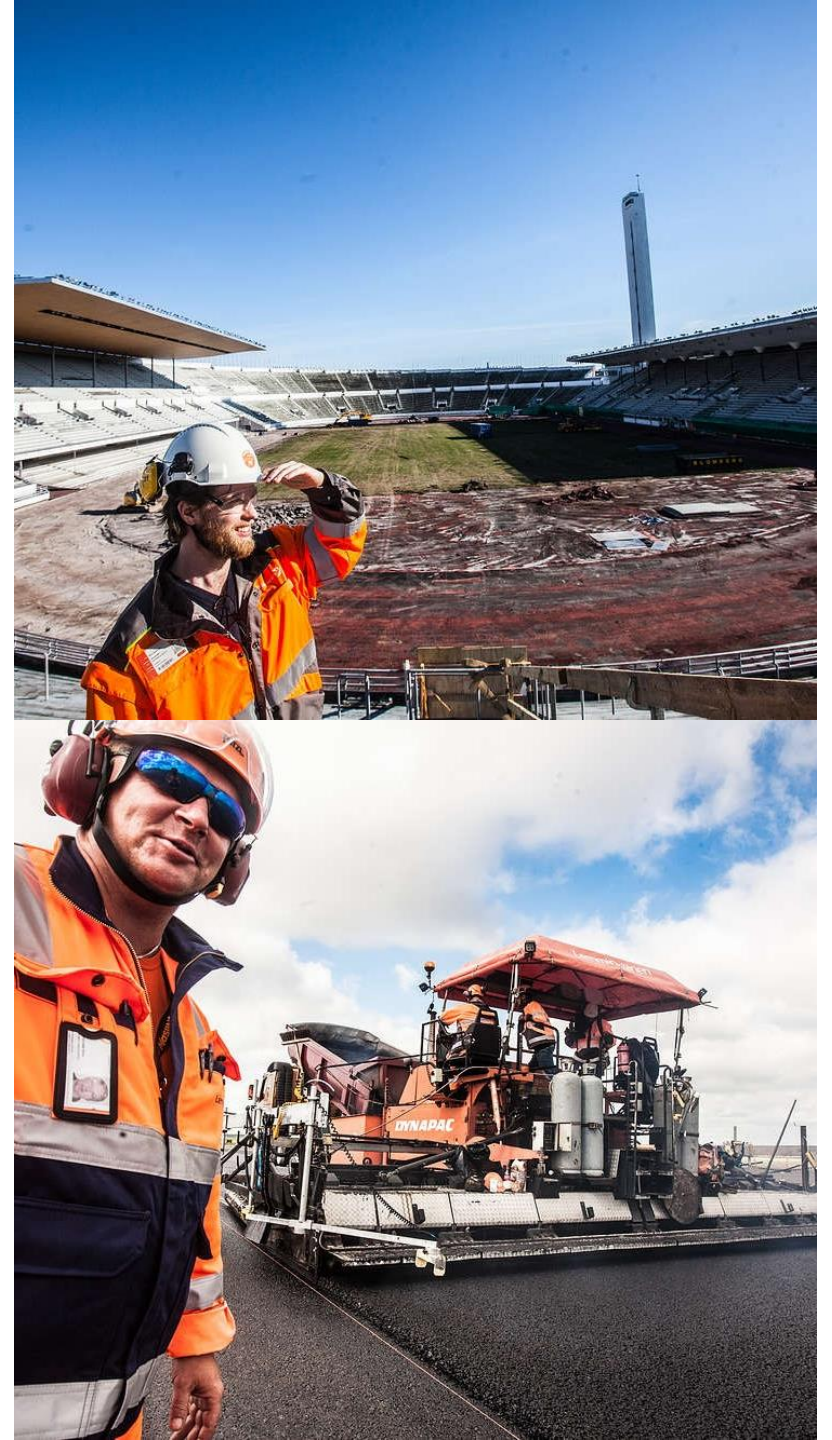


# Lemminkäinen

Carnegie Construction seminar  
President and CEO Casimir Lindholm

Lemminkäinen



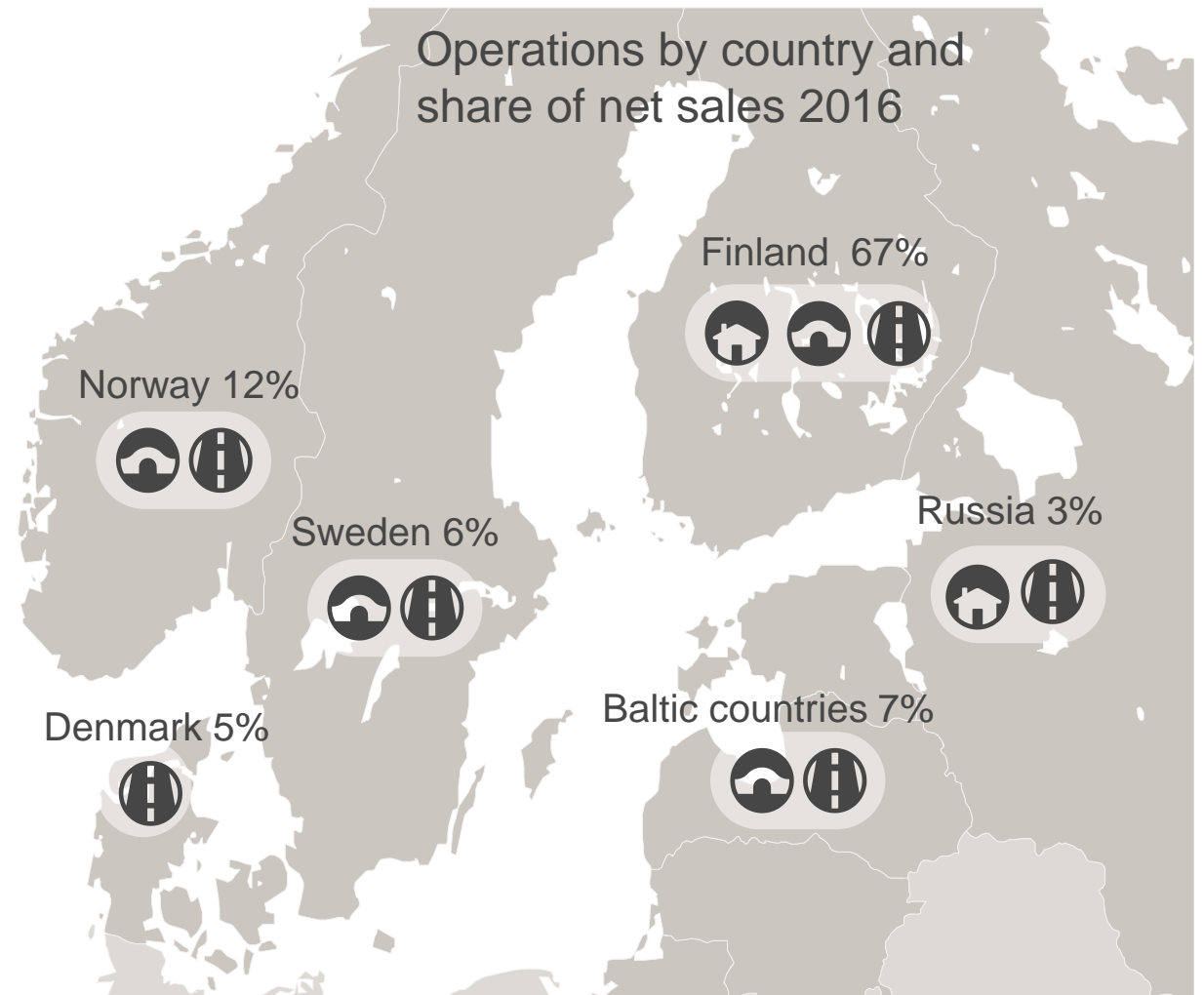
Lemminkäinen in brief  
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# Lemminkäinen - a strong infrastructure constructor in Northern Europe

Net sales 2016 EUR 1,683 million  
Operations in 8 countries  
Personnel 30 June 2017 5,960

Business	Area of operation	Share of net sales 2016
Paving	Paving and mineral aggregates	46%
Infra projects	Rock engineering, earthworks and civil engineering	19%
Building construction	Residential and non-residential development and contracting	35%



# Lemminkäinen in 2000–2017

2000–2008  
TIME OF FAST GROWTH

2010–2013  
TOWARDS  
ONE LEMMINKÄINEN

2014–2016  
TURNAROUND  
COMBINATION  
WITH YIT

## Major events

**2009:** Supreme Administrative Court decision on asphalt cartel (68 MEUR)

**2010:** PEAB buys 10% of Lemminkäinen's shares

**2014:** Rights Offering

**2015:** Decision not to start new residential development projects in Russia for the time being

**2013:** District Court's decision concerning damages related to asphalt cartel (66 MEUR)

**2016:** Helsinki Court of Appeal's decision concerning damages related to asphalt cartel (reimbursement 20 MEUR)

## Major acquisitions

**2001:** Icopal Roads (INFRA), NOR+DEN

**2000:** Tekmanni (technical building services), FIN

**2011:** Mesta Industri (INFRA), NOR

## Major divestments

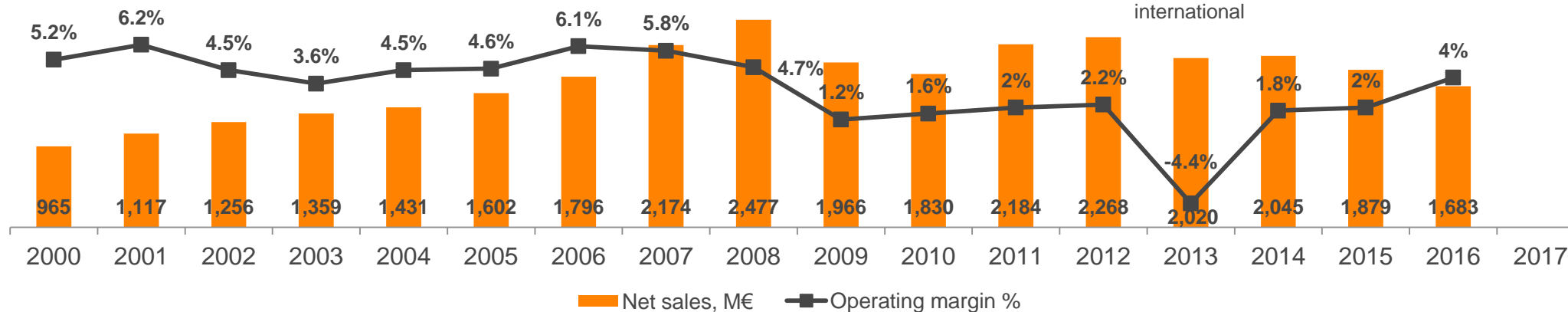
**2010:** Roofing business, FIN

**2012:** Concrete business, FIN

**2014:** Technical building services, FIN

**2013–2014:** Telecom network business, international

**2015:** Building construction SWE, road maintenance NOR





# Review of the last three years

- Stronger balance sheet and cash flow.
- Operating capital has decreased from EUR 697 million in June 2014 to EUR 421 million in June 2017.
- Reduced investments and fixed cost level.
- Improved debt structure; interest-bearing net debt has decreased from EUR 340 million in June 2014 to EUR 157 million in June 2017 despite the redemption of the first hybrid bond.
- Improved transparency and corporate governance by implementing the new organisation structure, internal processes and procedures.
- Streamlined business portfolio.
- Substantially decreased risk level in Russia.
- Plan to combine with YIT announced in June 2017.



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# Strategy progress

2014–2019	<b>Strengthened balance sheet structure</b> ✓		Q1/2014	Q2/2017
		Cash	54 M€	56 M€
		Cash flow (rolling 12 months)	-70 M€	4 M€
		Operating capital	691 M€	421 M€
		Interest-bearing net debt	364 M€	157 M€
		Outstanding hybrid bonds	140 M€	35 M€
		FY financial costs	50 M€	10 M€

2015–2019

**Operational efficiency & cash flow generation**

**Actions in 2017**

- Streamline and unify processes within segments
- Elimination of excess waiting times
- Energy and material efficiency
- Better mobility of equipment and personnel

2016–2019

**Profitable growth in focused areas**

**Actions in 2017**

- Strengthen organisation in Sweden
- Capability development

# Streamlined business portfolio and reduced risk level

## Business portfolio on 1 Jan 2014



Net sales in 2013: 2,218 M€  
Operating margin in 2013: -0.2%  
Personnel 31 Dec 2013: 7,049

## Business portfolio on 1 Jan 2017



Net sales in 2016: 1,683 M€  
Operating margin in 2016: 2.7%  
Personnel 31 Dec 2016: 4,244



# Financial targets

- ROCE above 15% in 2019
- EBIT margin above 4% in 2019
- Equity ratio above 35% during 2016-2019
- Lemminkäinen aims for a stable distribution of dividends, with at least 40% of the profit for the financial year distributed to shareholders.
- The company will maintain a moderate risk level during the strategy period to reach our financial targets.

Financial target	Actual 2014	Actual 2015	Actual 2016
ROCE: above 15% in 2019	4.5%	5.3%	<b>11.3%</b> <sup>1)</sup>
EBIT margin: above 4% in 2019	1.8%	2.0%	<b>4.0%</b> <sup>2)</sup>
Equity ratio: above 35% during 2016-2019	37.1%	40.6%	<b>39.5%</b> <sup>3)</sup>
Dividend policy: At least 40% of the profit for the financial year	0.0%	38.5%	<b>40.3%</b> <sup>4)</sup>

- 1) Return on capital employed 2016 without reimbursements (EUR 19.4 million) and lowered provisions (EUR 8.0 million) related to the asphalt cartel as well as write-downs related to non-core businesses worth EUR 4.9 million would be 7.7%.
- 2) Operating margin 2016 without reimbursements (EUR 19.4 million) and lowered provisions (EUR 8.0 million) related to the asphalt cartel as well as write-downs related to non-core businesses worth EUR 4.9 million would be 2.7%.
- 3) Equity ratio, if hybrid bonds were treated as debt: 12/2016: 35.4%
- 4) Board of Directors' proposal for the AGM.

# Planned combination with YIT

- On 19 June 2017, announced plan to combine Lemminkäinen and YIT Corporation
- The completion of the combination is subject to, inter alia:
  - approval by the Extraordinary General Meetings of Lemminkäinen and YIT, expected to be held on 12 September 2017
  - approvals from competition authorities
- Combination intended to be completed on either 1 November 2017 or 1 January 2018, as possible
- Lemminkäinen estimates that the combination will create one-off costs of approximately EUR 10 million
  - Costs are conditional to the completion of the combination
- Lemminkäinen will review the impact of these conditional one-off costs on its profit guidance for 2017 once more information on the fulfillment of such conditions is available

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# Paving: One of the largest paving companies in its market

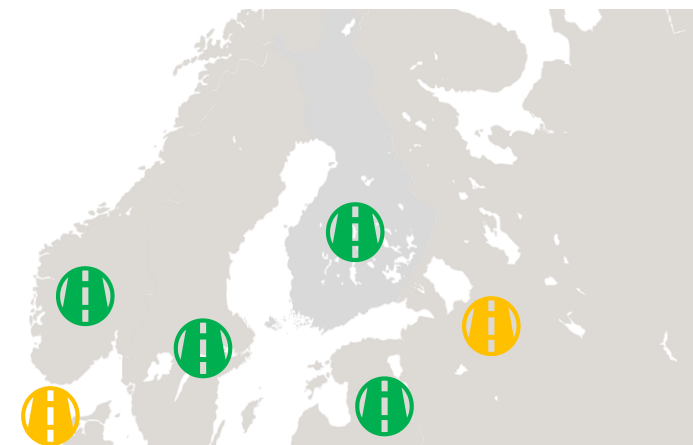
- Paving for roads, streets, bridges, tunnels, airports, ports, logistics centres
- Maintenance of roads and outdoor areas
- Mineral aggregates
- Net sales 2016 EUR 649 million

- **Market drivers**

- Public sector investments in road maintenance
- Oil price
- Urban growth centre development
- Poor condition of the road network
- Major road projects

- **Competitive field**

- Lemminkäinen holds a strong position in the Nordic and Baltic countries; one of the largest paving companies in its market
- Main competitors: NCC, Skanska, Veidekke, Peab, Colas



- **Operating environment**

- Finland: state investments stable
- Sweden and Norway: large-scale road projects ongoing and planned
- Denmark: total asphalt volumes declining, especially in public sector
- Baltics: stable market situation
- Russia: construction on major roads maintained demand

# Infra projects: An expert in versatile and complex infrastructure construction

- Underground construction
- Civil engineering
- Foundation engineering
- Transport infrastructure construction
- Industry and power plants
- Water and wastewater treatment
- Special projects
  
- Net sales 2016 EUR 426 million

- **Market drivers**

- Infrastructure investments by public sector and industry
- Urbanisation
- Climate change
- Weak infrastructure in the Baltic countries

- **Competitive field**

- Price competition further intensified
- Main competitors: NCC, Skanska, Veidekke, Peab, YIT, SRV and Destia



- **Operating environment**

- Finland: Large traffic and industrial projects support demand
- Sweden: Overall high market activity, both traffic and energy infrastructure
- Norway: public investments to traffic infrastructure
- Baltics: Opportunities driven by growing infrastructure construction market



# Building construction, Finland: Premises for living and working

- Residential construction
  - Business and commercial premises
  - Logistics facilities and warehouses
  - PPP projects
  - Renovation
- 
- Net sales 2016 EUR 581 million

- **Market drivers**

- Urbanisation
- Apartments as a part of investment assets
- Demographic changes
- Building stock's need for renovation

- **Competitive field**

- Lemminkäinen is among the five largest builders in terms of net sales
- Many minor competitors in small and medium-size contracts (low industry entry barriers)
- Main competitors: YIT, SRV, NCC, Skanska



- **Operating environment**

- Residential construction is brisk, focusing in urban growth centres. Relatively stable investor activity; consumer sales picked up.
- Non-residential construction increases due to major individual projects and public sector activity
- Renovation expected to grow moderately

# Russian operations: Paving and building construction contracting in St Petersburg and Moscow areas

- Residential contracting
- Paving
- Net sales 2016 EUR 55 million

- **Market drivers**
  - Urbanisation in St Petersburg and Moscow regions
  - Weak infrastructure
- **Competitive field**
  - In building construction contracting, many local and smaller foreign competitors
  - In paving, Lemminkäinen operates mainly as a subcontractor and specialised work contractor
  - Competitors include major Russian players, such as Autobahn and VAD



- **Operating environment**
  - Uncertainty in the market is likely to continue
  - In residential contracting price competition is intense, but reliability of the builder is a competitive advantage
  - Construction and repair projects on major roads maintain demand for paving

Group performance  
Balance sheet, financing and cash flow  
Outlook and guidance



# Profit guidance for 2017

Lemminkäinen estimates that its net sales in 2017 will grow from 2016 (EUR 1,682.7 million). Operating profit (IFRS) in 2017 is expected to improve from EUR 45.1 million which reflects the operational performance in 2016.



Operational performance EUR 45.1 million has been calculated by deducting from Group IFRS operating profit (EUR 67.6 million) reimbursements of EUR 19.4 million and lowered provisions of EUR 8.0 million related to asphalt cartel decisions made by Helsinki Court of Appeal and by adding write-offs of EUR 4.9 million related to non-core businesses.



# Summary: Planned combination with YIT.

## Market outlook remains positive, focus on operational efficiency.

- Plan to combine with YIT announced
- Operating profit decreased
  - Q2 operating profit decline driven by Paving due to challenging weather conditions
- Financial position strengthened year-on-year
- 30 June 2017 vs 30 June 2016:
  - Operating capital 421 M€ (446)
  - Interest-bearing net debt 157 M€ (165)
- Order book grew year-on-year
- Market outlook remains positive
- Focus on improving operational efficiency in all operations







# Lemminkäinen

[www.lemminkainen.com](http://www.lemminkainen.com)