the clear improvement in adjusting operating profit was due to improved margin overall and then this is seasonally strong quarter. We have one new project during the year and the backlog of orders has been on a growing trend. Also, after the period, YIT was selected as a winner in the Crown Bridges project to construct light tramway from Helsinki City Centre to Laajasalo. The value of the project will be between €110 million to €300 million. And the size of the project is defined more accurately during the development phase during next one-and-a-half years. The construction of that project will start 2021 and continue then four years.

In Partnership properties, first fair valuation was done for E18 Hamina-Vaalimaa loan receivables. We also established a significant housing fund together with Ålandsbanken, worth €112 million, where we sold 514 apartments. The production of those projects has started or will be started within few weeks and that will have a positive impact in the next year revenues and operating profit.

Also, after the reporting period, all the terms and conditions to make a fair valuation for Mall of Tripla has been achieved. Our portfolio is strong and at the moment we are preparing several portfolios – new portfolio funds or joint ventures to be established in coming quarters.

Next year, we also expect to see fair valuation impact or capital gain of two funds – plot fund established few years ago and Fincap rental fund. I remind you that in Partnership Properties, the key way to consider the success is the return on capital employed of 15%. This year we will be clearly above that level but in long run we should be able to fulfil that target.

In discontinued operations, meaning Nordic paving and mineral aggregates, we had a successful quarter. The overall operating profit improved €5 million compared to last year, even though the volumes were 200,000 tonnes lower than a year ago. Preparation of carve-out is proceeding according to plans and we are ready to close the deal at the beginning of the year. We expect that the closing will happen when we get the acceptance from competition authorities during the first quarter of next year.

Now I give turn to Ilkka, who will go through the financial status and cash flows.

Ilkka Salonen: Thanks Kari. Yeah, good morning everyone. My part is quite short. It's always good when CFO's part is short. So, if you look at what we targeted at the time when the two companies were merged is healthy balance sheet and stability in the financial, and that's what we are aiming. And at the moment, we are in a good level and of course after the transaction of the paving operations, we will be in the area what is our strategic targets, for example, in the gearing.

But in Q3 this year, operating cash flow was as planned. And when I say that the balance sheet is in a good level, we have been able to make our operations for the future as well. We have invested for new plots. We have continued it as a normal business. And also, we have accelerated our start-ups in Finland and in the CEE countries, which will have an impact for next year and for 2021.

Also, what we have seen in the late quarters is in the customer front as well in Finland that they had a strong balance sheet and reliabilities towards our customers, we will see that in the sales.

Operating cash flow was pretty much in line to the third quarter last year and then the operating cash flow was slightly lower than last year. So, nothing special over there.

Then if we look at our adjusted net debt. It decreased as planned compared to the last year. And in the end of the period, it was about €720 million. The maturity structure is seen in the chart, and of course there is in 2022 a little drop. Of course, we are hoping to booking that one in the future. Metrics pretty much in the same level than last year after the Q2. And, of course, if you look at our guidance for the rest of the year, the curve is pretty much reflecting above the last year.

Kari Kauniskangas: Completions of projects are driving the development and operating profit of housing segments. In next quarter, we will see clearly higher completion figures in Finland, CEE and Russia. And also, as you can notice, next year the completion figures in Finland and CEE are very close to current year's level giving us a strong base for the good expectations for operating profit also in next year.

The number of projects to be – or which are already under construction or to be constructed for institutional investors is higher and the impact is higher next year than what it is this year. Also, in Russia, even though the number of completions are a bit lower than this year, in those continuing units, the figures are a bit higher than this year.

Then if you look at the guidance, we have narrowed the range from the earlier statement. Revenue is expected to be between plus 2% and plus 6% compared to last year revenues of continuing businesses. Also, operating profit range is narrowed by €15 million. The midpoint is a bit lower level than a quarter ago due to changes of course the estimate in those three big projects in Business premises.

The positive development in last quarter is driven by completion of Mall of Tripla and strengthening number of completions in both housing segments. So, overall, we estimate that the operating profit

of the group in Q4 will increase from the comparison period, meaning that it will be a record high quarter for YIT ever.

Based on strong balance sheet, continuous strengthening backlog of orders and strong spirit inside the group as well as clients' trust towards YIT, we have a positive view towards the future. So, that is a good starting point for this winter and next year and for good closing of this year.

Thank you. And now if there are any questions, we are ready to answer; and if we start from Käpylä. So, if there are any questions now please.

Svante Krokfors: Svante Krokfors, Nordea. Couple of questions. First regarding, I think, investors look now more at 2020 than Q4 2019. So, at the CMD, you showed that you expect positive EBIT development for all divisions except for Partnership properties in 2020. Is that still valid and can you elaborate a bit?

Kari Kauniskangas: Yes, that view has been given one month ago and we are strongly according to – proceeding according to that view.

Svante Krokfors: Okay, thank you. And then perhaps on the margin level in Housing Finland & CEE in Q3. Can you give some indication of what the one-off costs were in Q3?

Kari Kauniskangas: We can explain the whole difference to last year by those special items. Some positive items last year and then mainly negative items in Q3 this year.

Svante Krokfors: On the margin level.

Kari Kauniskangas: That €9 million difference can be explained by those.

Svante Krokfors: Then can you give some indications for – in Business premises what the extra costs were in Q3 related to the three big projects?

Kari Kauniskangas: We have not commented single projects as such, but of course if you looked at the difference to last year, performance was something like €15 million. So, if we think those three projects, that impact altogether was around that.

Svante Krokfors: Thank you. And then finally on Infrastructure. I guess that you have been more selective in projects in order to improve the margin, but at the same time the order backlog has grown 50%. Can you elaborate a bit this – is the competitive situation easier or –

Kari Kauniskangas: Yeah, that has been a positive surprise for us. At the same time, improving the backlog of orders and improving the profitability of the content. But it's good work done in segment as such. They have been also considering the ways to how they operate, how to improve the competitiveness overall. And in some projects that we have won, the competition has been quite limited, so there have been small number of players giving offers in those projects. So, that is one area.

Also, important part is that there are several projects where the competition is based on skills, teams, references, psychological tests. And we have been doing in that kind of areas very well. Our people are – the skills and knowledge are quite good, and we have put lot of effort to educate and learn how to operate according to Lean principles, how to use [---], how do use big rooms and that kind of rooms. And those are now bringing fruits in our backlog of orders.

Svante Krokfors: Thank you. That's all from me.

Kari Kauniskangas: If there are no more questions in Käpylä, we can get questions from online.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that is star one to ask a question. And we'll just pause for a moment to allow everyone an opportunity to signal for questions. Our first question comes from Robin Nyberg from Carnegie. Please go ahead. Your line is open.

Robin Nyberg: Good morning. It's Robin from Carnegie. A few questions starting with the guidance. You mentioned in the beginning of the call that Q3 results were slightly better than you expected three months ago and still you took down the midpoint of the guidance slightly. Is this explained by higher costs to complete the Tripla?

Kari Kauniskangas: It's based on higher cost of all those three projects; and because part of those are still continuing, that will have also impact in Business premises' profit in Q4.

Robin Nyberg: Okay, thanks. Then moving to start-ups in Finland, there was quite nice increase in start-ups and for me at least it seems that the demand has developed quite good. Are you surprised by the good demand or did start-ups develop according to your expectations?

Kari Kauniskangas: We said already in spring that we are now gradually increasing number of start-ups and we do – we have done according to that. Media has been quite negative on housing sales expectations, but we have, I think, commented continuously that the demand has continued on a stable level and actually I agree with you that finally the sales in Q3 was positive surprise for us. So, it has been stronger than we estimated three months ago.

Robin Nyberg: Okay, thank you. Then moving to Housing Russia, there you reached a positive result for the first time in many quarters. What's behind this development and could you say something about the outlook – earnings outlook for the Housing Russia business?

Kari Kauniskangas: Yes. So, now I would say we are on track to point towards the direct – to the levels where we should be. In Q3, there was bigger number of completed apartments than year ago from units which gross margin and profit is reported inside the adjusted operating profit. Secondly, the overall profitability of those projects in continuing units is an increasing trend. And thirdly, the cost of segment is synergy savings and the structural changes that we have done which will give us lower fixed cost level, all those impact is now coming visible in the result of Housing Russia.

Next quarter, the number of completed apartments in continuing units is increasing and also the outlook for the next year is clearly better than the performance has been during last two years.

Robin Nyberg: Okay, thank you. That's all from me. And have a nice weekend.

Kari Kauniskangas: Thank you.

Operator: Our next question comes from Anssi Kiviniemi from SEB.

Anssi Kiviniemi: Yeah. Hi. It's Anssi from SEB. Thanks for taking my questions. I think I have two questions left starting with the housing business and 2020 outlook. As I read it correct, you have now more institutional business in your pipeline than before; and looking at the completions, they will also decline in 2020. So, kind of I'm thinking about what are the key drivers by housing business will improve its earnings in the next year? Thanks. That's the first one.

Kari Kauniskangas: First of all, the number of completed apartments next year, it's almost on the same level than year ago. The difference is maybe 100 apartments in Finland. And in CEE, I think the number is 100 more than this year.

So, there we have, let's say, a positive baseline on the same level than this year. In addition, the revenues coming from the investor – institutional investor sales will be higher next year than it has

been in this year. And even though the profitability of those projects is slightly lower than in consumer projects, it's still on a very good level. So, – and that will also be supported by stronger cash flow from those projects.

So, taking into account the macro environment around us, I think that is a good mix what we are planning to have next year. And I think that the lesson and the messages that I have and we have got from the sales offices that currently when people are buying apartments, they are considering more accurately than during the last few years from whom they are buying the apartments. And now the strong balance sheet, good financial situation of YIT, good work done to improve the customer experience during the years, that is now clearly visible in the sales. So, the trust towards the brand is strong and supporting our development in that area.

And as I said, what has been positive topic for us that really families have been buying apartments from us and that demand has been strong in Q3. And also, it has continued.

Anssi Kiviniemi: Great, thanks. Then a quick one on Infra. Momentum seems to be a really good and when I look at the government budget for 2020 or the proposal, there seems to be a lot of more business for you. So, is this a right view and how do you see the public spending environment in Finland going forward?

Kari Kauniskangas: First of all, the new government made a decision to increase amount of annual investments to maintain the infra network; and from our point of view, that is a positive decision, first of all. Secondly, the government has decided to make 12 years' investment plan for Finnish infra. That is also good because then we have bigger or better visibility to coming years what type of projects there will be, what type of skills and equipments are needed and that is also a good area.

And also, I believe that in longer term, the volumes will be more stable than it has been in the past in Finland. From our point of view, we have a strong backlog of orders. Those light tramway projects in Tampere, Helsinki Espoo, are proceeding well. We have also several other projects in wind farm, wind mill areas and some industrial clients to whom we are constructing a lot at the moment. And there the demand seems to be good and we are confident with our competitiveness in those areas, which have been selected to be the target areas for YIT.

Anssi Kiviniemi: Good. That's all from me. Thank you very much.

Operator: Our next question comes from Ari Järvinen from Danske Bank.

Ari Järvinen: Yes, hello. So, basically related to the Finnish housing business, could you compare like you said that the sales to institutions is nearly as profitable as the consumer housing business, but not quite. But have you seen like changes in this discussions and negotiations with the large institutions, let's say like compared to a year ago, because I have the understanding that during the year when the interest rate outlook changed in Europe, the attitude of the institutions towards residential portfolios changed quite a bit during this year. So, is this right from your perspective and how is it impacting your negotiation in this deal?

Kari Kauniskangas: Yes. You're absolutely right and the change has been positive so that the residential funds seems to be very interesting area to invest of several type of investors. That is the reason also why we have strengthened and boosted the area to develop ourself those funds. Now we have two funds worth €230 million. We are preparing new funds also for next year. And I think for us, actually that gives an extra opportunity because now we are selling projects those funds with the same profitability level than we have done it also earlier or directly for the investors.

Now I think when we also rent those apartments and also have the management of the properties in our hand, it gives us an extra opportunity and Partnership properties to get capital gains also from that demand among investors.

Ari Järvinen: Okay. So, if I may dare say this that you are not just cleaning your numbers with the unsold completed apartment segment. So, it's kind of like a profitable sound business of the funds?

Kari Kauniskangas: Exactly.

Ari Järvinen: Okay. And then looking at Russia bit, just a simple question. The completions are said to more than double the 2,100 apartments in Q4. I've been looking at the Lemminkäinen numbers in the past. So, could you help me a little bit with the EBIT in the Q4? Now you made like a breakeven but if it's like 2,000 plus completions in Russia in Q4, how should we think about the EBIT performance?

Kari Kauniskangas: First of all, half of those apartments to be completed are in units which will be closed now within one to two years. And it means that the operating profit from those projects is not visible in our adjusted operating profit. So, the number of completed apartments of continuing operations is roughly 1,000 units.

But anyway, what we have seen that in continuing operations, the operating profit is expected to be positive for the whole year, maybe that is something that gives you enough guidance to consider what will be the impact.

Ari Järvinen: Okay. And then if I just continue on please think out a bit loud. Tietotie 6 last year Q4, as I understand, it had a €28 million positive EBIT impact in the Partnership properties. How should we then benchmark or compare the Tripla Mall valuation gain and the Accountor Tower project sale compared to this, because Tietotie 6 was not that big in terms of square metres?

Kari Kauniskangas: When we take into account all the segments, Partnership properties all the fair valuations, our guidance is between €160 million to €185 million. So, when we put all these together, we should be within this range; and maybe that's what I can advise you.

Ari Järvinen: Okay, fair enough. Thank you for this.

Operator: As a reminder, if you wish to press – if you wish to ask a question, you may do so by pressing star one. Our next question comes from Olli Koponen from Inderes.

Olli Koponen: Yeah, hi. It's Olli from Inderes. I actually have one question left. About Housing Finland & CEE. Just to clarify, the revenue was up and completions were down and sales mix was not that favourable in Finland. Can you open up the development there a bit? Was it just about good sale of those unsold apartment or was the sale prices good in CEE also or what was behind that?

Kari Kauniskangas: First of all, the starting point for the quarter was that we will have lowest number of completed apartments in one quarter within years. So, the original estimation for revenue was quite low. But – and also the operating profit was quite low. But the sales of completed unsold apartments was strong and that supported the operating profit development. The explanation for the low profitability between the last year and this year despite of the same amount of revenue is some special items negative in this year and two small items positive last year. And as said earlier, the difference if I remember right was around €9 million. So, those small – few small items both positive and negative between the years explains the whole difference. The biggest impact being from those completed projects from where we sold apartments to Fincap Housing Fund in March and the profitability of those projects was low compared to average profitability of the completed projects.

Olli Koponen: Okay. Actually, I have one more question on the Business premises. Your EBIT was down because of the Tripla and other two bad projects. You said that you expect these projects to end in Autumn and the other one in start of the next year. But what kind of effects do you still anticipate from these two projects in the coming quarters?

Kari Kauniskangas: One project is completed now at the end of August. One project will be completed at the end of Q1 and Tripla Mall will be completed now in the last quarter. Tripla Mall still is strongly positive project for us, but the profitability is lower than earlier estimated, so that leads to a situation that there will be also lower profit of Business premises in Q4 due to the decline in profitability of that project.

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

Operator: There appear to be no further questions over the phone.

Kari Kauniskangas: Okay, thank you. If there are no more questions from Käpylä or online, then I thank you all and wish you a good autumn and nice weekend. Thank you.