



# Business update and merger status

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Kari Kauniskangas, President and CEO  
Capital Markets Day 2017  
September 28, 2017



[yitgroup.com](http://yitgroup.com)

## Key messages

- Business in Finland and the CEE countries is proceeding well and outlook is positive
- In Russia, the bottom of the cycle seems to be behind, but only slow improvement in market is expected
- Partnership Properties segment brings a new tool to support growth
- Integration planning of the merger with Lemminkäinen is at full speed





# 1

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Recap since  
CMD 2016



# Continuous priorities in Group

## Improving profitability



- Improving business mix
- Decreasing construction costs
- Improved and proactive care for customers



## Intensifying growth



- Strengthened resources in early-phase project development
- Living and renovation services
- Managing Tripla project and strong order backlog



## Increasing capital efficiency

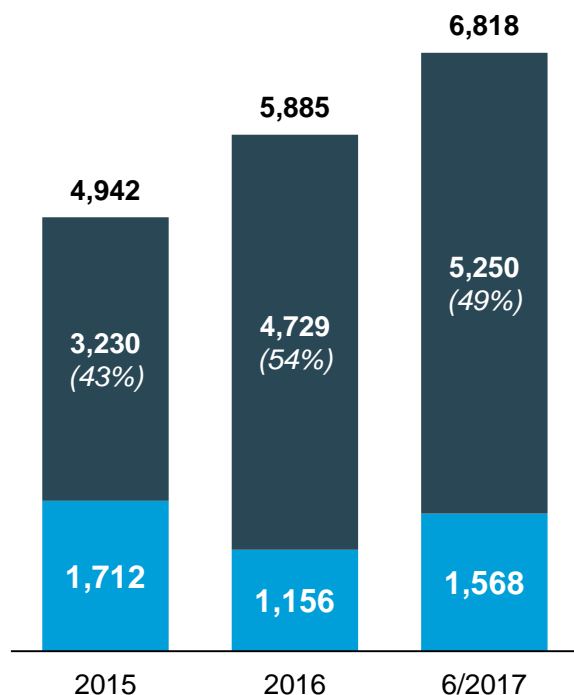


- Further increasing the role of partnerships in investments
- Continuing capital efficiency improvement
- Reducing invested capital in Russia



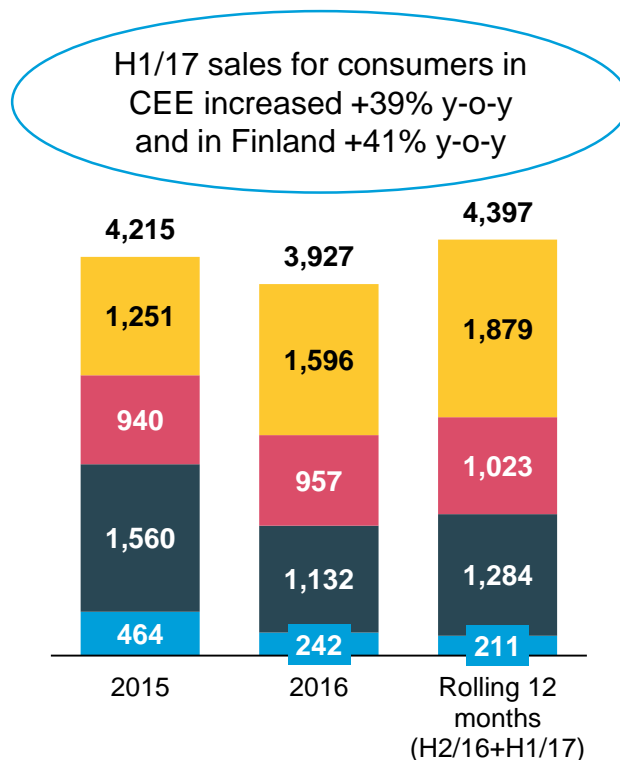
# Actions to optimise business mix proceeding well

## Apartments under construction in Housing Finland and CEE



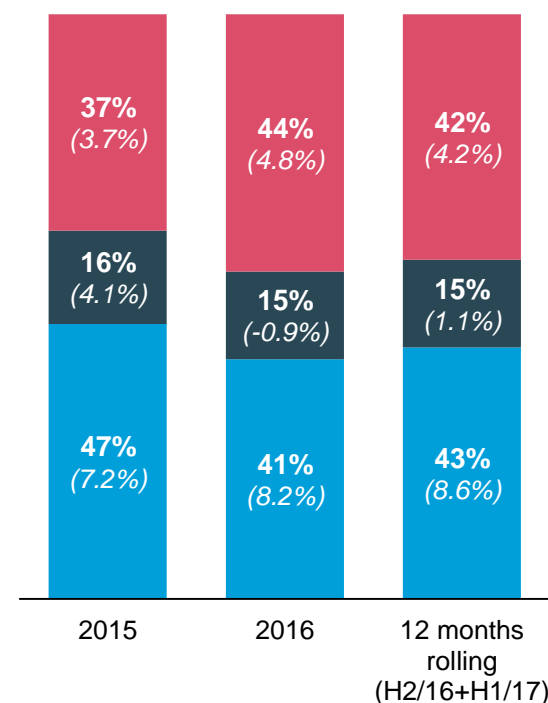
■ For consumers, units (sales rate %)  
■ For investors, units

## Share of sales for consumers increasing



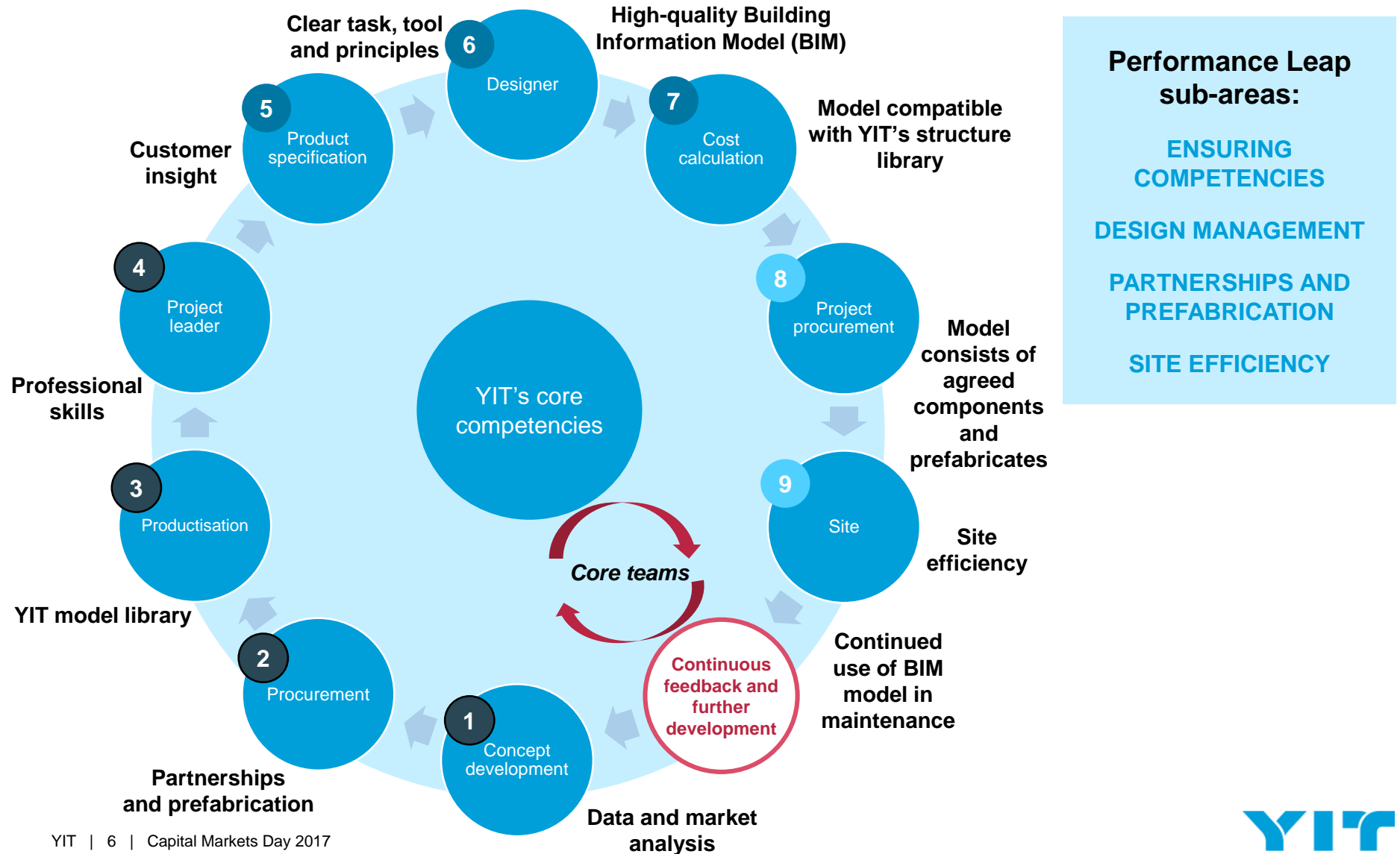
■ Consumer sales in Finland  
■ Consumer sales in CEE  
■ Sales to investors  
■ Bundle sales deals

## Development of revenue mix, %, (EBIT margins in brackets)



■ Business Premises and Infra  
■ Housing Russia  
■ Housing Finland and CEE

# Renewing process to reach the goal of 15% cost savings





# The largest ongoing projects



**Mall of Tripla**  
Completion rate: **32%**  
YIT ownership: **38,75%**  
Self-developed project  
Value: EUR ~600 million



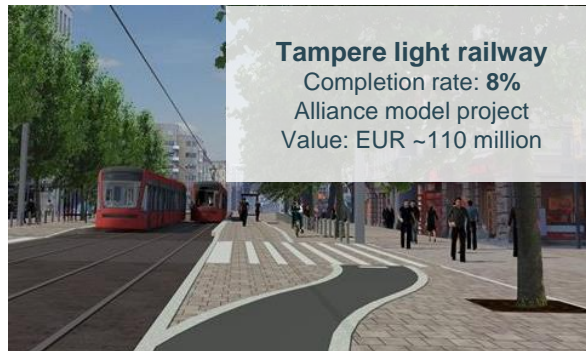
**Kasarmikatu 21**  
Completion rate: **69%**  
YIT ownership: **40%**  
Self-developed project  
Leasable area, sq.m.: 16,000



**K3 Wihuri, Vantaa**  
Completion rate: **35%**  
Sold project  
Self-developed project  
Leasable area, sq.m.: 25,000



**E18 Hamina-Vaalimaa motorway**  
Completion rate: **83%**  
PPP project  
Value: EUR ~260 million



**Tampere light railway**  
Completion rate: **8%**  
Alliance model project  
Value: EUR ~110 million



**Myllypuro Campus, Metropolia**  
Completion rate: **9%**  
Project management contract  
Value: EUR ~70 million



**Ranta-Tampella residential project**  
Tampere, Finland  
Apartments to be constructed:  
Over 1,100



**Nuppu residential project**  
Bratislava, Slovakia  
Apartments to be constructed:  
Over 1,000



**Suomi Hloubetin**  
Prague, the Czech Republic  
Apartments to be constructed:  
Over 850

# Increasing capital efficiency

## Capital efficient plot ownership



- Cooperation with plot funds
- Grip on plots with pre-agreements
- Plot acquisitions financed with completed apartments at the end of projects
- Joint venture structures

## Increasing role of partnerships



- Established partnerships: Regenero, Tripla, YCE Housing I fund etc.
- New segment as at January 1, 2018: Partnership Properties
- Agreements on deeper partnerships in design and production signed

## Capital release program in Russia



- The target is to release RUB 6 billion by the end of 2018
- Weak sales at the beginning of the year have delayed the progress
- Negotiations ongoing to sell parts of large plots



# 2

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## Business update



# Growth accelerates in Finland, some positive signs in Russia

## FINLAND

Growth more broad-based as exports have picked up

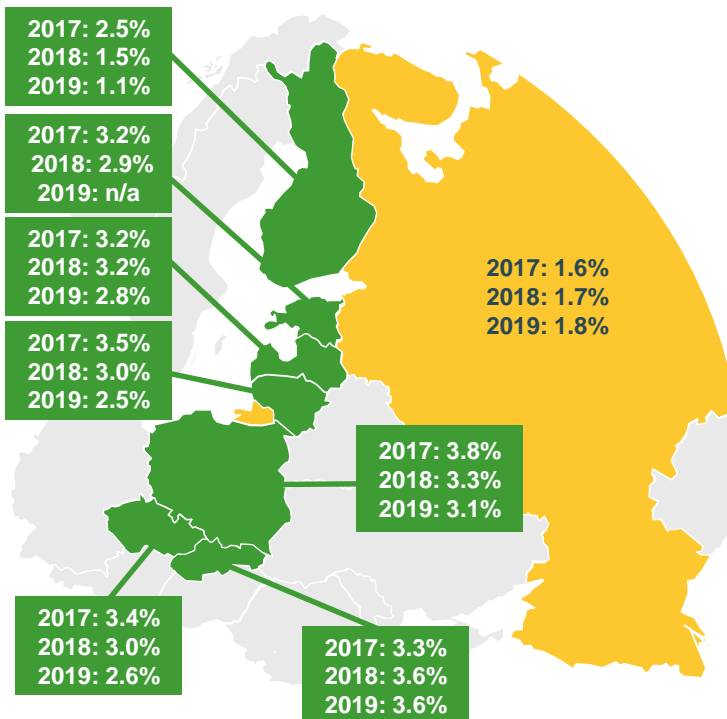
High consumer confidence supports the active residential market, no signs of overheating

The growth in construction investments to moderate

## BALTIC COUNTRIES

Solid growth in the Baltic countries, private consumption still the main driver for growth

Residential market recovering in Latvia and Lithuania



## GLOBAL

Several political risks cause uncertainty

## RUSSIA

Moderate recovery ongoing, foreign trade has grown recently

Retail sales and car sales finally increasing

Ruble has turned to a weakening trend

CBR has decreased the key rate during the spring, now 8.5%

## CEE COUNTRIES

Strong fundamentals reflected in this year's figures

Residential prices have increased especially in the Czech Republic

Shortage of resources causes cost pressure



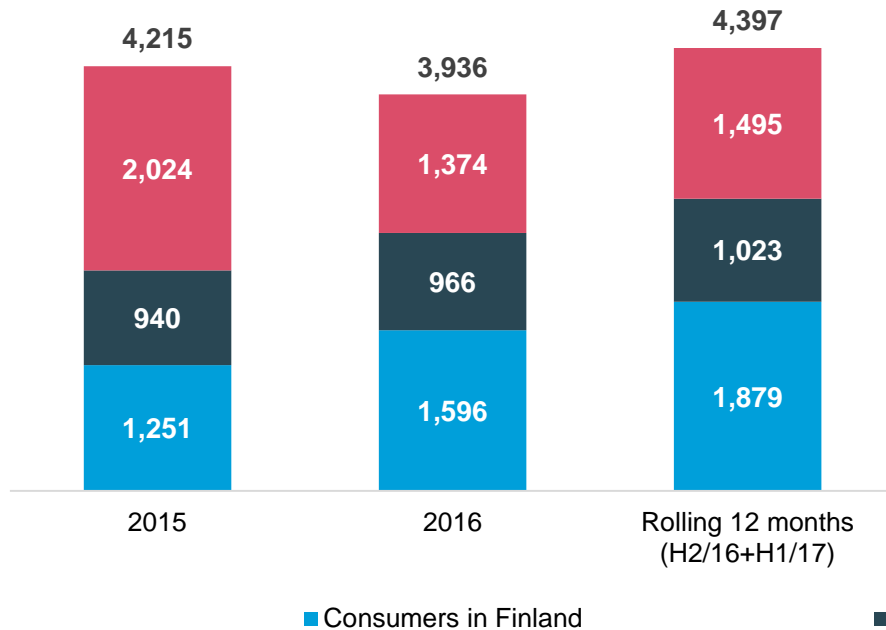
A modern, multi-story building with large glass windows and wooden cladding, situated on a grassy bank next to a body of water. The building features a prominent glass facade that reflects the sky and water. A large, dark evergreen tree stands to the right of the building. The sun is visible through the glass, creating a bright glare. The sky is clear and blue.

# Housing Finland and CEE

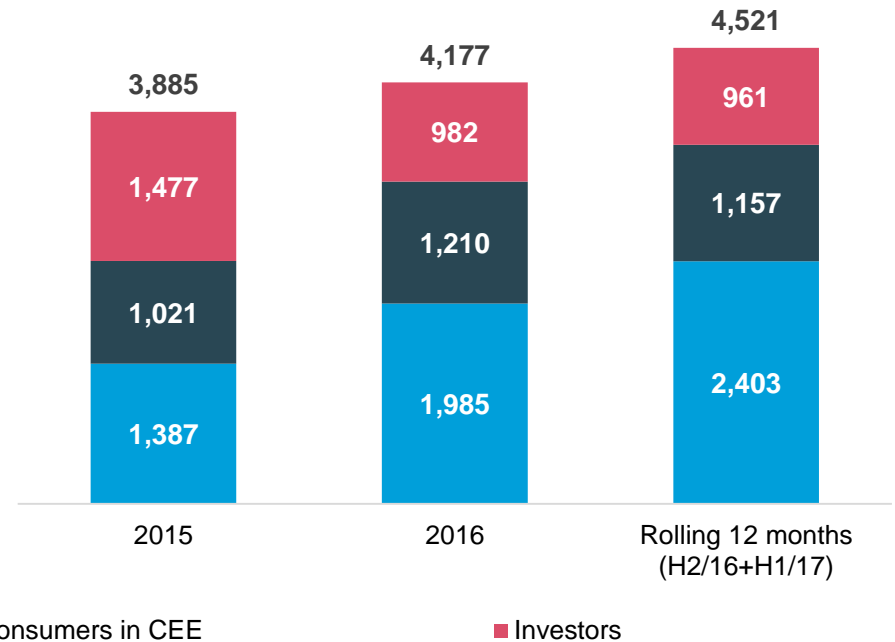
# Housing Finland and CEE

## Development of sales and start-ups

Sold apartments (units)



Apartment start-ups (units)



Start-ups and sales to co-operatives and a housing fund in the CEE included in investor start-ups and sales

**In Finland**, estimated sales to consumers in Q3 are over 450 units (Q3/2016: 291 units)

**In CEE countries**, estimated sales to consumers in Q3 are over 200 units (Q3/2016: 201 units)



## Housing Finland and CEE

# Improving the customer experience and quality



# Living Services development programme focusing on convenient everyday life

## Customer journey

- Managing the business by managing the customer journey
  - Improved inspiration, more efficient sales operations and new services for living through digitalization
- ➔ Renewed, common web pages for all YIT
  - ➔ New interaction tools like chat
  - ➔ YIT Plus as a digital customer service

New business opportunities by managing the overall customer journey

## Services offering

- The goal is to make everyday life easier and more convenient
- Third-party services distributed by YIT Plus, e.g. Niemi moving services
- New services with renewed business models, e.g. SmartHome solutions, Smartpost lockers

Digitalisation of the customer journey

## Living as a service

- Business growth based on different ownership models, e.g. optional purchasing right
- By building ecosystems YIT enables more services to our customers
- Opportunities from ownership structures enabled by Partnership Properties

Gradual shift from traditional business models to Living as a Service



# Living Design Philosophy: Next phase of Smartti ideology

## What is trending now?



- Interest in easy and flexible living
- Interest in using services
- Living in an apartment building and importance of yards
- Getting rid of material as a phenomenon



- Willingness to use money on living
- Need for space in an apartment

## Our solution – Living Design Philosophy

Design philosophy

Digitalised customer choices

Ecosystem and partnerships

Modular prefabricated systems

Living services such as SmartPost

Smart and multi-functional use of space

Digitalised process for purchasing and material options





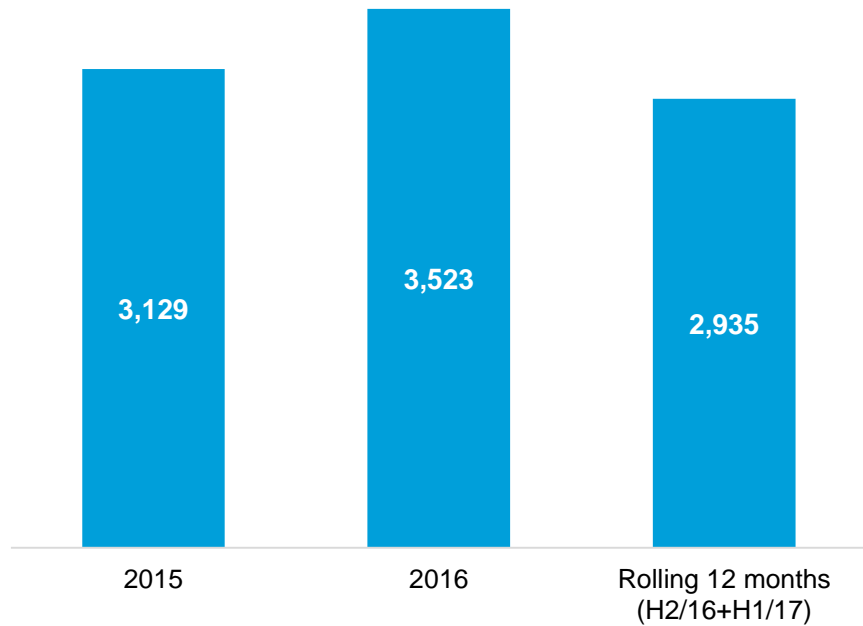
# Housing Russia



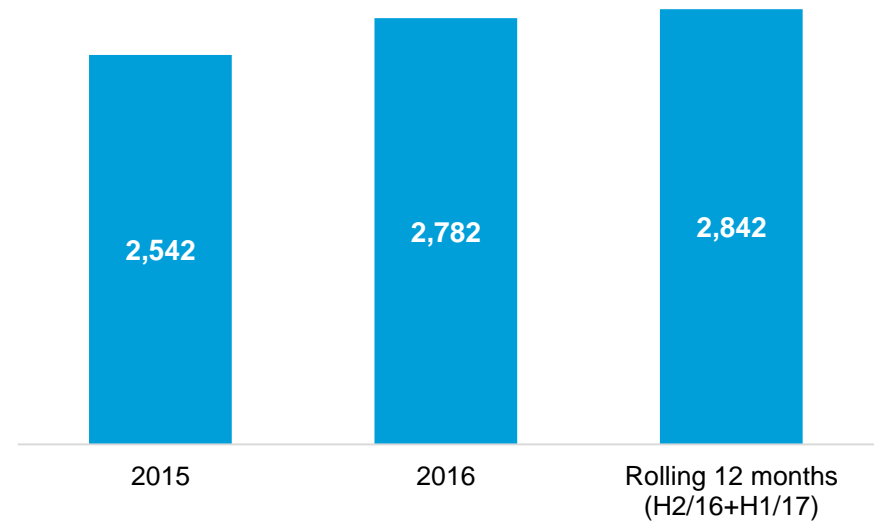
## Housing Russia

# Development of sales and start-ups

Sold apartments (units)



Apartment start-ups (units)



**In Russia**, estimated sales to consumers in Q3 are over 700 units (Q3/2016: 880 units)

# Focus on invested capital and profitability improvement

## 1 The reduction of invested capital

- Selling apartments, especially the completed
- Reduction of plot reserves through selling
- Lowered production volumes
- Only few plot acquisitions and targeting to pay for plots partly with apartments
- Partnership models in area projects

**Target  
RUB -6 billion<sup>1</sup>**

**Weak demand and legislative changes in Russia have delayed the reduction of invested capital**

## 2 Boost the profitability improvement

- Performance leap in reducing construction costs
- New start-ups with adjusted product
- Selected plot acquisitions
- Utilise opportunities in service business
- Adjusted, more centralised operating model

**Lower volumes until  
profitability acceptable**

**Gross margin on an improving trend, but  
EBIT still on a low level**

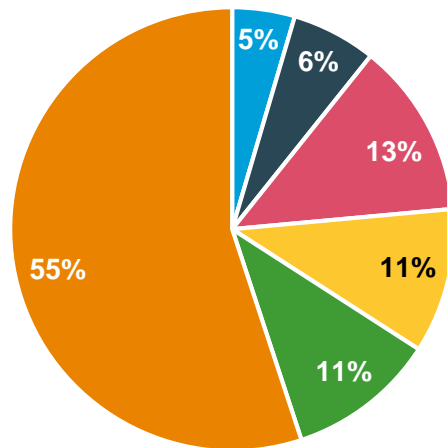
<sup>1</sup> By the end of 2018, vs. RUB 28 billion as at June 30, 2016

## Housing Russia

# Capital release programme in Russia

- Target to reduce RUB 6 billion by end of 2018 vs. Q2/2016 (RUB 28 billion → RUB 22 billion)
- Weak sales during 2017 have delayed the capital release programme
- Macro environment is improving but housing demand still on a low level and prices are stable or even declining

Capital employed in Russia as at June 30, 2017:  
RUB 26.9 billion (EUR 398.7 million)



Ramenskoye      Gorelovo      Novo-Orlovsky  
Smolny Prospekt      Inkeri      Others

### Capital employed in Russia

- Capital is employed in
  - Projects under construction and completed apartments (~45%)
  - Plots and development costs (~55%)
- Slow moving assets on balance sheet are related to five major plots or projects – mainly in St Petersburg area
- Sources of capital release
  - Sales of apartments 60-80%
  - Sales of plots 20-40%



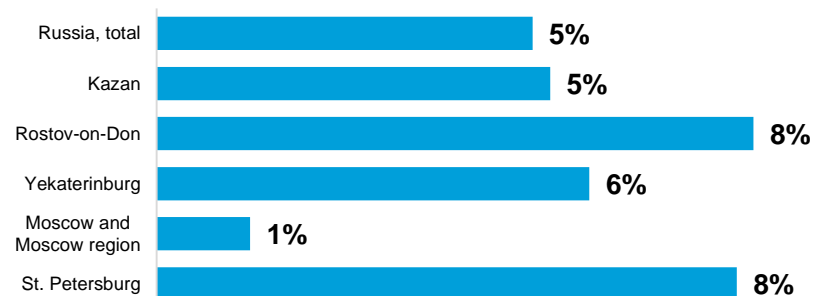
# Housing Russia

## YIT Service growing rapidly

### Customers

- More than 37,000 clients in 6 regions of Russia, good potential for growth
- Customers are households, property investors and users of business premises

### Share of revenue from services in each operating city in 2016



### Services offering

#### Renovation and apartment finishing services

- Finishing represents 38% of revenue
- Finishing done after the completion, which decreases capital employed and the construction time

#### Regulated maintenance services

- Regulated business, which limits its basic business profitability
- Offers a platform for new services
  - 24/7 presence in each of our apartment buildings
  - Monthly invoicing
  - Trusted partner

#### Living services

- Synergies in utilising premises and personnel provided by regulated business while the pricing is unregulated
- Major part of services provided by external partners
- Represents 6% of revenue and increasing

Digital customer journey in focus: YIT Plus, 24/7 service desk

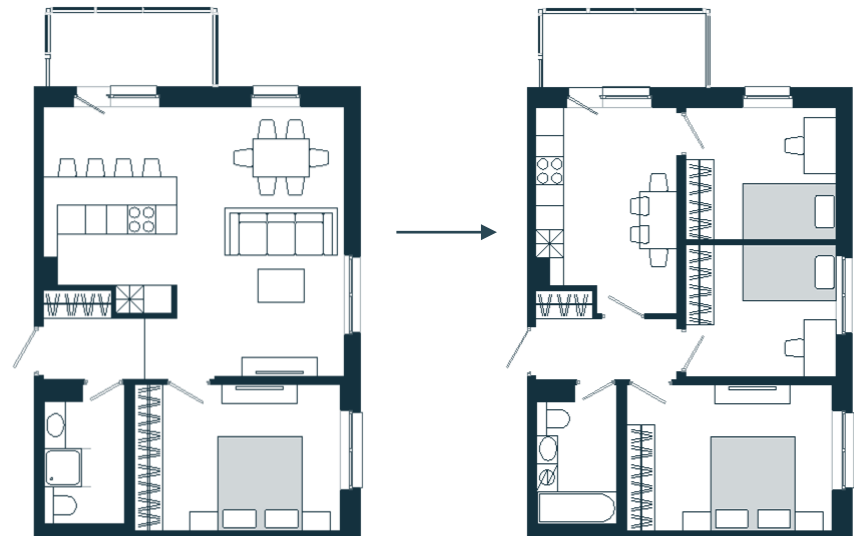
# Smartti ideology in Russia: Transformer concept

- In Russia, homes are traditionally sold unfinished, but demand for easy finishing options is expected to grow
- YIT's Transformer concept offers flexibility

## Wider range of layouts to meet the varied needs of different customers

- Customer **avoids all the burdensome bureaucracy** related to redoing the layout
- **Possibility to transform the apartment** layout in the future based on ready-made designs
- Customer sees the potential of the apartment to **adjust to different life situations**
- **Increased liquidity** of apartments on the secondary market

## Need for functional, innovative layouts increases



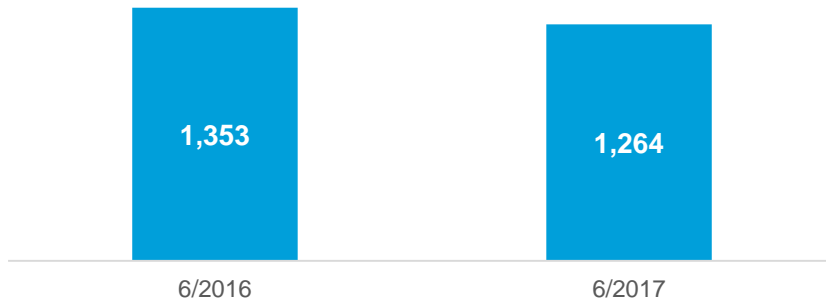


# Business Premises and Infrastructure



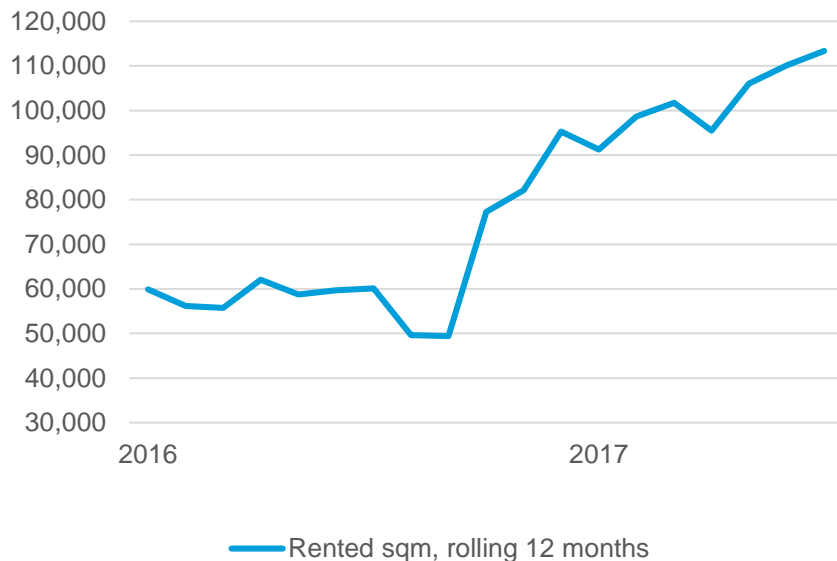
# Renting of premises developing favourably

### Order backlog of Business Premises and Infrastructure segment

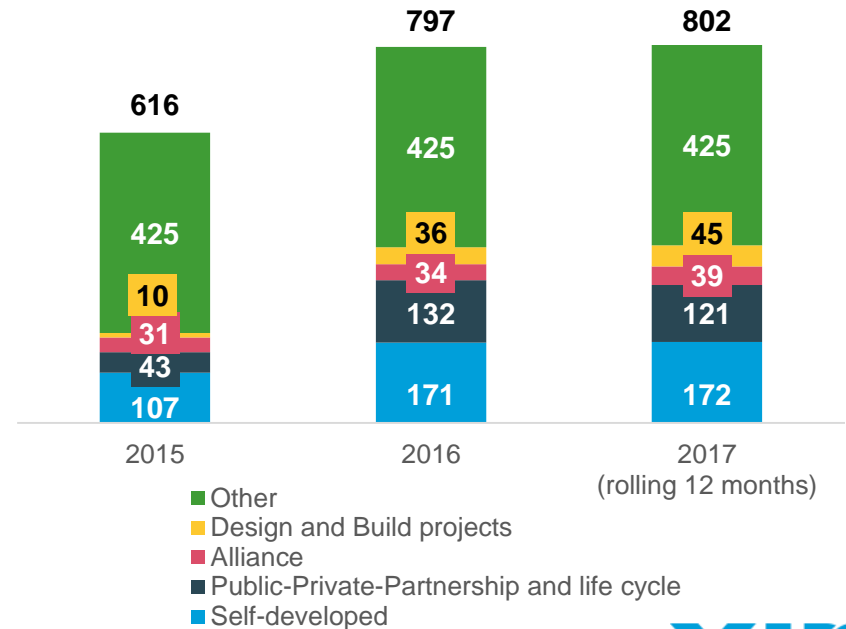


- Tripla will represent a major part of order backlog in the coming years
- Ambition to put emphasis on self-developed and long value chain projects instead of pure contracting

### Development of renting since the beginning of 2016



### Revenue split by project type





# Alliance projects showing the way for improved tendering practices

- Experiences from the first few alliance projects are positive
- In its current form alliance model is too heavy for smaller projects
- YIT's target is to leverage the best ideas from big alliance projects also in smaller projects

### Best of alliance model

- Openness and shared decision making
- Optimal risk sharing
- Good visibility for the customer

→ **Good for large, complex projects**

### Benefits of life cycle and PPP projects

- Visibility to future projects helps prioritising and resourcing
- Lighter tendering phase
- Better profitability
- Reference requirements not limiting so much

→ **More cost-effective solutions**

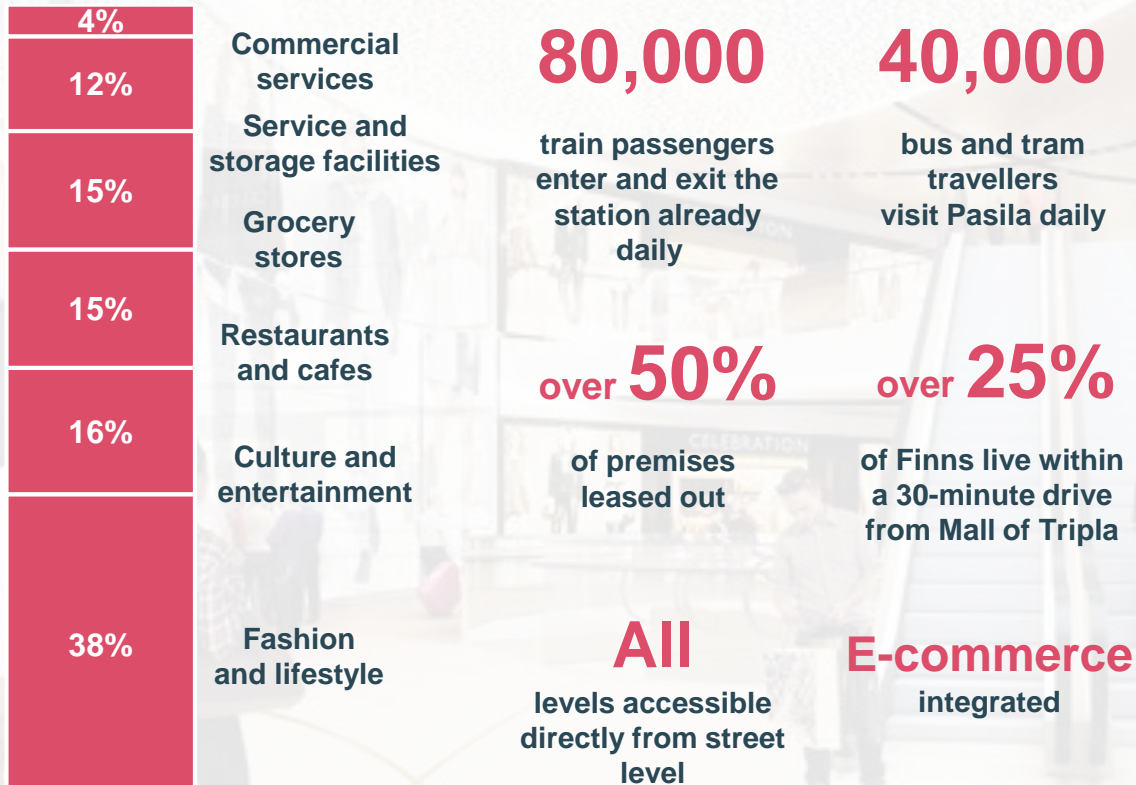
### YIT's largest ongoing business premises and infrastructure contracts as at June 30, 2017

Project	Model	Value (EUR million)
E18 Hamina-Vaalimaa motorway	Life cycle (PPP)	~260
Tampere light railway	Alliance	~110
Myllypuro Campus, Metropolia, Helsinki	Project management contract	~70
Helsinki Central Library	Project management contract	~50
Naantali CHP power plant	Alliance	~40

# Business Premises and Infrastructure

## Tripla project ahead of schedule

### Mall of Tripla is more than a shopping mall



### Next steps in Tripla project

- Construction of one of the largest hotel in Finland started in September 2017
- Leasing negotiations for office premises ongoing
- Pre-marketing for apartments will start by the end of 2017
- Construction of the first residential building starts in Q4/2017
- Construction of the first office building starting in winter 2018

# Sustainable development and high quality renovation services



- YIT's revenue in renovation was EUR ~110 million in 2016
- The volume is increasing, target is to double the revenue by 2019



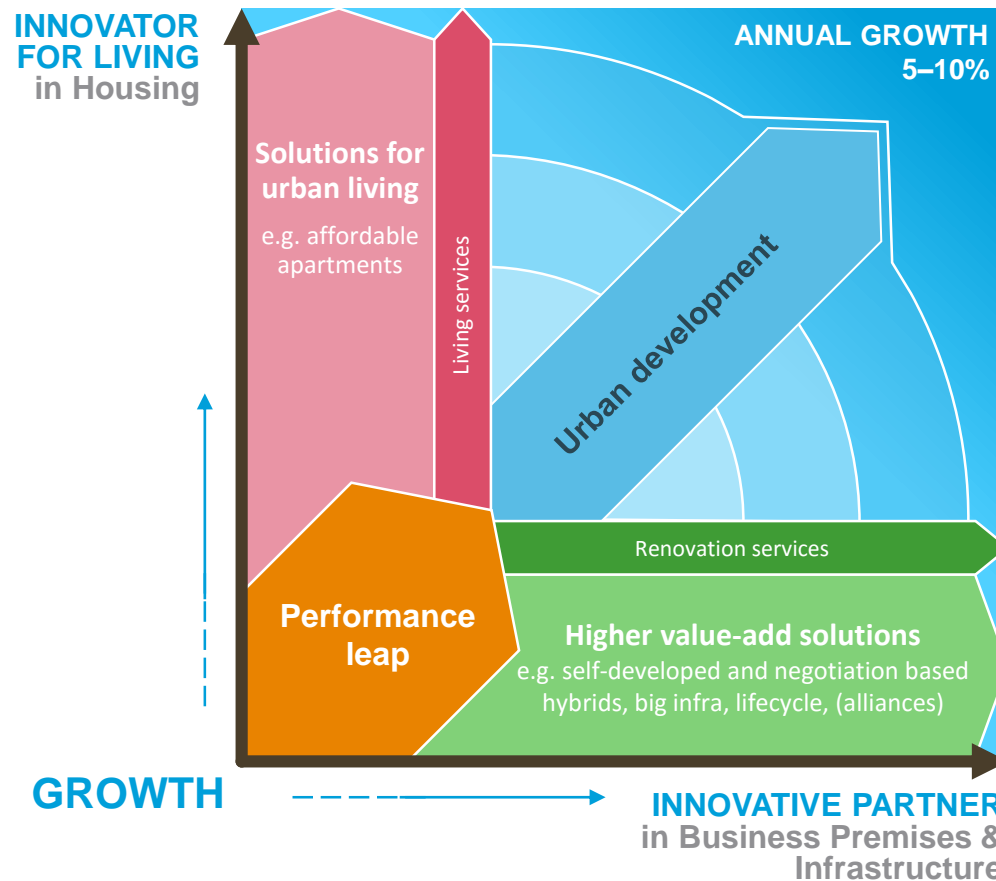
# 3

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The merger  
with  
Lemminkäinen




# Urban development boosting the balanced growth



# YIT and Lemminkäinen to combine

## Deal rationale

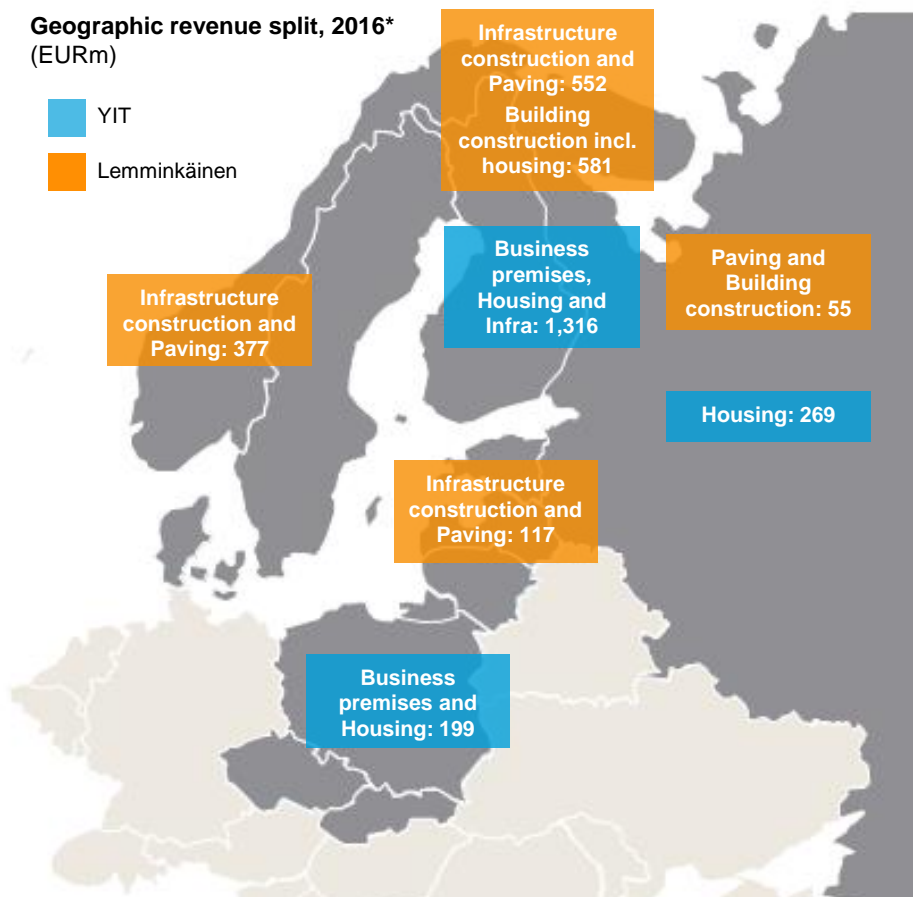
- 
- 1 Strong platform for growth**
    - Target to become a leader in urban development
    - More balanced business portfolio (Infra, Housing, Business Premises, Partnership Properties)
    - Wider geographical presence in several economic regions
  - 2 Synergies and improved competitiveness**
   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



# Combined portfolio 2016

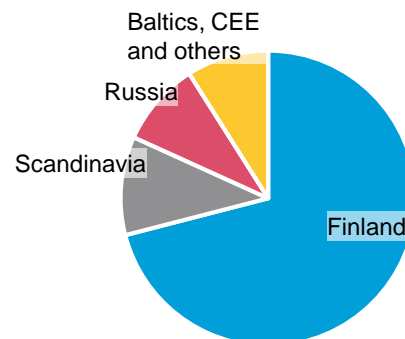
**Geographic revenue split, 2016\***  
(EURm)

YIT  
Lemminkäinen

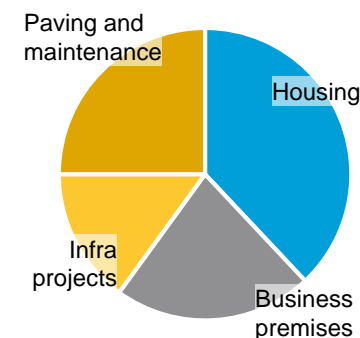


**Illustrative combined revenue splits 2016\***

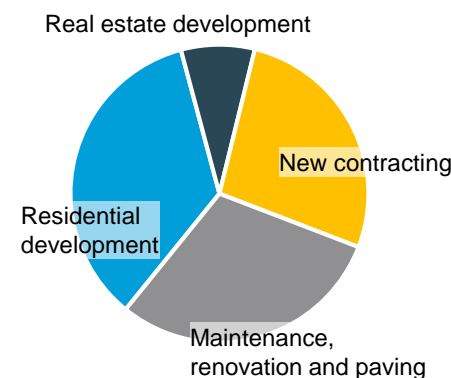
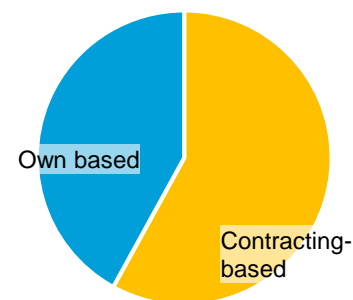
**Geographic split\***



**Operational split\***

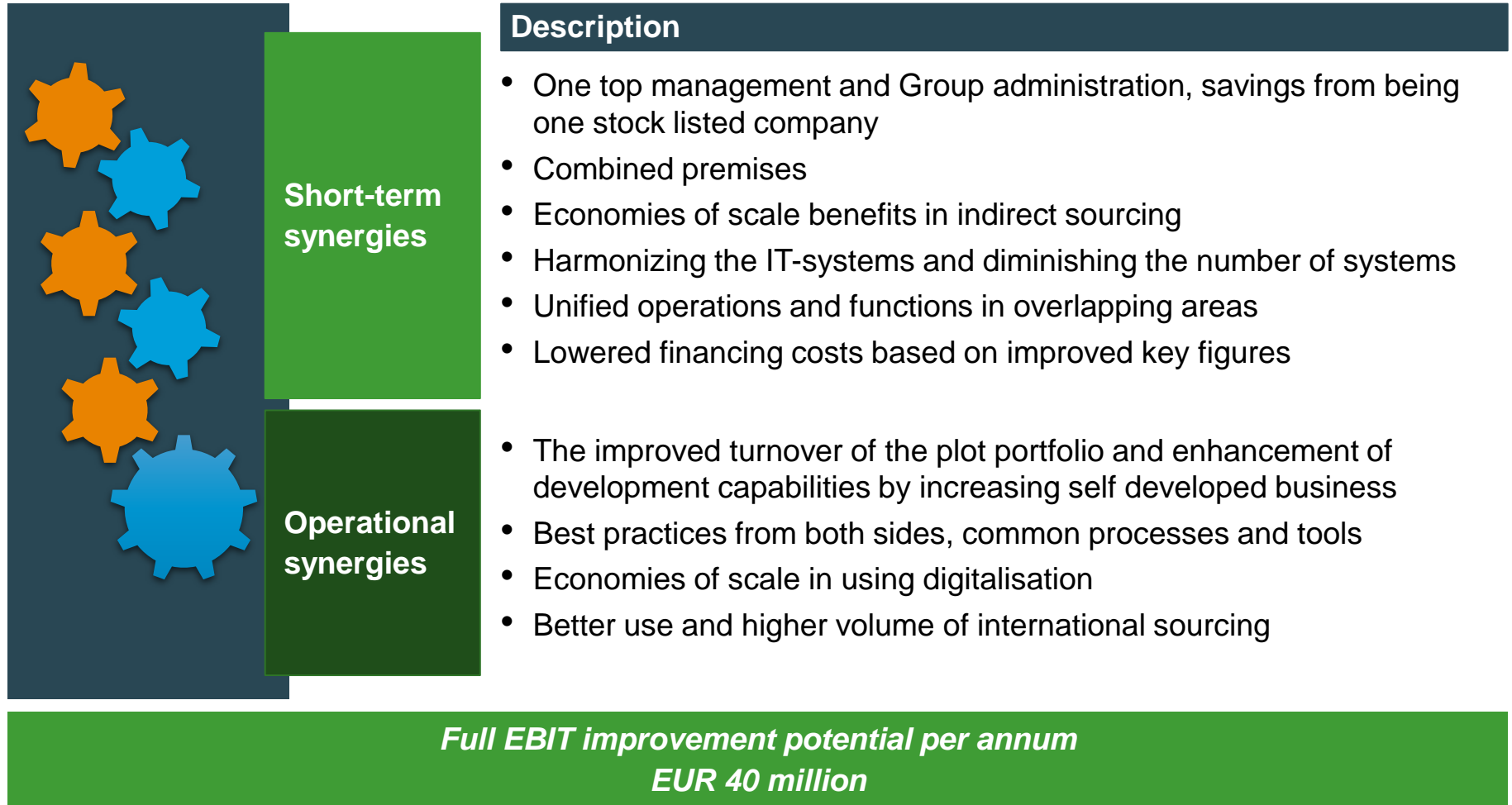


**Business logic split\***

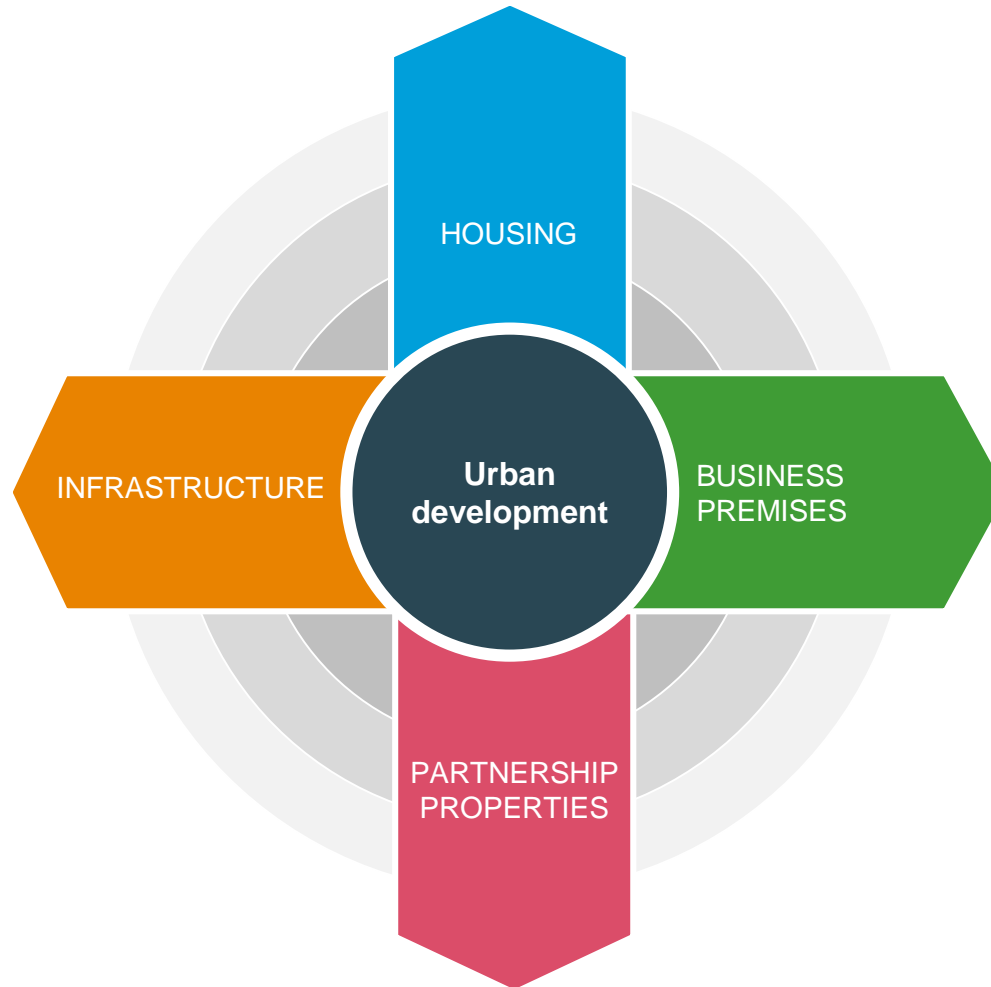


\* Preliminary combined high level illustrative estimates for the geographical, operational and business logic splits reflect the external and internal reporting of YIT and Lemminkäinen prepared under both POC and IFRS principles for the year 2016. Illustrative high level estimates of splits presented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

# Synergy potential



# Urban development boosts the growth of balanced business portfolio



## Aspects of Urban development

Ownership & services

Execution

Project development





## Group strategy

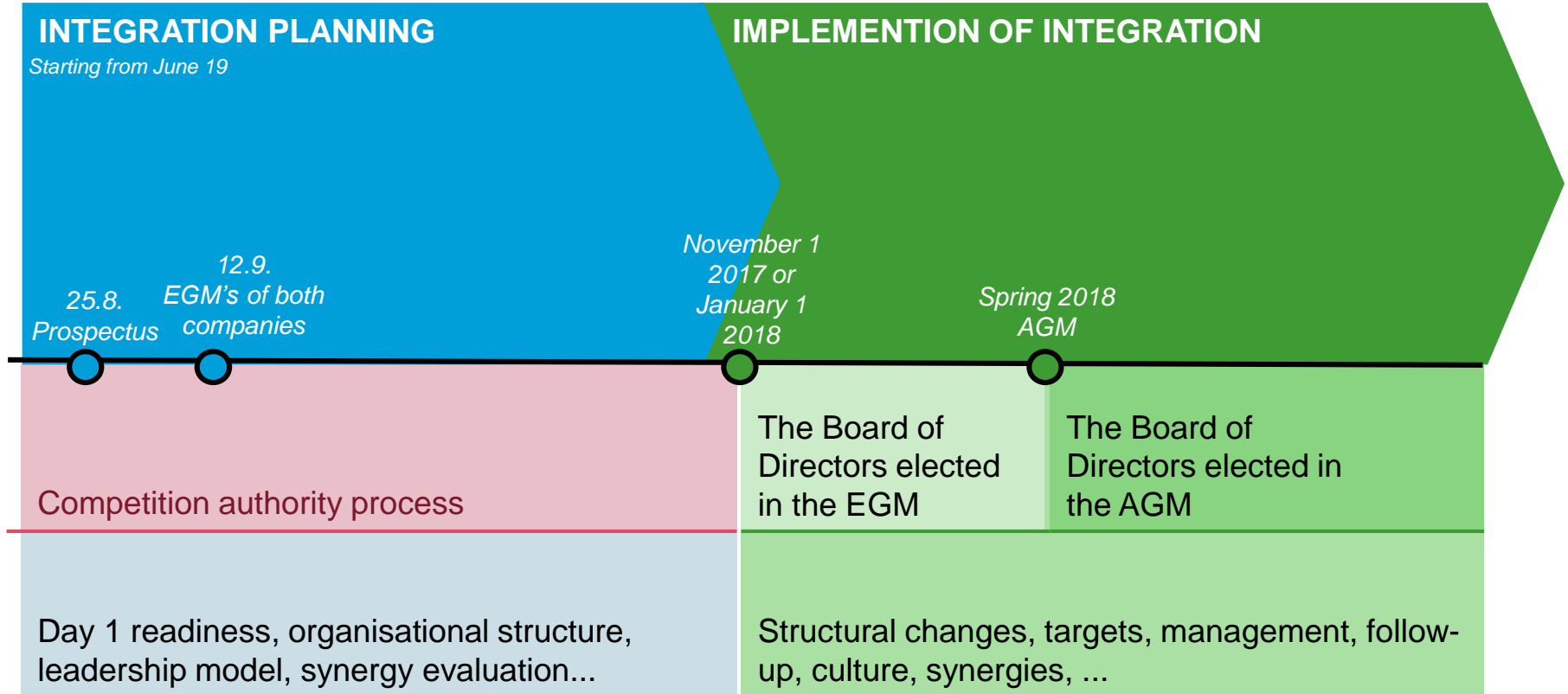
# Preliminary financial targets

Long-term financial target	Target level
ROCE <i>[ROCE (excl. goodwill)]</i>	>12% [>15%]
Dividend per share	Growing annually
Equity ratio	>40%
Cash flow	Positive after dividend payout



Helsinki Central Library  
Helsinki, Finland

# The planning of the integration proceeds at speed



# 4

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Vision into  
action – More  
out of urban  
development





# Our vision – More life in sustainable cities

OUR VISION

OUR GROWTH ENGINE

OUR DNA

OUR MISSION

OUR VALUES



CARE

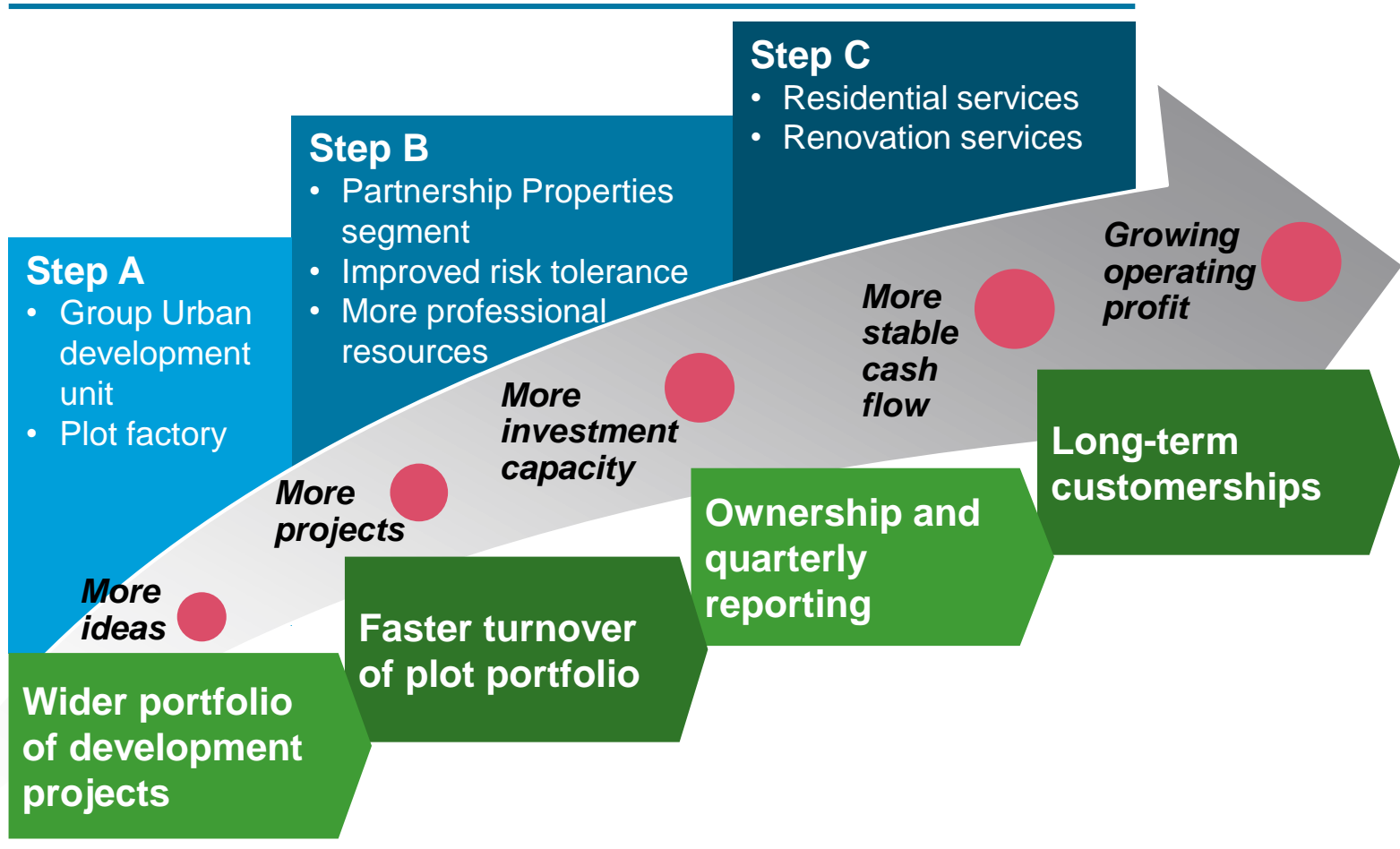
A STEP AHEAD

COOPERATION

PERFORMANCE

# More out of urban development

## KEY ACTIONS

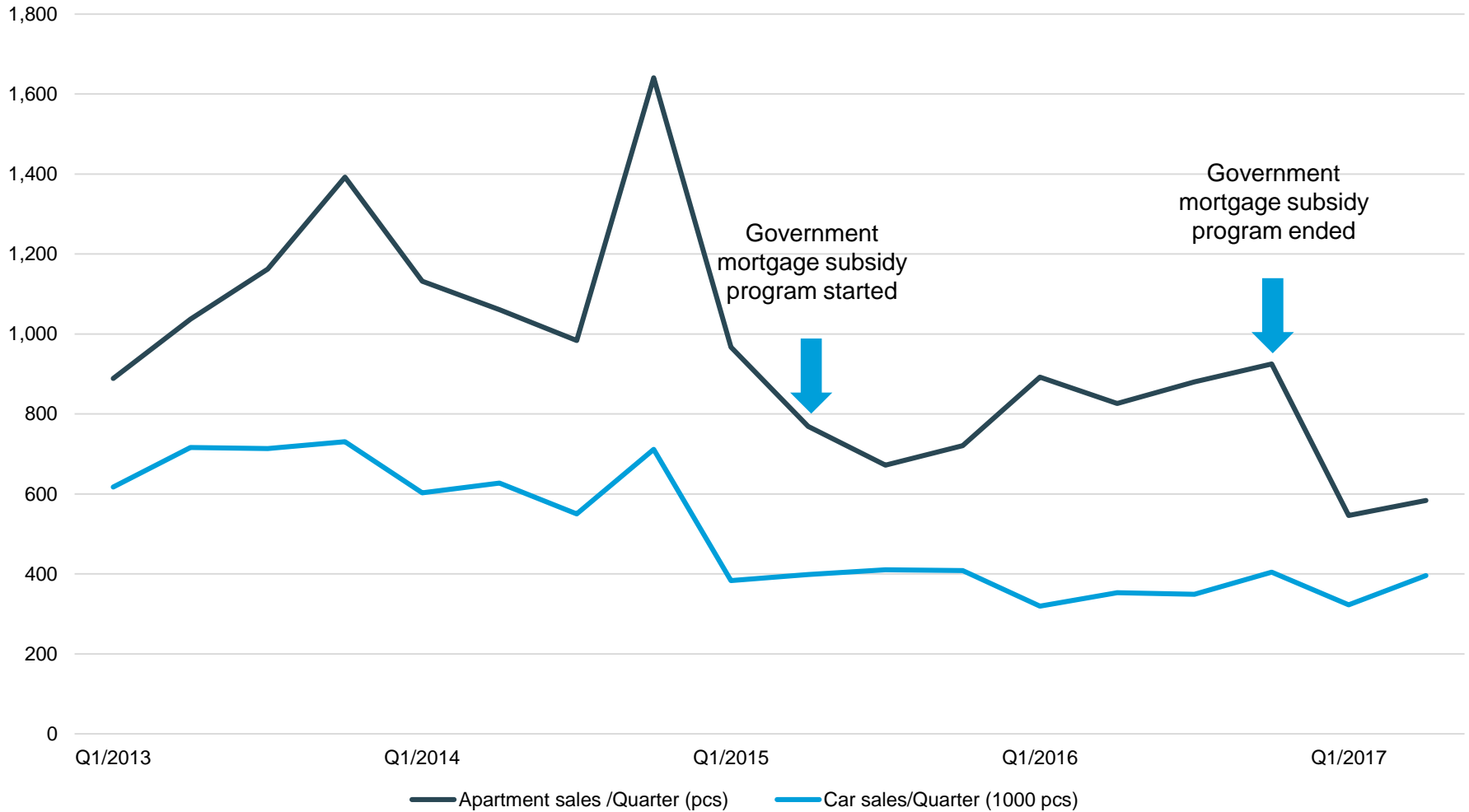


## NEW APPROACH

**Together  
we can  
do it.**



## Appendix: Car sales in Russia vs. YIT sales in Russia 2013-H1/2017



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The combined income statement information has been calculated assuming the activities had been included in one entity from the beginning of each period. The preliminary revenue, adjusted operating profit and operating profit of the combined company have been calculated as a sum of combined financial information for the twelve months ended 31 December 2016. The combined financial information is based on a hypothetical situation and should not be viewed as pro forma financial information.

This presentation includes estimates relating to the synergy benefits expected to arise from the Merger and the combination of the business operations of YIT and Lemminkäinen, which have been prepared by YIT and Lemminkäinen and are based on a number of assumptions and judgments. Such estimates present the expected future impact of the Merger and the combination of the business operations of YIT and Lemminkäinen on the combined company's business, financial condition and results of operations. The assumptions relating to the estimated synergy are inherently uncertain and are subject to a wide variety of significant business, economic, and competitive risks and uncertainties that could cause the actual synergy benefits from the Merger and the combination of the business operations of YIT and Lemminkäinen, if any, to differ materially from the estimates in this presentation. Further, there can be no certainty that the Merger will be completed in the manner and timeframe described in this presentation, or at all.

## **Notice to Lemminkäinen Corporation Shareholders in the United States**

The YIT Corporation shares to be issued in connection with the merger have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and are being issued in reliance on the exemption from registration set forth in Rule 802 under the Securities Act.

YIT Corporation and Lemminkäinen Corporation are Finnish companies and the issuance of YIT Corporation shares will be subject to procedural and disclosure requirements in Finland that may be different from those of the United States. Any financial statements or other financial information included on this presentation may have been prepared in accordance with non-U.S. accounting standards that may not be comparable to the financial statements of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

It may be difficult for U.S. shareholders of Lemminkäinen Corporation to enforce their rights and any claims they may have arising under U.S. federal securities laws in connection with the merger, since YIT Corporation and Lemminkäinen Corporation are located in non-U.S. jurisdictions, and some or all of YIT Corporation's and Lemminkäinen Corporation's officers and directors may be residents of countries other than the United States. As a result, U.S. shareholders of Lemminkäinen Corporation may not be able to sue YIT Corporation or Lemminkäinen Corporation or their respective officers and directors in a court in Finland for violations of U.S. federal securities laws. Further, it may be difficult to compel YIT Corporation or Lemminkäinen Corporation to subject themselves to the jurisdiction or judgment of a U.S. court.

Lemminkäinen Corporation's shareholders should be aware that YIT Corporation may purchase Lemminkäinen Corporation's shares otherwise than under the merger, such as in open market or privately negotiated purchases, at any time during the pendency of the proposed merger.