

**Conference Title: YIT Half-Year Report for Jan-Jun 2020**

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Tommi Järvenpää: Good morning, and welcome to YIT's Second 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 the 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. Let's start with the strategy. Despite of the corona pandemic, we are taking steps according to our strategy. As you remember, we have two key targets – improve our profitability; and secondly, maintain and defend our social stability.

During Q2, we saw significant improvement in gearing, thanks to stronger operative cash flow than year ago and also sale of paving business at the beginning of the quarter. We continue to strengthen balance sheet to reach our target below 50% gearing as soon as possible. We have continued plot acquisitions and project development activities normally. Our plot reserve is strong.

Despite of as such weak result in Q2, we have seen clear improvement in underlying profitability in order backlog of all segments. Actually, the backlog has strengthened since Q1 and is now good in all segments. We have also continued in creating attractive housing portfolio, and yesterday, new housing fund worth €130 million was established together with Osuuspankki.

In services area, we have made decisions concerning our steps to utilize geothermal energy in all projects where it's technically possible. We have also strengthened cooperation with several smaller companies in proptech area to bring new features to our buildings.

Then to the performance of Q2. The performance overall of the Group in Q2 was mixed. The Group adjusted operating profit decreased to €5 million, being as such weak. But it was negatively impacted by costs of financial settlements of €17 million in the Business Premises segment, connected to two projects completed in winter, Hertsi Shopping Mall and Tripla. The rest of our businesses performed according to our expectations.

Overall, the impact of the coronavirus pandemic for YIT in Q2 figures have been moderate. Thanks to rapid actions and adapt – rapid actions to adapt operations to new environment and also IFRS reporting in housing. Cash flow was very strong, supported by stronger operative cash flow than year ago and also sale of this Nordic paving operations.

In Housing, consumer sales dropped markedly in April, but the demand recovery since then has been encouraging. We continued apartment start-ups at a good level and some significant investor sales were agreed. The order book increased from the previous quarter, giving us visibility to second quarter and already to 2021.

I am proud on the speed and flexibility of our organization to adapt to the new market environment. Also on our sites, we have successfully been able to ensure healthy working environment, continuity and schedules, despite of several potential threats. Only ten projects were temporally stopped and those only two due to our own decision. So far, those breaks didn't have impact to the completion schedules of the projects.

At the moment, all sites are progressing normally and number of persons in quarantine is very low. In fact, the impact for Q2 figures were very limited. Bigger impact was seen in Housing consumer sales in Finland and CEE, where the sales was around one-third less than a year ago.

Due to IFRS reporting method, weaker sales didn't impact our results in Q2 because the sales rate of completed projects was high already before the crisis started. Also, we see that several private and industrial investors postponed their investment decisions to the second half of the year. Also investors for commercial projects took one quarter break in decision-making, but now they are back on the table.

In Q3, we expect sites to proceed as planned, housing demand revitalizing in Finland and CEE especially. In infra, we expect to see the stimulus packages of governments on the tables when preparing offers. The impact in revenue will be seen later in winter and in next year. Key uncertainties are connected to the end of the year. We have big number of projects in Housing that are estimated to be completed in December.

In case the second wave of coronavirus starts to have impact, there is a risk that completion of those projects will postpone to the next year. Also, the development of sales rate of those projects that are going to be completed by end of the year is subject to consumer behavior and corona impact to that.

Revenue declined 8%, but decline is mainly explained by Tripla, which was heavily recognizing revenue a year ago. Order book increased 6% compared to previous quarter. And when we compare to the previous year and take away Tripla impact of €320 million, the difference is around €250 million, explained mainly by lower order book in Norway and Baltic countries, as well as change in reporting method in Russia to POC.

The order book as well as won projects and start-ups not yet added. The order book is strong in all segments.

As mentioned, the adjusted operating profit of the company has been weak during the Q1 and Q2. It's good to know that this year the number of completed apartments in Housing Finland in that period has been exceptionally low, around half from last year. So far 1,000 apartments has been completed for consumers, when year ago the level was 2,000.

But the main reason for weak result, hiding also positive development in several areas, has been completion and financial settlements of those three big projects – Myllypuro, Hertsi and Tripla Mall – Tripla project in Business premises. In H1, the announced negative impact of those projects has been significant, €24 million, and in Q2 alone €17 million.

Now both Myllypuro and Hertsi are fully closed. And in Tripla, there are anymore a few open settlements with disputes, especially in building systems area. The rest of the business and the order book in the Business Premises segment are at a healthy level, and we expect the segment to be profitable in third quarter.

Then an overview of the performance of all segments. In Housing Finland, lower number of completions for consumers and weaker business mix, driven by clearly more sales and recognized revenue to investors, explains the difference in operating profit. Actually, the performance in the quarter was better than we estimated ourselves.

In Russia, better efficiency and performance of operations has improved since last year. Also, POC reporting is showing the impact of sales immediately in the same quarter. Sales in Russia during Q2 was actually higher than a year ago, and that was supported by low mortgage interest rates.

In Business premises, of course, the result was weak and negative. But on underlying order book and profitability, as you can calculate, was around on the same level than year ago, taking into account lower revenue recognized. In Infrastructure projects, the improving performance continued. And in business – in Partnership properties, Tripla fair valuation has been updated with minimal impact to the result.

Then to segment reviews and comments. As mentioned, the result of Housing Finland and CEE segment was good, taken into account low number of completed apartments during the period around 60% of last year, and also that a lot of sales came from the investor side.

Sales dropped at the end of March, stayed on a low level in April and started to recover at the beginning of May. And as said, recovery in Finland especially has been encouraging. In CEE, it is as well improving. We kept our start-ups at a good level and negotiated several significant deals on the investor side. The most significant being this Osuuspankki fund that was established yesterday.

Reservation rates in pre-marketing and started projects has been surprisingly high level through the quarter, indicating people's willingness and need for new apartments in good location for the use of their families. Planned investor deals for this year have been mainly agreed, and now we are already working with the year of 2021, which looks promising.

Price level of apartments has stayed stable, and amount of discounts has stayed on a low level. Also a number of unsold completed apartments is on a normal level. Key uncertainties in the end of the year are connected to timing of completions and sales rate of completed projects at completion. Second wave of this coronavirus may have impact to both of those.

And as you may remember, this year, half of the completed apartments for consumers will be completed in Q4. Even the sales in Q3 would continue to strengthen. The number of completions is comparable to the first quarter of this year and result of the year in this segment is expected to be recognized mainly in Q4.

In Housing Russia, positive development continued. During H1, operating profit has improved almost €20 million year-on-year. Positive development is driven by better margins and improved operational efficiency. Housing sales continued on a good level, only 10% lower than in Q1, and

it was higher than in Q2 a year ago. The outlook for Q3 is July has been surprisingly strong.

Then the Business premises. As mentioned, weak profit is explained by those financial settlement costs in those three projects. In Myllypuro Campus, everything was settled already in the first quarter. In Hertsi Shopping Mall, that has been made in the second quarter. At the Tripla project, around 1,800 subcontractor contracts had been settled already at the end of the second quarter and only few contracts in building systems area are anymore in progress.

Due to disputes, their settlements can take some quarters and may have an impact on our results when agreed. The potential impact of those disputes is estimated to be at maximum single-digit in millions within coming quarters.

Consequently, we have made significant changes to the way we operate. Responsibilities and organizations in the Business premises and Partnership properties segments have been renewed, management resources strengthened and risk management processes developed further.

Going forward, the Business premises segment will focus on project management and productivity improvement in construction. The Partnership properties will be responsible for development and life/cycle services, as well as the investment portfolio management.

The rest of the business and the order book in the Business Premises segment are at a healthy level. Underlying business mix has been improving during last five quarters, as you can see from the graphics, when the amount of life cycle and PPP projects has increased and traditional contracting declined. Backlog of orders has been growing quarter-on-quarter and also year-on-year without Tripla impact. We expect that this segment to be profitable in the third quarter.

In Infrastructure projects, positive development performance continued in Finland and Sweden. Backlog of orders has stayed strong in both countries. The decline in order book year-on-year has happened in Norway and Baltic countries. In Baltics, the competition has been fierce in the spring. In June, Finnish government agreed on significant stimulus packages for improving infrastructure in Finland. Based on our discussions with public client, we have expect – we expect to see higher number of new projects on our tables for tendering in autumn. And the projects included to those stimulus packages to be started in next winter and 2021. Also, our own development of new windmill farms and parking premises has continued and we have positive expectations for those for next year.

In Partnership properties, our – Partnership properties and Services are key growth areas at YIT. When we made organization changes in spring, changes were made also in Partnership properties to strengthen its organization. Real estate management unit and Commercial project development unit were transferred to Partnership properties. Also other hires have been made in key areas. Now we have the full value chain from project flow creation to life cycle services for investors and partners according to our strategy.

In Tripla, we saw a significant drop in number of customers at the end of March and April, but also rapid recovery started at the beginning of May. Since the opening of the mall, the management of Tripla has prepared a plan to improve rental income through events, pop-ups and temporary sales premises like terraces and cultural squares. The plan was accepted in June and started immediately to put into action. At the same time, the yield requirements for shopping malls have been growing. So Tripla's fair valuation has been updated based on both angles. The total impact to the fair valuation was minimal.

During Q2, we also prepared a new joint company with Osuuspankki to own rental apartments. Final agreement was signed yesterday. The size of the investment is €130 million, some 600 apartments, and our share of the fund or joint company is 40%. Those projects will be started

during the end of the year or at the beginning of next year and everything should be completed by end of 2022.

From now on, Partnership properties has also relevant order book, including all the long-term contracts in life cycle and PPP building projects. At the end of the June, order book was almost €300 million.

Then I give the word to Ilkka to explain the key financial status.

Ilkka Salonen: Thank you, Kari, and good morning, everyone. Just a few words about the cash flow as well as for the investments what we have done during the Q2.

In Q2, the operating cash flow was heavily impacted by the paving sales, which was bringing cash in slightly more than €280 million. And if we look at the underlying or continuing operations, even we take that away, operations delivered more cash flow than last year during the Q2. So less negative than it is normally in Q2.

We have continued investments for the plots, as Kari mentioned. And in – during the first half, we have invested cash out more than €80 million for plots. Our liquidity position was strong in the end of Q1, and of course it's even more stronger after Q2. And once again, the impact of the paving sales is one of the key topic over there.

If we look at the maturity structure, we renewed our two loans in Q2 together about €80 million. So we extended those ones by one year and we also extended our revolving credit facility by one year up to 2022. At the moment, we have cash in our accounts close to €400 million. There is no refunding needs for funds or loans during the rest of the year. And the cash in our bank accounts actually covers the amount of refinancing next year as well as the commercial papers.

But going towards the end of this year, of course, we look at the funding needs for next year. Over there, yes, we are – we have more liquidity than in the normal situation. We took more commercial papers before the market was closed in March. But in this situation, we see that it has been a good decision, so we can continue with the operations as we have planned.

In the current financial key ratios, we are going to the right direction. Our gearing was 73 in the end of Q2, but we are not there where we want to be in the long-term. And as we have mentioned already, during the merger in 2018, that the target level is 30-50%. So we still have work to do over there. In equity ratio, it is going up, as it has to be. And then the net debt to adjusted EBITDA ratio was down to 3.5.

That was shortly about the finance part. And now I pass to Kari.

Kari Kauniskangas: Okay. So shortly, the colors are showing our view – our segment management view to the market in Q2. And those arrows are showing the expected direction in coming quarters.

So the situation actually has not been as bad as estimated in April. Even we see a drop in April, the recovery has been quite rapid in Finland. And we expect that the demand stayed now on a good level or current level.

In Russia, the situation continuously has been good. Sales has been on a good level, supported by those low mortgage interest rates and the situation is expected to continue. The weakest situation in market was seen in Baltics in all business areas. The recovery in housing demand has been seen at the end of the quarter and we expect that to continue.

In CEE, the same situation concerning housing. The recovery started in May there as well. And in Sweden and Norway, the situation has been good. There are lot of infra investments ongoing,

and those are continuing. In our view, the longer-term impacts of the pandemic on the Business premises market are twofold – on one hand, we expect remote work to remain common going forward, which will decrease the need for office space. On the other hand, square meters needed for each employee will increase to enable safe working environment at the offices.

So overall, the impact is expected to be net close to zero, and we still expect that there will be demand. And also the client feedback gives us a view that there will be demand for premises in good locations also in the future.

So this slide explains strongly the profit curve during the end of the year. In Q3, number of completed apartments in Housing Finland and CEE is comparable to Q1 figures. And then at the last quarter, we have significant amount of projects estimated to be completed in November and especially in December. So that is also, from our point of view, the key risk in case the second wave of the coronavirus will impact to the schedules of the projects.

From next year point of view, we will see the similar type of curve that the completions of the year in Housing Finland and CEE will be high in the last quarter. It's also good to notice that we have significant amount of projects under construction for both investors and under construction in Russia, where we are utilizing this profit recognition over time, so percentage of completion.

And then the guidance for next quarter. So as last quarter, we don't give numerical guidance, but we explain how we see the development in each business area. So as you saw from the previous slide, consumer apartment completions will be at the low level in Finland and CEE in next quarter.

In Russia, we expect actually very solid sales to continue and the operative performance be on a good level – solid level. In Business premises segment, we expect it to be positive. In

Infrastructure projects, good performance – operating performance continues. And in Partnership properties, the key driver in Q3 is that customer behavior is normalizing in Tripla.

So as mentioned, the full year outlook is clouded by uncertainty in consumer behavior and apartment completion timings at the end of the year due to this coronavirus pandemic, and also significant fluctuation between the quarters are expected. The last quarter of the year is expected to be clearly the strongest quarter.

According to our strategy, strong balance sheet and financial stability is one of our key targets. And despite of this environment, we push to keep our operating cash flow positive also without the impact of paving business sales. That is also our way to ensure continuity of the company in all possible scenarios. That is all – that gives also us an opportunity to continue start-ups, plot acquisitions, creation of future on a good level.

Key target for us is to keep our construction sites ongoing and also the schedules of completions as estimated. And that, for sure, will keep us – or give us the best result during this year. And as mentioned, how to utilize our strong position, start-ups, plot acquisitions keep quality high, we continue development normally in August. And we also believe that YIT in current situation is a good partner almost to everyone. We are – everyone is willing to cooperate with us.

So that was the quarter. I think we have told our story, and now it's time for questions.

Tommi Järvenpää: Thanks, Kari. Now we're 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. Again, press star one to ask a question.

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

Olli Koponen: Yeah. Hello. It's Olli Koponen from Inderes. Can you hear me? Hello, can you hear me?

Kari Kauniskangas: Yes, we can.

Olli Koponen: Okay. It's Olli from Inderes. I have few questions. First, just a general question about coronavirus and its effects. Did you have any extra costs relating to the pandemic in the quarter? You mentioned the housing effect in Finland and CEE, but any other costs?

Kari Kauniskangas: Yes. We have some costs, but at the same time we had also some savings. So I think the cost and savings were in balance. And from that point of view, that pandemic impact was net zero from our point of view.

Olli Koponen: Okay. You said that the – there were some delays on the projects that were in your pipeline, but are you expecting those to go ahead in these next quarters?

Kari Kauniskangas: So actually projects where we can make decisions ourselves, there was no delays. But it was overall comment that we have seen several private investors and industrial investors postponing the decision on investments to the second half of the year. So maybe some of those projects could have been started during the second half and we could have been the contractor, but I think that was more describing the market than our status.

Olli Koponen: Okay. Then on the Housing Finland and CEE. I looked at your housing starts have been quite low during the H1, especially in CEE. Do you have plans or do you see the

market demand as good that you're planning to ramping up those in Q3, or do you think that 2021 is going to be marketing a lower year for consumer completions in Housing Finland and CEE?

Kari Kauniskangas: We have a good financial situation. We have a good demand situation. The low number of start-ups, especially in CEE, is more explained by this building – what is it, permission – building permission postponements than our own decision. And for sure, we are targeting to have still significant amount of start-ups in both Finland and CEE during this year.

And as mentioned, due to several reasons, big number of completions in both Finland and in CEE are expected to be seen in fourth quarter next year. So, overall, we try to create a situation where we have at least the potential to improve the operating profit in Housing Finland and CEE also next year.

Olli Koponen: Okay. And then on the Business premises, you quite well explained the effect Tripla closure is expected to be – I'm not going to ask about that. But you said that the balance sheet profitability is now on a healthy level. Can you elaborate what is kind of a healthy level order book – yeah, what is kind of a healthy level of profitability should we expect from Business premises going forward?

Kari Kauniskangas: Of course, it may take still some time to normalize, but what we have seen in the – let's say, on which level we are satisfied. We are talking on five-plus type of percent level. That type of figures could be expected next year.

Olli Koponen: Okay. Just one last question about the new housing fund that you established yesterday. Can you give us any info where are those apartments located and how big of an earnings yield are you expecting to achieve from these achievements – investments?

Kari Kauniskangas: Those buildings are mainly located in Helsinki metropolitan area, Turku and Tampere. And from a construction point of view, the profitability is on a normal level what we have in – for investor sales. And of course, the locations are quite attractive. So from owner's point of view, which we also are in this case, we see value improve potential in those projects during the period of rents running and business ongoing.

Olli Koponen: Okay. Thanks. That's all from me. Have a nice rest of the summer.

Kari Kauniskangas: Thank you.

Operator: Thank you. If you find that your question has been answered, you may remove yourself from the queue by press star two. We'll take our next question from Anssi Kiviniemi from SEB Bank. Your line is open. Please go ahead.

Anssi Kiviniemi: Hi guys. Thanks for taking my questions. First of all, couple of follow-ups. You highlighted that you have seen some postponements in decision-making in larger projects from investors. But have you seen any cancellations?

Kari Kauniskangas: No.

Anssi Kiviniemi: That's pretty clear. Let's go to the next one. You basically indicated that you're still committed to good consumer start-ups going forward in Finland and CEE. Should we expect the pretty normal level already in Q3, or what is your strategy when you are allocating capital currently in your Housing business?

Kari Kauniskangas: As told in previous interim report, we revised our production plan so that we, a bit, reduced number of start-ups in, let's say, smaller cities in Northern Finland. And then we have keep the number of start-ups in Southern Finland, especially in Helsinki region, on the

original level. And for sure, this at least is our plan. We consider during coming weeks to do some start-ups extra due to rapid recovery in demand so that those projects still could be completed by end of next year.

Anssi Kiviniemi: Okay. Thanks. Then on Tripla. Could you elaborate a bit on what kind of disagreements there were with contractors and you guys, because the figures seem quite big. So why did – let's say, one-offs, why did they emerge?

Kari Kauniskangas: First of all, it's good to take into account the scale of the project. So we have almost 2,000 subcontracts in that project, and it has been a huge work to make all the financial settlements. Just an example, if we have had €5,000 difference in opinion, the impact has been €10 million. So that gives you some view on the topic. So the disputes connects to the situation that during last summer and autumn we were forced to rush a bit on the site to be able to complete the project at the due date.

We succeeded to do that, but it means that a lot of work was made based on hours and unit prices. And that is a huge project. It takes time to calculate all of those. The disputes mainly connects to situation that what were included in the original agreements and on what were additional works.

Anssi Kiviniemi: Okay. Thanks. And there are still some disputes ongoing in Tripla. But are there any other risks in your project portfolio, where you see, let's say, elevated risks of cost overruns or disputes?

Kari Kauniskangas: In ongoing projects and order book in Business premises, the situation is very clear. So the rest of the business is running well. Of course, what we have said is that we target to keep the cash flow strong. So of course, we are looking for balance sheet, how to improve the efficiency. And it may be so that we sell some assets during the end of the year or next year

when we get the best possible price, so that we strengthen balance sheet, strengthen cash flow, improve our key figures. That is, in my point of view, the key point.

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

Operator: Thank you. We'll take our next question from Matias Rautionmaa from Danske Bank.  
Your line is open. Please go ahead.

Matias Rautionmaa: Okay. Hello everybody. Many of my questions were already asked, but I have some left still. Could you a bit open up Tripla fair valuation? How much the yield did go – went up? Can you clarify that?

Kari Kauniskangas: I think we can answer. So it's increased 0.25 percentage point.

Matias Rautionmaa: Okay. Very well. Then a question related to this Keilaniemi development project. You have pre-sold the Paviljonki building. Is it binding – how binding is the agreement? Can the buyer withdraw?

Kari Kauniskangas: Agreements are binding.

Matias Rautionmaa: Okay, clear. And then about the Tripla – Mall of Tripla construction project. What's the construction margin for the Tripla Mall? Was it positive or negative?

Kari Kauniskangas: All projects in Tripla – so we had more than 10 projects - are positive.

Matias Rautionmaa: Okay. Clear. Thanks. That was all.

Operator: Thank you. We take our next question from Svante Krokfors from Nordea. Your line is open. Please go ahead.

Svante Krokfors: Yes, good morning. Svante Krokfors from Nordea. A couple of questions left for me. First on Housing Finland and CEE. You said that the margin was impacted by sales mix and it was mainly owing to investor consumer distribution. Was there any impact from the geographical side? And how do you guide on the mix for the second half of this year?

Kari Kauniskangas: The mix impact actually was – the geographical mix impact was actually very low. I think that the completions were quite evenly from all divisions during the quarter. And then the second half, so the number of completions is high, and there is lot of projects in Helsinki region, Turku and Tampere, to be completed during the last quarter. So it may – I have not checked accurately, but it may be so that is driving also the profitability a bit.

Svante Krokfors: Okay. Thank you. And then you mentioned the housing company loan development being challenging. Do you want to give some extra color on that, and how you expect that to develop?

Kari Kauniskangas: Yeah. That is, from our point of view, both good and bad. Of course, when the interest rates of those housing company loans has increased during the spring, that is negative topic. The increase has been around one percentage point. The availability of those is lower. According to our understanding, the housing company loan product from bank's point of view is not so attractive. So banks have reduced overall the amount how much loans they are giving.

So from our point of view, that is a positive point. We have been able to get those RS loans, housing company loans. And partly, we expect that that is supporting our market share in Finland.

Svante Krokfors: Okay. That's clear. Thank you. And then on Business premises. You said after Q1 that based on the order book, revenue should bottom in the second quarter and improve in the following quarters. Now you basically guide that you're – you would post a positive result in Q3. But has the volume outlook changed since your Q1 guidance?

Kari Kauniskangas: Yeah. Volume outlook is that – as you see from the backlog of orders that, that has increased. So that volume starts to increase. Of course, it's partly driven by how rapidly we are able to ramp up those sites during this quarter. But anyway, the direction is increasing volumes in that segment.

Svante Krokfors: Okay. Thank you. Then one last one. You said that Mall of Tripla valuation yield increased 25 basis points. I assume it's somewhere around 5. So it's a meaningful change. But I guess that then means that you have also raised the rental assumptions in the valuations then?

Kari Kauniskangas: Yes. As seen so – as said earlier, so we – last year, when the first fair valuation was made, we didn't take into account those rents that are connected to revenues of shops. We didn't take into account either the, let's say, event-based revenues, which actually is surprisingly significant in all shopping malls in Finland. So now we have, in a conservative way, taken into account those revenues also from our point of view.

Svante Krokfors: Okay. That's – thank you. That's all from me.

Operator: Thank you. It appears there are no further questions at this time. I would like to turn the conference back to our moderator, Mr Tommi, for any additional or closing remarks.

Tommi Järvenpää: Thank you. And thank you for the questions. YIT's third quarter result will be published on 30<sup>th</sup> October. Thank you, and have a great day.

Kari Kauniskangas: Thank you also on my behalf.

Ilkka Salonen: Thank you very much.