

Conference Title: YIT Group - Half-Year Report for Jan-Jun 2018

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Hanna Jaakkola: Good morning, everybody, and welcome to YIT's Half-Year 2018 Results Info. Welcome all of you here in hot and humid Käpylä. And also all of you listening to this through the conference call line or watching this online through the webcast system we have. We have a pretty classical agenda today. Our president and CEO, Kari Kauniskangas, and CFO, Ilkka Salonen, will present the April-June figures. And we will first take the questions from the audience here after the presentations and then from the conference call line.

We have, like I said, a pretty classical agenda. Group development and segment reviews, highlights, some touch of integration and synergy process there as well. And then we go deeper into segment reviews and go through the financial position and then outlook and guidance.

The numbers presented today are concentrating on April-June figures, Q2 figures. They are pro forma and IFRS. Without further ado, Kari, the stage is yours.

Kari Kauniskangas: Good morning, also on my behalf. Q2 was a very active quarter for YIT from many angles. We take clear steps to improve the performance of the company when the profitability of all operative segments improve, compared to first quarter. Even though we fulfilled our internal expectations for the second quarter, we are not satisfied on the level of profitability at the moment. But, overall, as you can hear today, we have very solid foundation and good opportunities to improve performance heavily during the last two quarters of this year.

Here are the key highlights of the quarter. I'm very proud of the strong operative cash flow, €130 million during the second quarter. It's one example on synergies and the impact of utilizing best practices of the combined company. Also, the backlog of orders increased on a record high level, boosted by extremely good development in Business premises, and also

Paving segment. Also, the average profitability of the backlog of orders has increased since March in every month. In Housing Finland and CEE, we had great results with good demand and proceeding, and it was boosted by very strong performance in CEE countries.

Integration is proceeding very well. Organization is now in place. We have already done and agreed actions to reduce our annual costs by €34 million, and that will be seen within this and next year, already. According to the schedule of integration, we were also able to provide a numerical guidance for the Group for this year, it's unchanged, €130-160 million. Actually, the result of June was even a bit better than we anticipated when the guidance was given.

This is now a new formula to collect key topics and figures from all segments on one slide. I will handle more accurately the segments later in this presentation.

In Group level, the quarter was according to our plans. Housing Finland and CEE beating our expectations, and Infrastructure projects lacking a bit behind of our expectations. Other segments were proceeding as we expected. In Housing Finland and CEE, the sales continued on a good level in Finland and on an excellent level in CEE countries.

Housing Russia, our main target for this year is to reduce the capital employed to a level of RUB 22 billion. And we have now proceeded very well in this area. We are already on halfway in that target. The target seems now quite realistic. During the quarter, we didn't have any completions of the projects but construction continued in a normal speed in all projects. No completions means also low revenue and low operating profit. Sales as such has continued on a good level even though the price level is low.

In Business premises, we had a very successful quarter. The backlog of orders increased heavily. We have added several new projects in our backlog of orders. We had great success in the leasing market which is supporting our target to divest some big office projects in Helsinki Metropolitan region in Q4.

In Infrastructure projects the revenue was on a low level and also the profitability was very weak. The revenue was low in Finland. I will come later on the reasons. And weak performance was explained by this low revenue, but also low margins in recognised backlog. From a future point of view, we have been successful in getting new projects with healthy margins, for instance, part of Länsimetro [West Metro] extension has been added to our backlog of orders during the quarter.

In Paving segment, we closed during the winter some asphalt plants in Southern Sweden and Norway to improve the annual profitability of the company. Now the production volumes are behind last year, exactly the amount of production of those closed factories last year. So the season has started quite well, the ramp-up has been successful even if it started a few weeks later than a year ago. We are expecting a very strong season in paving because we have 20% higher backlog of orders at the end of June than a year ago.

In Partnership properties, we established a new plot fund. We financed the Keilaniemen ranta project with first real estate bond in Finland. And we have strengthened the project pipeline which is important when we are developing this segment. So far, Partnership properties segment has been a more informative segment, but during the second half of the year, we start to recognise also revenue and profit from that segment.

Order backlog is on a record high level. And as said, the overall content and margin of that order backlog has improved every month since March. The revenue in Q2 dropped €70 million from last year, of which more than €50 million is explained by revenue drop in Russia due to no completions. Profitability improved but, as said, it's not an acceptable level yet. We have good opportunities and solid foundation now to improve the profitability during the coming quarters.

So if we shortly go through the impact of each segment in EBIT bridge compared to last year. So in Housing Finland and CEE the revenue was around the same level than a year ago, but profitability really improved and that was a positive change.

In Russia - last year we had 1,600 completions, this year we had zero completions, so in IFRS figures it has a remarkable impact to both revenue and, of course, operating profit.

In Business premises, I am quite satisfied on the result because €700 million of that backlog of orders is under construction but not recognized in revenue and profit at the moment. So the result is still almost on last year's level. Even if we have tied lot of resources to projects that will start profit and revenue recognition by end of this year.

In Infrastructure projects, the weak performance was due to low profitability of recognized backlog. You may remember that in Q1 we made quite big write-offs in projects and that reduced the short-term backlog margin potential so that the impact is quite small. At the same time, in Finland, new projects have started slower than we expected three months ago, and even that the profitability in those projects are higher, the impact is lower than we expected.

In Paving, there are several items including the closed asphalt plants in Southern Sweden and Norway, but if you really take comparable figures for this year, we are around on the same level than a year ago with €100 million stronger backlog of orders than a year ago. So the outlook in that segment is better than a year ago.

In integration, the proceeding has been quite good. New organization is now fully completed and operative. Co-operative negotiations with personnel and layoffs have been completed. Almost all steps have been taken or agreed to squeeze the premises and move our teams under the same roof in every city. All integration topics, the list of actions to be done to integrate the companies, are under regular and tight follow up and those projects have been established. We have already done our agreed actions having an impact of €34 million annual savings and we will see those savings during this and next year already in our figures. During the second quarter, the impact of synergy savings was €4 million. The integration costs so far have been €8 million, and I am quite confident that the indication that the impact

of synergies for this year will be €14-20 million, will be fulfilled. In addition, we have re-financed a big amount of old bonds and hybrid during the quarter with clearly lower interest rates. Ilkka will tell more on those.

Then if you look at operating environment for housing business. In Finland, the consumer confidence, still, is on a high level. The demand has stayed on a good level but it has declined a bit from the boom level during the last one and a half years. Also, the numbers of building permissions for blocks or flats has reduced during the beginning of the year, and in my opinion, it's now on a sustainable level for a longer time. So I believe that market now seems to be quite normal. Current volumes are sustainable overall. In CEE countries, the demand has stayed on a very high level, and the outlook as well is good.

In Russia, consumers still are a bit cautious, but they are buying apartments like they have done during the last four quarters. The overall market environment in Russia has stayed quite stable.

In business premises and infra area, there are several big tenants looking for new premises. We have good opportunities to catch them to our projects. The resources are in full use. There are also good demand among public clients.

In infra area, the demand has stayed quite a stable level. Due to increase of bitumen price, we believe that overall production volumes in paving in asphalt tonnes will be lower than a year ago, but the demand among private customers has been better than a year ago.

If you look at the market from all perspectives, from segments and countries, we have made three changes to our last update. In infrastructure projects, our outlook towards is around on the same level than 12 months back. In Russia, we have now four reasonable months behind. A year ago in spring, the demand was very weak, now it has been on a reasonable level, and the outlook is that this level will continue. Also, in Denmark, the decline in the

market has stopped and now it looks like the market will stay around on the same levels than it has been during last year.

Then if we go shortly to segment presentations. First Housing Finland and CEE. Number of completions in Finland was a bit lower than a year ago, but completions in CEE countries was clearly above last year's level. The boost to the profitability came especially from Bratislava and Prague where very good projects were completed.

In POC figures, the operating profit was on the same level than a year ago. Backlog of orders has stayed quite stable. Number of completed apartments in Finland has decreased, and in CEE it has increased a bit due to number of completions.

Sales figures have stayed, overall quite stable, strengthening in CEE. But as you can see in consumer sales, the level is a bit lower than it has been during the last six quarters. Overall, the demand is on a normal level in our opinion. In July, in Finland, the sales has been a bit lower than a year ago, in CEE around on the same level.

In Housing Russia, there really was no completions during the quarter so, in IFRS figures, the drop in revenue is quite normal. Then if you look at the proceeding of the segment from POC figures, it was a bit negative, and it is mainly connected to our target to release capital from completed unsold apartments, and we have given some discounts to keep the speed according to our target.

Demand as such stayed stable. Supply in the market is on a high level. Backlog of orders is on a stable level. The amount of sold apartments has increased, and the risk level, therefore, a bit lower than a year ago. Especially, the number of unsold completed apartments is coming down which is extremely important to fulfil our target to release capital employed in Russia.

During the quarter, we also made a small investment to improve our service business in Russia. We acquired majority of Dispatcher 24 service which is serving 300,000 customers already today. So altogether we have almost 350,000 clients using our services in Russia. Sales, in units, has stayed very stable on the level of last autumn, as we have anticipated at the beginning of this year. The target to reduce our capital employed is driving our operations in Russia. Number of start-ups has stayed around on the same level than sales. In July, the sales expectation is a bit higher than a year ago. We are expecting to sell 250 units during this month.

In Business premises, despite having €700 million of backlog of orders under construction without no revenue and profit recognition, we were still able to keep the reported revenue on a same level than a year ago. And also, the operating profit almost on the same level. The great success during the quarter was that we have signed several new important anchor tenant contracts which helps us to fulfil the target to sell several office buildings in Helsinki Metropolitan area during the last quarter of this year. So, my expectations for extremely strong end of the year, last quarter of this year for this segment is quite high. I'm confident on a good proceeding.

You can also see here the increased backlog of orders. We added Tripla Offices to our backlog of orders due to the reason that we have signed now the anchor tenant contracts, we have made internal start-up decisions and we have started the sales process of those buildings. As you can notice, the percentage of completion of those buildings is already quite high. Meaning that when the sales at the end of this year will be completed, we are able also to recognise a remarkable part of the revenue and profit of those projects in our results – size of those Tripla projects is more than 40,000 square metres, worth several hundreds of millions of Euros.

So, in Infrastructure projects the revenue declined. And the weak performance of that segment is due to low revenue in Finland, low volume overall in Finland, and low margin of recognised backlog of orders during the quarter. So, as said already earlier, in Q1 we had

several write-offs which declined the short-term backlog profitability, so that its impact to the operating profit is quite small.

New projects which we have got during this year have healthy margins, but the start and ramp-up of those projects has been clearly slower than we expected three months ago. As an example, a very important project for us, Blominmäki wastewater treatment plant, started at the end of Q1, but it can't proceed with the full speed due to lack of detailed plans which would be delivered by the employer. And it looks like the employer is not able to improve the delivery during the coming months, and of course we are negotiating with the employer on the impact of that. Just an example, the size of the project is €200 million, which should bring around €15 – 20 million revenue per quarter, and now the impact was only €4 million.

New projects won and started this year have on average clearly higher profitability expectations, which means that content of backlog and also performance of the segment should start to improve gradually. This together with in spring streamlined organisation with higher specialisation, harmonised operating model and softwares as well as other synergy benefits, start to support also the performance of this segment in coming quarters. But it will happen gradually, so the result of Infrastructure projects during this year will be low.

Then Paving. Revenue was a bit lower, extremely important is the production volumes. The impact of those closed asphalt plants is exactly the same that is the – how much we are behind in production volumes, and it's due to closed asphalt plants in Southern Sweden and Norway. And the target to close those factories was to improve annual profitability of the segment. Last year the impact of those factories in Q2 was positive, but overall during the year the impact was heavily negative.

Overall, the ramp-up of the operations has succeeded well, weather has been good, even though the start-up started a few weeks later than a year ago. If you look at the operating profit, last year we had some extra items which are not yet in our – not anymore in our figures like result of those six, seven closed asphalt plants – Asphalt Remix, it was a joint venture

which we sold in Q1. And if you look, the fully comparable figures, we are around on the same level than a year ago. And here you can see the backlog of orders, so it's improved from the end of Q1, but it's €100 million stronger than a year ago at the same time. So, we are expecting a very good season for this year. And I am confident that the operating profit of the Paving segment will be clearly stronger than it was a year ago.

As said, the demand of public clients will be a bit lower than a year ago. And now the demand is mainly driven by industrial than private customers, as well as larger individual investments like airports and some highways.

In Partnership properties we have reported what we own, how much we have invested, so it has been so far more informative, but in H2 we start to recognise revenue and profit also from this segment. During the last quarter we have strengthened the project pipeline also in this area. We will be more accurate with the strength and backlog of orders in our Capital Markets Day in September. But, anyway, it's extremely important that the pipeline of new projects is strong, keeping the sustainable level of profitability and profit of this segment in the future.

Now, Ilkka will continue with the positive figures from the financial point of view.

Ilkka Salonen: Yes. Good morning, everyone. Financial position and key ratios, what we have done during Q2. Quite a lot of work with integration, we have reorganised our bond portfolio, and in the cash flow side we have steered the cash flow management for Q2.

Cash flow, it was strong, it was €130 million in Q2. It was somehow better than we expected in the beginning of Q2, and in some parts of the harmonising of the processes we have proceeded better than we expected in the beginning of the Q2. But in the general picture, pretty much over there what we expected.

Net debt, of course, when the operative cash flow is strong it means that the net debt is lower than it was in the Q1. A very important part also is that we reorganised our bond portfolio, which means that the maturity in our loan portfolio is more mature and more stable which brings a good background for the coming quarters.

What we did in the bond portfolio, or reorganising our bond portfolio, the issuance of three-year €100 million and five-year €150 million senior unsecured notes, and over there, the interest rates were 3.15% and 4.25%. And at the same time, we called €150 million above our existing bonds. So, longer maturity, lower interest rates, roughly €150 million more capacity from there.

Where we are very happy about what comes to the Q2, even though it wasn't in the YIT side, it was that our joint venture in Regenero, we were able to raise €100 million senior secured bond for the Keilaniemen kiinteistökehitys Oy, which of course means that the capacity in that project is secured.

Then to the key ratios side. In gearing, as the net debt decreased, it decreased from roughly 80% to 73%. And in the equity ratio side, due to the lower equity and bigger balance sheet that was declining but if you look that we are targeting to make positive cash flow after the dividends towards the end of the year, it means that the equity ratio should be a quite close to our target, which is 40%, at the end of the year. And net debt to adjusted pro forma EBITDA, according to our finance when it comes to the rest of the year, that will come down as well.

Shortly, three topics in the financial side: stronger operative cash flow, gearing was decreased, and the debt portfolio was reorganised.

That was shortly from the financial side. Please Kari.

Kari Kauniskangas: And then finally the outlook and guidance. When we gave our numerical guidance a month ago, we also increased our estimation on apartment completions to that

guidance or as a base for the guidance. And now you have better opportunities to estimate the impact of IFRS principles to our results per quarter. And as you can see from the completion estimates during the third and fourth quarter, there will be almost as many completions per quarter than what we had during the first half of the year overall.

So as a summary, we have now a very solid foundation and good opportunities for H2. I am very confident that we will proceed in improving the performance of the Group step by step during both quarters. The improvement of the performance and adjusted operating profit is driven by several reasons. The busiest paving season is now ongoing, and it started with 20% higher backlog of orders than year ago. In spring, we had extremely good success in leasing premises, leading to the sale of several big offices in the Helsinki metropolitan area by the end of the year, with actually a quite high percentage of completion.

Third, growing number of completions in housing in both quarters. We will have almost as many completions than within H1 overall. Fourth, accelerating synergy benefits are coming to our figures. The impact during the second half will be even bigger than during the first half. We have strong backlog of orders and overall growing volumes. So, I think those really give us a good solid foundation with an already fully-working organisation.

So, therefore, we can repeat the unchanged guidance, numerical guidance, given a month ago. Which is that the Group pro forma revenue for 2018 is estimated to decrease by minus 2% to minus 6% from pro forma revenue 2017. And the adjusted pro forma operating profit is estimated to be in the range €130 – 160 million.

At the end of September, we will organise Capital Markets Day in Helsinki, and we will focus to our new strategy as well as the proceeding of the integration. So, you all are warmly welcome to the Capital Markets Day.

So, that's our presentation today. Now if there are any questions we are ready to answer, and we're going to start from the Käpylä hall. No questions here? Then online.

Operator: If you wish to ask a question at this time, please press star one on your telephone keypad. Please ensure the mute function on your telephone is muted, to allow your signal to reach our equipment. We will now take our first question from Ari Järvinen from Danske Bank. Please go ahead.

Ari Järvinen: Hello, it's Ari from Danske. Is the line okay?

Kari Kauniskangas: Yes.

Ari Järvinen: Alright. A couple of questions related to the Finnish housing demand. And you said basically that the demand is good, consumer confidence is high in Finland; and then you also say that the July sales volumes are down – that's only one month, I can surely understand that one – but then your housing starts for the consumers in Finland is down quite a bit in Q2. Could you explain the dynamics here?

Kari Kauniskangas: As said now in our opinion the consumer demand is on a normal level after the boom quarters during the last one and a half years. The number of starts, I think it's more connected to building permissions and also available resources, so – and timing. So there is no special decision to increase or decrease the number of start-ups during Q2.

The projects that we have started all have quite a good pre-reservation rate. So we have ensured that as earlier for every project.

Ari Järvinen: Okay, thank you. And then my second question goes into the percentage of completion EBIT, which in Housing Finland and CEE was flat basically, in Q2. And then you mentioned that the CEE projects boosted the margin, so this basically – actually, Finland was down or weaker. If that's the case, what was the reason for the Finnish profitability maybe coming down?

Kari Kauniskangas: Actually, the number of completions in Finland was lower than year ago. And of course, the size of fixed costs are around – on the same level than year ago, so that impacts the profitability in Finland. In CEE, we had almost 500 completions instead of 100 year ago. In addition, several of those completions were in Bratislava and Prague, and those projects were extremely profitable from our point of view.

Ari Järvinen: Okay. That's all from me, thank you.

Operator: We will now take our next question Robin Nyberg from Carnegie. Please go ahead.

Robin Nyberg: Hello, it's Robin from Carnegie, two short questions. If you could comment on the development in the large Tripla project. And then also in Russia, do you see a further need to cut prices in Russia?

Kari Kauniskangas: Our Tripla project is proceeding very well. The construction as such is on schedule, even a bit ahead. We have had right amount of reservations for potential cost increases, and we still have those left enough. So, we are quite confident that the cost of the construction will be according to our estimations. In the rental area the success has been extremely good. In the Tripla mall area the rental rate now is almost 80%, and offices the rental rate is very high, close to 70%.

Then concerning Russia, the discounts given are mainly connected to the target to sell those unsold completed apartments. At the beginning of this year we had 1,000 apartments, unsold completed, now the number is 650, so during the first six months we have sold 350 of those. And in that area we have given discounts. For ongoing projects, the amount of discounts is not impacting the profitability.

Robin Nyberg: Okay. That's all from me, thank you.

Operator: As a reminder, to ask a question please press star one. We will now take our next question from Johannes Grasberger from Nordea. Please go ahead.

Johannes Grasberger: Hi gentlemen, it's Johannes here from Nordea. I've got two questions here left, firstly on the Russian demand if – okay, I heard that you mentioned the consumers are not very active there, but what do you think should happen in the market now that oil prices have increased? Then the second question would be on CEE. So, do you see volumes in CEE offsetting actually there, sort of the declining impact in Finland, and how should we model that? Is the margin in CEE area as high as in Finland, or is it even higher, or the net effect actually down for this division earnings-wise – if that question makes any sense to you? Thank you.

Kari Kauniskangas: From Russia point of view, of course the improved oil prices is always a positive topic, so I'm slightly optimistic on the overall macro development on Russia during the autumn. But at the moment, our outlook is stable compared to what we have seen during the last 12 months.

Then in Finland, as you have seen in the past, we balance our production between the projects sold to investors and consumers according to demand. So now when the consumer demand seems to normalise, the amount of projects sold to investors are a bit higher than it has been during last few quarters. So in Finland, the production volumes overall should stay quite stable. But of course, there is a small difference in profitability between the projects.

Then how the CEE is impacting. So, our target has been to increase our operations in CEE. Now, it's good to notice that in CEE we have been looking for more capital efficient business model. So the profitability that we saw from the projects in Bratislava and Prague now, was exceptional. And overall, profitability of the projects is – are a bit lower, but very good still in my opinion. We expect that we continue growth in CEE area in this market environment.

Johannes Grasberger: Alright, thank you.

Operator: We will now take our next question from Anssi Kiviniemi from SEB. Please go ahead.

Anssi Kiviniemi: Thank you. Hi, it's Anssi from SEB. Two questions left, or three questions left from my side. First of all, I will start with Infrastructure. Taking into account your comments there on the short term margins and order backlog, is it fair to assume that the second half sales will be flattish and you're not going to make positive – or you're going to make a basically flat EBIT margin for that business for the second half? Is this a fair assumption or is there something else I should think about also?

Kari Kauniskangas: I believe that we are making positive results in Infra projects, also in coming quarters. But the level is not of course as high as we should – it should be in the long run. So, the situation will start to improve gradually during coming quarters.

Anssi Kiviniemi: Okay. That's really pretty fair. Then moving into Russia, has the sold units, they have remained at a really good level in Q2. Has it surprised you guys? And when we go forward is your guidance of sold units in Russia to be roughly at Q3, Q4 2017 level, is it still in force?

And second question, or third question there, is that on the capital release programme, 50% left, you're going to likely execute it during the second half of the year. Where will the 50% come from – is it plots, is it completed units? And should we expect the negative profit impact coming from those releases as it did in Q2 in your plot – sold plots in Russia?

Kari Kauniskangas: The first question, so I think the estimation given at the beginning of this year on the sales level is relevant. So, we believe that this level will continue. Secondly, we have sold two plots during the last seven months. The second payment of those will come during the fourth quarter. The impact will be more than €10 million, almost €15 million. In addition, the capital release is coming from the target to release amount of capital tied to unsold completed apartments. When selling those unsold completed apartments it's possible that

discounts will be given also in the autumn. But I can – you can be sure that we try to keep the price level as high as possible, and even try to increase it on – in ongoing projects.

Anssi Kiviniemi: Great. Thank you, that's all from me.

Operator: As there are no further questions in the queue, I would like to hand the call back for any additional or closing remarks.

Kari Kauniskangas: So if there are no more questions, I thank you and wish you warm, sunny days and welcome to our Capital Markets Day in September. Thank you.