

**Conference Title: YIT Interim Report for Jan-Sep 2020**

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Tommi Järvenpää: Good morning, and welcome to YIT's Third Quarter Earnings Webcast. My name is Tommi Järvenpää. I'm the head of YIT's Investor Relations.

Our third quarter was highlighted by strong sales in the Housing segments. However, our profitability was negatively impacted by bookings in the Business Premises. Next, our Chairman of the Board, Harri-Pekka Kaukonen, Interim CEO, Antti Inkilä, and CFO, Ilkka Salonen, will go through Q3 results and other main topics. After the presentation, we will be taking questions from the conference call lines.

At this point, I would like to hand over to our Chairman, Harri-Pekka Kaukonen. Please go ahead.

Harri-Pekka Kaukonen: Thank you, Tommi, for the opening words. Yes, my name is Harri-Pekka Kaukonen, and I'm the Chairman of the YIT Board. And I'd like to on my behalf also welcome everybody on the line over the phone or in the net.

I'd like to start with a key message that the YIT's strategy and strategic targets remain the same. So this change in leadership that we announced last week had more to do with accelerating and improving the quality of implementation in the strategy, in improving operational performance and also speeding up the cultural transformation towards a more customer focused and open culture.

I thought it would be appropriate to then recap the strategy as it has been communicated earlier. Our vision is more life in sustainable cities. What does that mean? Residents want safe and comfortable living environment and that they want to live in places where things are services are

accessible. So we talk about 15 minutes cities, where you can either walk or cycle or take public transportation. So sustainable, very comfortable living environment in total.

For cities, it's important to create attractive living environments for residents, but also equally to companies and to attract economic activity. And we believe today YIT is an excellent partner for that and we want to become an even better partner for cities and companies in the future.

Naturally then if we then go more in depth into the strategy. It evolves on the main sort of unifying theme is sustainable urban development. Therefore, clearly the main activities evolve around aligning the business mix and our activities around this unifying theme. The first element is really to strengthen our development pipeline, which mind you is very strong already today. It consists of a substantial plot reserve, which in euro terms, is way about €0.5 billion. And we have today about 4 million square meters of residential housing plot reserve.

It also evolves around partnerships and then the fundamental, the project development capability with partners. And as we have communicated earlier, we have validated pipeline of bigger hybrid urban development projects in excess of €2 billion today and growing.

The second element is in construction and – that we want to focus and concentrate much more on self-developed and designed project. And that's a natural consequence we want to develop and design and then focus our capabilities in the construction side in executing and implementing these well.

The third element, and this is something that we've started a few years back, is to increase our role in actually real estate investment. And it is really around partnerships and co-investments mainly and there are two key elements there to about housing portfolio and then large urban development project as mentioned. And during the last two years alone, we have announced several hundred million worth of housing projects and we expect that trend to continue and we

have very interesting initiatives in the pipeline. And already mentioned the size of this urban development portfolio.

The other focus area where we will invest more is in services. And here it is really to enrich our offering towards real estate owners and residents. And the main focus is to increase the life cycle value of the assets underneath. And in that context, we have also established a venturing unit who is looking for smaller startups, but it is also around our lifecycle services, which we have been doing already for a long, long time and a growing business for us.

So this is really the core of the strategic direction. The support, the implementation and also to improve the underlying financial performance, we have launched four group-wide programs or broad initiatives. The first deals with improving performance. And this is really obviously short-term. We have had the challenge in project cost overruns and the key priority of the management team is to improve our performance in project management and project performance.

The other important thing is around releasing capital from our balance sheet and improving the capital productivity, examples of that are the announcement of plot sales in the Moscow region, for example, and then also the development in Norway in the infrastructure size side as an example. The third area is then to improve productivity overall in the company through digitalization. And this is an area that goes all the way through the supply chain and all the way obviously all the way to customers and digital marketing.

The second broad bucket evolves customers and partners. And that is something where we continuously want to work with strengthening our brand, improving our customer experience, but it also deals with improving still our ability to develop commercial concepts together with partners and increase overall the level of activity in the company towards customers and partners.

Thirdly, our company, people in our company and also the society, of course at large, is very excited about the opportunities to improve, and also frankly, the need to improve sustainability in the construction sector. The first one deals with emissions and energy efficiency, huge untapped potential where we're working very hard and that evolves very concretely improving the sustainability in our operations and products. But also then taking clear measurable steps in reducing CO2 emissions.

The second clear theme is in safety. We have reached a certain level around 10 in the incident frequency. But during the last few years that level has been, the incident rate has remained on the same level and we're not satisfied with that level. We need to find ways to get a step change and improvement in safety.

Finally, we call it happy people. It's around really fundamentally about the cultural transformation. We want to increase the transparency in the culture. We have to also look at clarifying so the way – the roles of people, but also one theme that we want to really encourage people is to go for more openness in order to understand if we make mistakes that these are communicated and in that sense in the future, we will have fewer surprises. Mistakes happen, but we need to know when and where and why.

This also another theme around people is we have a very well-defined operational procedures common ways of working. We have excellent examples. We have won the best site nominations in Finland many years. So we have excellent capabilities. We just need to make sure that common ways of working and best practices are adopted in a better way across the company.

Leadership is a common development theme for us. And one of the key focus areas as mentioned is around the project management capabilities. So I hope that shares a little bit light on the development programs and as such there's nothing new in them. Perhaps some focus and tweaking in the priorities in these boxes.

Finally, just to recap on our financial target. They are unchanged. We have three targets. So the first is the return on capital employed, where we – our target is to reach a level of above 12%. Our gearing target communicated to market is between 30% and 50%. And then we aim for sustainably increasing growing dividend payout as dividend per share as the key measure.

So in conclusion, yes, change in leadership for the reasons I mentioned, but strategy and targets unchanged.

With that, I'd like to conclude my opening remarks and I'd like to introduce Antti Inkilä. Antti is a long timer in YIT with responsibility of the housing segment in Finland as CEE – Antti has an excellent track record. And as you can see from the numbers, for example, in our Q3 report, even under a very difficult COVID circumstances, the segment has performed very well. So I'm very happy that Antti accepted the nomination as our interim CEO. And I think he's the right guy to lead us for the next future until the new CEO is appointed.

So please, Antti, over to you.

Antti Inkilä: Thank you, Harri-Pekka, for your kind words. I'm very honored to take this position as interim CEO. And I'm also very committed to work with Board of Directors, our management team, and all our people across the business. But now I would go our quarter three results.

I'm very satisfied with results of Housing segments. We were able to increase our sales more than 15% if we compare that to last year. That amounted to, in quarter three, to €16 million adjusted operating profit. And this however is below last year. Yeah, below last years, because some challenges in the Business Premises segment.

We have analyzed those reasons and addressed the issues. Regarding our strategy execution, we took two actions to improve capital efficiency. We started to prepare closing down our business in Norway and we sold significant plot in Russia. Both of these actions will improve our financial position over coming quarters.

Finally, corona, a big issue for everyone. I'm really proud of how our organization has responded to this challenge. In the offices on the side, there has been an excellent, excellent work done and all our sites have been able to continue as planned. So health and safety are in the heart of our business more than ever right now. And like Harri-Pekka told, safety is absolutely priority for the management and it is visible in our daily life. And we have to continue our work to improve safety performance also in the future.

Now I would like to hand over to Ilkka, who will go through those financial figures.

Ilkka Salonen: Thank you, Antti, and good morning, everyone. Yes. If you look at the Group-level revenue down roughly about €100 million compared to the last year, but the order book is probably a place where we could hold for a while. Last year we had a four-point – more than €4.7 billion. And at the moment, we have €3.8 billion. So it's roughly about a €900 million lower than last year.

There are certain topics, which explains that. One is Tripla, which was in the order book roughly about €250 million last year. Then in Russia, our order book is about €200 million lower than last year. In Infra Project, it's about €300 million lower out of which Norway and Baltics are up more than €100 million. In Finland, less than €200 million. And over there, although we have won large size projects, but they are in the development phase. So they are not in the full for volume in our order book. And at the same time, we are completing a number of large size projects during this year.

And then the rest about €150 million is from the housing side, Housing Finland and CEE, where the startup volumes are lower than on the previous year. The general picture from our Q3 was that Housing segments Finland and CEE as well as Russia made a good result. The sales volumes were very good and especially compared to the expectations in the end of June, but at the same time, the disappointment was the business premises and especially those two write offs what we made.

If we look at segment-by-segment Housing Finland and CEE, slightly better than last year in quite an uncertain environment. Housing Russia, €7 million results this year. Last year zero. And over there, the volumes were the second highest the sales volumes in YIT's history. Business Premises deteriorated by Tripla €80 million and one Business Premises write-down in Finland, €7 million.

Infrastructure projects, quite stable compared to the last year and Partnership Properties slightly higher than last year.

In Housing Finland and CEE adjusted operating profit was €16 million. And Apartment startups, they were at a good level. What was new experience for us also where we had to improve our capabilities, even we had digitalization and the sale in over the net, actually that part has developed very nicely during of this year. And the living services part continued to grow.

Russia, the apartment sales, were record, record highs, the second highest ever in YIT's history. And what are the drivers over there? Of course, they generate the volumes in the Russia market what comes to the startups and construction of apartments are lower level but the major thing is that there is a support from the state what comes to the mortgages, meaning that 6.5% is the ceiling. It was planning to be ended that program in the beginning of November. But just in the beginning of this month, it was announced that it will continue also for until for next summer. So the demand for apartments have been very good over there.

And apartment sales, yes, 120% up, that describes quite well what comes to the market. And if we look at the areas where we are planning to close the operations, those are going as planned. And one part of that one was the plot sales which we announced just about a couple of – just last week.

And we are in the Business Premises side. Here the adjusted operating profit minus €19 million. And if you look at the two topics over there, €80 million margin reduction in Tripla projects and €7 million inventory write-down for one Business Premises in Finland.

If we stop for a while for these Tripla case. And of course the good question is that what has happened, between the end of June and end of September. If we look at that, there are actually two reasons behind that. One is related for the final settlements in Q2 and especially in June, we acquired quite a lot claims from the subcontractor side. And we were making the forecast based on that knowledge what we have at that time.

During Q3, we have been able to really look at those claims thoroughly through used also external advisors to really get the real risk position from those ones. The other one is that there were still some work to do in Tripla in Q3. And some of those were, let's say, the technical design had to be somehow different than it was initially planned at that had also extra costs. And where we are at the moment, there's no works anymore in Tripla, and there are final settlements still going on for some of the subcontractors.

The inventory write-down in about €7 million. We were able to get a good tenant to one premise in other parts of the Finland. And we have get – we have got the bids for that one, but we also have to make some changes and works in the premise before it can be sold. And based on that one, we made €7 million write-down. The good point is over there that we are planning to sell that one as soon as possible and get the positive cash flow, clearly positive cash flow from that one.



And then if will look at the order book that was solid and healthy and it was also growing.

Infra project side adjusted operating profit €10 million. We announced closing down of Norwegian operations. Production volumes decreased in Scandinavia and Baltics. And order book, as I mentioned, it was decreased due to Norway as well as well as the Baltics, but also in Finland due to the reason that we have one big project out of which on the development part is in order book.

Partnership properties, adjusted operating profit, €5 million. New associated companies established to strengthen housing portfolio. Order book €305 million from real estate management, which is a long tail order book. And the portfolio value in the end of September was €260 million.

Then to the financial side. If we look at the cash flow part, minus €9 million, minus €27 million. It was also a minus in the year 2018. In the second quarter, we sold paving operations to Peab and got roughly about €250 million cash in. And that has actually been in our liquidity since that. So we haven't decreased our interest-bearing debt. That's just due to the reason that the external world has still some uncertainties. Although this situation, we have been investing cash flow to plots €37 million, we have done the plot investments through the whole year, and we are continuing as part of our strategy as Chairman of the Board stated earlier.

Net interest-bearing debt, although our interest-bearing debt is quite stable over €1 billion, our net interest-bearing debt had come down about €240 million. And we have more than €300 million liquidity in our cash. We see actually that next year, next year the refinancing but for sure we will – have the refinancing operations next year as well, but that if we look at our liquidity and the maturity, we are in a very good position over there.

Equity ratio and gearing, we are in 84%. It's pretty much the same then in the end of last year. And the target is 30% to 50% and that is where we are going to by implementing our strategy. And net debt to adjusted EBITDA a little bit less than 4.

Now I would like to hand over to Antti.

Antti Inkilä: Thank you, Ilkka. If we go to the outlook, the market situation in quarter three was actually quite solid, and especially housing markets have exceeded our expectations. As I earlier said, our housing sales went up by 50% compared to the same period last year. And despite the uncertainties related to this coronavirus pandemic, the reservation situation for our new projects is at high level. And that gives us confident for stable outlook for quarter four, even if uncertainty has increased again, because of, COVID, second wave.

Quarter three is typically a strong quarter also seasonally for us. And so it is also this year, a similar pattern also will happen or will – is expected to happen next year. So the quarter four is a strong quarter. We announced a couple of weeks ago that our outlook for the rest of this year has clarified, thereby, we also reinstated our results guidance.

Our outlook is supported by strong apartment sales, good reservation levels, as well as the construction site progressing according to plans. So we expect that Group adjusted operating profit to be in the range of €90 million to €110 million in 2020.

And finally, let's take a look what the management team will focus in on as we go forward. We have outlined four priority areas. And first one is that we need to improve our project management. It is absolutely crucial to reduce the amount of negative surprises and to achieve this, we promote open culture, disciplined and common ways of working and sharing best practices between different segments. With better project management, we are able to improve our profitability.

Secondly, we will continue to expand digital services. Digitalization is very important. It helps us in many ways. It helps us also understand better our customers and target better customer experience. As a good example of that is that it's possible to buy an apartment from your own home throughout digitalized channels.

Thirdly, sustainability is the core of our business. We announced a year ago that we are going to halve our CO2 emissions by 2030. Now we have defined the baseline and we are currently developing a climate action plan to achieve the target. The first measures have been done. For example, we have decided that we will use green energy in our operations in Finland. And the next step is that those sustainability targets will go to the segment level. And after that to the unit level.

Finally but not last are our people. Our people are the most valuable assets of us. Improving safety performance in all areas and ensuring the health of our people during, especially now coronavirus pandemic time, are the key priorities for us. We really have a great team, like Harri-Pekka said, we have extraordinary know-how when it comes to construction. And I'm really looking forward to continue working with everyone into 2021.

So thank you for your time. And now I think I hand over to Tommi and, I guess, it's time for questions.

Tommi Järvenpää: Thanks, Antti. Yes, indeed. Operator, we are not ready for the questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, please press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity

to signal for questions. We'll take our first question from the line of Anssi Kiviniemi. Your line is open. Please go ahead.

Anssi Kiviniemi: Hi guys. Thanks for taking my questions. I have a couple of them, so I will take them one by one if that's okay. Kicking off with the Russia. Of course, looking at the interest rates and mortgage rates, there has been a support, but has there been any other significant factors that really boosted your housing sales in Q3? That's the first one.

Tommi Järvenpää: Ilkka?

Ilkka Salonen: Yeah, actually two factors behind that. One is the general, let's say, supply in the market is lower than it used to be. And the other one is it's also which supported that we have digital sales channel four for our sales of apartments also in Russia.

Anssi Kiviniemi: Okay. Thanks. And you expect this kind of market continue at least for the next eight to nine months, or how should we read the situation in Russia?

Ilkka Salonen: Situation in Russia, what comes to the demand for apartments should be quite stable for the coming couple of quarters. That's –

Anssi Kiviniemi: Okay. Thanks. Then on Tripla and the bookings, kind of what is the risk on further issues and further bookings? And could you elaborate a bit on the potential risk on the potential settlements that there might be as there are still some issues on the table, right?

Ilkka Salonen: Yeah, thanks Antti. There are still final settlements in the table. The forecast what we have made is the best estimate what we can do. There are plus and minuses but the magnitude shouldn't be remarkable. So the situation at the moment is different than it was in the end of Q2 relating for the fact that there is no work in Tripla anymore. And we have a lot more

deep knowledge what comes to the claim both sides from our side to the subcontractors and on the other side.

Anssi Kiviniemi: Okay. Thanks. And now that you have analyzed the reasons behind the cost overruns and issues in Tripla, what were the clear reasons or most important reasons and kind of what have you done now to prevent them happening again and what do you do differently from now on?

Ilkka Salonen: Yeah. We have done quite a lot home works over there. We have also used external consultants to really go deep to the root causes. There are a number of those ones. Then of course, we will take all those when we go to the new projects. But if we look at probably two topics are somehow bigger than the others. Of course, let's say, generally about the project management side. There, we have quite a lot of single topics where we can improve our performance.

The other one is that last fall we really wanted to get it open 16<sup>th</sup> October and we succeeded on that one and that had an extra costs, not only for the reason that it's more expensive, but also if we look at the number of people who were working in the site was definitely more than it was expected. And then that's pretty much the reasons.

Of course, the third one is that there hasn't been such a big project in – and complex previously. So that takes also some learning curve. So that's probably smaller reason than the two others.

Anssi Kiviniemi: And you, in Q2, highlighted, I think, that all of the separate projects in Tripla were profitable. What's the situation now after the Q3 bookings?

Ilkka Salonen: We can restate that one. Yeah. They are profitable in the Businesses Premises side, as well as in the Housing side. And also of course the ownership of Tripla is also valuable.

Anssi Kiviniemi: Great. Thanks. Then on Housing side, the completions in Housing, Finland and CEE. You now indicate declining the completions. Probably this means the result in the division will decline, but how's the mix looking. Is there, for example, more houses to be completed in the Helsinki region, meaning the mix will be good or how should we look at that when we enter into 2021?

Tommi Järvenpää: Antti, would you like to –

Antti Inkilä: Okay. Yeah. Thank you for the question. Yes. There is more – some more project in the Helsinki area than in the outer part of Finland if we think about those consumer projects, in some sense, yes.

Anssi Kiviniemi: Okay. Thanks. Then perhaps last question is on cash flow in Q4. A lot of completions usually means good release from the working capital side. Should we expect a similar release compared to last year in Q4? I think it was roughly €140 million. Or how should we think about the Q4 cash flow?

Ilkka Salonen: It will be, of course, positive one and quite good positive one for the way of what we are targeting is the operating cash flow positive without the paving sales.

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

Operator: Ladies and gentlemen, once again, if you would like to ask a question, please press star one on your telephone keypad. We'll take our next question from the line of Olli Koponen from Inderes. Your line is open. Please go ahead.

Olli Koponen: Yeah. Hello, it's Olli from Inderes. I have a couple of questions left. First on the Housing Finland and CEE. Just on the geographical mix going forward. Do you expect it to improve in Q4 and should we like expect natural pick up in the medium prices and margins in Q4?

Antti Inkilä: Thanks, Olli. Well, I think not. I think that we will be the same level in that sense. No big difference.

Olli Koponen: Okay. Also startups have been quite too low during the year. Are you planning on increasing startups during the quarter, or is this the level you are targeting going forward?

Antti Inkilä: Well, the startup are because of the spring time and COVID case, we stopped startups for one and a half months and that is seen in our figures now. Now we have, like how I would say it, put the pedal on the bottom. So we have increased our startups, but of course this COVID case is something that we will follow very, very thoroughly and make those startups according to the situation.

Olli Koponen: Okay. Then on the Business Premises side, if I remember correctly, you previously have said that the revenue should have bottomed in Q2 this year. And now the revenue was down compared to Q2, do you have any specific reasons for this or has the corona been affecting the situation here?

Ilkka Salonen: Yeah. If we look at the order book was already in better shape in the end of Q2. There, some impact from the corona but not very drastic one. So pretty much, let's say, without corona, we would have been probably in flat, nothing special[?].

Olli Koponen: Okay. Then on the infra project side. In the report, you said that the demand is weakening in Finland. Can you clarify this point on is it mainly about the projects being in the planning phase or is the demand really slowing down here?

Ilkka Salonen: Yeah. Actually if we look at the market situation in infra side, the state projects and what there is happening is, is pretty much continuing as earlier expected. What we have seen during the last month or a couple is that they especially those cases which are in the cities, they are looking for their next year budgeting. And some of the projects or the tendering processes are actually postponing.

And that is the reason why we see that Finland is somehow not that strong as it was in May or June, the outlook.

Olli Koponen: Okay. And continuing on the infra project side on the margins. The margins were stable during the quarter. Is this the level we are supposed to expect from the segment going forward? Or do you see material improvements looking forward?

Ilkka Salonen: Of course we are doing hard work over there as well. And as Antti said, project management is our one of the key focus and say that the level of where we are is not there where we want to be in the long run. So there we have that 4% at least for the infra projects. But we still have work to do.

Olli Koponen: Do you expect much better margins after you have finalized your Norway write-off?

Ilkka Salonen: If we look at the Norway itself, it has been – it has delivered negative results, and of course, that has an positive impact when that one is away from our portfolio.



Olli Koponen:           Okay. I think that's all for me. Thank you very much.

Operator:           Once again, please press star one to ask a question. It appears we have no further question at this time. Please go ahead for any additional or closing remarks.

Tommi Järvenpää:     Thank you very much. Thank you for the questions. YIT's third quarter and full year 2020 results will be published on 3<sup>rd</sup> February 2021. At this point, thank you for the gentleman. Thank you for the audience. Have a great day.

Harri-Pekka Kaukonen:       Thank you.

Antti Inkilä:       Thank you.

Operator:           That concludes today's conference. Thank you everyone for your participation. You may now disconnect.