



LASSILA & TIKANOJA PLC

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

- Net sales: EUR 247.3 million (EUR 227.2 million)
- Operating profit: EUR 26.2 million (EUR 26.6 million)
- Earnings/share: EUR 1.03 (EUR 1.02)
- Return on invested capital (ROI): 18,2% (20.5%)
- 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 third quarter totalled EUR 86.3 million (EUR 77.3 million). The operating profit was EUR 12.2 million (EUR 12.4 million), which is 14.1% of net sales (16.0%)

Net sales for nine months went up by 8.8% to EUR 247.3 million (EUR 227.2 million), 6.8 percentage points of the increase coming from corporate acquisitions. The operating profit was EUR 26.2 million (EUR 26.6 million), which is 10.6% (11.7%) of net sales. The earnings per share were EUR 1.03 (EUR 1.02).

Environmental Services

Net sales by Environmental Services (waste management, recycling services, environmental products) amounted to EUR 115.4 million (EUR 101.0 million), an increase of 14,3%. The operating profit grew by 6.8% and was EUR 16,5 million (EUR 15.5 million). Net sales by waste management and recycling services went up and results improved clearly. 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 at Oulu came on stream as the summer drew to an end. Waste management's result was adversely affected by the dramatic rise in fuel prices. Environmental products' net sales and financial performance deteriorated as a result of a weakening in demand.

The business operations of Salvor Oy, a joint venture company owned in equal proportions by Lassila & Tikanoja and the Finnish Road Enterprise, have started as planned. Salvor specializes in treatment services of industrial by-products, soil remediation and the construction of landfill barrier systems.

Property Services

Net sales by Property Services (property maintenance and cleaning services) totalled EUR 90,4 million (EUR 84.8 million), an increase of 6.7%. The operating profit was EUR 5.5 million (EUR 6.2 million). Net sales by both product lines increased. The financial performance suffered at the beginning of the year because of the heavy winter snowfalls and reduced volumes in renewed contracts.

Measures to improve production and sales produced results, particularly in cleaning services. Cleaning services' financial performance improved in quantitative and relative terms in the last quarter of the period under review. Customer permanence also improved.

Industrial Services

Net sales by Industrial Services (hazardous waste management, industrial cleaning, damage repair services and sewer maintenance) were EUR 41.4 million (EUR 41.4 million). The operating profit was EUR 4.2 million (EUR 4.9 million). After the difficult situation with demand at the beginning of the year, net sales started an upturn in the second part of the period under review. However, demand was still volatile and difficult to predict, particularly in the forest industry.

The volatile demand made it difficult to plan production and had a somewhat negative effect on industrial cleaning's financial performance. Hazardous waste management succeeded in directing more waste materials to its own production plants, even though collecting hazardous waste has become tougher in terms of prices. The measures to set damage repair service on a sound financial footing that were implemented last year and at the beginning of this year have had a favourable effect. The product line is making a clear profit and competitiveness has improved considerably.

FINANCING

Interest-bearing liabilities amounted to EUR 13.6 million more than a year earlier and to EUR 17.2 million more than at the end of the previous financial year. Net financial expenses were 1.3% (1.3%) of net sales and 11.9% (11.1%) of operating profit. EUR 3.5 million was tied up in working capital during the review period (EUR 5.0 million). The equity ratio was 36.2% (38.9%) and the gearing rate 103.4 (82.6).

INVESTMENTS

Gross investments totalled EUR 39.1 million (EUR 25.4 million). Machinery and equipment was replaced and production premises were bought and expanded. EUR 17.5 million were spent on corporate acquisitions. Lassila & Tikanoja purchased 11 companies, the biggest in terms of net sales being Vatostep Oy, Sil-Va Clean Oy and Tampereen Aluesiivous Oy. The joint venture company Salvor Oy purchased two businesses. Lassila & Tikanoja's share of the acquired companies' combined annual net sales is EUR 24.9 million.

Investments by division were as follows: Environmental Services EUR 18.8 million (EUR 7.0 million), Property Services EUR 9.4 million (EUR 8.4 million), Industrial Services EUR 5.2 million (EUR 4.6 million) and investments concerning all divisions EUR 5.7 million (EUR 5.4 million). Depreciation came to EUR 22.0 million (EUR 18.7 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 Helsinki Exchanges, 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 September was 5,350,969, which is 33.8% of the average number of shares. The value of trading was EUR 145.5 million. The trading price varied between EUR 25.00 and EUR 30.70. The final trading price was EUR 28.00. The market capitalisation was EUR 443.2 million on 30 September 2004.

The company's registered share capital at the beginning of the period under review was EUR 7,913,154 and the number of shares 15,826,308. As a result of the share subscriptions made on the basis of the 2002A options, the share capital was raised by EUR 1,250 on 10 August 2004. The share capital at the end of the period was EUR 7,914,404 and the number of shares 15,828,808.

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 were subscribed for on 3 May – 21 July 2004. The new shares were available for public trading on the Helsinki Exchanges Main List on 11 August 2004 together with the existing shares. 127,500 shares can still be subscribed for with the 2002A stock options.

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.

Before the disclosure of the first quarter results of 2005, Lassila & Tikanoja will disclose a release explaining the detailed effects of adopting IFRS on the financial information of the company and including the comparison figures for the financial year 2004.

The significant estimated effects of the adoption of IFRS are explained in a preliminary summary, which will be disclosed as a separate stock exchange release on 26 October 2004. The preliminary summary will also be available on the company website www.lassila-tikanoja.com.

HELSINKI ADMINISTRATIVE COURT'S DECISION ON DEDUCTIBILITY OF LOSS ON DISSOLUTION

The Representative of the State in Tax Affairs has demanded that the 2000 tax assessments of Säkkiäinen Ympäristöpalvelut Oy (which is in voluntary liquidation) and Säkkiäinen Puhtaanapito Oy (which has merged with Säkkiäinen Oy, which has merged with Lassila & Tikanoja plc) be annulled so that they may be taxed afresh. The dispute concerns the deductibility of capital losses relating to dissolution. The Helsinki Administrative Court has rejected the State tax representative's demands on 24 August 2004, but he has appealed to the Supreme Administrative Court in the matter.

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

The Board of Directors of Lassila & Tikanoja plc has decided to convene an Extraordinary General Meeting of Shareholders on 15 November 2004. The Board proposes to the meeting a rights offering, an additional dividend and a bonus issue.

PROSPECTS

General market prospects in the company's divisions are still good in the main. The market situation in Environmental Services continues to be stable and an improvement is expected in the market situation of Property Services. Industrial demand, however, is expected to remain volatile.

The growth in net sales is expected to be somewhat above nine percent. Results for the entire year are expected to be about the same as those for 2003.

International operations and investment in the expanding recycling business are the mainstays of Lassila & Tikanoja's strategy. The implementation of the strategy requires increasing investments and strengthening of the organisation for international operations, which will have some negative effect on the financial performance in the short term.

STATEMENT OF INCOME

EUR 1000	1-9/2004		1-9/2003		Change		1-12/2003	
		%		%	%		%	
Net sales	247 271	100.0	227 186	100.0	8.8	306 256	100.0	
Cost of goods sold	-200 829	-81.2	-182 848	-80.5	9.8	-246 448	-80.5	
Gross profit	46 442	18.8	44 338	19.5	4.7	59 808	19.5	
Sales and marketing expenses	-6 140	-2.5	-5 437	-2.4	12.9	-7 509	-2.5	
Administration expenses	-7 992	-3.2	-6 783	-3.0	17.8	-9 514	-3.1	
Other operating income and expenses	481	0.2	233	0.1		641	0.2	
Operating profit before depreciation on goodwill	32 791	13.3	32 351	14.2	1.4	43 426	14.2	
Depreciation on goodwill	-6 567	-2.7	-5 729	-2.5	4.6	-7 726	-2.5	
Operating profit	26 224	10.6	26 622	11.7	-1.5	35 700	11.7	
Financial income and expenses	-3 120	-1.3	-2 947	-1.3	5.9	-3 879	-1.3	
Profit before extraordinary items	23 104	9.3	23 675	10.4	-2.4	31 821	10.4	
Extraordinary items								
Profit before income taxes	23 104	9.3	23 675	10.4	-2.4	31 821	10.4	
Income taxes	-6 476*	-2.6	-7 366*	-3.2	-12.1	-9 740	-3.2	
Minority interests	-260		-146		78.1	-261		
Profit for the period	16 368	6.6	16 163	7.1	1.3	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 700,000 during the first six months of 2004.

BALANCE SHEET

EUR 1000	9/2004	9/2003	12/2003
Assets			
Fixed assets			
Intangible assets	93 087	82 708	86 041
Tangible assets	113 589	96 325	104 728
Financial assets	3 518	3 426	3 478
Fixed assets, total	210 194	182 459	194 247
Current assets			
Inventories	3 934	2 506	2 729
Non-current receivables	3	1	1
Current receivables	41 312	33 254	30 997
Cash at bank and in hand	7 692	16 486	10 757
Current assets, total	52 941	52 247	44 484
Assets, total	263 135	234 706	238 731
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	7 914	7 913	7 913
Other restricted equity	7 565	7 518	7 518
Equity share of accumulated appropriations	4 929	3 183	4 921
Other unrestricted equity	72 811	71 661	75 434
Shareholders' equity, total	93 219	90 275	95 786
Minority interests	1 417	1 050	1 157
Provisions	92		69
Liabilities			
Deferred tax liability	6 279	6 162	6 825
Non-current liabilities	68 252	83 774	79 229
Current liabilities	93 876	53 445	55 665
Liabilities, total	168 407	143 381	141 719
Shareholders' equity and liabilities, total	263 135	234 706	238 731

KEY FIGURES

	9/2004	9/2003	12/2003
Earnings/share, EUR	1.03	1.02	1.38
Equity/share, EUR	5.89	5.70	6.05
Cash flow from operations/share, EUR	2.19	2.06	3.05
Return on equity (ROE), %	23.1	24.4	24.0
Return on invested capital (ROI), %	18.2	20.5	20.5
Equity ratio, %	36.2	38.9	40.6
Gearing, %	103.4	82.6	80.1
EVA, EUR million	13.4	14.9	19.6
Gross investments, EUR 1000	39 126	25 378	43 770
Depreciation, EUR 1000	22 008	18 747	25 643
Net interest-bearing liabilities, EUR 1000	97 877	75 452	77 636
Average personnel converted to full-time	5 621	4 603	4 595

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

CASH FLOW STATEMENT

EUR 1000	9/2004	9/2003	12/2003
Cash flow before change in working capital	47 218	45 155	61 129
Change in working capital	-3 542	-5 002	-1 258
Financial items and taxes	-9 022	-7 474	-11 632
Cash flow from operations	34 654	32 679	48 239
Investments in group companies	-11 638	-3 599	-11 255
Other investments	-24 739	-20 333	-30 089
Proceeds from sale of fixed assets	2 266	1 050	759
Cash flow from investing activities	-34 111	-22 882	-40 585
Dividends paid	-18 968	-11 855	-11 854
Change in interest-bearing liabilities	15 294	13 748	10 162
Cash flow from financing	-3 674	1 893	-1 692
Change in cash and cash equivalents	-3 131	11 690	5 962

FIGURES BY DIVISION**NET SALES**

EUR 1000	9/2004	9/2003	Change %	12/2003
Environmental Services	115 433	100 986	14.3	137 235
Property Services	90 442	84 788	6.7	113 786
Industrial Services	41 396	41 412	0	55 235
Total	247 271	227 186	8.8	306 256

OPERATING PROFIT

	9/2004		9/2003		Change %	12/2003	
	EUR 1000	%	EUR 1000	%		EUR 1000	%
Environmental Services	16 533	14.3	15 482	15,3	6.8	20 773	15.1
Property Services	5 456	6.0	6 226	7,3	-12.4	8 527	7.5
Industrial Services	4 235	10.2	4 914	11,9	-13.8	6 400	11.6
Total	26 224	10.6	26 622	11,7	-1.5	35 700	11.7

QUARTERLY FIGURES

EUR 1000	Q304	Q204	Q104	Q403
Net sales				
Environmental Services	39 782	40 315	35 336	36 249
Property Services	30 796	29 505	30 141	28 998
Industrial Services	15 677	14 786	10 933	13 823
Total	86 255	84 606	76 410	79 070
Operating profit				
Environmental Services	6 105	6 340	4 088	5 291
Property Services	3 451	1 414	591	2 301
Industrial Services	2 603	2 131	-499	1 486
Total	12 159	9 885	4 180	9 078
Net financial expenses	-1 088	-1 050	-982	-932
Profit before extraordinary items	11 071	8 835	3 198	8 146
Operating margin				
Environmental Services	15.3	15.7	11.6	14.6
Property Services	11.2	4.8	2.0	7.9
Industrial Services	16.6	14.4	-4.6	10.8
Lassila & Tikanoja	14.1	11.7	5.5	11.5

EUR 1000	Q303	Q203	Q103	Q402
Net sales				
Environmental Services	34 686	35 071	31 229	31 819
Property Services	28 095	28 755	27 938	22 914
Industrial Services	14 531	14 311	12 570	14 116
Total	77 312	78 137	71 737	68 849
Operating profit				
Environmental Services	6 247	5 803	3 432	3 726
Property Services	3 085	1 935	1 206	1 694
Industrial Services	3 022	1 725	167	414
Total	12 354	9 463	4 805	5 834
Net financial expenses	-961	-1 015	-971	-866
Profit before extraordinary items	11 393	8 448	3 834	4 968
Operating margin				
Environmental Services	18.0	16.5	11.0	11.7
Property Services	11.0	6.7	4.3	7.4
Industrial Services	20.8	12.1	1.3	2.9
Lassila & Tikanoja	16.0	12.1	6.7	8.5

CONTINGENT LIABILITIES

EUR 1000	9/2004	9/2003	12/2003
Security for company liabilities			
Pledges	556	181	204
Real estate mortgages	784	3 445	
Corporate mortgages		25	
Liabilities			
Leasing payments and liabilities	1 045	321	938

DERIVATIVE CONTRACTS

EUR 1000	9/2004	9/2003	12/2003
Interest rate swaps			
Nominal values	82 000	82 000	82 000
Market value	-860	-2 270	-1 592

The figures have not been audited.

Helsinki, 25 October 2004

LASSILA & TIKANOJA PLC
Board of Directors