

Conference Title: YIT Interim Report for Jan-Mar 2020

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Tommi Järvenpää: Good morning, and welcome to YIT's First Quarter Earnings Webcast. My name is Tommi Järvenpää. I'm the Head of YIT's Investor Relations. With me, here today, are also our CEO, Kari Kauniskangas, and CFO, Ilkka Salonen. We will first go through the presentation followed by Q&A.

At this point, I would like to hand over to our CEO, Kari. Please go ahead.

Kari Kauniskangas: Thank you and good morning also on my behalf. I'll start the presentation from the strategy. As you remember, we have two key targets in our strategy. First, to improve profitability, and secondly, maintain and defend financial stability, which we now have reached after this closing of paving and mineral aggregates business sale which happened 1st April.

We have three key strategic priorities – sources of growth and structural profitability, growth and development, partnership properties or investments and services. And I think also in this market environment, these priorities are in the right order and the priorities are right ones.

The growth portfolio that we have is strong and it allow us to operate also in tighter market environments and we develop it constantly. Last year we also succeeded to – well, in getting those lifecycle projects alliances and design and build projects was almost €700 million. And those have now started come to our order backlog one by one.

Secondly, the order backlog is strong, and it gives us visibility for part of the projects without sales risk also to coming months and quarters. In Partnership properties, we have now invested or capital employed is €240 million, and that starts to bring us also rental incomes during this year in addition to capital gains.

And services is a growing business priority area for us. During the last 12 months, the revenue from those businesses, that we already have a good maintenance, renovation and living services, the revenue was €450 million.

Turning to first quarter. Our first quarter was largely in line with our expectations. And the Group operating – adjusted operating profit improved to €8 million in a year ago minus €10 million. Of course, the level is low but it's good to remember that first quarter was highlighted with typical seasonal slowness in infrastructure projects and slow – or slow number of housing completions in Finland & CEE.

However, the apartment sales were at the strong level in all regions, particularly in Russia. The sales to consumers increased 14% year-on-year, but as said, number of completions was low. The disappointment of the quarter was the Business premises segments results, which was burdened by progress in financial settlements of previously communicated and already completed three projects, one of them being a €7 million booking related to a final agreement on the Myllypuro Kampus project financial closing.

As part of the agreement, the client will also pay us €8 million, the payment which they have withheld earlier now in April. So in these times, cash flow is more value about wrong dispute in a court. Due to coronavirus pandemic, we have taken anticipatory and mitigating measures already since February. The impact of this pandemic was minimal to the figures of Q1.

Our balance sheet strengthened further after the sale of this Nordic paving and mineral aggregates business that happened 1st April. The impact of the transaction was almost €300 million positive cash flow. Capital gain, that will be reported as part of discontinued operations, not in adjusted operating profit, is around €40 million. This improved our gearing strongly 34% from the level that we had at the end of fourth quarter and that also strengthened the equity ratio.

The conclusion of the deal from our perspective is that we are now on a strong position ahead of this COVID-19 pandemic with widely unknown impacts and duration.

At the end of the quarter, the operating environment changed rapidly due to coronavirus pandemic. Also we moved to quarterly guidance and withdraw the guidance at the beginning of April. I think it's fair to go through the main risks and impacts, which easily explains the challenge to make relevant estimations for the end of the year.

The most significant uncertainties for YIT's business are related to availability of personnel, potential infections, regulatory decisions and availability of materials. These can lead to temporary shutdowns or slower progress on construction sites and delayed completions and consequently postponement of revenue and profit recognition from quarter or from year to another.

In addition, the changes in residential demand may have an impact to our profitability in short-term. At YIT, the initiated anticipatory measures back in February to ensure the safety and health of our staff, the progress of our construction sites and the continuation of the business. To mitigate the impact of the economic slowdown and to react to the sudden changes in the market, we have also initiated a number of savings and measures like temporary layoffs of fixed personnel, salary reduction of top management and also board of direction – Board of Directors. We also have paused, for a few weeks, apartment start-up from mid-March to evaluate the demand level in the new situation.

As of today, our sites are operating well and there have not been material issues in our operations. In April, a few of our construction sites were shut down temporarily following the decisions of the authorities or customers. Only one site has been put on hold for two days due to our own decision.

However, it has been great to notice how quickly our organization has adapted new ways of working required by the pandemic. The number of digital remote visits and transactions has also grown rapidly following the successful continuation of digital tool implementations in recent years.

Customer confidence for YIT has paid at high level. Even though residential demand dropped in late March, it has remained moderate thereafter and hence we will continue apartment start-ups in the second quarter.

In these times, we carry on also our responsibility. At the beginning of the year, we started to follow accident frequency rate, including also sub-contractor employees instead of our own employees only. That lead a bit higher level of accident rate, but I think this is the right way to improve the safety on our sites widely.

This summer we will also continue to have big number of summer trainees. There will be more than 500 summer trainees in our operations also during these days. Our revenue increased by 5% in the first quarter. The order book declined slightly from the year-end, but it is still on a good level. Several new projects were added to the order book during the quarter and the decline is mainly explained by housing start-ups small number.

As such, the improvement from the last year, of course, was clear but the profitability of the company was still on an unsatisfactory level. But it's good to notice that it's partly due to normal seasonality in infrastructure and in housing completions as well.

Some comments shortly on the segments. In housing, the number of completions were on a low level and that leads to low level of operating profit. In Russia, the profit was improved due to better sales but also due to change of accounting method. Since 1st January, we use again revenue and profit recognition over time method, meaning percentage of completion. That is due

to change in the legislation. And that change had an extraordinary impact of around €5 million to the result of the first quarter.

In Business premises, I already explained that the focus of financial settlements in those big projects impacted negatively to the result of that segment. And as we have already earlier said that those three projects, all have now completed and we expect that the financial settlements will be ready at the end of Q2. Now one of those is fully booked.

In Infrastructure, the improvement in performance continued, even the result was negative due to normal seasonality. And in Partnership properties the sale of Accountor Tower in Espoo Keilaniemi supporting that result.

Then some comments concerning segments. In Housing Finland & CEE, consumer sales improved and investor sales improved even more. The COVID-19 impact on sales was visible only in last two weeks of the quarter. The demand and sales has then stayed around the same level that it was at the end of March.

The positive observation from our point of view has been that consumer activity has stayed around on the same level that it was at the beginning of March. The number of visitors in our web pages has stayed stable throughout the weeks. And, of course, then the decline in sales probably is partly connected also to restrictions in all of our operating countries.

I'm also proud on our capability to immediately utilize those framework methods how to connect clients and how to use digital tools as a new service platform. So that has been a positive development during the last few weeks.

In Housing Russia, the reassessment of current legislation, legal practice and terms of YIT's sales contracts fulfilled the criteria for revenue recognition over the time. So that will be the method also from the first quarter on.

In Russia, the change in ruble exchange rate had a slight impact in results in Q – in last month, and of course it has bigger impact to our balance sheet. Sales improved heavily year-on-year and especially strong month was March. As also earlier the decline in oil price and also the change in exchange rate boosts the apartment sales.

The result in Business premises, of course, was weak, and I think the topic connected to those three projects has been handled. The positive point is that the business behind those three projects seems to be in order, in line to our requirements. And the order book of these segments strengthened from the year-end, thanks to those alliance and lifecycle projects that we won already last year but the contracts have been now signed.

The order book has some impact to the outlook that in Q2 we expect a revenue of this segment to be bottom. And already based on this backlog of orders and won projects, we see that the revenue is going to increase during the third and fourth quarter compared to the second quarter.

In Infrastructure projects, the backlog of orders is on the same level than a year ago. The growth in revenue during the first quarter is mainly driven by easier winter, especially here in Helsinki region. Unfortunately, we were not able to expect that type of winter, so it means that many of projects were closed due to expected winter and we were not able to fully utilize the opportunity that the weather would have provide us.

In Partnership properties, Accountor Tower was the main explanation for the good profit. During the quarter, we have proceed in strategy execution. We splitted Partnership properties and Business premises to two separate segments also operationally and we have strengthened our

organization in this segment to keep the funnel of new projects, the flow of potential investment opportunities in good level, also to create new funds, joint ventures, portfolios and also proceed in the services area. Last time in our presentation, this paving segment, the operational performance was as expected and the sale was completed 1st April. So the impact of sales will be seen in Q2 results.

Now I give – I turn to Ilkka to explain more accurately the financial key ratios and figures.

Ilkka Salonen: Thank you, Kari, and good morning, everybody. Yes, if you look at the operating cash flow after reinvestments during the Q1 was minus €48 million. If you look at the path and if you look at the seasonality of the business, that was in a good level and actually to somehow better than we internally expected before the quarter.

Cash flow of investments were slightly higher than last year, and the plot investments were €24 million compared to 16 – €25 million compared to €16 million last year. So we continue to invest for the plots as well.

Then to the equity ratio and gearing. Gearing was 105%. Of course, the result had an impact for that one but also the dividend and the translation difference from the plots and operations had impact for that one. But what is important is that after the paving transaction, which happened on 1st April, our gearing was – would have been or actually was on 1st April, 71. And the equity ratio 30% and taking account about the paving transaction, it was on 1st April, 32. And over here I want to highlight that these metrics includes the IFRS 16 impact, which is quite heavy in our business.

In net debt to adjusted EBITDA, 4, and after the transaction 2.8 and those are difficult to go for these existing corona situation. Interest-bearing debt. Net debt increased to the up to €940 million, and in the maturity structure that's quite stable. We actually paid that one, €30 million

bilateral and refinanced that by €50 million bilateral, where the maturities to 2022, and that's the reason why it's more balanced than it was in the previous quarter.

And now I'd like to Kari for the market outlook.

Kari Kauniskangas: Okay. We changed a bit the way how we described the market environment. So the colors are telling the market situation during last quarter and the arrow is showing the direction in the markets in our opinion. And during the last quarter, the demand in – and the market in housing was good in our key markets. But now as you can see, due to this pandemic that the outlook is negative in all areas, except Infrastructure projects.

Based on our conversation with authorities and government representatives, we expect that there will be more project than estimated earlier coming to markets during the second half of this year having an positive impact into the market volumes overall mainly for next year. So the impact of those will be limited during this year.

And then to the outlook. Now in Russia we have changed to utilize this book principal. The key topic there is housing sales and the number of apartments under construction, which is around 5,000. In Housing Finland & CEE projects, revenue and profits are still recognized when the project is completed, and therefore the more important figure is when and how much projects are completed per quarter.

And in the second quarter and also third quarter, as you can notice, the number of those apartments that will be completed is quite small, so in next quarter around 50% less than year ago. And the main part of the apartments in that segment will be completed during the last quarter of this year.

And as announced already 1st April, we are not giving full year guidance anymore, but guidance on our outlook of the market for the coming quarter. And based on our current view, we expect that the apartment sales will stay at the low level, the same level than we saw at the end of March. And also that our consumer apartment completions will be clearly lower than a year ago.

In Business premises, based on the backlog of orders and won projects not yet included to backlog of orders, we expect that the bottom of the revenue during this year per quarter will be in Q2. And then it starts to improve.

And in Infrastructure projects, that the revenue was on a low level in first quarter. It start to improve and it's good to remember that the season high is during the third and fourth quarter. So there will be still some impacts of seasonal slowness.

In the Partnership properties, from our point of view, of course, the key topics is how the number of customers start to rebound during the quarter when government starts to remove restrictions. And as we already have earlier estimated, there will be significant fluctuations between the quarters due to typical seasonality, closing of sales of business premises projects as well as apartments – as well as sales of apartments and completion of residential projects. As last year, the last quarter is expected to be clearly the strongest quarter due to high number of completions during the year.

Our priorities for this year is mentioned here. Because we expect that this pandemic will continue for a while, it's extremely important to keep the operating cash flow of the business on a positive side. So that is one key area for us. Secondly, to keep our employees healthy and our construction sites ongoing that helps us to make all the needed steering actions during the year. And, of course, we are starting this market situation with a strong position, backlog is strong, balance sheet is strong. Of course, we are looking for opportunities to utilize this position in different ways.

So that was our presentation. World has changed. Market have changed very soon. But I think taking everything into account what we have on the table, we have a very good starting point for this new world.

So now I thank you and then there is opportunities for questions.

Tommi Järvenpää: Thanks Kari. And now we are ready for the questions.

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. We'll pause for just a moment to allow everyone an opportunity to signal for questions. We'll take our first question from Anssi Kiviniemi from SEB. Your line is open. Please go ahead.

Anssi Kiviniemi: Hi guys. This is Anssi from SEB. Thanks for taking my questions. First of all, you highlighted demand situation on the consumer side and the expectations perhaps on that side. But has the investor demand changed, and do you see some kind of structural changes in the industry, meaning funds and institutional investors that are looking at real estate? So how are you seeing that side of the business? I will take my questions one by one, if that's okay.

Kari Kauniskangas: Yeah. So first of all, during last winter and already before the crisis start, we have made several bigger frame agreements with some investors to provide apartment buildings or residential buildings to them. And those projects will start when we have all the permits in place. And at least my understanding is that all those projects is going to start as we have agreed.

Also we are still negotiating with other players to sell projects or it looks like that the demand of buildings especially – residential buildings, has stayed around on the same level than it has been in the past. But the time for negotiation seems to be a bit longer, the financing of – for those funds takes – or organizing the financing for those funds takes a bit longer time than it has taken earlier.

Anssi Kiviniemi: Okay. Thanks. Then that's a good bridge to my second question. The financing environment, how are the banks reacting to this situation, meaning housing development and larger projects? Has there been a clear move from them to the safe side or how should we read the situation?

Kari Kauniskangas: We have, of course, a good situation from that point of view that our financial key ratios are now on healthy level and we have been able to keep our sources open, but it is obvious that the terms and conditions are stricter than those have been earlier. And I think the behavior of banks is also limiting number of projects on the market overall during the coming months and quarters.

Anssi Kiviniemi: Okay. And a follow-up, the – kind of what are the KPIs that banks are now scrutinizing?

Kari Kauniskangas: Ilkka can answer to that question.

Ilkka Salonen: Yeah, of course, it's about the gearing is quite traditional and about the net debt to EBITDA is key as well. And if I can add a couple of words also for your previous question is that if you look at the situation in the beginning of the crisis, the banks had a little bit different view before the – let's say, they had good view about their portfolio. But where we are today, there is not too much change what comes to the situation before the crisis. That's at least the way how we are treated.

Anssi Kiviniemi: Okay. Thanks. Then second or third or whatever question. Housing start-ups you froze them in March. Now they are still – you have ramped them up. What is the lever? Is it business as usual right now for you? Or are you being more cautious and we should expect that the housing starts will continue to be quite low?

Kari Kauniskangas: First of all, when we, for a while stopped the start-ups, there was two reasons for that. We expect that the cost side there will be opportunities, then that overall market revenue or market volumes is going to decline. And secondly, from our point of view, it was important to confirm how consumers continued to behave in these type of environment, what are the key markets – what type of apartments they are looking for and what is the expected volume of the sales.

And I think we get or got quite good information during – around four week and then after Easter we continued start-ups. And also during that four weeks' period, we went through the production plan that we had originally for this year and considered which type of projects are suitable for this environment, how to get maximum out of this environment.

And obviously it will be so that the project in the biggest growth center, especially in capital areas, are the main focus of us and then we will see the decline in number of start-ups that will happen mainly in smaller cities farer from the capital region.

Anssi Kiviniemi: And could you remind us, please, what is the share of capital region start-ups currently?

Kari Kauniskangas: We have – I think we have earlier told around the sales between the capital region, Southern Finland and Northern Finland. And share of capital area has been more than half overall on our revenues in Housing Finland & CEE. And then at the same time, the Northern

Finland part, which probably is mostly the area where we will decline the start-up volumes that has been around one-fourth of the numbers of apartments and a bit less in terms of revenue.

Anssi Kiviniemi: Okay. Thanks. Then now that you have hard time to digest the coronavirus and you have reacted to it and its potential impacts, has the situation changed your view how you look at the large partnership projects?

Kari Kauniskangas: Actually we had a bit luck during our schedules. At the moment, if you look, let's say, bigger projects, there were no bigger project just now to be started. So there have been city planning process ongoing or still at design stage so that we don't have building permits yet. So in short-term that doesn't have any impact. Also if you look the tenant behavior, it looks like the bigger tenants, they are still looking farer to the future and then all the bigger tenants have continued their process to find new premises.

Smaller tenants are clearly focusing now to the short-term topics and to survive through the crisis. According to our original plans, next bigger project would have been started at the beginning of next year. So in short-term this doesn't have any impact. The negotiations with investors connected to those projects were planned to start during the second half of this year.

Now overall, it looks like that many investors in short-term also closed the doors and wait a bit how the situation is going to develop and many of those has announced to us also that they are ready to continue negotiations in Q3.

Anssi Kiviniemi: Okay. That's good. One specific project related question. There has been articles around the Trigoni project in Pasila. So what is the status of it then? Could you elaborate a bit on how you see that process developing?

Kari Kauniskangas: Yes. There was an article in Finnish Paikallislehti and also Helsingin Sanomat, the main newspaper. Our comments in the articles are right but annal[?] of the – how to say, article is a bit strange. The topic behind is that we have signed the agreement with the seller of the plot with the City of Helsinki and also Senate Properties, the government last year when we won the design competition. And in that agreement has been defined that the requirements for the area and we have proceed according to that. But now in city planning stage, the architect has been willing to change the rules and make a design of the city plan not according to the agreement but according to the design made for the competition. And that has been a discussion. And actually today YIT, City of Hensinki, also Senate Properties, we have same view how the proceeding in that project and city planning is proceeding in a good manner. So I think the article was lot of discussion on nothing.

Anssi Kiviniemi: Okay. That's pretty clear. Then my last question is on Partnership properties. Kind of roughly what was the impact of A Tower in the profit in Q1 in order to get a better feeling of what is the underlying recurring rental income from Tripla and other businesses?

Kari Kauniskangas: We have not disclosed the exact figure, but of course part of the profit can be seen in – or the main part of the profit can be seen in Partnership properties, which are – then there is a small part also in Business premises.

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

Operator: Once again, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. We'll take the next question from Svante Krokfors from Nordea. Your line is open. Please go ahead.

Svante Krokfors: Yes. Thank you for taking my questions. I have a couple of left after Anssi. This might be irritating. I was cut off a bit there. But regarding the investor interest, I think you talked

about investor interest among or in residential side but has there been any change in the non-residential investor interest side owing to this crisis? Is it just a question of postponing and thinking about how to get finance or can you elaborate on that?

Kari Kauniskangas: So first of all, if you look at the start-up decision of clients, it looks like that cities and governments, they are continuing as planned, so no postponements in that area. But obviously some private clients have, let's say, postponed the decision or not yet make the decision to make start-ups. So the situation clearly postpones a number of those private projects at the moment.

Then the financing point of view. During these few weeks, we have not had any new projects where we have been looking for financing. So the accurate view to the behavior at the moment is not maybe relevant. But our understanding is that those promises that had been given earlier are still valid from our point of view. Maybe Ilkka, if you want to add.

Ilkka Salonen: Yeah. That's correct.

Kari Kauniskangas: Did you have something else?

Svante Krokfors: Yes, one other question regarding – I mean, when you withdrew the guidance for the full year, you said that you will guide for the next quarter. Do you want to give any comments numerical on Q2 and also would you have given a more specific guidance for Q2 if it was not for the coronavirus situation? And will you give a more specific guidance in the following quarters?

Kari Kauniskangas: The current view is that this is the way how we guide the market at the moment. Just an example, it's good to understand that, for instance, if due to government decision, we have to stop the construction of some project and it will postpone – the completion will postpone from this quarter to next quarter. It's always a question on millions and that decision is out of our

hands fully. So that is a good example on – that it is very difficult to estimate the fact. Also estimate the customer behavior under restrictions – of the restrictions based on the overall financial development on the market in short-term, it's very challenging. So of course, every day and every week gives us more, how to say, proof points how clients are behaving in this environment.

Svante Krokfors: Okay. That's clear. Thank you very much.

Kari Kauniskangas: How we now guide the market.

Operator: Once again, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. We'll take our next question from Olli Koponen from Inderes. Your line is open. Please go ahead.

Olli Koponen: Yeah. Hello. It's Olli from Inderes. I have one question left and it's regarding Tripla. Tripla Mall, what is the situation with it and its tenants? Are you seeing – how are they handling this situation? And can you give any estimates how much you think this will affect your rental income from the shopping mall?

Kari Kauniskangas: Yes, we have, because in the same way than those mutual insurance[?] companies alone have announced to behave for instance concerning rental payments of restaurants, which have been closed due to government decision. We are owning a bit less than 40% of the shopping mall; and of course, in short-term there is impact of the rental incomes worth hundreds of thousands of euros per month, at maximum less than €1 million if no one is paying anything.

Of course, we follow accurately the number of visitors on the mall and we have also allowed companies not to follow the open time. So some of the companies have closed the doors for a while and that is accepted.

At the same time, it's good to – sometime observations what has happened is that number of visitors in food stores has increased number of cars in the parking facilities has increased which leads us the observation that people are buying more food and more food per time using cars to transport the food at home. So hopefully this helps Tripla to get the position as the new place for get the food for bigger and bigger number of potential customers during these weeks and these two months.

And, of course, we expect that when the restrictions start to be removed step-by-step also companies start to open their premises and shops. And for sure, we try to do everything to keep tenants alive and help the more – to come back on track also with the number of visitors. But also that will take some time.

Olli Koponen: Okay. Thanks. That's all for me.

Operator: Once again, ladies and gentlemen, if you have a question, please press star one on your telephone keypad. It appears that there are no further questions at this time. I'd like to turn the conference back to our speaker for any additional or closing remarks.

Kari Kauniskangas: Okay. Thank you on questions and I wish you all, on my behalf and on our behalf, happy 1st May and keep safe and healthy.

Tommi Järvenpää: Thanks, Kari, and thank you everyone for the questions. Our second quarter results will be published on 28 July. Thanks, and have a great day.

Kari Kauniskangas: Thank you.