

**Conference Title: YIT Interim report, January - September 2018**

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Hanna Jaakkola: Good morning everybody. Hyvää huomenta. Welcome to YIT's Q3 2018 Result Info here in Helsinki Käpylä YIT's headquarters. I have here with me our President and CEO, Kari Kauniskangas and our CFO Ilkka, Salonen.

Kari Kauniskangas: Good morning.

Ilkka Salonen: Good morning.

Hanna Jaakkola: My name is Hanna Jaakkola. I'm the IR. The agenda today is pretty traditional. Kari will go through the Q3 results, highlight the recently published strategy and go through the segments. Ilkka will go through the financial position.

All the figures presented will be pro forma figures as previously this year due to the merger with Lemminkäinen earlier this year. All the material is available on our web pages at [yitgroup.com](http://yitgroup.com). We will take first questions from the audience and then from the conference call line after Kari's and Ilkka's presentation. Now without further ado, Kari, the stage is yours.

Kari Kauniskangas: In Q3, the operational performance of the segment was according to our expectations. Through the postponement of handovers in three projects in Finland and CEE compared to our earlier completion estimate and handover estimates approximately €6.5 million of operating profit was shifted to the fourth quarter.

As example in Paving and Housing Finland and CEE segments, the profitability was almost 10%. We signed several significant lease agreements during the period. The success achieved in leasing support our ongoing efforts related to property sales. Based on the offers we have got and

the ongoing negotiations, we estimate that the sale of several significant business premises project will be completed as planned.

Our order backlog is very strong almost €5 billion, which gives us a good outlook for the rest of the year and also for the whole year of 2019. Based on the progress achieved in Q3, phase of the sales process of several significant office projects in Helsinki metropolitan area and strong backlog of orders will repeat our guidance and it is unchanged.

In Housing Finland and CEE, the recognised revenue was low, but at the same time profitability stayed on a strong level being almost 10%. Given the number of completed and handed over apartments was higher than a year ago, a number of unsold apartment stayed stable. The revenue dropped due to low number of completed and handed over apartments in Helsinki region and also a small average size and price of completed apartments overall.

The postponement of two projects in Finland had an impact of around €3 million in Q3 and that will be shifted to the fourth quarter. Sales for consumers in Finland has continued on a good level, but the demand of private investors has been declining since spring. In CEE countries, the demand has stayed on a good level in all countries.

In Housing Russia, our main priority has been to release capital from the housing operations in Russia. We have proceed in that area. To do that, we have been forced to continue to give discounts on unsold completed apartments to reduce capital tied in those projects. In Russia, we had one project handover postponement having an impact of €3.6 million. The handover will happen during Q4 so that they didn't have any impact for the whole year.

In Infrastructure projects, the operating profit was on a low level, but it improved clearly from the first two quarters of this year, especially when we take into account the costs related to the Court Appeal decision concerning the Niittykumpu metro tunnels. The impact was roughly €2 million.

In Paving, we had a successful quarter in all country supported by the actions taken during the winter and spring to improve the efficiency and profitability of the segment. We reached better result than a year ago even the volumes overall declined around 10%. The margin level was very good.

In Business Premises, we achieved already acceptable profitability even we still have projects worth €700 million ongoing, but where we don't recognise revenue and profit at the moment. We were able to increase our backlog of orders. We had great success in leasing new premises to tenants. Those successes supporting us in ongoing negotiations of selling several significant offices. We have already received the binding offers for those buildings.

In Partnership Properties during the quarter, we strengthened the pipeline of new projects, which will be executed through joint venture models. Telia Campus old one, and also Helsinki High rise Trigoni will be projects worth almost €1 billion, which will be executed through partnership properties business model. We have also preparations ongoing for the first significant divestment of the portfolio.

And to understand a bit better the importance of the success in leasing, we can notice what has been the improvement in the occupancy rate during Q3 in those few key projects that we have under construction at the moment. Long-term agreement with Telia and City of Espoo signed during the quarter will support us in ongoing negotiations to sell those significant projects. I would say so that overall looking for the current rental rate, those projects are really ready for sale.

The project that we are planning to sell with the revenue and profit will be recognised according to percentage of completion of those projects. In addition to those few significant projects in Helsinki metropolitan area, we have also some smaller commercial real estate projects, which we aim to sell during the end of the year.

Revenue during the quarter declined from last year; that is fully explained by declining Housing Finland and CEE where the IFRS principle explains the decline. And the decline is mainly connected to number of completions and handovers during the quarter and also technical features to price level overall of those projects and units.

Profitability improved on an acceptable level. The backlog of orders is strong, 14% stronger than a year ago at the same time. And that gives us a good outlook for the end of the year and for the whole year 2019. Here you can see the impact of declined revenue in Housing Finland and CEE even the profitability stayed on the same level than year ago – the declining revenue of almost €90 million had around €9 million difference compared to a year ago.

In business premises the result was good as said. In paving, we made a better result than a year ago. In infrastructure project, the result was a bit weaker than a year ago but clearly better than during the first two quarters during the year. We also see a clear improvement in the backlog.

In Housing Russia we were around on the same level than a year ago still even taking into account the impact of one project to be handed over in Q4. Integration is proceeding quite well. During the quarter we take several steps including the new strategy which is published at the end of September. This summer and autumn we have full focus in ensuring the internal legal mergers to simplify the current structure and make it possible to simplify also the IT environment. That will give or will be the next source of synergies during 2019 and 2020. We have already today made actions or signed agreements which will have by end of next year impact of €38 million in cost savings. Of those during this year, we expect that around €16 million to €20 million will be seen in our operating profit. We have been able to proceed according to cost estimate. In addition, we have synergies from refinancing of our debt portfolio.

Some words also on market environment. In Finland, the consumer confidence has stayed on high level, which can be also seen as a good demand among families looking for new apartments for themselves. At the same time the demand of private investors of individual apartments has been declining already since the spring. During the year, there have been a lot of public discussion around RS housing company loans and the tightened terms and conditions of those have caused some uncertainties among potential customers and buyers. Overall, the availability of mortgages and the terms and conditions in Finland are a bit tightened during that year. In CEE, the demand has stayed stable and on a good level in all countries. This year also Latvia has been on the same level than other countries. It is an improvement since the last five, six years. In Russia, the demand has stayed stable, but also the supply is on the same level. So, the price level has stayed stable on a low level from our point of view.

In business premises, the demand has stayed good. There is a lot of tenants looking for new premises and there is a good demand for among investors to acquire new offices and projects. In infra, the Finnish government made a budget proposal where they cut their investment to infrastructure by €500 million during next year, which will have an impact that market during next year. In paving, price of bitumen and other oil-based products have a negative impact for overall volumes in paving as well as real cost components. We have succeeded quite well in hedging the cost components and the impact has been limited despite of those the profitability was better than a year ago.

So, there are some changes in our market outlook. As you may have noticed from the articles in newspapers, we expect that the outlook in housing market in Finland will be weaker during the coming 12 months compared to last 12 months, which has been on a very good level. At the same time, infrastructure projects and the demand of services in that area will decline due to government decision to cut the investments in that area during next year. In Baltic countries, the infra market has improved during last few years and it's on a good level. And our current estimate is that the level will stay on the same level than during the last 12 months.

We published our strategy at the end of September and a short recap on that. The name of the strategy is Performance through cycles. And with the new strategy we aim to improve our profitability and increase our financial stability. We can summarise the strategy in Group level according to this slide. So, we have two strategic priorities – urban development and non-cyclical businesses. For urban development, we can fully utilise this strengthness that we have in project development, design management as well as management of complex projects. Managing the entire value chain from planning to maintenance creates the greatest benefits to our customers and greatest gains in productivity as well.

The types of projects are self-developed projects, public private partnership properties – projects, turnkey contracting, cooperative projects like alliances which enable us an integrated approach to grant those benefits. Non-cyclical businesses are based on long-term service contracts and rental agreements and steadily growing or stable demand and trends as well as capital gains from a wide portfolio of saleable ownerships from partnership properties.

In YIT, we take into account businesses like paving, mineral aggregates, road maintenance, renovation, investing in real estates, living services and real estate management. We have also given a target that we aim to gain an annual profit of €100 million from those businesses which are mainly independent of economic cycles starting already next year. We are proceeding well in that area.

We have also third business model, which is traditional contracting, which annual revenue is around €1 billion. We will continue that but only according to resources that we have available and also according to the markets how much we are able to get healthy projects.

We have three cornerstones of success. We are putting a lot of effort from now on to improve still the performance, to improve our productivity on sites and operations. Capital efficiency stays an

important – as well as customer insight making products and services according to needs of clients, improving the customer experience as well. And finally, we have 10,000 employees with excellent skills and knowledge to make them happy to and appreciate the culture that we have at the company. And then target is to be most preferred employer among students, current employees and professionals overall in the business.

We have also three key strategic financial targets including 12% return on capital employed starting next year gearing between 30 to 50% to be reached by end of the strategy period also according to new IFRS 16 principles, and growing dividend annually.

Then a few words still on segments. We have already discussed on IFRS figures of Housing Finland and CEE. In POC reporting, the revenue was around at the same level than according to IFRS, but due to different reason. The sales was a bit weaker than a year ago at the same time.

Backlog of orders has stayed stable. New startups are still very good. Pre-reservation rates and the demand has stayed steady and good in locations where we have our plots. We have had all resources in full use, so the capacity also to start new projects has been partly limited. The startups, number of startups has been on the same level than the sales during the last quarter. We are steering more resources to investor projects in coming quarters to keep the revenues and level of operations on current level.

In Housing Russia, it's one of our underperforming segments. Also, there IFRS figures already has been explained. From a POC point of view we see small loss explained by those discounts given to sell unsold completed apartments and also some decline in forecast in contracting projects. In Russia, we started a year ago a change programme. Since that, we have changed the whole organisation structure, operating model. We have adjusted number of our employees to a lower level. We have renegotiated the rental agreement for offices and integrated our operations with Lemminkäinen and YIT in building construction in Russia.

The total impact of those changes made during this year will be €10.5 million and we'll be seen in full scale starting June 2019. At the beginning of the year, the impact is already around €6 million. Positive impact of that change programme, completions of old contracting projects and declining number of unsold completed apartments, which means also declining given discounts, will help us to normalise the profitability back on positive and acceptable figures within next year.

Order backlog is slightly declining. The number of completed apartments stayed stable, but the euros tied to those apartments has been on a declining trend during Q3 still. Sales has continued on a target level around 900 units. And we have had around the same number of startups also in during the quarter. The sales in October has been a good level, clearly above last year's level.

In business premises, the figures mainly has been already discussed. I just remind that we have been successful in renting premises. We have got offers to buy several significant buildings and we are proceeding in this segment according to plan.

Backlog of orders has strengthened and then this gives us a very promising outlook for the year end and also for the next year. And this will be the driving segment in the operating profit during coming quarters. In infrastructure project, as said, the profitability was on a low level we have seen clear improvement since the first two quarters. As said, the backlog of orders and the profitability of all projects has been on a low level. We have been able to strengthen our backlog of orders in this segment as well. The profitability of new projects are on a healthy level again. And the content of backlog is improving, but the change will take some time.

There are different kind of demand in different business areas among the infrastructure projects and we are allocating resources to those areas where the demand at the moment is better and also where we have an opportunities to get healthy projects like foundation projects and structural engineering unit.



In this segment, the profitability is main priority for us in new tenders, and that will have also impact in revenues during coming quarters and years. But overall, we are looking higher and healthy margins of the projects. I think we have succeeded in that area as said. In our playbook, profitability is on the top and we accept a small decline in revenues.

In paving, the operating profit improved. The profitability was on a good level. It is supported the actions taken, quite significant actions taken during the winter and in spring. And now during the second half of the year, we will see the first signs of improvement in this segment. And those improving results will be continued during the first half of next year.

The order backlog is strong and it's especially stronger than for a long time for next year, which is important due to the reason that government has made the decision to cut part of the investments that they are doing with the infra during next year. Demand overall is mainly driven by industrial and private customers and we have had also during this year several large individual projects like highways and airports.

In partnership properties, we start to recognise profit during the second half of the year, actually during the fourth quarter. The pipeline has strengthened Telia Campus and Helsinki High rise as announced or published examples of those.

Now I give and turn to Ilkka to give some ideas on our financial position and key ratios.

Ilkka Salonen: Thank you Kari and good morning everyone. If you look at generally the integration from the financial point of view, I would say that we had a lot of operations during the first half of the year and now the third quarter we start to be in the business as usual mode. But one big event was over there and that was the strategy of the new company, new YIT, where we set the target for the gearing which is 30-50%. That's a step change compared to the – both companies from the past.

Operating cash flow, negative 33 million, it was driven by the increase in the working capital change over there and it's coming from the two areas where we are operating to our own balance sheet. That's the Housing Finland and CEE and Business Premises. In the Russian operations, the operating capital declined slightly.

Net debt, it increased due to the negative cash flow and was in the end of the quarter, the net debt was 768 million. And as I mentioned there was no major changes in the loan portfolio. However, one action we made over there and we extended our revolving credit facility by one year. And that of course brings stability for the financial position.

The maturity structure is quite balanced. There is one exception and that's 2022 where is that the bar is quite small compared to the rest. But we are happy with the portfolio we are having today, totally different than what we had in the beginning of the year.

Financial key ratios, gearing 75.5% and our target over there in the strategy period is to reach the level of 30-50%. And what is that 30 to 50, one item is good to mention over there and that is the IFRS 16 which is coming in the beginning of next year. In our case, the estimation is that there will be around 200 million to 300 million more interest bearing debt coming from the leasing agreements to our balance sheet. And even by mentioned that our target in the end of the period of the strategy period is to be between 30-50%.

Equity ratio 35% and net debt / adjusted EBITDA was 5.6%. And if you look at our full year guidance where we say our pro forma EBIT to be 130 to 160, and that we are targeting positive cash flow after the dividends paid. It means that the gearing – by those parameters - the gearing in the end should be quite close to the last year and the equity ratios should improve as well as the net debt to EBITDA will come down. That's where mathematic thinks.

So, the summary over there; the cash flow was negative, no surprises over there. And the major thing was that the company's new target for the gearing is 30-50%. That's a step change when it comes to the balance sheet management. That's all from the financial side. And now I let Kari to continue.

Kari Kauniskangas: So, we have still a bit adjusted the way how we inform our estimate of completions and handovers, number of handed over apartments in our projects per quarter. Due to our lesson on postponements in handovers also in Finland, in Q3, we will inform only one number by geographical area.

Number of completions are expecting to be high in Q4. So, as a summary, the operational performance of segments in Q3 are according to our expectations. We have got binding offers for several significant office projects in Helsinki metropolitan area and sales negotiations are ongoing. Number of completions in housing segments is on a high level and we have a strong backlog of orders giving a good outlook for the end of the year and also for the whole year 2019.

So, we are confident that we will provide a successful quarter in terms of operating profit of the whole Group driven by business premises and partnership properties segments in Q4. So, therefore, we can repeat the unchanged numerical guidance given four months ago where we estimate that the decrease in operating, in revenue will be minus 2% to minus 6% from pro forma last year and that the adjusted pro forma operating profit is estimated to be in the range of €130 million to €160 million.

So, now, that was our presentation today. If there are any questions I am ready to answer with Ilkka.

Kari Kauniskangas: No questions from Käpylä. So, then if we have some questions online.

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

Anssi Kiviniemi: Yeah. Hi this is Anssi calling from SEB. Four questions from my side, first of all, starting from the housing market then the Finnish part. Now the circle is red. It used to be yellow. So, how do you see the current situation affecting to your business? Currently, you have units under construction some 6,000. Should we expect the startups to decline clearly and thus volumes to come down or how should we read the kind of your view on your activity going forward?

Kari Kauniskangas: First of all, it's good to remember that according to IFRS principles, the projects that will be completed next year are already started. Secondly, in our track record, we have tried to keep our production volumes overall quite stable so that we utilise all the resources that we have in use fully. And then there will be change how much we sell to the consumers and how much we sell to investors. And now during the last two years, the consumer sales part has been on a very high level. And it's quite obvious that the next year, the sale for investors will be higher than it has been during the last two years.

Anssi Kiviniemi: Okay, thanks. Then continuing straight from there, you are now steering more towards investor projects. Should we expect that we should see kind of a margin decline clearly in 2020 when you will complete this projects; so how should we read the mix change you are currently trying to get through?

Kari Kauniskangas: As you remember, and we said in Capital Markets Day, during this year we have started also several projects which completions will happen 2020. So, next year, there will be some kind of drop in the completions. And that is also the reason why the Housing Finland and CEE, the number of completions will be lower next year than it will be this year.

Of course, I can't estimate yet how much we are planning to start during next year which will be seen as completions and handed-over apartments in 2020. But good guidance is that we try to keep our volumes stable and still healthy the margins in all types of projects. There is a difference between consumer projects and investor projects. That's the fact.

Anssi Kiviniemi: Okay, thanks. Then third question. You have highlighted that you have now binding offers for the projects that you are targeting to sell during Q4. Could you indicate a little bit what kind of effect we should expect from these projects in order to kind of estimate where we are going? A range perhaps, should we expect 20 million to 30 million EBIT contribution or how should we read it, because you have pretty good visibility on that booking. So, could you please help us a little bit on that side?

Kari Kauniskangas: Last year, we sold one project and operating or one big or significant project. And the operating profit of business premises segment was a bit more than €30 million. So, we are expecting better quarter.

Anssi Kiviniemi: Okay, thanks. That's helpful. Then last question, you highlighted there that there were some postponements in profit bookings from Q3 to Q4. You highlighted two figures. First one was 6.5 and the second was three million so could you repeat that and where are you referring to?

Kari Kauniskangas: Yes. So, we had three projects, which were handover postponed to the fourth quarter. One in Russia and two in Finland. In Finland, the impact was around €3 million. In Russia, it was €3.6 million. So, €6.5 million all together.

Anssi Kiviniemi: Great. Thank you. That's all from my side.

Operator: Thank you. We'll take our next question from Robin from Carnegie. Please go ahead.

Robin Nyberg: Hello, it's Robin Nyberg from Carnegie. I have a couple of questions. First on the startups. Startups in Finland and CEE are down quite the bit. Should we expect that this is a good proxy for startups in the next quarters? And then looking at startups in Russia have actually increased quite a bit this year, but the market is still quite weak in Russia. So, could you comment on that as well? Thank you.

Kari Kauniskangas: So, in Finland, yes, the number of startups was lower. It was on the same level than the sales for consumers. The fact is that our resources in housing segment in Finland are in full use. So, also then opportunities to new startup was limited due to that reason during the quarter.

I think in big picture, the number of startups should mirror the overall demand especially in longer term. Secondly, as said, investor projects are more in our focus during coming quarters. And we will have some shift between consumer sales, consumer projects and in investor projects during coming quarters.

Robin Nyberg: Okay. Then regarding the guidance, you need a very strong Q4 in order to reach the guidance. Can you confirm that you have all kind of binding agreements for this large business premises project that you expect to divest or is the guidance dependent on customers still signing at the end of the year?

Kari Kauniskangas: So, we have high occupancy rate ratio in all those projects that we are planning to sell, so there is no need to have any new tenants as such. We have also those offers already and negotiations are ongoing. Of course, that the final contracts with the final terms and conditions has

to be agreed and the contracts or agreements signed by the end of this year to fulfill the promise. But we are quite confident that based on the current situation in negotiations we are able to proceed according to our plans.

Robin Nyberg: All right. And then one question regarding Russia. You gave some discounts now also in Q3. And when I look at the unsold completed apartments, it's still at a quite high level. Do you think that you need to give further discounts in Russia in order to reduce capital employed?

Kari Kauniskangas: During the quarter, there was one completion where there was quite many unsold completed apartments. So, that was the reason why the number of unsold completed apartments increased. At the same time, we have been able to proceed in selling the old stock where actually the value per apartment has been clearly higher than in those apartments which completed in Q3.

So, the capital tied to those apartments has continued to decline. Our target is to release some €50 million to €70 million from the capital tied in apartments unsold and completed by the end of the year. And I think we are on that track. And that is one of the key focus areas in Russia to release capital according to the targets announced earlier.

Robin Nyberg: All right. Thank you.

Operator: Once again, if you will like to ask a question please press star one. It appears there are no further questions at this time. I'd like to turn the conference back to other speakers for any additional or closing remarks. Thank you.

Kari Kauniskangas: Thank you and I wish you all good autumn and year end. Thank you.