



LASSILA &amp; TIKANOJA PLC

## LASSILA & TIKANOJA PLC INTERIM REPORT 1 JANUARY – 31 MARCH 2004

- Net sales: EUR million 76.4 (EUR 71.7 million)
- Operating profit: EUR 4.2 million (EUR 4.8 million)
- Earnings/share: EUR 0.14 (EUR 0.16)
- Return on invested capital (ROI): 9.1% (11.6%)
- Net sales are expected to grow and results for the entire year are expected to be on the same level as those for 2003.

### NET SALES AND RESULTS

Lassila & Tikanoja's net sales increased by 6.5%, the growth coming from corporate acquisitions. The earnings per share were EUR 0.14. Property Services' results were weakened by the heavy snowfalls in the winter. Industrial Services' results were adversely affected by the low demand for its services and a change in the timing of the demand inside the year. Environmental Services exceeded its targets.

Net sales by Environmental Services (waste management, recycling services, environmental products) amounted to EUR 35.3 million (EUR 31.2 million), an increase of 13.2%. The operating profit grew by 19.1% and was EUR 4.1 million (EUR 3.4 million). Net sales of waste management and recycling services went up and results also improved in relative terms. The improvement in profitability was mainly a result of the growth in the volume of recycling materials at the company's own plants. The business operations in Latvia made good progress. The growth in plant capacity is continuing as planned. The net sales and results of environmental products fell because of a weakening in demand.

Net sales by Property Services (property maintenance and cleaning services) totalled EUR 30.1 million (EUR 27.9 million), an increase of 7.9%. The operating profit was EUR 0.6 million (EUR 1.2 million), a fall of 51%. The results were adversely affected by the heavy snowfalls in the winter and customers' undertaking to make savings, which could be seen in the renewal of contracts with smaller volumes than previously. Particular consideration was given to increasing customer contacts and the efficiency of sales. The effects of the measures can already be seen.

Net sales by Industrial Services (hazardous waste management, industrial cleaning, damage repair services and sewer maintenance) were EUR 10.9 million (EUR 12.6 million), a fall of 13%. Operations were running at a loss amounting to EUR -0.5 million (EUR +0.2 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 cut demand dramatically in industrial cleaning, and adjusting production was challenging. Demand perked up, however, in March, which was an omen for the release of pent-up demand in the spring/summer period. In the spring hazardous waste management will be introducing a new production plant that processes oil-containing metals.

### FINANCING

Interest-bearing liabilities amounted to EUR 27.7 million more than a year earlier and to EUR 18.9 million more than at the end of the previous financial year. Net financial expenses were 1.3% (1.4%) of net sales and 23.5% (20.2%) of operating profit.

EUR 2.1 million was tied up in working capital during the review period (EUR 2.9 million). Cash flow from operations/share was smaller than in 2003 due to advance taxes. The equity ratio 32.8% (40.8%) and the gearing rate 127.0 (83.8) declined, because dividends were paid in March this year while they were paid in April last year.

### INVESTMENTS

Gross investments totalled EUR 11.4 million (EUR 9.2 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, three minor company acquisitions were made in Environmental Services. The total annual net sales of the companies acquired during the period were EUR 8.5 million. Depreciation came to EUR 7.1 million.

## ANNUAL GENERAL MEETING

The Annual General Meeting of Lassila & Tikanoja plc was held on 18 March 2004.

The AGM approved the Board of Directors' proposal that Article 5 of the Articles of Association be amended to read as follows:

'The Board of Directors shall be responsible for the management of the Company and for the proper arrangement of the Company's operations. The Board of Directors shall consist of no less than three (3) and no more than seven (7) members elected by the General Meeting of Shareholders.

The term of the members of the Board of Directors expires at the end of the next Annual General Meeting of Shareholders following his/her election. No person who is 70 years of age or older can be elected to the Board of Directors. The Board of Directors elects from among its members a chairman and a vice chairman of the Board of Directors.'

The AGM decided that a dividend of EUR 1.20 be paid for the year 2003 as proposed by the Board of Directors. 30 March 2004 was designated as the dividend payment date.

The Annual General Meeting approved the Statement of Income, the Balance Sheet, the Consolidated Statement of Income and the Consolidated Balance Sheet and granted freedom from liability to the members of the Board of Directors and the President and CEO.

The number of the members of the Board of Directors was confirmed five (5). Mr Lasse Kurkilahti and Mrs Soili Suonoja were re-elected to the Board of Directors. The Board of Directors comprises the following persons: Mr Heikki Hakala, Mr Lasse Kurkilahti, Mr Juhani Lassila, Mr Juhani Maijala and Mrs Soili Suonoja. The Board of Directors re-elected Juhani Maijala as full-time chairman. Heikki Hakala was re-elected vice chairman of the Board.

PricewaterhouseCoopers Oy, Authorised Public Accountants, were elected auditors.

## 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 March was 2,039,014 which is 12.9% of the number of shares. The value of trading was EUR 56.9 million. The trading price varied between EUR 25.80 and EUR 30.70. The final trading price was EUR 27.75. The market capitalisation was EUR 439.2 million on 31 March 2004. The total number of shares is 15,826,308.

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 and 128,000 2002B stock options. So far 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.

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 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.

According to the guidelines given in March, 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 the actuarial calculations have been done. For a labour-intensive company such as Lassila & Tikanoja, this has a material effect. In other respects, the introduction of IFRS standards will not have any material effect on the shareholders' equity on the transition day.

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](http://www.lassila-tikanoja.com).

#### PROSPECTS FOR THE REST OF THE YEAR

General market prospects in the company's divisions are still good. Investment projects are proceeding as planned. Net sales are expected to grow. Results for the entire year are expected to be on the same level as those for 2003. The target is challenging, particularly in Property Services and Industrial Services.

The slight fall in terms of euros in the results for the first quarter will not be decisive for the whole year, because the results accumulate mostly during the three final quarters of the year. However, even weak signals about the need to improve operations should be noted and consideration is given to cost-effectiveness constantly.

**STATEMENT OF INCOME**

EUR 1000	1-3/2004	%	1-3/2003	%	Change %	1-12/2003	%
<b>Net sales</b>	<b>76 410</b>	<b>100.0</b>	71 737	100.0	6.5	306 256	100.0
Cost of goods sold	<b>-65 482</b>	<b>-85.7</b>	-60 919	-84.9	7.5	-246 448	-80.5
<b>Gross profit</b>	<b>10 928</b>	<b>14.3</b>	10 818	15.1	1.0	59 808	19.5
Sales and marketing expenses	<b>-2 041</b>	<b>-2.7</b>	-1 879	-2.6		-7 509	-2.5
Administration expenses	<b>-2 672</b>	<b>-3.5</b>	-2 490	-3.5		-9 514	-3.1
Other operating income and expenses	<b>70</b>	<b>0.1</b>	184	0.3		641	0.2
<b>Operating profit before depreciation on goodwill</b>	<b>6 285</b>	<b>8.2</b>	6 633	9.2	-5.2	43 426	14.2
Depreciation on goodwill	<b>-2105</b>	<b>-2.8</b>	-1 828	-2.5		-7 726	-2.5
<b>Operating profit</b>	<b>4 180</b>	<b>5.5</b>	4 805	6.7	-13.0	35 700	11.7
Financial income and expenses	<b>-982</b>	<b>-1.3</b>	-971	-1.4	1.1	-3 879	-1.3
<b>Profit before extraordinary items</b>	<b>3 198</b>	<b>4.2</b>	3 834	5.3	-16.6	31 821	10.4
Extraordinary items							
<b>Profit before income taxes</b>	<b>3 198</b>	<b>4.2</b>	3 834	5.3	-16.6	31 821	10.4
Income taxes	<b>-994*</b>	<b>-1.3</b>	-1 302*	-1.8		-9 740	-3.2
Minority interests	<b>-54</b>		-36			-261	
<b>Profit for the period</b>	<b>2 150</b>	<b>2.8</b>	2 496	3.5	-13.9	21 820	7.1

\* Taxes on the profit for the period under review.

**BALANCE SHEET**

EUR 1000	3/2004	3/2003	12/2003
<b>Assets</b>			
Fixed assets			
Intangible assets	<b>87 095</b>	85 640	86 041
Tangible assets	<b>107 660</b>	90 539	104 728
Financial assets	<b>3 520</b>	3 438	3 478
Fixed assets, total	<b>198 275</b>	179 617	194 247
Current assets			
Inventories	<b>3 260</b>	2 313	2 729
Non-current receivables	<b>5</b>	1	1
Current receivables	<b>40 210</b>	32 550	30 997
Cash at bank and in hand	<b>5 400</b>	4 734	10 757
Current assets, total	<b>48 875</b>	39 598	44 484
<b>Assets, total</b>	<b>247 150</b>	219 215	238 731
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity			
Share capital	<b>7 913</b>	7 913	7 913
Other restricted equity	<b>7 518</b>	7 518	7 518
Equity share of accumulated appropriations	<b>4 004</b>	2 618	4 921
Other unrestricted equity	<b>59 611</b>	70 428	75 434
Shareholders' equity, total	<b>79 046</b>	88 477	95 786
Minority interests	<b>1 210</b>	941	1 157
Provisions	<b>86</b>	526	69
Liabilities			
Deferred tax liability	<b>6 612</b>	5 828	6 825
Non-current liabilities	<b>79 997</b>	66 441	79 229
Current liabilities	<b>80 199</b>	57 002	55 665
Liabilities, total	<b>166 808</b>	129 271	141 719
<b>Shareholders' equity and liabilities, total</b>	<b>247 150</b>	219 215	238 731

**KEY FIGURES**

	3/2004	3/2003	12/2003
Earnings/share, EUR	0.14	0.16	1.38
Equity/share, EUR	4.99	5.59	6.05
Cash flow from operations/share, EUR	0.39	0.41	3.05
Return on equity (ROE), %	9.9	11.5	24.0
Return on invested capital (ROI), %	9.1	11.6	20.5
Equity ratio, %	32.8	40.8	40.6
Gearing, %	127.0	83.8	80.1
EVA, EUR million	0.1	1.1	19.6
Gross investments, EUR 1000	11 391	9 219	43 770
Depreciation, EUR 1000	7 132	6 086	25 643
Net interest-bearing liabilities, EUR 1000	101 895	74 905	77 636
Average personnel converted to full-time	4 875	4 414	4 595

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

**CASH FLOW STATEMENT**

EUR 1000	3/2004	3/2003	12/2003
Cash flow before change in working capital	11 258	10 679	61 129
Change in working capital	-2 141	-2 888	-1 258
Financial items and taxes	-2 874	-1 377	-11 632
<b>Cash flow from operations</b>	<b>6 243</b>	<b>6 414</b>	<b>48 239</b>
Investments in group companies	-4 334	-2 574	-11 255
Other investments	-6 168	-5 675	-30 089
Proceeds from sale of fixed assets	390	326	759
<b>Cash flow from investing activities</b>	<b>-10 112</b>	<b>-7 923</b>	<b>-40 585</b>
Dividends paid	-18 805		-11 854
Change in interest-bearing liabilities	17 318	1 448	10 162
<b>Cash flow from financing</b>	<b>-1 487</b>	<b>1 448</b>	<b>-1 692</b>
Change in cash and cash equivalents	-5 356	-61	5 962

**FIGURES BY DIVISION****NET SALES**

EUR 1000	3/2004	3/2003	change %	12/2003
Environmental Services	35 336	31 229	13.2	137 235
Property Services	30 141	27 938	7.9	113 786
Industrial Services	10 933	12 570	-13.0	55 235
Total	76 410	71 737	6.5	306 256

**OPERATING PROFIT**

	3/2004		3/2003		Change	12/2003	
	EUR 1000	%	EUR1000	%	%	EUR 1000	%
Environmental Services	4 088	11.6	3 432	11.0	19.1	20 773	15.1
Property Services	591	2.0	1 206	4.3	-51.0	8 527	7.5
Industrial Services	-499	-4.6	167	1.3	-398.8	6 400	11.6
Total	4 180	5.5	4 805	6.7	-13.0	35 700	11.7

**QUARTERLY FIGURES**

EUR 1000	Q104	Q403	Q303	Q203
<b>Net sales</b>				
Environmental Services	35 336	36 249	34 686	35 071
Property Services	30 141	28 998	28 095	28 755
Industrial Services	10 933	13 823	14 531	14 311
Total	76 410	79 070	77 312	78 137
<b>Operating profit</b>				
Environmental Services	4 088	5 291	6 247	5 803
Property Services	591	2 301	3 085	1 935
Industrial Services	-499	1 486	3 022	1 725
Total	4 180	9 078	12 354	9 463
<b>Net financial expenses</b>	-982	-932	-961	-1 015
<b>Profit before extraordinary items</b>	3 198	8 146	11 393	8 448
<b>Operating margin</b>				
Environmental Services	11.6	14.6	18.0	16.5
Property Services	2.0	7.9	11.0	6.7
Industrial Services	-4.6	10.8	20.8	12.1
Lassila & Tikanoja	5.5	11.5	16.0	12.1

EUR 1000	Q103	Q402	Q302	Q202
<b>Net sales</b>				
Environmental Services	31 229	31 819	32 151	31 017
Property Services	27 938	22 914	21 710	21 543
Industrial Services	12 570	14 116	16 455	14 483
Total	71 737	68 849	70 316	67 043
<b>Operating profit</b>				
Environmental Services	3 432	3 726	5 464	3 792
Property Services	1 206	1 694	2 686	572
Industrial Services	167	414	2 770	1 474
Total	4 805	5 834	10 920	5 838
<b>Net financial expenses</b>	-971	-866	-954	-926
<b>Profit before extraordinary items</b>	3 834	4 968	9 966	4 912
<b>Operating margin</b>				
Environmental Services	11.0	11.7	17.0	12.2
Property Services	4.3	7.4	12.4	2.7
Industrial Services	1.3	2.9	16.8	10.2
Lassila & Tikanoja	6.7	8.5	15.5	8.7

**CONTINGENT LIABILITIES**

EUR 1000	3/2004	3/2003	12/2003
<b>SECURITY FOR COMPANY LIABILITIES</b>			
Pledges	348	112	204
Real estate mortgages	84	3 445	
Corporate mortgages	504	529	
<b>Liabilities</b>			
Leasing payments and liabilities	921	312	938

**DERIVATIVE CONTRACTS**

EUR 1000	3/2004	3/2003	12/2003
<b>Interest rate swaps</b>			
Nominal values	82 000	52 000	82 000
Market value	-1 839	-2 833	-1 592

The figures have not been audited.

Helsinki, 26 April 2004

LASSILA & TIKANOJA PLC  
Board of Directors