

LASSILA & TIKANOJA PLC INTERIM REPORT 1 JANUARY – 30 JUNE 2004

- Net sales: EUR million 161.0 (EUR 149.9 million)
- Operating profit: EUR 14.1 million (EUR 14.3 million)
- Earnings/share: EUR 0.56 (EUR 0.52)
- Return on invested capital (ROI): 15.1% (16.9%)
- Net sales are expected to grow and results for the entire year are expected to be about the same as those for 2003.

NET SALES AND FINANCIAL RESULTS

Lassila & Tikanoja's net sales in the second quarter totalled EUR 84.6 million (EUR 78.1 million). The operating profit was EUR 9.9 million (EUR 9.5 million), which was 11.7% of net sales (12.1%)

Net sales for six months went up by 7.4% to EUR 161.0 million (EUR 149.9 million), 5.8 percentage points of the increase coming from corporate acquisitions. The earnings per share were EUR 0.56 (EUR 0.52). Environmental Services exceeded its target, but Property Services' results weakened. The results of Industrial Services were adversely affected by the low demand for its services at the beginning of the year, although it strengthened in the second quarter.

Environmental Services

Net sales by Environmental Services (waste management, recycling services, environmental products) amounted to EUR 75.7 million (EUR 66.3 million), an increase of 14.1%. The operating profit grew by 12.9% and was EUR 10.4 million (EUR 9.2 million). Net sales by waste management and recycling services went up and results improved. The improvement in profitability was mainly a result of the growth in the volume of recycling materials at the company's own plants. The new recycling plant in Oulu will commence its operations during the summer, and Latvia's first recycling plant will be constructed in Riga during the final part of the year. The net sales and results of environmental products fell because of a weakening in demand.

Lassila & Tikanoja and the Finnish Road Enterprise established a joint venture company called Salvor Oy. The company, in which both parties have a 50% interest, specializes in treatment services of industrial by-products, soil remediation and the construction of landfill barrier systems. It started its operations at the beginning of July.

Property Services

Net sales by Property Services (property maintenance and cleaning services) totalled EUR 59.6 million (EUR 56.7 million), an increase of 5.2%. The operating profit was EUR 2.0 million (EUR 3.1 million), a fall of 36.2%. The results were adversely affected by the renewal of contracts with smaller volumes than previously. Particular consideration was given to the efficiency of sales and increasing customer contacts, and the effects of the measures can already be seen.

Lassila & Tikanoja's position on the property services market is strengthening as one of the biggest competitors in the sector is being eliminated from the market through a corporate acquisition.

Industrial Services

Net sales by Industrial Services (hazardous waste management, industrial cleaning, damage repair services and sewer maintenance) were EUR 25.7 million (EUR 26.9 million), a fall of 4.3%. The operating profit was EUR 1.6 million (EUR 1.9 million). Most of the reduction in the net sales was the result of the termination in 2003 of the unprofitable units in damage repair services and industrial cleaning. Savings programmes in the pulp and paper industry at the beginning of the year cut demand dramatically in industrial cleaning.

Industrial Services' profitability in the second quarter was good. In the spring hazardous waste management introduced a new production plant that processes fixed oily hazardous waste and succeeded in other ways in raising the level at which hazardous waste is recycled. Pent-up demand from industry started to burst through in the second quarter, which improved industrial cleaning's profitability. The measures taken to put damage repair services on a sound footing had the planned effect and results improved markedly.

FINANCING

Interest-bearing liabilities amounted to EUR 10.2 million more than a year earlier and to EUR 13.7 million more than at the end of the previous financial year. Net financial expenses were 1.3% (1.3%) of net sales and 14.4% (13.9%) of operating profit. EUR 4.0 million was tied up in working capital during the review period (EUR 3.5 million). Cash flow/share decreased due to different timing of tax payments than the previous year. The equity ratio was 35.2% (36.8%) and the gearing rate 113.2 (101.5).

INVESTMENTS

Gross investments totalled EUR 22.5 million (EUR 19.9 million). Machinery and equipment was replaced and production premises were bought and expanded. In January Vatostep Oy, a company specialising in utilisation of discarded paper from paper and board mills was acquired. The net sales of Vatostep Oy amounted to EUR 6.3 million in 2003. In addition, six minor company acquisitions were made. The total annual net sales of the companies acquired during the period were EUR 11.4 million. Depreciation came to EUR 14.4 million (EUR 12.4 million).

CORPORATE GOVERNANCE

The Board of Directors decided on 23 June 2004 that Lassila & Tikanoja plc complies with the Corporate Governance Recommendation for Listed Companies by HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers that entered into force on 1 July 2004.

The Annual General Meeting held on 18 March 2004 re-elected Mr Lasse Kurkilahti and Mrs Soili Suonoja to the Board of Directors. The Board of Directors comprises the following persons: Heikki Hakala, Lasse Kurkilahti, Juhani Lassila, Juhani Maijala and Soili Suonoja. Juhani Maijala is Chairman and Heikki Hakala Vice Chairman of the Board of Directors.

PricewaterhouseCoopers Oy, Authorised Public Accountants, were elected auditors. Principal Auditor is Heikki Lassila, Authorised Public Accountant.

AUTHORISATION FOR THE BOARD OF DIRECTORS

The Board of Directors is not authorised to effect any share issues or to launch a convertible bond or a bond with warrants. Neither is the Board authorised to decide on the repurchase nor disposal of the Company's own shares.

COMPANY SHARES

The volume of trading in Lassila & Tikanoja plc shares on the Helsinki Exchanges from January through June was 4,697,881, which is 29.7% of the number of shares. The value of trading was EUR 127.9 million. The trading price varied between EUR 25.00 and EUR 30.70. The final trading price was EUR 26.50. The market capitalisation was EUR 419.4 million on 30 June 2004. The total number of shares is 15,826,308.

On 5 April 2004, Tapiola Group reported in accordance with section 9, chapter 2, of the Securities Markets Act, that the holding of Tapiola Group had decreased to 4.88% of the share capital and votes of Lassila & Tikanoja plc. The company released a stock exchange announcement accordingly.

STOCK OPTIONS

The Annual General Meeting of 2002 decided to issue a maximum of 400,000 stock options to key personnel of Lassila & Tikanoja and to a wholly-owned subsidiary of Lassila & Tikanoja plc. Each stock option entitles its holder to subscribe for one share of Lassila & Tikanoja plc. To each share one voting right is attached. As a result of such share subscription, the number of shares of Lassila & Tikanoja plc may increase by a maximum of 400,000 new shares, which is 2.5 per cent of the current total number of shares and voting rights.

So far the key persons have been entitled to subscribe for 130,000 2002A stock options, 128,000 2002B stock options and 137,000 2002C stock options. 28 key persons have been entitled to subscribe for the stock options. The share subscription price for the 2002A stock options is EUR 19.14 and for the 2002B stock options EUR 17.46. These subscription prices have been reduced by the amount of the dividends for the years 2002 and 2003 which exceeds 70% of the profit per share for the year. The share subscription price for the 2002C stock options is EUR 26.34.

Lassila & Tikanoja's 2002A stock options have been listed on the Helsinki Exchanges since 3 May 2004. With these stock options 2,500 new shares have been subscribed on 3 May – 21 July 2004. The new shares should be available for public trading on the Helsinki Exchanges Main List on 11 August 2004 together with the existing shares.

STOCK EXCHANGE RELEASES IN CONFORMANCE WITH ARTICLE 7, CHAPTER 2 OF THE SECURITIES MARKETS ACT

On 18 March, 2004, the company issued a stock exchange release announcing that the Board of Directors of Lassila & Tikanoja plc has resolved to apply for listing of stock option rights 2002A of the 2002 stock option scheme on the main list of the Helsinki Exchanges so that the listing will commence on 3 May 2004. With the 2002A stock option rights a maximum of 130,000 Lassila & Tikanoja plc shares can be subscribed. The subscription period is from 2 May 2004 to 30 October 2005.

IFRS TRANSITION PROJECT

The transition day for meeting the IFRS provisions on comparative information was 1 January 2004. Finnish accounting standard will continue to be the accounting policy until 2005, but the balance sheet for 1 January 2004 and the financial statement as well as interim reports for 2004 will also be prepared in accordance with IFRS reporting for comparison purposes.

The disability pension part of the Finnish statutory pension system will be handled as defined-benefit-based in IFRS. This means that a liability reducing the shareholders' equity shall be entered. The amount of the liability is not known until actuaries have determined the effect of the new Finnish statutory pension system law entering into force in 2005 on the pension calculations.

According to the present impression, the introduction of IFRS standards will not have any other material effect on the shareholders' equity on the transition day than the change in the treatment of the Finnish statutory pension system.

Key differences between the present accounting policies and the ones under IFRS are presented in Annual Report 2003 as well as on the company's Internet pages www.lassila-tikanoja.com.

PROSPECTS FOR THE REST OF THE YEAR

General market prospects in the company's divisions are still good. The market situation in Environmental Services continues to be stable and an improvement is expected in the market situation of Property Services and Industrial Services. Investment projects are proceeding as planned and expansion abroad is advancing cautiously.

Net sales are expected to grow in line with long-term targets. Results for the entire year are expected to be about the same as those for 2003. The target is challenging, particularly in Property Services.

STATEMENT OF INCOME

EUR 1000	1-6/2004	%	1-6/2003	%	Change %	1-12/2003	%
Net sales	161 016	100.0	149 874	100.0	7.4	306 256	100.0
Cost of goods sold	-133 471	-82.9	-123 664	-82.5	7.9	-246 448	-80.5
Gross profit	27 545	17.1	26 210	17.5	5.1	59 808	19.5
Sales and marketing expenses	-4 339	-2.7	-3 852	-2.6	12.6	-7 509	-2.5
Administration expenses	-5 323	-3.3	-4 654	-3.1	14.4	-9 514	-3.1
Other operating income and expenses	410	0.3	424	0.3	-3.3	641	0.2
Operating profit before depreciation on goodwill	18 293	11.4	18 128	12.1	0.9	43 426	14.2
Depreciation on goodwill	-4 228	-2.6	-3 860	-2.6	9.5	-7 726	-2.5
Operating profit	14 065	8.7	14 268	9.5	-1.4	35 700	11.7
Financial income and expenses	-2 032	-1.3	-1 986	-1.3	2.3	-3 879	-1.3
Profit before extraordinary items	12 033	7.5	12 282	8.2	-2.0	31 821	10.4
Extraordinary items							
Profit before income taxes	12 033	7.5	12 282	8.2	-2.0	31 821	10.4
Income taxes	-3 016*	-1.9	-3 893*	-2.6	-22.5	-9 740	-3.2
Minority interests	-170		-113		50.4	-261	
Profit for the period	8 847	5.5	8 276	5.5	6.3	21 820	7.1

* Taxes on the profit for the period under review.

The fall in the Finnish corporation tax rate from 29 per cent to 26 per cent reduced the deferred tax liability and the taxes in the statement of income by EUR 668,000 during the first six months of 2004.

BALANCE SHEET

EUR 1000	6/2004	6/2003	12/2003
Assets			
Fixed assets			
Intangible assets	86 288	84 607	86 041
Tangible assets	111 651	95 737	104 728
Financial assets	3 522	3 437	3 478
Fixed assets, total	201 461	183 781	194 247
Current assets			
Inventories	3 544	2 588	2 729
Non-current receivables	7	1	1
Current receivables	38 819	33 069	30 997
Cash at bank and in hand	3 536	7 300	10 757
Current assets, total	45 906	42 958	44 484
Assets, total	247 367	226 739	238 731
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	7 913	7 913	7 913
Other restricted equity	7 518	7 518	7 518
Equity share of accumulated appropriations	4 317	2 758	4 921
Other unrestricted equity	65 976	64 199	75 434
Shareholders' equity, total	85 724	82 388	95 786
Minority interests	1 326	1 018	1 157
Provisions	75	526	69
Liabilities			
Deferred tax liability	6 083	5 893	6 825
Non-current liabilities	68 309	83 774	79 229
Current liabilities	85 850	53 140	55 665
Liabilities, total	160 242	142 807	141 719
Shareholders' equity and liabilities, total	247 367	226 739	238 731

KEY FIGURES

	6/2004	6/2003	12/2003
Earnings/share, EUR	0.56	0.52	1.38
Equity/share, EUR	5.42	5.21	6.05
Cash flow from operations/share, EUR	1.09	1.13	3.05
Return on equity (ROE), %	19.6	19.7	24.0
Return on invested capital (ROI), %	15.1	16.9	20.5
Equity ratio, %	35.2	36.8	40.6
Gearing, %	113.2	101.5	80.1
EVA, EUR million	5.7	6.7	19.6
Gross investments, EUR 1000	22 465	19 910	43 770
Depreciation, EUR 1000	14 366	12 392	25 643
Net interest-bearing liabilities, EUR 1000	98 572	84 637	77 636
Average personnel converted to full-time	5 292	4 688	4 595

EVA = Operating profit – cost calculated on invested capital (average of four quarters), WACC = 9.0

CASH FLOW STATEMENT

EUR 1000	6/2004	6/2003	12/2003
Cash flow before change in working capital	28 043	26 370	61 129
Change in working capital	-4 035	-3 457	-1 258
Financial items and taxes	-6 729	-5 041	-11 632
Cash flow from operations	17 279	17 872	48 239
Investments in group companies	-5 892	-3 826	-11 255
Other investments	-12 887	-14 157	-30 089
Proceeds from sale of fixed assets	1 335	720	759
Cash flow from investing activities	-17 444	-17 263	-40 585
Dividends paid	-18 968	-11 855	-11 854
Change in interest-bearing liabilities	11 913	13 748	10 162
Cash flow from financing	-7 055	1 893	-1 692
Change in cash and cash equivalents	-7 220	2 502	5 962

FIGURES BY DIVISION

NET SALES

EUR 1000	6/2004	6/2003	change %	12/2003
Environmental Services	75 651	66 300	14.1	137 235
Property Services	59 646	56 693	5.2	113 786
Industrial Services	25 719	26 881	-4.3	55 235
Total	161 016	149 874	7.4	306 256

OPERATING PROFIT

	6/2004		6/2003		Change	12/2003	
	EUR 1000	%	EUR 1000	%	%	EUR 1000	%
Environmental Services	10 428	13.8	9 235	13.9	12.9	20 773	15.1
Property Services	2 005	3.4	3 141	5.5	-36.2	8 527	7.5
Industrial Services	1 632	6.3	1 892	7.0	-13.7	6 400	11.6
Total	14 065	8.7	14 268	9.5	-1.4	35 700	11.7

QUARTERLY FIGURES

EUR 1000	Q204	Q104	Q403	Q303
Net sales				
Environmental Services	40 315	35 336	36 249	34 686
Property Services	29 505	30 141	28 998	28 095
Industrial Services	14 786	10 933	13 823	14 531
Total	84 606	76 410	79 070	77 312
Operating profit				
Environmental Services	6 340	4 088	5 291	6 247
Property Services	1 414	591	2 301	3 085
Industrial Services	2 131	-499	1 486	3 022
Total	9 885	4 180	9 078	12 354
Net financial expenses	-1 050	-982	-932	-961
Profit before extraordinary items	8 835	3 198	8 146	11 393
Operating margin				
Environmental Services	15.7	11.6	14.6	18.0
Property Services	4.8	2.0	7.9	11.0
Industrial Services	14.4	-4.6	10.8	20.8
Lassila & Tikanoja	11.7	5.5	11.5	16.0

EUR 1000	Q203	Q103	Q402	Q302
Net sales				
Environmental Services	35 071	31 229	31 819	32 151
Property Services	28 755	27 938	22 914	21 710
Industrial Services	14 311	12 570	14 116	16 455
Total	78 137	71 737	68 849	70 316
Operating profit				
Environmental Services	5 803	3 432	3 726	5 464
Property Services	1 935	1 206	1 694	2 686
Industrial Services	1 725	167	414	2 770
Total	9 463	4 805	5 834	10 920
Net financial expenses	-1 015	-971	-866	-954
Profit before extraordinary items	8 448	3 834	4 968	9 966
Operating margin				
Environmental Services	16.5	11.0	11.7	17.0
Property Services	6.7	4.3	7.4	12.4
Industrial Services	12.1	1.3	2.9	16.8
Lassila & Tikanoja	12.1	6.7	8.5	15.5

CONTINGENT LIABILITIES

EUR 1000	6/2004	6/2003	12/2003
Security for company liabilities			
Pledges	354	194	204
Real estate mortgages	784	3 445	
Corporate mortgages	480	529	
Liabilities			
Leasing payments and liabilities	1 157	311	938

DERIVATIVE CONTRACTS

EUR 1000	6/2004	6/2003	12/2003
Interest rate swaps			
Nominal values	82 000	72 000	82 000
Market value	-1 051	-2 801	-1 592

The figures have not been audited.

Helsinki, 26 July 2004

LASSILA & TIKANOJA PLC
Board of Directors