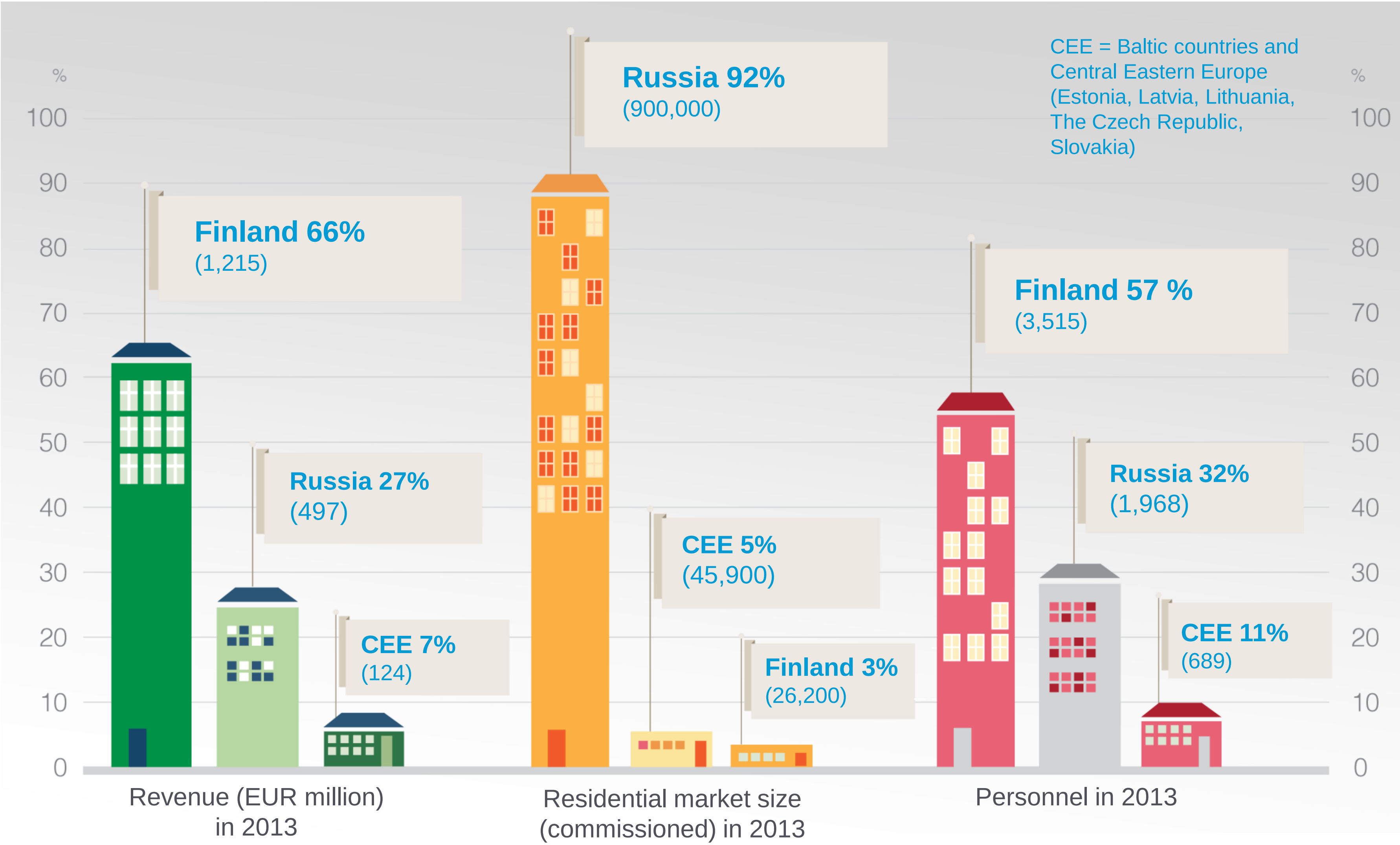
Housing Russia

Danske Bank Markets – Russia Seminar
Teemu Helppolainen | St. Petersburg March 12, 2014

YIT operations in 7 countries



YIT's key figures

EUR million	10–12/13	10–12/12	*Change*	1–12/13	1–12/12	*Change*
• Revenue	521	555	-6%	1,859	1,959	-5%
• Operating profit	41.2	68.0	-39%	152.8	201.1	-24%
% of revenue	7.9	12.2	-	8.2	10.3	-
• Operating profit, excluding non-recurring items*	42.4	68.0	-38%	154.0	194.1	-21%
% of revenue, excluding non-recurring items*	8.1	12.2	-	8.3	9.9	-
• Order backlog	2,714	2,765	-2%	2,714	2,765	-2%
• Profit before taxes	32.5	59.1	-45%	122.8	169.6	-28%
• Profit for the review period[1)]	24.3	43.8	-45%	93.9	130.7	-28%
• Earnings per share, EUR	0.19	0.35	-46%	0.75	1.04	-28%
• Operating cash flow after investments	76.3	8.0	-	-87.9	49.9	-
• Cash at the end of the period	76.3	74.9	2%	76.3	74.9	2%
• Personnel at the end of the period	6,172	6,691	-8%	6,172	6,691	-8%
• Dividend, EUR*				0.38	n/a	

1) Attributable to equity holders of the parent company

Note: A EUR 10.0 million cost provision covering costs related to the ammonia case in St. Petersburg was made in Q3/11. EUR 7.0 million of the provision was released in Q3/12. EUR 1.2 million non-recurring restructuring costs in Q4/13, of which EUR 1.0 million allocated to Construction Services Finland. | *Board proposal to AGM

Note: As of January 1, 2013, borrowing costs are included in segments financing costs according to IAS 23. 2012 figures in 2013 reporting and this presentation have been adjusted accordingly. All figures based on segment reporting (POC= Percentage of completion)

Presence in Russia


Moscow Region


St. Petersburg


Moscow City


Yekaterinburg


Rostov-on-Don


Kazan


Tyumen

Our services in Russia

- Own-developed residential construction
- Area development
- Maintenance services

Customers
- Households
- Property investors and owners
- Business premises users

Creating better living environments.

Drivers of the Russian market and YIT's actions

Driver	Details	YIT's actions
Demographic situation	• Internal migration • Increase in number of households due to degrease of family sizes • Increasing share of middle class with improving purchasing power	• Big area development
Need for new apartments in Russia	• Low living space per capita • Poor quality of existing buildings	• Smaller and more efficient flats to meet the demand • Cross-regional sales
Energy efficiency issues	• Specific development requirements up to 2020 • Energy consumption and efficiency requirements	• Utilizing group-wide knowhow in developing energy efficient houses
Macroeconomic and political issues	• Political support for housing and mortgage market development	• Building relationships with local authorities
Technological development	• Life is going online • Sales moves from office to Internet	• Developing new, cost-efficient solutions • ”Safe-house”- concept • Home portal concept

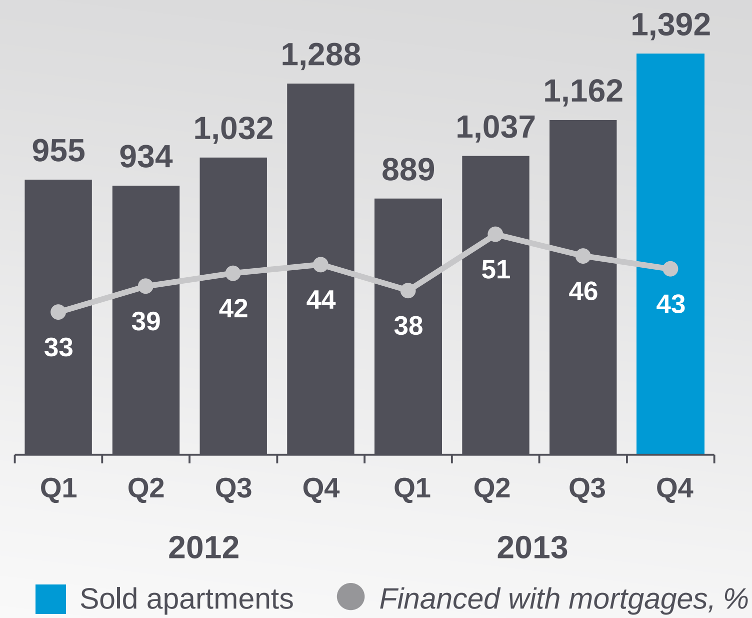
Apartment sales in 2013

Apartment start-ups in Russia (pcs)

2011: Total of 4,492 | **2012: Total of 5,487** | **2013: Total of 5,099**

Sold apartments in Russia (pcs, %)

2012: Total of 4,209 (40%) | **2013: Total of 4,480 (44%)**

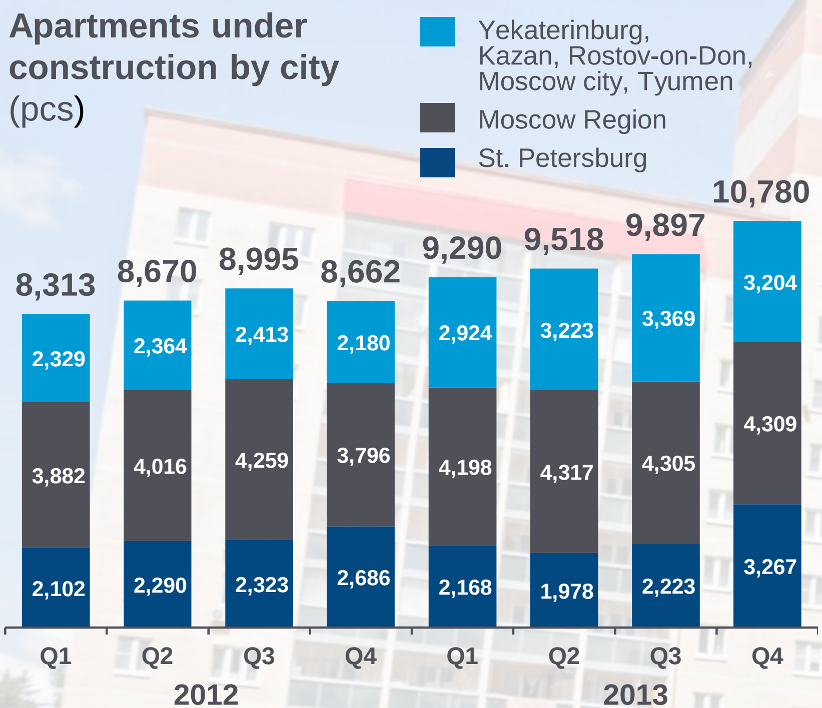









Construction volume by area



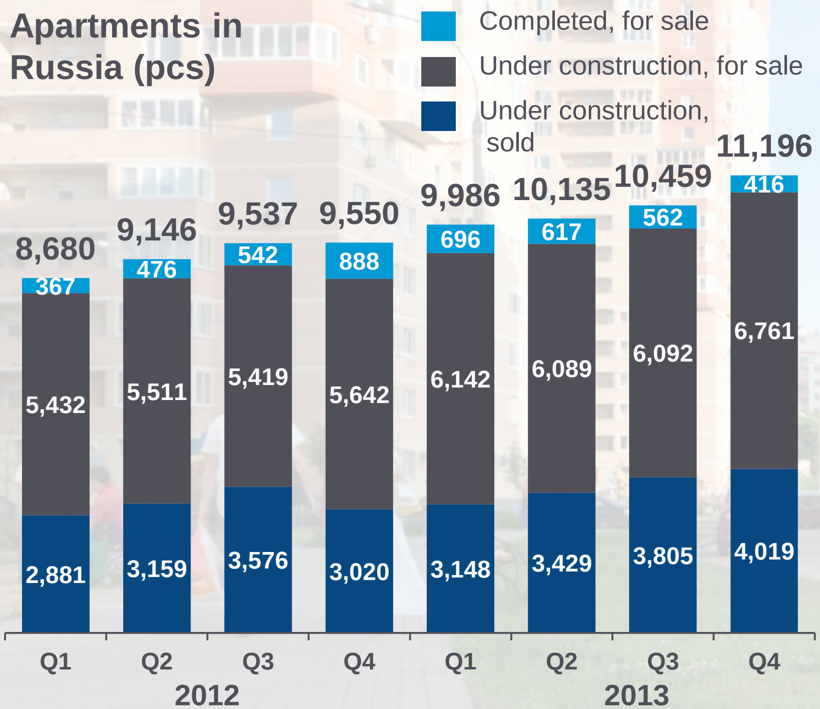
At the end of the period

Strong growth in construction volumes

Ramenskoye
Moscow Region, Russia

Sales portfolio

Apartments in Russia (pcs)



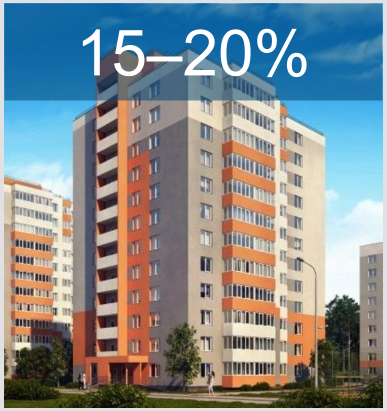
At the end of the period

Growing sales volumes

Zhukovsky
Moscow Region, Russia

Four segments’ shares of YIT housing volume

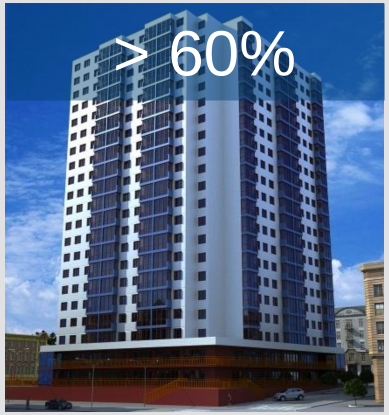
15–20%



Rifei, Yekaterinburg

Economy+

> 60%



Parus, Rostov-on-Don

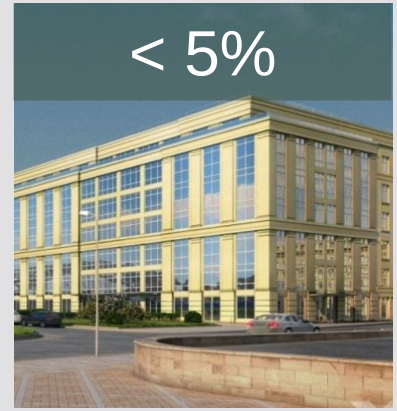
Comfort

10–15%

Aksioma, Moscow

Business

< 5%



Smolniy, St.Petersburg

Elite

Apartment finishing levels in Russia

1. Unfinished

- The customer can finish the apartment according to his own wishes
- Mainly in business and elite segments

2. Semi-finished

- Walls and ceiling plastered and floors levelled
- Ready for final finishing of surfaces and customer's final touch
- Standard level of sold apartments

3. Finished

- Turnkey level – just move in
- Finishing package also sold as separate service

Big area development (1/2)

Success factors

- Possibilities for area marketing and branding
- Construction in phases
- Saving in time and resources to approve next phases
- Flexibility in design and volume management
- Sustainable solutions
- Easier human resource management on the project
- Standardization and optimization of design solutions
- Savings from repetition of solutions → reduction in construction costs
- Effective management of the building systems
- Fast mobilization of the site

Microdistrict
Rifei, Yekaterinburg

- Total area – 115,000 sq. m.
- Number of apartments – 2,070 pcs.
- Started in June 2011
- Estimated completion – December 2017

- Each phase consists of several phases with availability of parking lots and social infrastructure

Big area development (2/2)

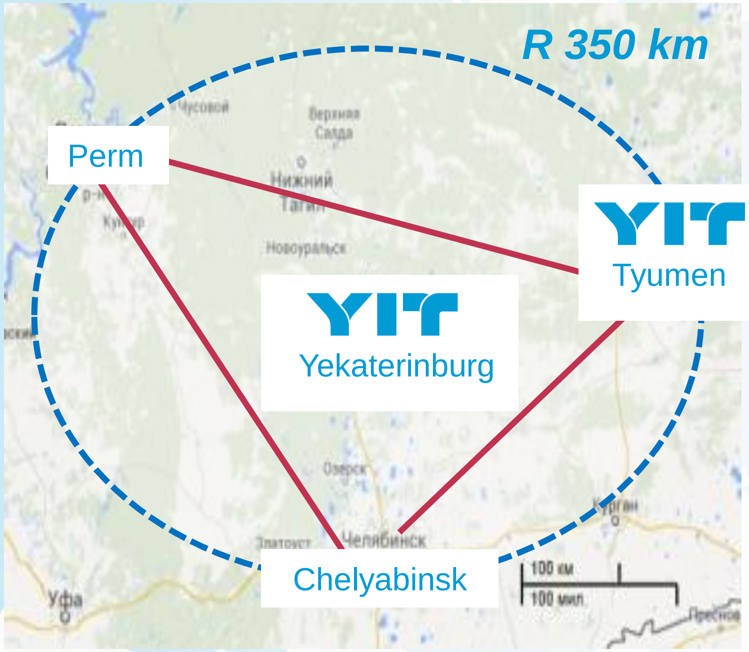
Summary

- Number of big area projects increases to 60% of the portfolio in 3 years
- New funding sources are utilized
- Effective utilization of partnerships in large area development
- Efficiency in cash flow management
- Production volume by unit more stable, projects more stable, smaller
- Mixed-use and multifunctional developments
- Permitting process will be influencing less

Novo-Orlovski,
St. Petersburg

- Total area – ~570,000 sq. m.
- Number of apartments – more than 10,000 pcs.
- Started in December 2013
- Construction in 7 blocks and several phases, special focus on social infrastructure

Geographical expansion



Target areas are growing cities around current locations

New Concepts

Low-rise development

Short period from construction start up to hand over, 3-4 months

No expertise is needed

Cheaper construction cost per sq. m.

Flexibility in heating solutions

Mini-apartments

Functional apartments

Excellent space solutions

For young families and elderly people

Married, one child or no children

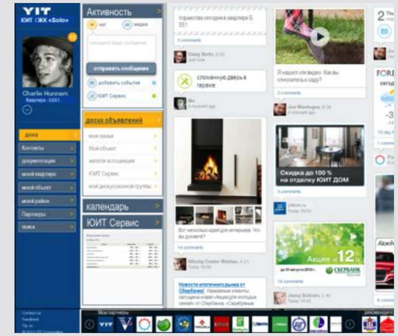
Safe Home

Including for example:

Reliable and secure building operation

Access control systems

Safe playgrounds



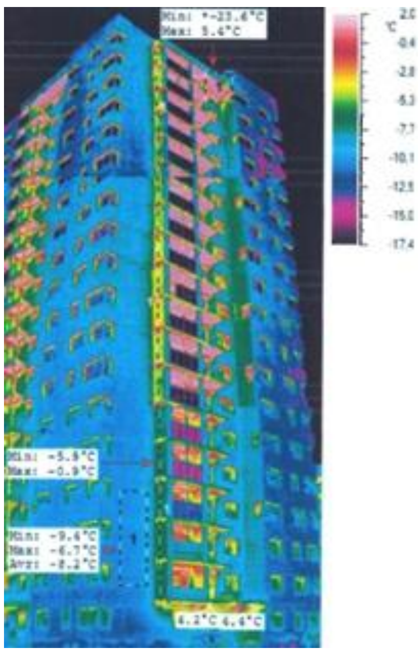
Home Portal

Modern portal for living for more than 15,000 apartment owners in Russia.

Offers important services for living online. Features of the portal are tailored by country and area.

Based on customer and market insight

Energy Efficiency



In general YIT promotes an attitude of energy savings

- High efficiency lighting in common areas
- Good thermal resistance of external walls, minimal air leakages, reduced thermal bridges
- Thermal resistance of windows is better than required
- Thermostatic radiator valves
- Water conservation methods used
- Architectural issues: Orientation N-S, fewer common spaces etc
- We use group-wide knowhow in developing energy efficient houses
- YIT energy class in Russia is B+
- Energy consumption more than 20% lower than in standard buildings in Russia

Customer financing in focus

Customer's profile

- Level of income: average
- 8–18% clients from other regions
- Clients value YIT's Finnish origins

- Mortgages and other ways to help customer with financing
- YIT is a trustworthy partner for banks and customers
- Up to 50% is financed by mortgages etc.
- IT Comfort

GAZPROMBANK

СБЕРБАНК

ВТБ24

YIT

Quality in work safety and handovers

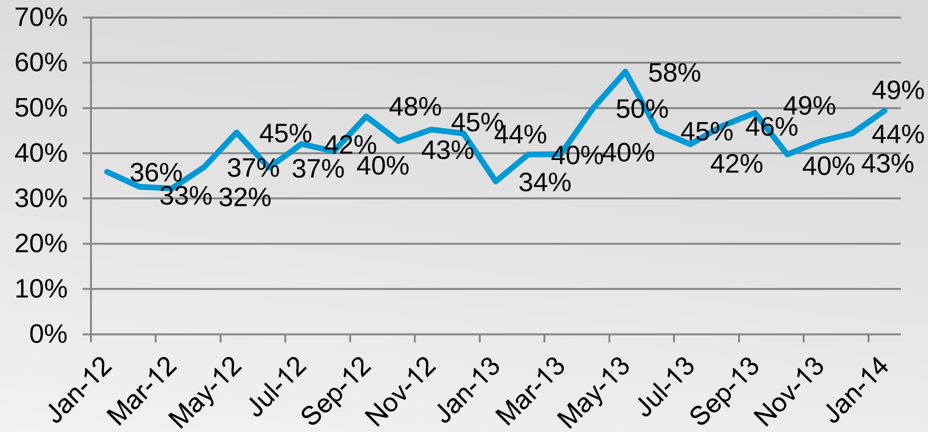
0-tolerance
with accidents

Faultless (0)
handover

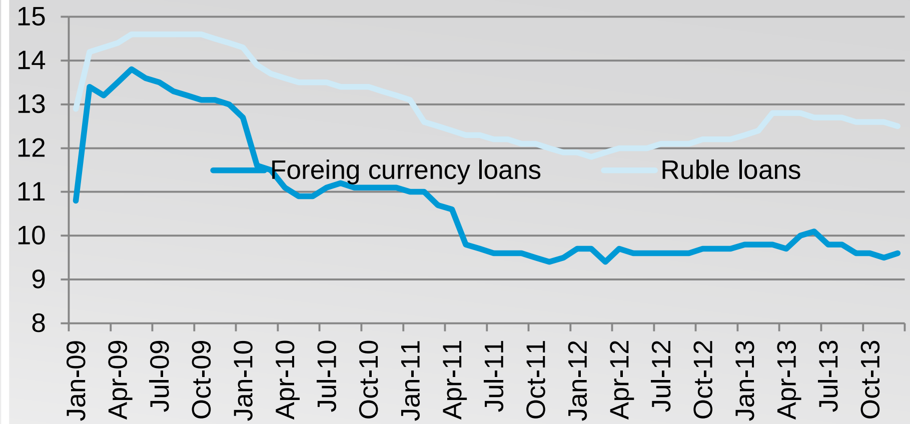
Additional slides

Growing share of mortgages in YIT's sales

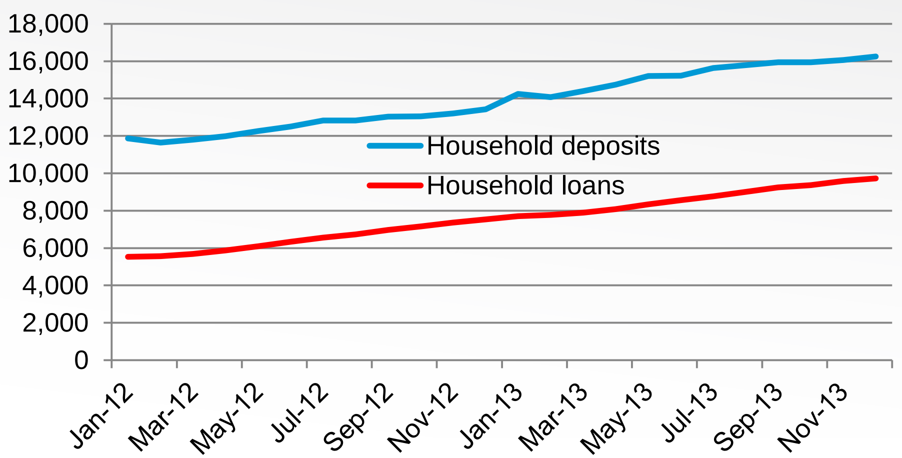
Share of mortgage financed YIT`s customers' sales in Russia 1/2012–01/2014, %



Mortgage interest rate 1/2008–12/2013
Weighted average floating offered rate



Loans and deposits to households from Russian banks



Housing Loans / GDP %

Year	Gross domestic product, RUB million	Housing Loans (including mortgage), RUB million	Total Housing Loans / GDP %
2012	62,356,920	2,111,903	3.4%
2011	54,585,622	1,426,145	2.6%
2010	44,939,000	1,295,006	2.9%
2009	39,064,000	1,180,761	3.0%
2008	41,445,000	1,270,186	3.1%
2007	33,258,000	757,530	2.3%
2006	26,903,000	350,174	1.3%

Over 50 years in Russia

1961 · 1977 · 1997 · 2003 · 2005 · 2006 · 2007 · 2011 · 2014

Operations in Russia began in **1961**.

Verkhnyaya Tuloma road, Murmansk Region 1961

Lentek, 1997
St. Petersburg (acquisition)

- Kazan operations, **2006** (Branch office of YIT Lentek)
- YIT Uralstroi, Yekaterinburg, **2006** (JV)

YIT Don, Rostov-on-Don, **2007** (JV)

YIT Moskovia, Moscow Region, **2003** (Joint Venture (JV))

YIT CityStroi, Moscow City, **2005** (JV)

YIT VDSK, Moscow Region, **2011** (JV)

During first 40 years different kind of projects: industrial, infrastructure, public, buildings, logistics etc.

Kostomuksha Industrial Complex, Republic of Karelia 1977

The State Tretyakov Gallery, Moscow 1984

South-West Waste Water Treatment Plant, St. Petersburg 1987

Ardalin Oil Field Facilities, Timan-Pechora 1995

- **In 2014** operations are totally localized
- The main business: residential development and construction
- YIT is one of the most appreciated and reliable housing developers in Russia

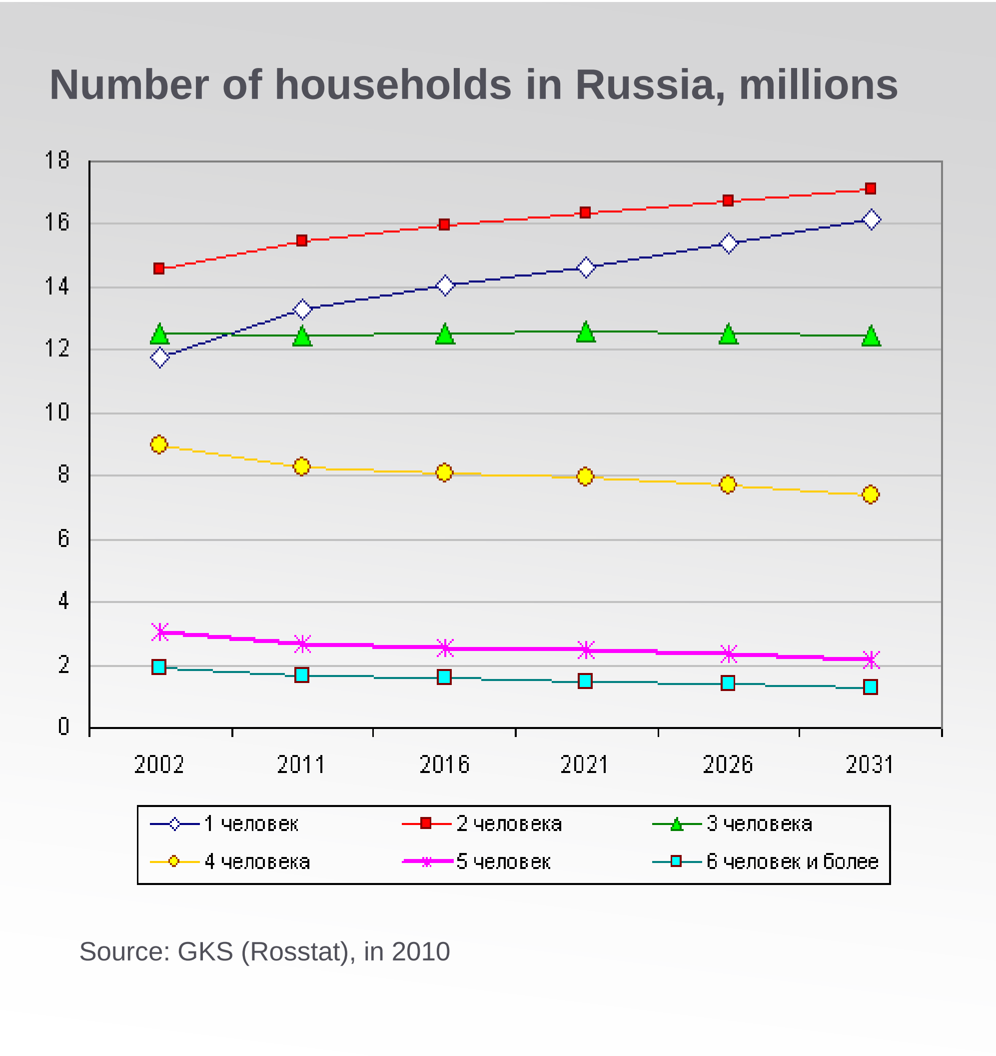
Migration and changing demographics create new opportunities

Migration in Russia, 2012

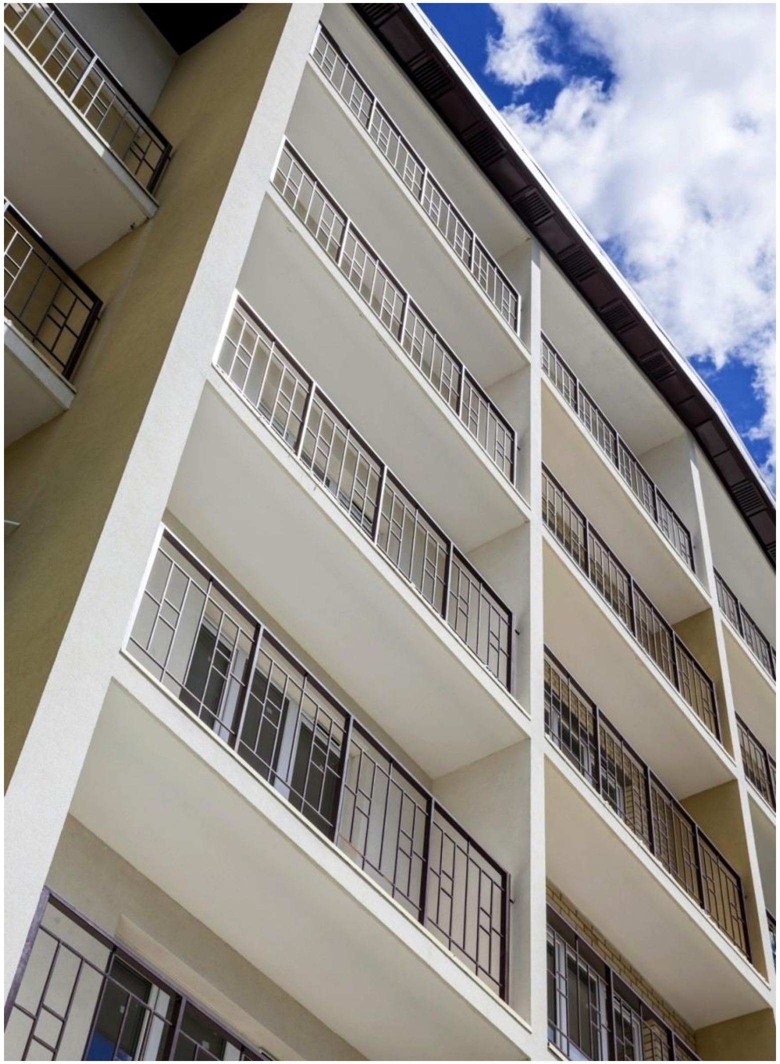
Internal net migration by subject. Only selected subjects and subjects where change is 9,000 inhabitants or more are shown
Source: Federal State Statistics Service

- Strong yearly migration to the regions of YIT's presence
  - St. Petersburg +74,100
  - Moscow +94,800
  - Moscow Region +120,900
  - Tyumen +20,700
- Number of households increasing (2002 52.7 million pcs, 2012 56 million pcs)
- Average size of households decreasing (2010 average 2.6 persons, 2020 forecast 2.4 persons)
- Growing demand for smaller flats

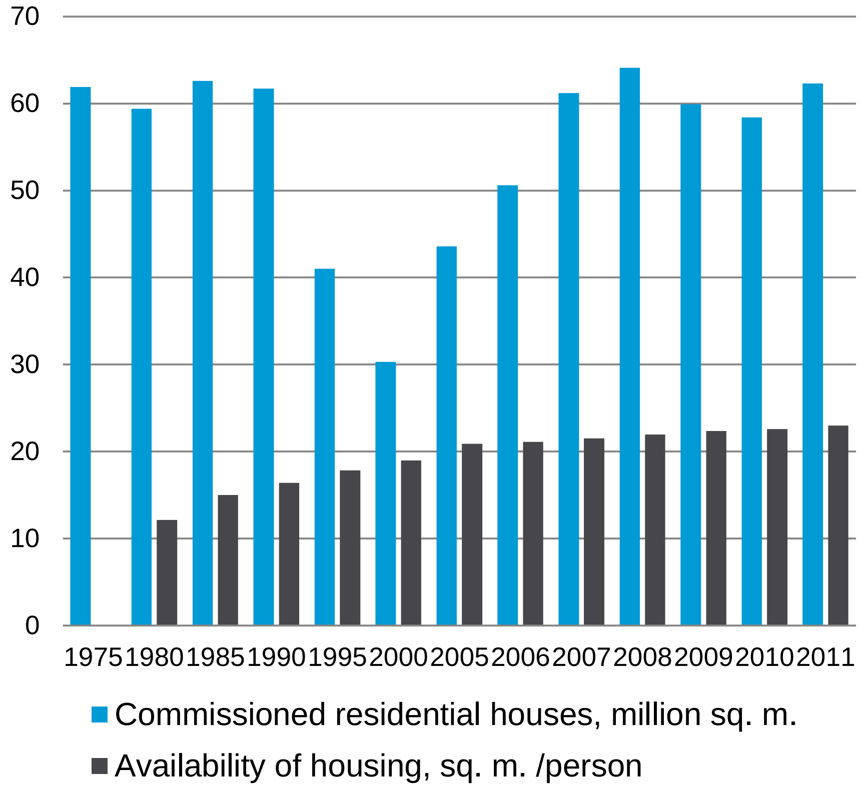
Demographical situation in Russia



Source: GKS (Rosstat), in 2010



Current housing stock – significant potential for growth



Development of housing stock in Russia, 1975–2011

- Total area of housing stock in Russia approximately 3.3 billion sq. m.
  - During 2005–2011 housing stock has grown only 11%
- At the beginning of 2012 average living space per person was 23 sq. m. (2–3 times less than of more developed markets)
- Poor average quality of existing housing stock
  - 1/3 of existing stock to be demolished during the coming 30 years
  - Current production is sufficient to replace demolished stock only
- Over 40% of all flats in Russia in poor condition defined either by technical quality or age of construction

YIT has good ability to manage cyclicality in Russia

Corporate governance

- Processes established
- Deep legal due diligence when acquiring the plot
- Discipline in execution, YIT’s unique 5-step Housing Process in place
- Transparency of operations

Land project management

- Efficient and functional design
- Production cost reduction
- Project management: time to market, permitting process

Design management

- Liquid, easy to sell product: small apartments with effective layout
- Effective spatial plans
- Lower absolute prices

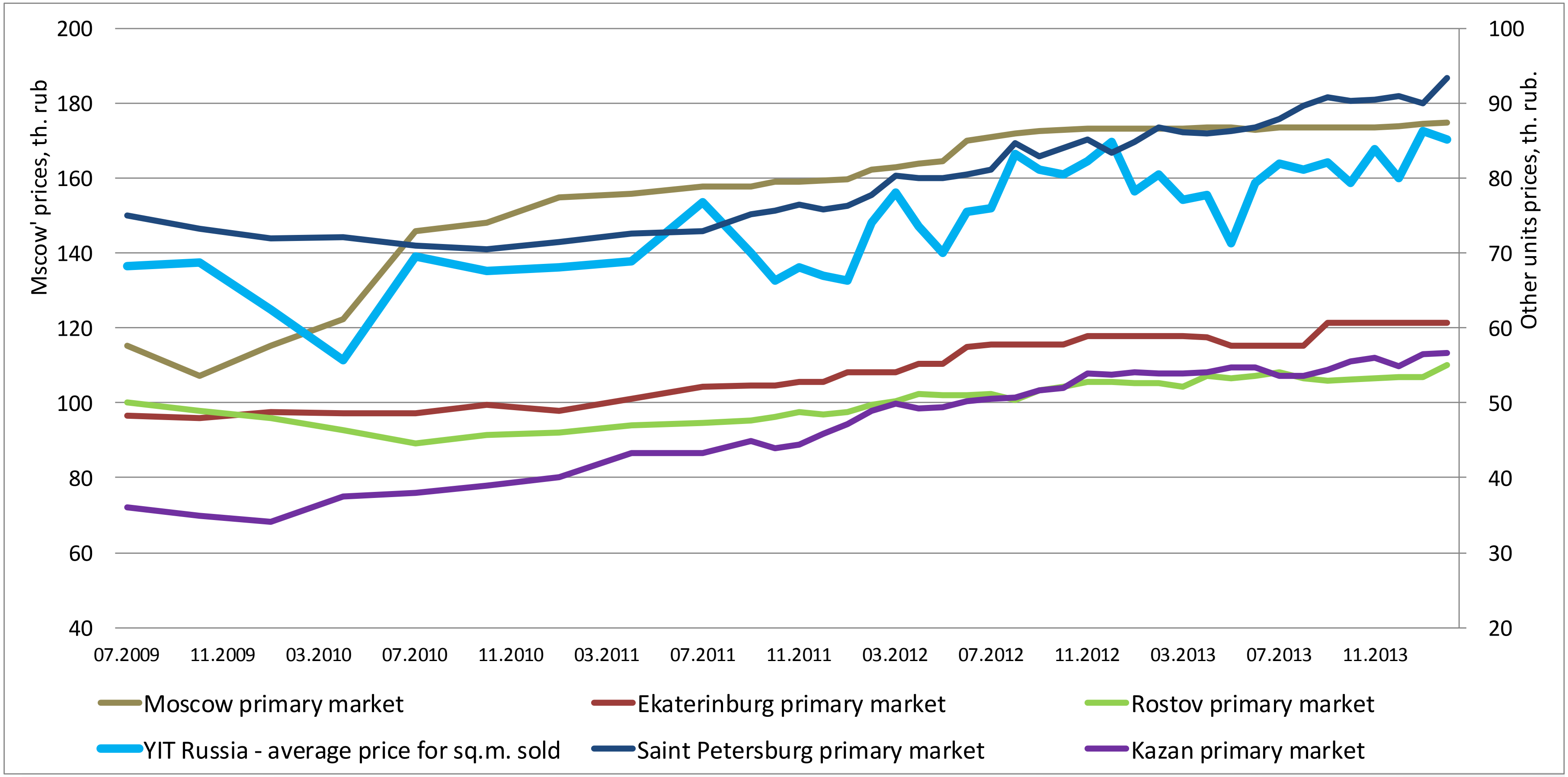
Good possibilities to manage cash flow

- Adjusting plot investments
- Plot payment schedules tied more to permit processes and start-ups
- Sales tactics
- Projects more stable, smaller projects
- Relatively high share of outsourcing

More turnover through services

- Just under 16,000 service contracts with YIT’s maintenance companies

Market price development







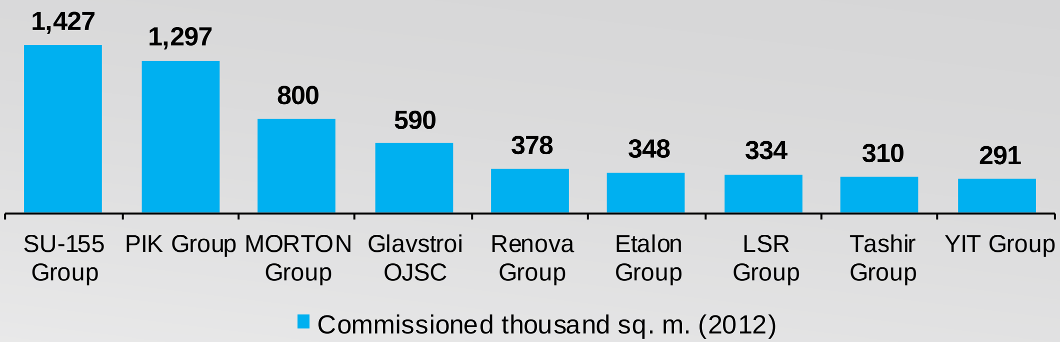


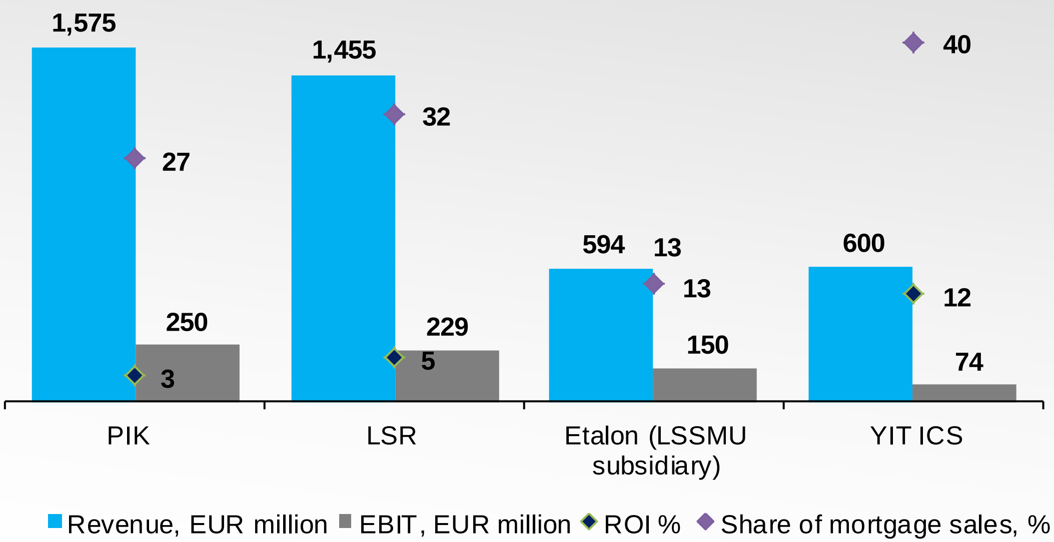

Risk management in plot aquisitions

- Risk management through legal DD is an important issue in plot acquisitions
- YIT has clear rules for due diligence process in plot acquisitions
- Plot DD team consists of business unit representatives and country level lawyers
- DD process very thorough
  - Approximately 1.5% of investigated plots are acquired
  - Careful DD shortens development time considerably

Areas of Legal DD

Competitive situation in Russia





Together
we can
do it.