

YLVA

# Carbon budget 2020

CEO ANTTI KERPPOLA  
16TH DECEMBER 2019

Real estate and construction industries are lagging behind  
in implementing the  
necessary sustainability action.

# OUR GOALS

---

Climate change  
mitigator

Provider of  
sustainable choices

Enabler of an  
active student life

Services between  
academia and businesses

---

Ylva is a student-owned, long-term developer of a sustainable and international city of tomorrow

---

Long-term  
commitment

We have been a part of Helsinki's cityspace for 150 years, and our business operations focus on long term planning. For us success means decisions and actions that allows us to be a part of the city and society for the next 150 years as well.

Sustainable  
developer

We have been building a sustainable and affordable restaurant business from the beginning of student lunches for over decades. We are the frontrunner in bringing sustainable solutions to our restaurants and to the city.

Present and future  
generations

The profitability of our business ensures that both current and future student generations are able to proactively develop the surrounding society.

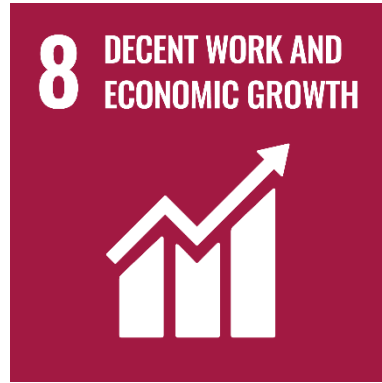


# Our objective is to be frontrunners in combining sustainability and productivity

28.11.2019

- Ylva's investment programme will be at its most active in 2020-22. The investments are used to modernise the technical condition of real estate assets, cut carbon intensity and take the next leap in the result with a commercially renewed portfolio. We aim to eliminate membership fees by 2025. At the same time, a significant share of the rental venues is under renovation, which will show in the short-term result.
- Ylva's budgeted funds from operations (FFO) for 2020 is €8.4 million. This is 36% lower than the FFO projected for 2019. The effect of large projects manifests in the result as a combination of decreased turnover and a rise in funding costs. The operating result will decrease even further in proportion, while the result is also simultaneously affected by the growing amount of depreciations. This drop in the level of result, however, is temporary in the investment phase.
- While FFO remains reasonable despite the decline, the year 2020 is expected to strongly bring forth increase in shareholder value. In 2019, net assets will increase by approx. €30 m and in 2020, net asset growth is expected to be at least €15 m. Gross assets surpass €350 m level at the end of 2019, and in 2020, over €400 m level in assets will be reached. These figures embody an active take on investments, which is where Ylva's focus will be in the following years.
- In addition to increasing shareholder value, Ylva takes new leaps in sustainability, in the form of the new SDG budget. In addition to financial measuring tools, we introduce clear and ambitious sustainability objectives into the business management. UN's sustainable development goals (SDG) have been accounted for in all business areas in budgeting.
- Ylva aims for carbon neutrality by 2025. Carbon budgeting on a company level is new even internationally, so in addition to ambitious emission reduction objectives (approx. 20 percentage points/year) we want our own example to promote the concretisation of sustainability goals wider in the business world.
- Beside the Group level, separate budgets have also been devised for three reporting units: real estate, accommodation and restaurant business, and investment. Internal services support business activity and produce the services for Ylva's business units, Ylioppilaslehti and HYY, but do not form a reportable profit centre as such. The investment and risk framework will be approved as part of the 2020 budget.

Funds From Operations (FFO) = operating margin - operational funding costs. Operating margin = Result before depreciations, financial items, taxes and financial statement items  
Operational funding costs = includes projected common profit-and-loss effecting financial items. Does not include e.g. one-off costs related to derivatives.



# As of 2020, Ylva begins sustainable development reporting that covers all business operations

28.11.2019



- Enhancing energy efficiency in existing properties – reducing the use of fossil-based district heating
- Significantly increasing the share of renewable energy through energy purchase and investments, for both electricity and heat (currently, the share of renewable energy from total amount of energy is 48%)
- Acquisition and testing of new energy products together with partner companies (e.g. Helen's renewable district cooling, using 100% domestic wind power)



- Separating financial growth from environmental decay with our sustainability actions
- 2020 focus on OECD cooperation (Lyyra & Unicafe projects)
- Encouraging creativity and innovation, deployment of new technology and improving productivity
- Securing work life rights and ensuring a healthy and safe working environment and equal opportunities for all employees
- Promoting sustainable development in our procurement



- Enhancing the sustainability of cities by providing the needed services on sites with good access to public transportation
- Re-developing the city environment to be more compact and sustainable through projects
- Preserving and developing healthy and safe urban environments
- Increasing recycling rate, sorting of waste, reducing plastic



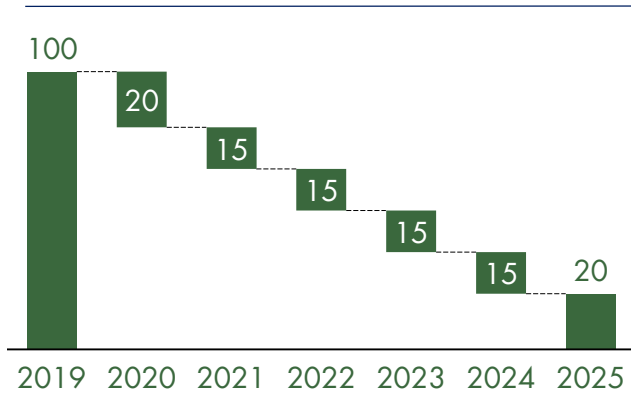
- Tenant choices in property management
- UniCafe and Both as frontrunners in their own choices
- Low-carbon raw ingredients in restaurants, promoting vegetarian dining, reducing food waste, utilising leftover food
- In projects: material efficiency, calculating carbon footprint, minimising waste and maximising degree of recycling
- Reducing the use of water and energy in properties
- Promoting sustainable travel in hotels



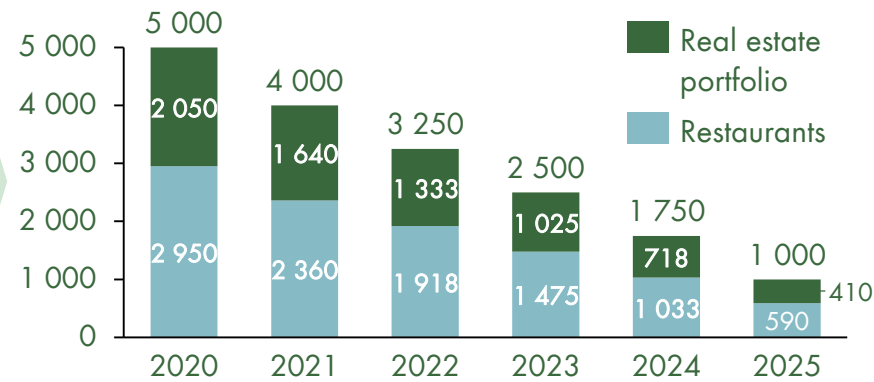
- Operational carbon emissions of properties reduced to zero by 2025
- The carbon footprint of investment projects and investment portfolio calculated, publicised and minimised as of 2020
- Deploying low-carbon construction materials in projects
- The specified baseline for restaurants' raw ingredient emissions to be calculated in 2020
- Suitable ways of compensation for remaining emissions to be researched and tested in 2020

# Total carbon footprint to be significantly cut while increasing business activity

CO<sub>2</sub> reduction goal (%)



Carbon footprint of operations (tCO<sub>2</sub>/a)



Carbon neutrality objectives, SDG-reporting and CO<sub>2</sub> reporting are all developing areas.

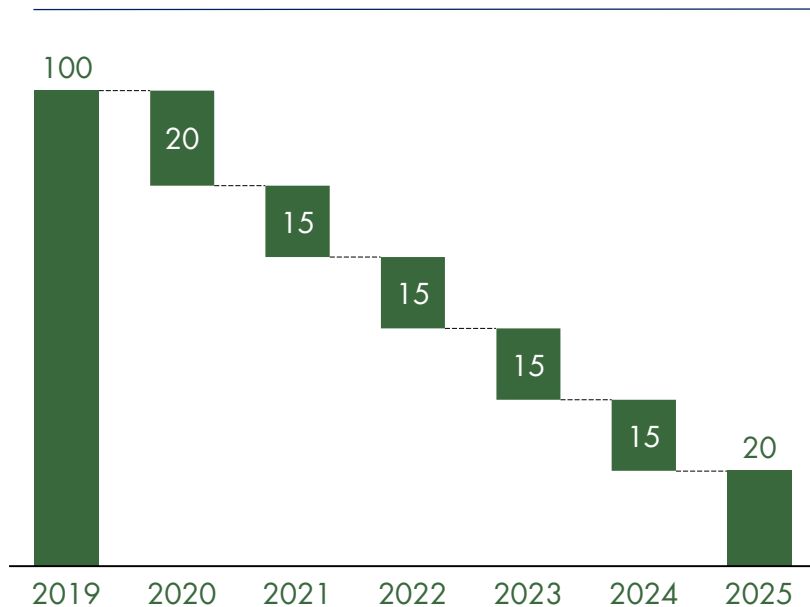
Emission reductions are based on a fixed depreciation assumption scenario (15%-points between 2021-24) and finally the remaining 20% in 2025 shall be offset.

Carbon footprint calculations do not yet include embodied carbon of future projects. Calculation and reporting models, data sources and validation are under development and they will be finalized in 2020. We communicate both our successes and failures in the spirit of radical transparency. Real Estate investment portfolio Invested MEUR = Gross Value MEUR.

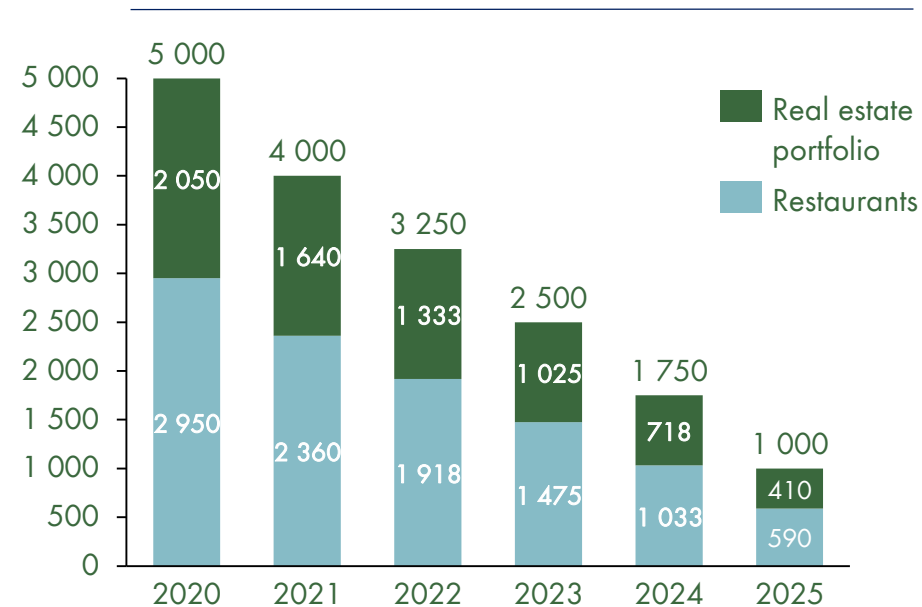


# Total carbon footprint to be significantly cut while increasing business activity

CO<sub>2</sub> reduction goal (%)



Carbon footprint of operations (tCO<sub>2</sub>/a)



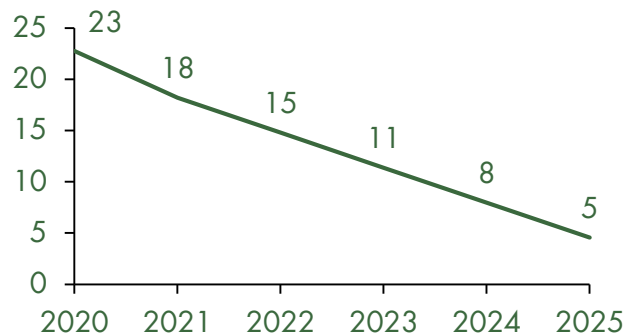
Carbon neutrality objectives, SDG-reporting and CO<sub>2</sub> reporting are all developing areas.

Emission reductions are based on a fixed depreciation assumption scenario (15%-points between 2021-24) and finally the remaining 20% in 2025 shall be offset.

Carbon footprint calculations do not yet include embodied carbon of future projects. Calculation and reporting models, data sources and validation are under development and they will be finalized in 2020. Real Estate investment portfolio Invested MEUR = Gross Value MEUR.

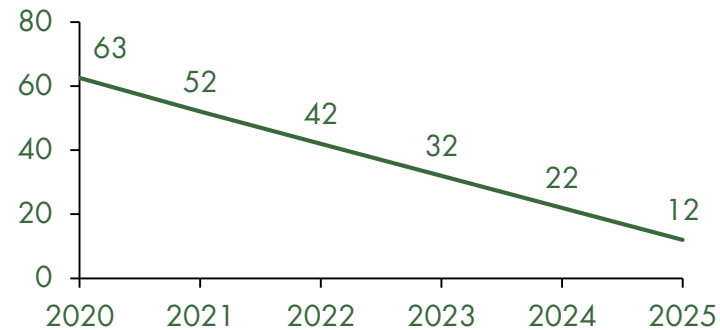
# Total carbon footprint to be significantly cut while increasing business activity

Operational carbon footprint of real estate portfolio (kgCO<sub>2</sub>/brm<sup>2</sup>)



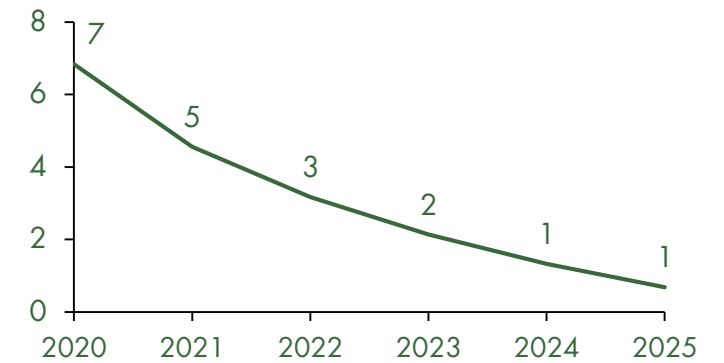
Finnish comparison group (Senaatti, Varma, Ilmarinen, Sponda)  
18... 45

Carbon footprint of investments (tCO<sub>2</sub>/MEUR) (Invested MEUR)



Comparison market: Nasdaq HKI 232, Nasdaq Nordic 66

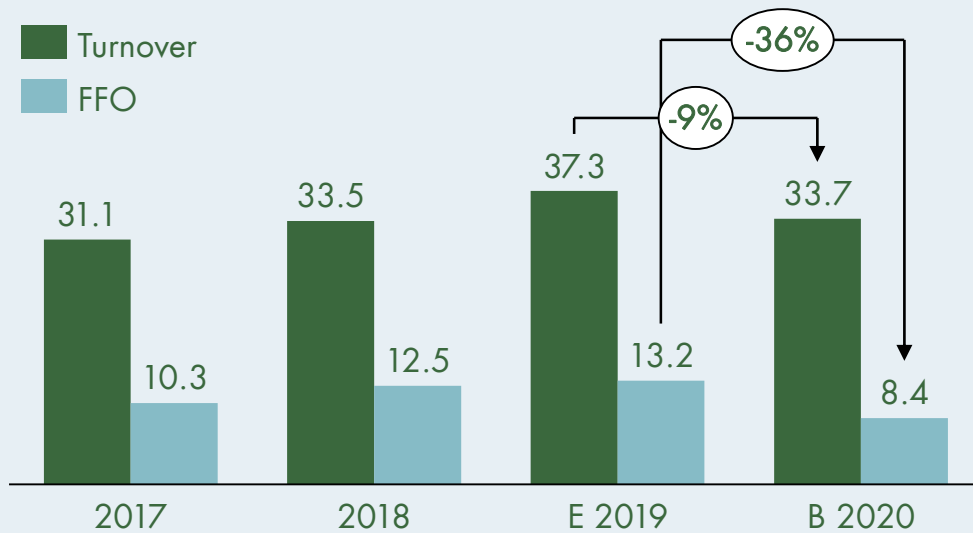
Carbon footprint of real estate investment portfolio (tCO<sub>2</sub>/MEUR) (Invested MEUR)



Carbon footprint calculations do not yet include embodied carbon of future projects. Calculation and reporting models, data sources and validation are under development and they will be finalized in 2020. Real Estate investment portfolio Invested MEUR = Gross Value MEUR.

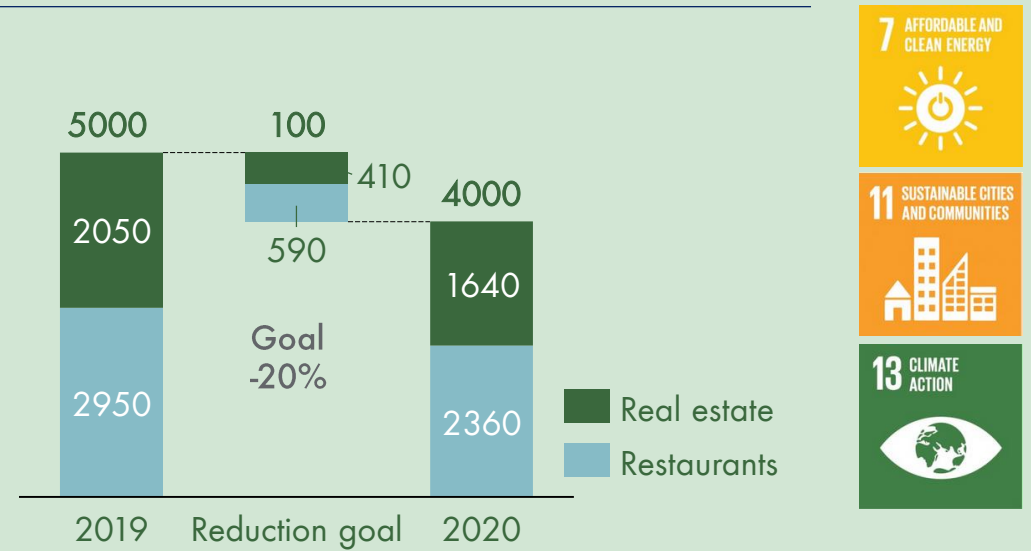
# On the Group level, funds from operations will decrease next year

Funds from operations (FFO) million euros



- The greatest reduction in turnover and FFO is due to the city centre renovation projects. The city centre properties will have, in 2020, a total of 25% of premises vacated out of the whole approx. 60,000 m2 of rentable area.
- The properties' projects will also show as higher general expenses and, indirectly, in financing costs.
- In accommodation and restaurant business, result level will moderately rise in 2020.

Ylva total emissions (tCO<sub>2</sub>/a) (to be specified)



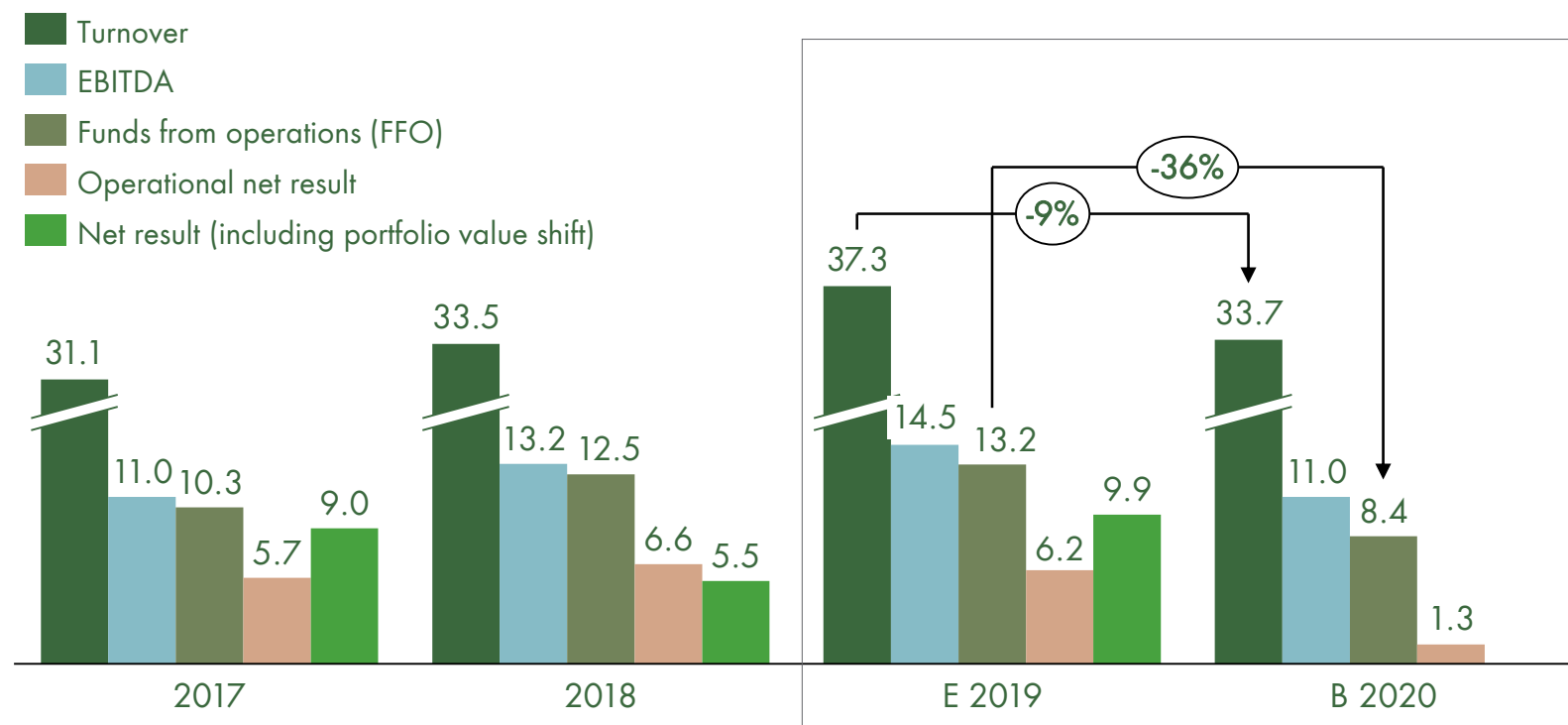
- Ylva's carbon footprint reduction goal from 2019's level to the end of 2020 is -20%.
- Reducing carbon emissions is a whole comprising of several actions of different types and sizes
- The most important actions in 2020 are: removing beef from raw materials list (-5%), Leasegreen energy efficiency package (-5%)
- The final 10% of the objective will be selected based on more accurate cost and impact analyses. For this purpose, baseline calculations will be made more accurate on the part of different business operations.



# The decrease in real estate turnover is temporarily reflected in the entirety of Ylva, but cash flow remains at a satisfactory level

Turnover, operating margin, funds from operations, operating result and net result in total

Million euros



Funds from operations (FFO) = Operating margin - operational financing costs

EBITDA = Result before depreciations, amortizations, financial items and taxes

Operational financing costs = Includes projected common profit-and-loss financial items. Does not include e.g. one-off costs related to derivatives.

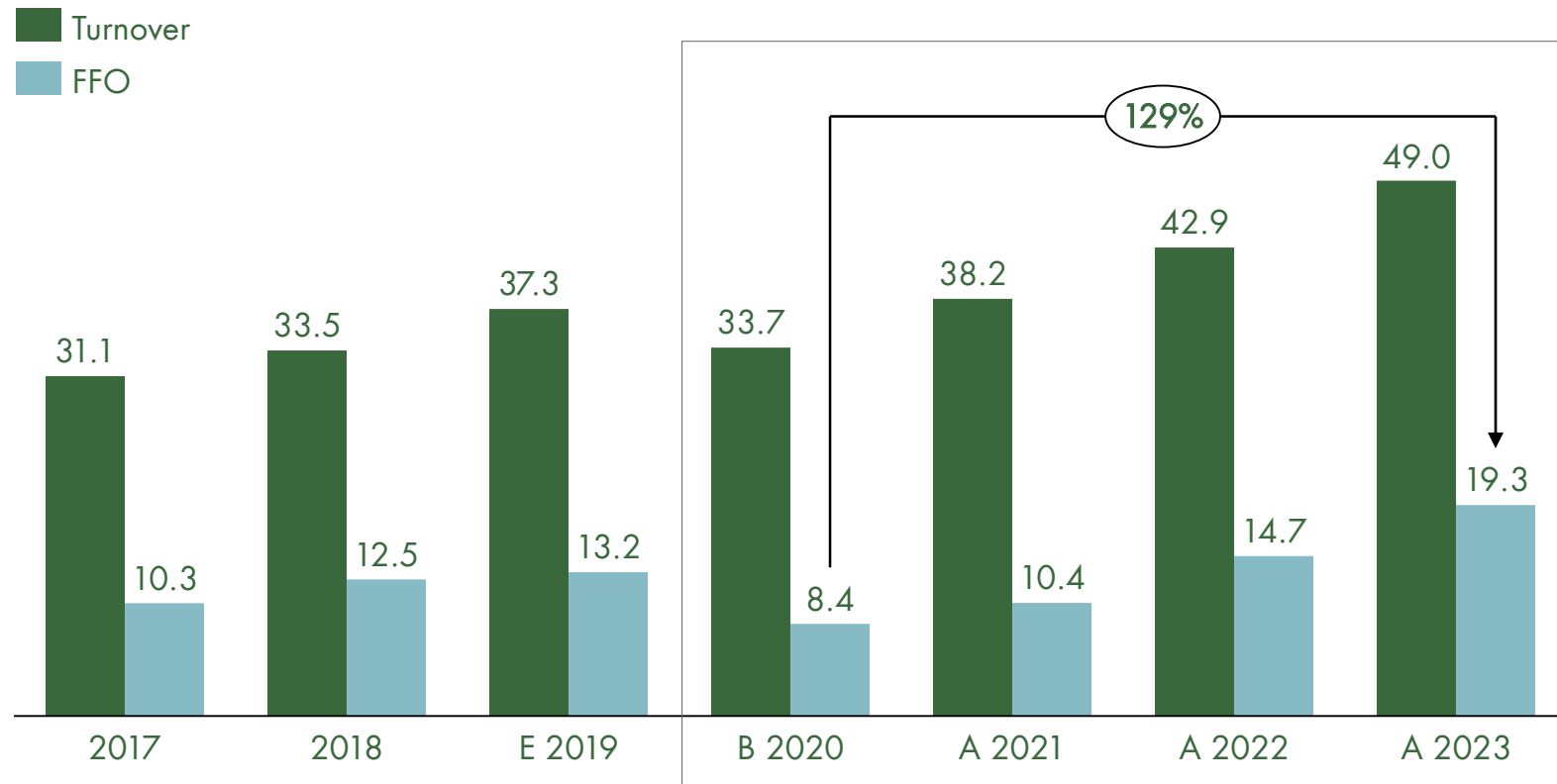
Operating result = Operational net result is the result after taxes before Ylva's investment activity (investment portfolio mark-to-market changes)

- Good operating result level and significant positive value shift in the securities portfolio manifests as a high projected net result in 2019.
- The value shift of the securities portfolio is traditionally not budgeted, so operating result = net result in 2020.
- Temporary decrease in turnover during the City Centre renovation will largely show in decreased funds from operations (FFO) and operating result. However, it is expected to increase significantly from 2021 onwards.

# FFO will weaken momentarily, but rise from year 2021 onwards

The Group turnover and funds from operations budget plus projection for the years 2020 - 2023

Million euros

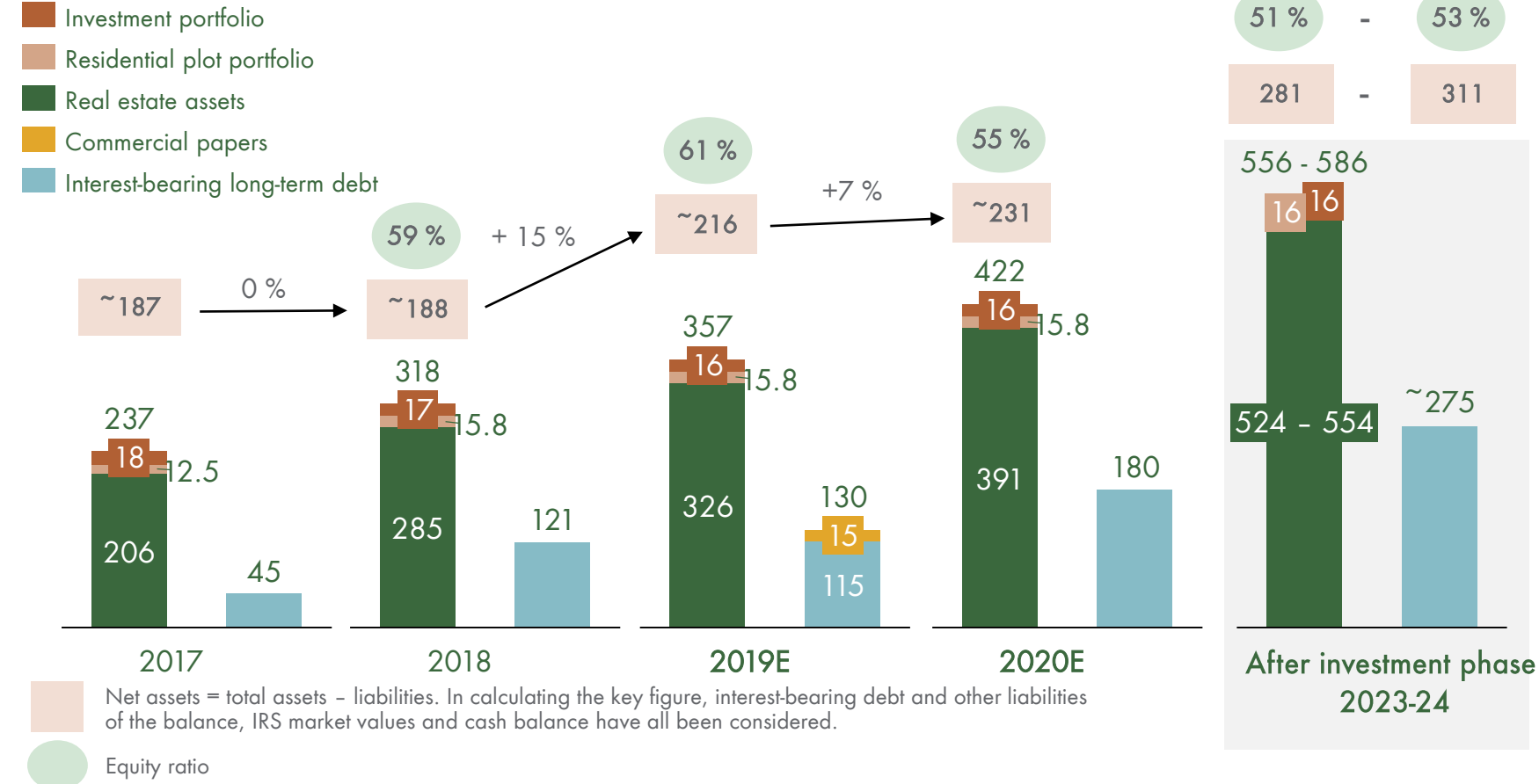


- The completion of the Kaivopiha project at the end of 2020 already shows positively in the turnover and FFO in 2021
- The effects of the Grand Hansa project and Lyyra will begin to show in the result already in 2022, but the greatest impact of these projects will manifest from 2023 onwards.

# Development of net assets had continued to be positive – the greatest growth to be expected after the investment phase

Realisation of the development of total assets and interest-bearing loan 2016 – 2018 and projection 2019 –

Million euros

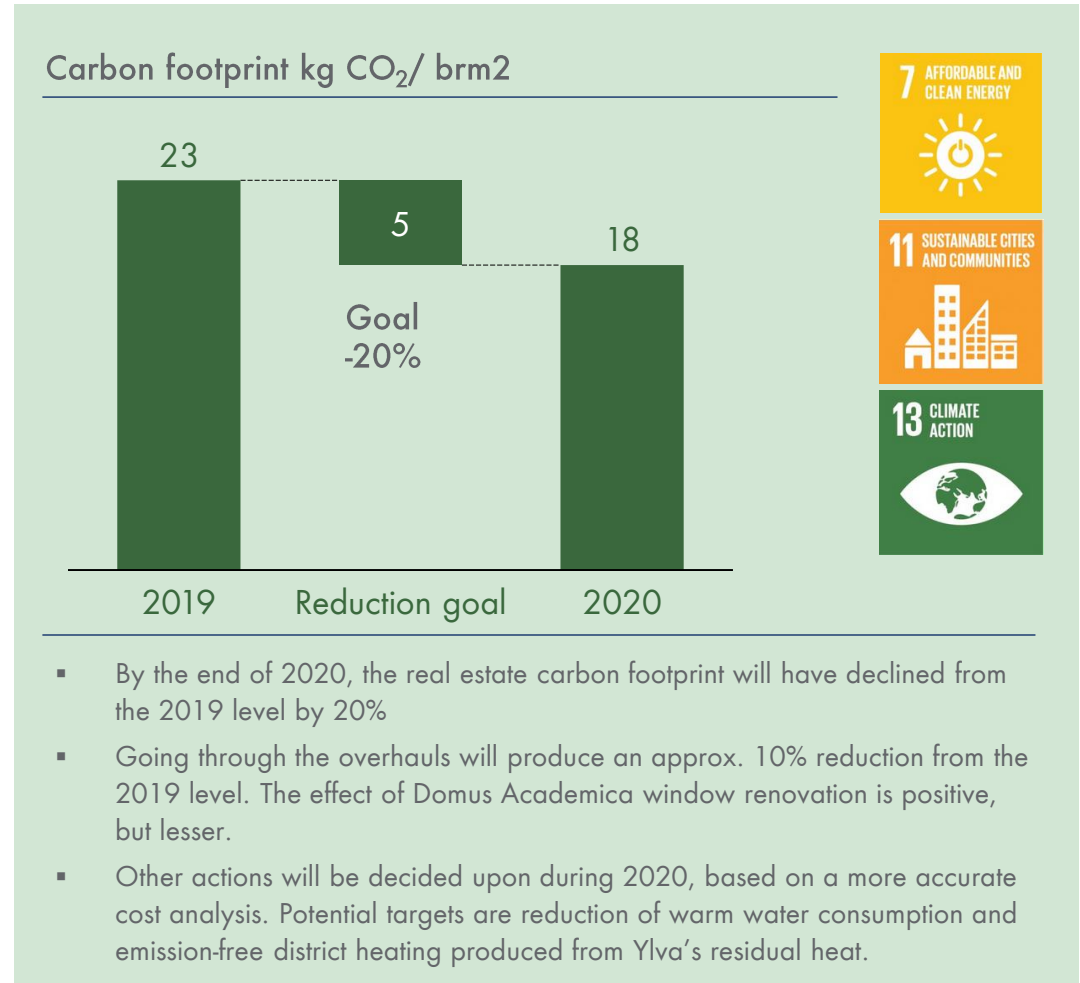
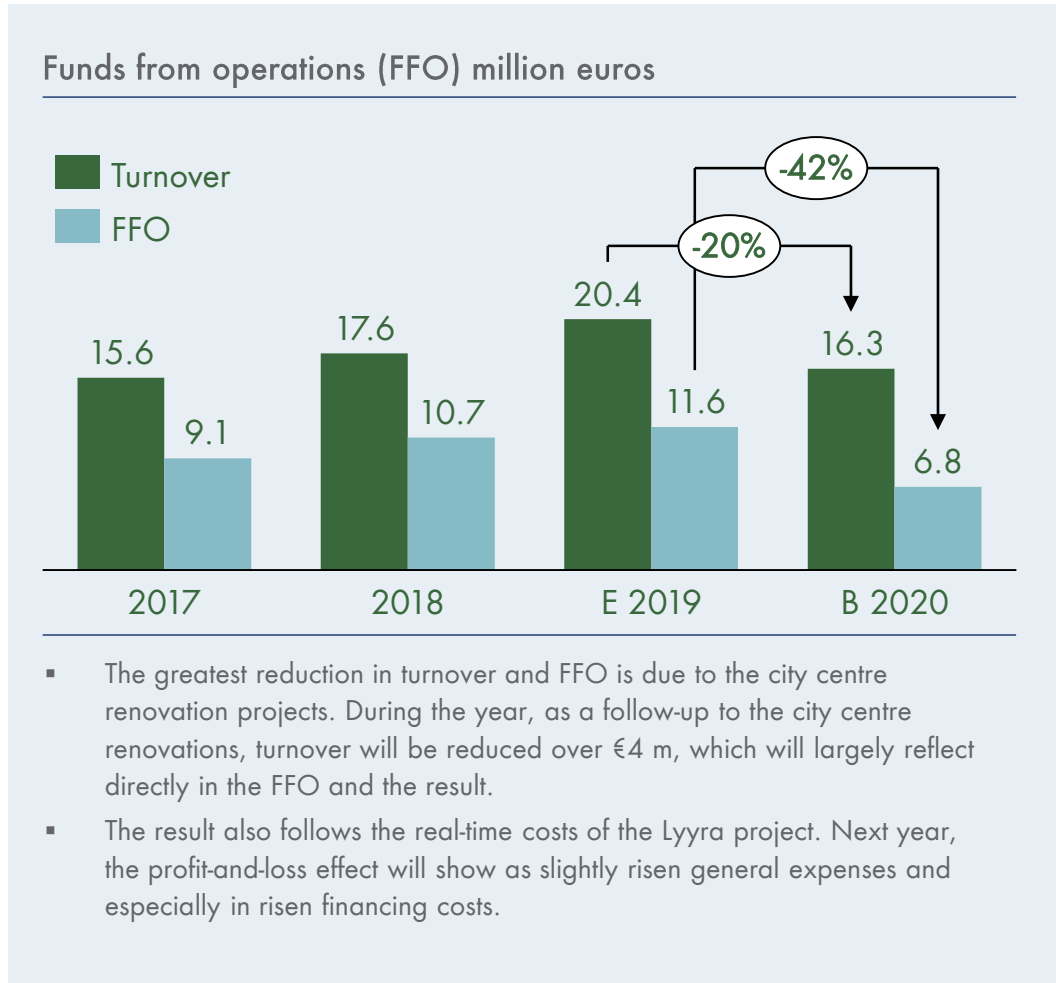


- Net assets will expand significantly during 2019. This growth is explained by strong property appreciation that reflects the anticipated hotel agreement on the part of the City Centre in particular. On the other hand, the amount of debt has not increased in same proportion as the projects' construction begins in 2020.
- The driving force for property performance in 2020 was mainly the advancement of key projects. Lyyra's evaluation (~€30 m) is based on the plot's acquisition price and estimated construction costs. An estimated €50 m of additional debt will be raised next year, as a result of which net assets is estimated to grow 5-10%.
- After the investment phase, net assets is estimated to approach 300 million euros.

\*) without the acquisition of Kaivokatu 12, total assets in 2018 grew by approx. 7%.

# GOALS FOR THE BUSINESS SEGMENTS

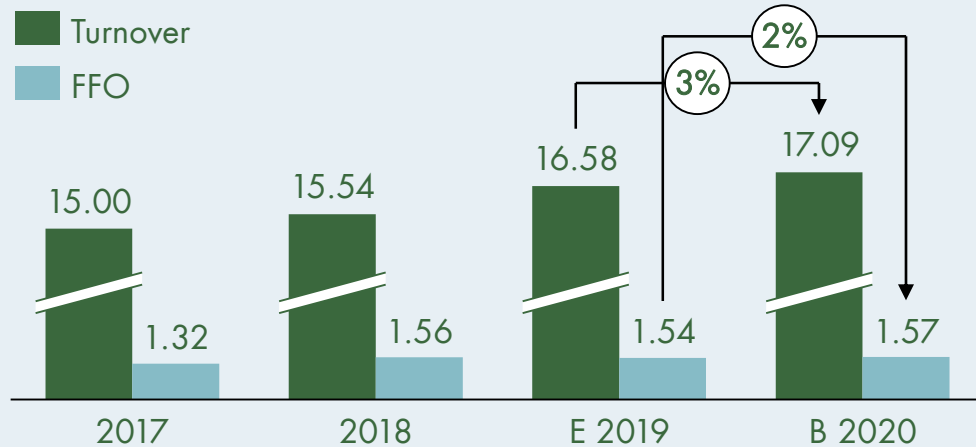
# Objective of real estate: to keep cash flow moderate despite historical degree of investment and leap in responsibility





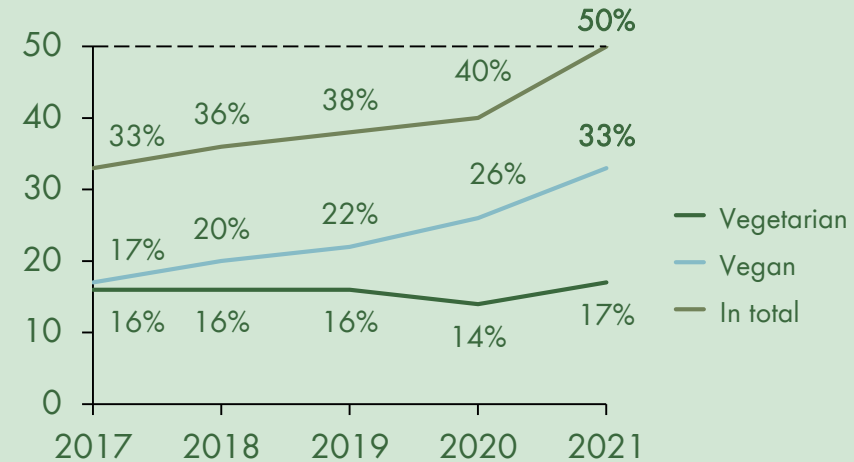
# The result of accommodation and restaurant business remains the same while vegetarian and vegan food is heavily emphasised

Funds from operations (FFO) million euros



- Hostel operation becoming all-year-round will increase turnover by €1.12 m and operating margin by €0.18 m
- Turnover of restaurant business is projected to decrease by €0.61 m and operating margin by €0.15 m. The greatest influence on this is the closing of the Main Building in spring.

Share of vegetarian and vegan food in meals (objective: 50%/33% by the end of 2020)



- Raw material CO<sub>2</sub> emissions are a comprehensive entity, influenced by a number of factors (means of production, countries of production, etc.). Raw material emission calculations and emission profiles will be assessed more accurately during 2020.
- The carbon footprint of vegetarian and vegan lunches is smaller on average compared to other lunches (estimate: -50% lower CO<sub>2</sub> value compared to other lunches)
- Goal is 50% (+10 percentage points) share in amounts of meals, 33% of them vegan
- Raw material carbon footprint reduction goal from year 2019 level to end of year 2020 is -20%.
- E.g. emission impact of removing beef is -11%, emission impact of adding 10 percentage points to the share of vegetarian and vegan lunches is -5%

# Principles of investment activity

## Background, objective and yield objective

Investment in securities began at the end of 2005. The original objective was to maintain and expand the assets of the Student Union and form an alternative source of profit-sharing for it after 25–30 years. Additionally, the objective was to quadruple the invested capital.

During 2005–2007, the amount of invested capital was €9.9 m. An average of 8% was originally set as the long-term annual yield objective. The yield has lagged slightly behind the objective, at an average of 7%.

Being a frontrunner in responsible investment is an essential part of the objectives set for our operation.

## Risks

When making the investment decision, the risk-carrying ability of the Student Union has been considered good. However, risk level and the amount in euros allocated to the stock portfolio are considered as part of the whole of Ylva's risk-taking. Due to large real estate investments, it may be reasonable to diminish stock market risk.

As is brought up in the Investment and Risk Framework, the debt-to-equity ratio of the Student Union in market values is estimated to be around 60–65% at the end of 2019. At the end of 2020, debt-to-equity ratio in market values is estimated to be approximately 55%.

## Investment activity

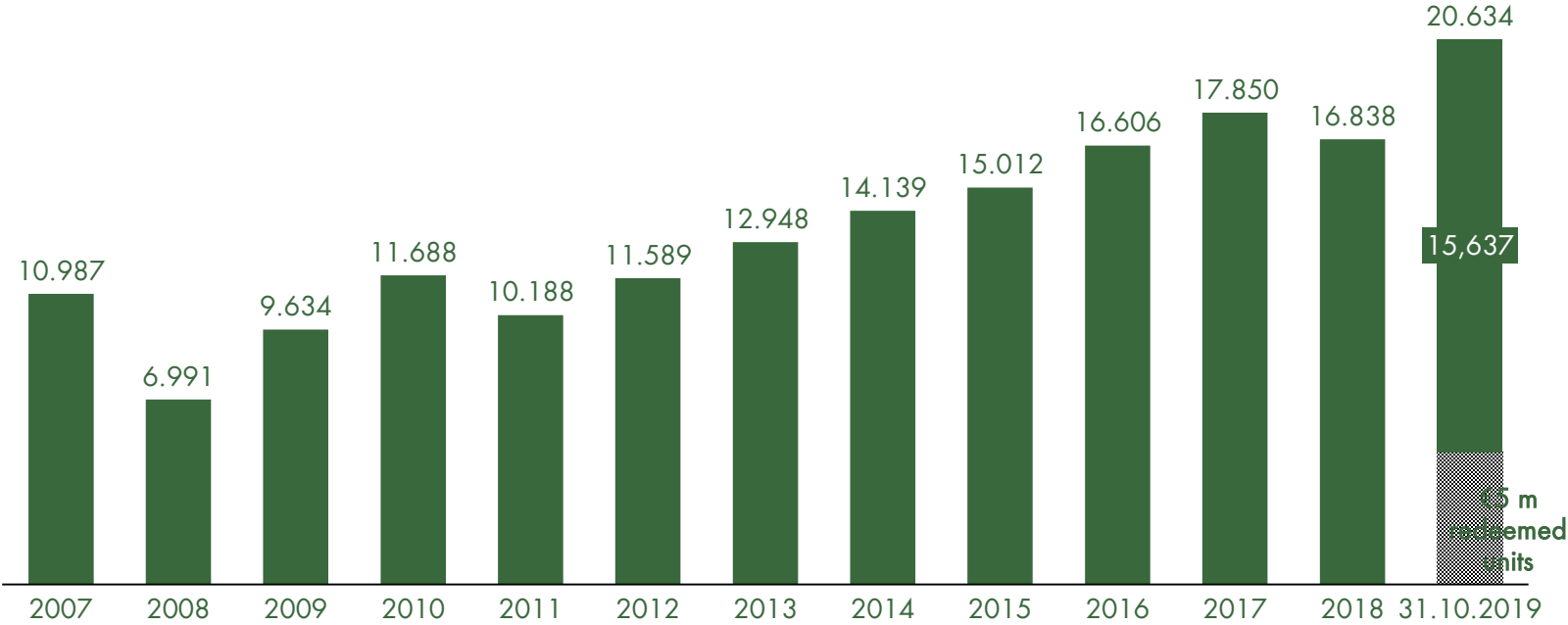
The annual Council of Representatives approved Investment and Risk Framework document determines the limits of the activity as well as the potential for increasing it.

There are no significant changes to be expected in the amount of investments in 2020. However, if there are changes in market conditions or other circumstances, investments can either be realised or added.

# The size of the securities portfolio was €15.6 m at the end of October

Ylva securities portfolio, market value

Million euros

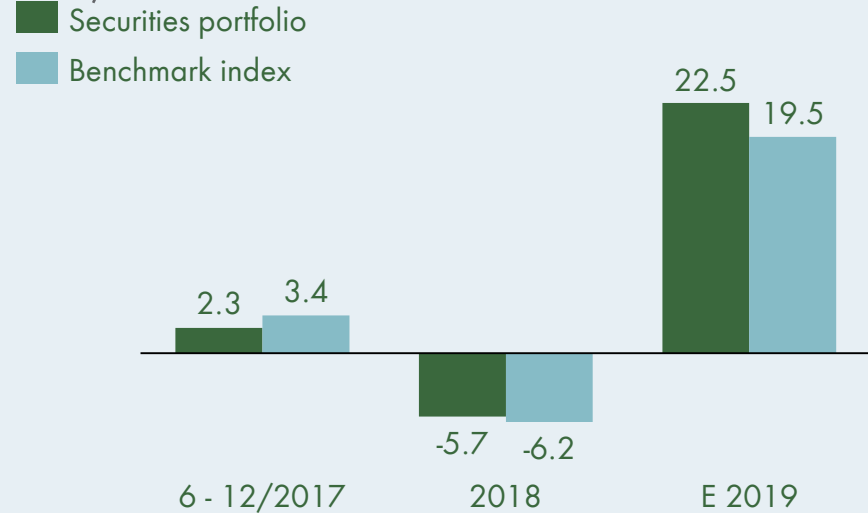


- € 17.6 m was transferred to be managed by eQ in the summer of 2017. The portfolio was originally divided in two portfolios of equal size, one of them completely fossil-free.
- Since the beginning of 2019, the securities portfolio has been completely fossil-free in its entirety.
- A €5 m redemption was made of the portfolio in July 2019 (the effect of this is presented in grey in the accompanying graph).
- Since the beginning of the year, the securities portfolio yield has been 22.5% while benchmark index has reached yield of 19.5%.

In addition to HYY’s general ESG standards, the portfolio has to be completely free from fossil fuels. By fossil-free portfolio we mean excluding fossil fuel production, refining and distribution as well as fossil-fuel-utilising energy production from the portfolio. The sensitivity limit to fossil-free is max 10% on the part of a single company’s turnover.” Excerpt from limitations concerning fossil-freeness set by Ylva.

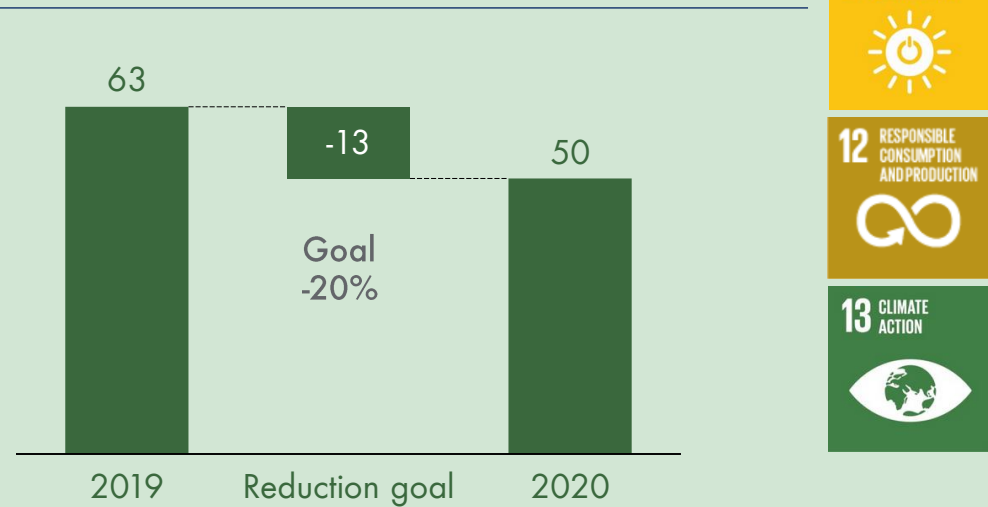
# No result has been budgeted for the portfolio, but the objective is to beat the index – without fossils

Securities portfolio and benchmark index, annual yield 6/2017 - 2019, %



- No result will be budgeted for investment activity, although factually, the objective is to have profits exceed the benchmark index which describes the average market yield.
- Under eQ’s management (since June 2017), the investment portfolio has had a slightly better yield than the benchmark index (17% vs. index 16%).

Portfolio carbon footprint (tCO2/invested MEUR)



- From 2020 on, carbon footprint is the most central sustainability measurement tool
- The securities portfolio is already very low on carbon compared to the market (232.2 tCo2/MEUR)
- The domestic stock portfolio has been 100% fossil-free since the end of 2018. At the end of 2019, it was decided that flight traffic shares and certain producers of oil drilling equipment be removed from the portfolio
- During 2020: cooperation with eQ to work on principles and objectives with which to further decrease carbon footprint