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PRESENTATION

Samu Heikkilä
Good morning and welcome to YIT's Full-Year 2022 Results Webcast. My name is Samu Heikkilä, and I'm YIT's Investor Relations Manager. The results and highlights of YIT's 2022 will be presented by our CEO, Heikki Vuorenmaa; and our CFO, Tuomas Mäkipeska. After their presentation, we will be taking questions from the conference call line. At this point, I would like to hand over to our CEO, Heikki. Please go ahead.

Heikki Vuorenmaa
Thank you, Samu. During the 2022, our execution of strategy progressed on multiple fronts. We sold our businesses in Russia, improved our profitability and productivity, as well as emphasized sustainability in all our operations while introducing, for example, new construction material innovations to our production and setting ambitious goal for us to become a carbon-neutral construction company. If we take a look for the year 2022 with the numbers, our revenue declined by 9 percentage points year-on-year, driven by the lower number of apartment completions and lower sales in Housing. On Business Premises and Infrastructure, our revenue remains stable but decreased in the Property Development where the comparative period was supported by the Lestijärvi wind farm sale.

Our increased profitability, both in adjusted EBIT and EBIT margin, reflects the stabilized underlying performance in the Business Premises and Infrastructure side, the productivity gains, and enhanced project management.

During 2022, we took those decisive steps on our strategy execution. As I mentioned before, one of the key events of the year was the sale of the YIT business in Russia. The strategic review of the Russian business was originally initiated already in November 2021 and then accelerated after Russia's invasion of Ukraine in early 2022. The sale was finalized under challenging conditions, which led to a weaker financial outcome than originally anticipated. However, after the sale, we were able to fully focus on our strategy and core businesses.

In our strategy, we also outlined the plan to achieve annual cost savings, €15 million to €20 million by 2023 in our continuing operations. By the end of 2022, the annual cost savings amounted to over €20 million, exceeding the goal outlined in that strategy. We also achieved additional efficiencies from enhanced project management.

At the end of 2022, we set ambitious goals to carbon-neutral construction by updating our climate targets and created a carbon road map to reduce emissions. We are aiming to be a carbon-neutral on our own operations by 2030, and we are committed to cut at least 30% of our value chain emissions by the same year. We have already reduced the emissions from our own operations by over 55% compared to the reference year 2019. We have also taken an important step in reducing our value chain emissions, like mentioned earlier.

If we take a look in the numbers through the different segments; first, let's start from the Housing performance. In 2022, we had approximately 3,000 consumer apartment completions, which is 300 less than 2021. In addition to lower completions, profitability was impacted by lower sales.

We, again, achieved very high customer satisfaction and renewed our number one position in the annual EPSI Rating. This is a result of long-term work and reflects our personnel's commitment to exceed customer expectations. During 2022, we were able to strengthen our land bank in selected growing cities, which enables us today to construct approximately 34,000 new homes.

On the Business Premises segment, we progressed by improving our profitability. Our adjusting operating profit increased to €20 million, which was supported by enhanced project management, but also by the sale of two self-developed projects during the second quarter.

Over the year, we experienced increased construction material costs that had a negative impact on margins. While maintaining the order book on a healthy level, we have continued our focused tendering efforts on projects in which we can deliver the most value for our customers.

In Infrastructure segment, our underlying performance stabilized, yet the profitability is still on very modest level. Our portfolio continues to carry certain legacy projects which impact negatively to our overall performance. During 2022, we have had good accomplishments in alliance projects, delivering the solutions to our customers within the budget and ahead of the schedule.

On the Property Development side, there were no major transactions during 2022. The comparative period was supported by a positive impact from the sale of Lestijärvi wind farm. Our profitability was also impacted during Q4 by an impairment related to a development project.

The fair value of YIT's partly-owned Mall of Tripla remained stable. Market yields increased, but the negative effect on fair value was offset by other factors, including increases in the cash flow estimates. The Mall of Tripla continued its good performance with all-time high sales both in November and December 2022.

We also received multiple awards: for example, awarded as the Best Shopping Center in Helsinki in Finland and also in the Nordics. We also continued our determined work to develop significant wind power portfolio, which currently has 2,900 megawatts in preliminary study phase and 550 megawatts in permitting phase.

Tuomas Mäkipeska
Okay. Thank you, Heikki, and good morning on my behalf as well. Q4 was another strong quarter for us. And by that, we closed an overall solid fiscal year in a challenging operating environment. Our profitability improved and the order book remained healthy and solid, which ensures our future revenues and profits.

Let's see the financial highlights of the quarter and the year. Here we have the key performance indicators of the year for continuing operations. As Heikki already mentioned, so the adjusted EBIT improved both in absolute and relative terms significantly. Our net debt increased, which reflects our investments for the future and ensuring the future profits as well. The earnings per share increased clearly and amounted to €0.28. And our Board of Directors proposes to the AGM a growing dividend of €0.18. So, these are the highlights of the fiscal year, but let's then have a look at the overall financials a bit closer.

Here we have the order book development on the left-hand side. And the order book decreased slightly from the last year and also from the last quarter. And the order book decreased somewhat in Infrastructure, but remained relatively stable in the other segments. And when taking into account our selectiveness in the market, the order book remained on a strong and healthy level; and I think it's, again, a good evidence of our competitiveness in the market. The healthy order book will safeguard our volumes and profits going forward in the unstable market conditions.

The revenue decreased driven by the Housing and Property Development, while we also achieved growth in Business Premises. The Housing revenue decrease was due to the lower apartment, lower number of apartment completions and lower sales. But our top priority and the target has been profitability improvement instead of increasing volumes. And despite of the lower revenue, we deliver a clear EBIT improvement in 2022.

Let's then have a look at the adjusted EBIT. We were able to improve our absolute EBIT significantly despite the lower revenues, as I mentioned, especially in Housing. But in the big picture, the underlying performance was stable in all segments and actually all segments gained benefits from the executed fixed cost reductions. Heikki already mentioned that, in total, the fixed cost savings amounted to over €20 million compared to the last year, mainly driven by the more efficient operating model that we launched in the beginning of the year.

As we look at the adjusted EBIT improvement from segment break down perspective, the improvement compared to year 2021 was heavily driven by the Infrastructure. There were project write-downs in the comparison period which, of course, impact the improvement, but also the underlying profitability improved in the segment. The main source for EBIT improvement was the project management and decreased project deviations or project margin deviations.

In Business Premises, the increase was mainly due to the two self-developed projects recognized already in the second quartile of the year. One of them was in Bratislava, Slovakia, the Pradiareň, and the other one in Turku, Finland. Those had a positive impact on the earnings of Business Premises in year 2022.

In Housing, the adjusted debit decreased due to the lower volumes as discussed already earlier, but in Property Development, there was the Lestijärvi wind farm sale in the comparison period, which makes the delta negative here as well.

In year 2022, no corresponding wind park sale occurred, but we see our wind park portfolio very attractive at the moment, which will improve our profits in the coming years. And finally, there was an internal margin reversal in our structure that also supported the profitability improvement in 2022.

Then, moving on to the balance sheet and cash flow and capital employed development, the development reflects our investments to the future earnings, and this is according to our strategy, as communicated earlier as well.

During the year, we continued to invest in plots, in growing cities of Finland and CEE countries and grew our land bank further. We started up self-developed project in Housing and Property Development, and the project will be completed during the years 2023 and 2024 and thus ensures our profits going forward as the market picks up again.

Also, our number of completed unsold apartments increased due to the challenging market situation and muted demand for the apartments. But it is very important to note that more than 80% of the apartments are in capital regions or university towns in Finland and Central European countries; meaning that they are very current products to be sold as the demand recovers again.

As we have communicated, we are taking a bit more cautious approach to new investments and startups. And this was already reflected in Q4 cash flow, which was €40 million positive.

Then, if you have a look at the net debt structure and the net debt, which increased during the year, that was mainly driven by the cash flow development I just described. But it is very important to note here that our net debt structure and the low financial risk profile that we have is illustrated on the left-hand side in terms of the gross debt. Our net debt, excluding the IFRS 16 items and the Housing company loans, is approximately €130 million. So adjusted net debt €130 million approximately, and that was also decreased from the Q3.

Also, as I mentioned earlier, we have a valuable inventory of apartments to be sold when the demand picks up again; and this will again support our cash flow generation and net debt development.

Then, if we have a look at the maturity structure of our debt portfolio, so we can argue that it's a healthy structure and maturity. And as normally, we proactively manage our debt portfolio and evaluate our options for the refinancing well in advance.

All in all, our balance sheet remained strong during the year, and it allows us to execute our strategy going forward. As mentioned, the increase in net debt is related to the growth investments to plots and construction volumes, and it is also visible, of course, in the gearing development as well.

As already Heikki mentioned, it is good to note that the sale of the Russian operations in Q2 already had a negative impact on the gearing and our equity ratio. But after the transaction, the development has been stable during the year. Our solid balance sheet supports us as we navigate through the unstable market environment.

So to summarize, the improved performance drove our earnings growth, and by already made investments and solid order book, we are well-equipped to continue executing our strategy.

Thank you. And now, back to you, Heikki.

Heikki Vuorenmaa
Thank you, Tuomas. Let's take a look then a little bit on the market, how we see the 2023 be. The Housing market, with the consumer demand, has remained at the low level as a result of the weakened general consumer confidence, rising interest rates, and higher energy prices. Demand on the investor side has also affected and investors drew more cautious due to the uncertain economic outlook.

The demand outlook on the housing market remains muted in the short term. Real estate market and the growing cost pressure we have slowed down customers' decision making, but only a few projects have been postponed. On the investor side, demand has also weakened as rising interest rates is increasing yields and financing costs for the projects.

In the Central Eastern Europe, the market was supported, especially by the private sector demand for new Business Premises. Headwinds caused by uncertain macroeconomic outlook are expected to persist in the short term. Cost inflation in some construction material showed signs of leveling off and the workforce availability improved.

Infrastructure markets in Finland, the public sector demand remained at the moderate level with several projects in the planning and bidding phase. Private sector demand is driven by industrial construction and the transition towards renewable energy. The increased cautiousness in the overall market could lead to postponements of some upcoming projects. In Sweden, the market remains active, yet the competition for project remains intense as well.

Let's then double click a little bit on the housing market and same time zoom out to take a look at the big picture in the light of our apartments under construction and unsold pipeline. As mentioned before, the number of unsold completed apartments increased to 794, of which more than 80% are in the capital regions or university towns in Finland and Central Eastern Europe. Percentage share of the sold apartments under construction is at 60%, which is in historical perspective, within the standard range.

Like Tuomas mentioned, we've taken the prudent approach to the new consumer start-ups to react on these market changes. And we continue to have typical level of promotional campaigns to support the sales.

Consumer apartments completion site, we plan to have approximately 3,000 units this year, of which 1,500 or 50% in the Central Eastern Europe. This is reflecting well our strategic ambitions to react growth on the region. In addition, we have 3,400 units under construction for investors that will be recognized over the time.

Over to you, Tuomas

Tuomas Mäkipeska
Yes. Thank you, Heikki.

So, YIT expected group adjusted operating profit for continuing operations to be lower than in year 2022, which was €110 million. In Housing, the demand outlook remains muted in the short term; and in Business Premises and Infrastructure, the underlying operational performance is expected to improve, but certain legacy, low margin projects will still affect Infrastructure's performance.

YIT's performance will be supported by the increased efficiencies from the transformation program that we just launched. It's good to note that the developments in housing markets may have an impact on the outlook and the rising interest rates may have a negative impact on the fair value of our investments.

And back to you, Heikki.

Heikki Vuorenmaa
Thank you, Tuomas. So, we have covered the market, but let's talk about topics that are on our own hands. As we today announced, the new program to generate further efficiency gains. The program target is to support our short-term profitability while also increasing our long-term competitiveness. We expect the main part of these operating expense savings comes from the IT facility expenses, operating model changes, as well as other indirect costs.

Additionally, we continue to increase our efficiency in the procurement, project management and productivity. These cost savings will come on top of the cost savings that we already have achieved by the end of 2022. We expect to achieve more than half of the planned run rate cost savings during this year.

As a summary, we continue to take decisive actions to generate further efficiency gains and improve our profitability. We focused on maintaining our capability to invest while we navigate through the challenging market. And we are very committed to continue our journey towards the carbon neutral company that we see the future growth potential in it. Thank you.

Samu Heikkilä
Thank you Heikki, and thank you Tuomas. Operator, we are now ready for the questions.

QUESTION AND ANSWER SECTION

Operator
Thank you. The next question comes from Mika Karppinen from Danske Bank. Please go ahead.

Mika Karppinen
Yeah. Hi. Good morning. This is Mika from Danske. Could you comment on the EBIT margin development in the Housing business in Q4? Was there something exceptional compared to previous years in mix or something else? Has it improved despite the lower sales?

Tuomas Mäkipeska
Yes. Thank you, Mika, for the question. I can answer that. So in Q4, in our Housing segment, we had a large number of completions with actually pretty good reservation on sales rate, both in Finland, but especially in the CEE countries. And this was supporting our Q4 earnings in the Housing segment.

Mika Karppinen
Okay. Then, if I continue with the unsold inventory, it clearly increased. So what kind of measures you are planning to lower the sort of those inventories?

Tuomas Mäkipeska
Yes. As we see the increase in the inventory has been actually developing during the year, which is, of course, related to the market demand that which we have been seeing decreasing. We have been monitoring their inventory pretty closely and looking at our options. And of course, the main thing that we have been doing is supporting our sales with the marketing campaigns and so on. So that's the main mean to accelerate the sales.

We have also looked at several other options and looking at them now going forward as well. So, basically, what we see that our inventory is very current and we have good apartments in the inventory. And when the market picks up again, so we have very good products to be sold. So this is basically what we are doing.

Mika Karppinen
Hi. This is Mika. Can you hear me? I lost sort of your answer to my last question.

Tuomas Mäkipeska
Okay. We seem to have technical problems; problems in the line. I'll answer it again. I'm not sure if the other ones heard it already. But your question regarding the inventory of complete and unsold apartments.

So, yes, we are monitoring closely the inventory levels. And the main mean for supporting the sales is the marketing campaigns and other sales supporting actions, and these have been carried out throughout the year. Also, we are looking, of course, the other probable options all the time and also going forward. But it's good to know that our inventory consists of good products in the current location. So as the market then picks up again, so we have very good products to be sold – ready in our inventory.

Mika Karppinen
Okay, good. Thank you. That's all for me.

Operator
The next question comes from Robin Nyberg from Carnegie Investment Bank. Please go ahead.

Robin Nyberg
Hello. Robin Nyberg from Carnegie here. Probably, you have already answered this one, but I also had some issues with the line here. You reported quite strong profitability in the Housing segment. Could you please give us some details what was the main driver behind the very strong margin despite the lower sales there?

Tuomas Mäkipeska
Yes. Thank you, Robin, for the question. And this came through already earlier, but I'll answer again, so probably everybody can hear it now. It is true that the Housing segment's profits in Q4 were strong. The main driver behind is a large number of completions in Q4, with a good reservation and sales rates both in Finland and CEE countries, but especially a couple of good completions in CEE countries with a good sales rate boosted the EBIT for the Q4 in Housing segment.

Robin Nyberg
Okay. Thank you. And could you give us any indication of the level of start-ups outlook for this year?

Tuomas Mäkipeska
Well, as mentioned already, so we are taking, of course, the cautious approach to the start-ups and looking very closely to the market, and the cautiousness being that we are actually demanding a higher level of reservations or pre-reservations before making any start-up decisions this year. So, this will have an impact on the startup volumes during the year. But of course, now, the outlook is somewhat muted in the short term. So, this increases our cautiousness in the short term but we are looking at the market very closely.

Robin Nyberg
Thank you. My last question, have you seen any indications that apartment sales in January would have picked up from the level in December?

Tuomas Mäkipeska
Well, we have been seeing some positive indicators in the market regarding the web traffic on our sites, but also the showing of the apartment. There has been more traffic on those as well now during January. Also, there are good, let's say, good indicators in CEE countries already that the market demand would probably pick up, but those are just early indicators that we see now and as mentioned, so looking very closely at how those will develop.

Robin Nyberg
Maybe one final if I may, you highlight in the infra segment some legacy projects. Could you please elaborate on the potential risks size on those projects?

Tuomas Mäkipeska
Well, yes, as we have been communicating already back in 2021 and during the last year or so, 2021 and during the last year. So, we have some of those legacy projects in the Infrastructure segment. Some of them

have been started up several years ago or most of them actually have been started years ago, and we have been taking a lot of measures to improve the profitability of those projects as well. But when we are talking about Infrastructure projects, some of them are also pretty long or taking long time to complete, so this is something that we will carry on a bit going forward as well. But anyway, we are not disclosing any size of the risks. But as mentioned already back in 2021 in Q4, we made pretty significant write-downs concerning those legacy projects already.

Robin Nyberg
Okay. Thank you. That's all for me. Thanks.

Tuomas Mäkipeska
Thank you, Robin.

Operator
There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

Samu Heikkilä
Thank you. We once more apologize for technical issues on the line. We will be publishing a recording of the webcast at our website later today. Looking forward, YIT's first quarter results will be published on the 3rd of May. Thank you and have a great day.