DESTIA

DESTIA Q2

INTERIM REPORT
JANUARY-JUNE 2011

BUILDING THE BIGGER PICTURE

Interim report January–June 2011

- Turnover declined as forecast in comparison with the previous year, as a result of measures to improve profitability
- The operating result was burdened by MEUR 16.1 of individual loss-making projects and goodwill write-downs
- Cash flow was better than the previous year
- Destia estimates that turnover for the full year will decrease and that the operating result will remain negative
- In the request for bids for the Koskenkylä-Kotka section of the E18 motorway, the consortium formed by Destia, YIT and Meridiam Infrastructure Finance II S.á.r.l was selected as the primary bidder for this contract worth some MEUR 650 in August.

KEY FIGURES

		1-6/2011	1-6/2010	4-6/2011	4-6/2010	1-12/2010
Turnover	Me	197,6	211,7	108,2	122,3	539,2
Operating result	Me	-13,9	-4,3	-6,8	-1,2	8,3
Operating result	%	-7,0	-2,0	-6,3	-1,0	1,5
Profit/loss for the period	Me	-15,3	-6,5	-8,3	-1,9	8,3
Profit/loss for the period	%	-7,7	-3,1	-7,7	-1,6	1,5
Order book	Me	753,4	908,0			726,5

Operating Environment

During the report period, there were fewer large infrastructure projects in progress than in previous years, which has affected the overall market situation of the infrastructure construction industry. It is estimated that the total volume of infrastructure construction will decrease in Finland this year. (Rakennusteollisuus and Euroconstruct.)

The costs of the civil engineering industry rose 5.8% from June 2010 to June 2011. The annual change in costs varied by subindex from 3.9% in civil engineering structures to 12.9% in surfacings. The increase in the total index was particularly affected by price increases in fuel, other energy and materials. (Cost index of civil engineering works, Statistics Finland, 18 July 2011).

Destia's assessment of the infrastructure construction market is slightly more positive than previously forecast, with the market picking up towards the end of the report period, particularly in growth centres. In large projects, the main focus of demand has, however, continued to be in subterranean rock construction, where Destia's share of business is still minor. The market also contains many small civil engineering contracts. The picking-up of demand accelerated the rise in costs, but it is estimated that this will level out during the winter and as demand for machine capacity will decline. Next year, the revival of the infrastructure construction market will be supported by the start-up of major government road projects, but at the same time private-sector activity will be overshadowed by the state of the financial market. Market uncertainty has increased as a result of the European debt crisis, which if prolonged may weaken the economic operating environment and present problems in the availability of finance, also in infrastructure construction.

Orders Received and the Order Book

At the end of June, the Group's order book amounted to MEUR 753.4 (30 June 2010: MEUR 908.0) A significant factor in the decrease of the order book was the weighting of market demand towards subterranean rock construction. Destia has co-operated with partners in the bidding for subterranean rock construction projects. Destia has invested in risk management and profitability, which, in a situation of intense competition, has had an adverse effect on success in competitive tenders. During the report period, Destia won a smaller volume share of road maintenance contracts, track projects and surfacing contracts than in the previous year. During the review period, in the 2nd and 3rd rounds of public requests for bids for regional highway maintenance contracts, Destia won five out of eight, of which the Raasepori, Orivesi, Ii and Ranua contracts will continue for five years and the Suonenjoki one for seven years. During 2011, of 13 regional highway contracts for which bids were requested, Destia won a total of seven. During the report period, Destia also won the three-year street and park maintenance contract for the Maaria–Paattinen district of Turku.

A contract was concluded with Ovako Bar Oy Ab for civil engineering work for the Imatra Steel scrapyard, which includes soil cutting and the construction of drainage and structural layers. The contract also entails the construction of a reinforced concrete slab and noise wall for the handling area.

During the second quarter of the year, the Helsinki City Council selected SRV Rakennus Oy to build the centre of the Kalasatama district. SRV's partner in infrastructure planning and construction for this project is Destia. The objective is for the first parts of this major construction project to be ready in 2015, and the final parts in stages up to 2021.

Destia continued, together with YIT Rakennus Oy, to prepare a bid for the E18 motorway project from Koskenkylä to Kotka. This project will be implemented following the Public Private Partnership (PPP) model, i.e. the life cycle model. According to the customer, the Finnish Transport Agency, the procurement decision will be made in September, and the plan is that construction will commence late in 2011. In March, the Finnish Transport Agency suspended the double-track Kokkola–Ylivieska PPP project for which bids had been requested, because it emerged that insufficient funding had been set aside to carry out the project. The project was postponed to be budget-funded in 2012–2017.

Turnover

Destia's turnover for the first half of the year was lower than the corresponding period the previous year at MEUR 197.6 (1–6/2010: 211.7). The decline in turnover resulted not only from the weak market situation but also from strategic action to improve profitability.

Result

The operating result for the period was MEUR -13.9 (-4.3). The lower profitability than in the previous year was mainly due to three factors: the significant project impairment in Norwegian operations and goodwill write-downs and the failure of one track maintenance contract and one rock construction project. The losses recorded as a result of these totalled MEUR 16.1. In other respects, business has developed as planned. Profit from other business during the period amounted to MEUR 4.3 (3.3).

Balance Sheet and Cash Flow

At the end of June, the sum total of the Group's balance sheet was MEUR 225.3 (MEUR 265.5). The equity ratio was 27.0% (22.7%), the net debt-to-equity ratio was 121.8% (133.2%) and the return on investments was -0.3% (-8.3%).

The cash flow for January-June 2011 comprised business cash flow of MEUR -11.1 (-30.0), investment cash flow of MEUR 2.2 (-6.1) and financing cash flow of MEUR -9.2 (-4.9). The financial assets at the end of the reporting period according to the balance sheet were MEUR 8.2 (10.0).

The Group's interest-bearing liabilities declined by MEUR 9.2 during the first half of the year to MEUR 63.0 (79.6). Net financing costs totalled MEUR 1.4 (1.2), which was 0.7% (0.6%) of turnover. Interest-bearing net liabilities at the end of the report period were MEUR 54.8 (69.6).

Investments and Company Acquisitions

Gross investments for the second quarter of the year totalled MEUR 1.7 (6.7). The investments were mainly equipment-related ones.

Destia and Ruokakesko concluded a property transaction on 28 June 2011 for Destia's Vaasa warehouse area. Destia will continue to operate in the area as a tenant. In accordance with Destia's strategy, the transaction freed up capital tied up in property for the development of basic business operations and to optimise the use of premises.

On 24 March 2011, Destia and NCC signed a contract concerning a surfacing business transaction, according to which Destia relinquishes its asphalt production, surfacing operations and order book for surfacing operations. The transaction supports Destia's strategy to concentrate on its core business operations, and strengthens its balance sheet. At the end of the report period, the transaction still required the approval of the Finnish Competition Authority. The Finnish Competition Authority made a decision on it after the reporting period had come to an end.

Personnel

The Group's average number of personnel during the report period was 1,857 (2,126). At the end of June, the number of personnel was 1,914 (2,272), of which permanent staff totalled 1,652 (1,921) and temporary employees 262 (351). The change in comparison to the previous year is due to the staff adaptations implemented in 2009 and 2010. Due to the seasonal nature of the business, the number of personnel varies during the year and peaks in the summer.

On 14 June 2011, Destia Rail Ltd reached a decision on negotiations initiated on 19 April 2011 based on the Co-operation Act aimed at a reduction in personnel. The aim of the negotiations was to adjust company cost structure and resources to correspond to the market situation. As a result of the negotiations, the number of personnel at Destia Rail Ltd will be reduced by no more than 10 persons. The staff reductions began in June and will be fully implemented by the end of 2011. As a result of negotiations concerning the need for lay-offs, lay-offs totalling no more than 30 man-years will be implemented. They will be carried out by the end of the 2011 construction period based on the work situation.

Near-Future Risks and Uncertainties

The most significant short-term risks concern market prospects. If it continues, the uncertainty in the market stemming from the European debt crisis may result in significant weakening of the financial operating environment and also affect the price and availability of finance. The authority of public customers to order has become scarcer and the readiness of private customers to invest is slight. The industry's substantial over-capacity is reflected in the current price level. Tight competition in construction and maintenance services continues.

In addition to market demand, increase of costs is also a risk. The increase in the prices of energy, oil products and other materials particularly affects the profitability of projects.

Decisions of the General Meeting

The Annual General Meeting of Destia Ltd was held on 23 March 2011. The meeting confirmed the company's financial statements for 2010 and granted exemption from liability to Board members and the CEO for the accounting period 1 January–31 December 2010. The Annual General Meeting decided, in accordance with the proposal of the Board, that no dividends will be paid for the accounting period ending 31 December 2010.

The meeting ratified the total number of Board members as five, reappointed Karri Kaitue as Chairman of the Board and Matti Mantere as Vice Chairman. Elina Engman, Ilpo Nuutinen and Solveig Törnroos-Huhtamäki were re-elected as the other members of the Board. The meeting decided to keep the financial remuneration of the Board members unchanged.

The Annual General Meeting selected Deloitte & Touche Ltd (Authorised Public Accountants) as Destia Ltd's auditor for the accounting period 2011.

Events Following the Report Period

On 5 July 2011, the Supreme Court issued a decision in a matter concerning public procurement, in which Destia was seeking compensation for costs arising from a bidding competition in 2002. According to its decision, the Supreme Court considered that the Finnish Road Administration (now the Finnish Transport Agency) did not cause compensatable damage to Destia's predecessor, Tieliikennelaitos, on the grounds that it, contrary to procurement regulations, failed to inform the bidders of the suspension of the procurement and the reasons for it. The decision is legally binding.

In July, Destia concluded a contract for the construction of the eastern open-track section of the Ring Rail Line in Vantaa. The contract includes bridges for the open-track section, civil engineering work, the construction of Leinelä Station, excavation and environmental and street work. The planned completion of the work is in 2013.

In March 2011, Destia agreed to sell its asphalt and surfacing business to NCC. The transaction required the approval of the Finnish Competition Authority, which decided on 5 August 2011 to propose that the Market Court reject the transaction. The Market Court has three months to decide whether it will accept or reject it.

In August, Destia and the City of Vantaa concluded a contract for the planning and construction of Tikkurilantie between Riipiläntie and Katriinantie. This contract will be completed in summer 2013.

In August, a consortium formed by Destia, YIT and Meridiam Infrastructure Finance II S.á.r.l. has been selected as the preferred bidder for the E18 motorway between Koskenkylä and Kotka. The project will be implemented using the life cycle model and has been granted a contract authorisation of EUR 650 million, which will form the basis for the agreement negotiations following the tender process with the Finnish Transport Agency.

Prospects for 2011

Destia's forecast for the overall infrastructure industry market in 2011 is better than it was, but the market suitable for the company's business is quite small. In large projects, the main focus of demand has continued to be in subterranean rock construction, where Destia's share of business is still minor.

Destia's existing order book and previously initiated measures aimed at improving profitability will positively affect the prospects for this year. The profitability of core business projects has also improved on average. The multiplicative effects of the impairment in Norwegian projects and individual track and rock construction projects will, however, have a negative impact on the result for 2011.

It is forecast that the 2011 turnover of the Destia Group will be less than the previous year and the operating result to remain negative in 2011 on account of the individual loss-yielding projects.

Vantaa, 29 August 2011

Destia Ltd
Board of Directors

GROUPS'S PROFIT AND LOSS ACCOUNT

EUR MILLION	**1-6/2011**	**1-6/2010**	**4-6/2011**	**4-6/2010**	**1-12/2010**
TURNOVER	197,6	211,7	108,2	122,3	539,2
Other operating income	4,3	3,3	3,4	2,5	6,1
Materials and services	-132,6	-130,7	-72,1	-80,8	-355,4
Personnel expenses	-44,3	-50,1	-22,5	-23,1	-103,4
Depreciation and write-downs	-11,5	-10,9	-6,3	-5,4	-22,7
Other operating expenses	-27,4	-27,5	-17,4	-16,7	-55,5
OPERATING RESULT	-13,9	-4,3	-6,8	-1,2	8,3
Financial income and expenses	-1,4	-1,2	-0,8	-0,6	-2,5
RESULT BEFORE EXTRAORDINARY ITEMS AND TAXES	-15,3	-5,5	-7,6	-1,8	5,8
Taxes		-1,0		-0,1	2,5
RESULT FOR THE PERIOD	-15,3	-6,5	-7,6	-1,9	8,3

GROUP'S BALANCE SHEET

EUR MILLION	**30.6.2011**	**31.12.2010**	**30.6.2010**
ASSETS			
NON-CURRENT ASSETS	103,7	115,4	125,4
CURRENT ASSETS			
Inventories	27,4	24,4	27,4
Deferred tax assets	6,8	6,9	3,8
Receivables	79,2	78,6	98,9
Cash and bank	8,2	26,3	10,0
CURRENT ASSETS	121,5	136,2	140,1
ASSETS	225,3	251,6	265,5
EQUITY AND LIABILITIES			
EQUITY	51,7	67,1	52,3
MINORITY INTEREST	20,0	17,7	18,8
GROUP RESERVE	0,1	0,1	0,1
LIABILITIES			
Deferred tax liability	2,8	2,8	2,8
Long-term liabilities	60,8	60,8	31,9
Short-term liabilities	89,8	103,1	159,6
LIABILITIES	153,4	166,7	194,3
EQUITY AND LIABILITIES	225,3	251,6	265,5

GROUP'S CASH FLOW STATEMENT

EUR MILLION	**1-6/2011**	**1-6/2010**	**1-12/2010**
Payments received from customers	201,9	185,0	530,3
Payments to suppliers of goods/services and to personnel	-211,7	-213,5	-533,7
Cash flow from business operations before financial items and taxes	**-9,8**	**-28,5**	**-3,4**
Interest paid on business operations	-1,2	-0,8	-2,3
Interest received from business operations	0,3	0,1	0,6
Other financial items from business operations	-0,4	-0,3	-0,8
Taxes paid on business operations		-0,5	-0,1
Cash flow from business operations	**-11,1**	**-30,0**	**-6,0**
Cash flow from investment activities			
Investments in tangible and intangible assets	-1,7	-5,4	-10,4
Proceeds from the sale of tangible and intangible assets	3,8	2,6	7,5
Acquired and divested shares in subsidiaries and associates		-3,3	-3,3
Proceeds from the sale of other investments	0,1		
Cash flow from investment activities	**2,2**	**-6,1**	**-6,2**
Cash flow from financing activities			
Withdrawals of short-term loans		5,4	-31,3
Repayment of short-term loans	-9,2		
Withdrawals of long-term loans			30,0
Repayment of long-term loans		-0,5	-1,4
Cash flow from financing activities	**-9,2**	**4,9**	**-2,7**
Change in liquid assets	**-18,1**	**-31,2**	**-14,9**
Liquid assets on balance sheet in the end of financial period	8,2	10,0	26,3
Liquid assets on balance sheet in the beginning of financial period	26,3	41,2	41,2
Change in liquid assets	-18,1	-31,2	-14,9

GROUP'S KEY FIGURES

EUR MILLION	1-6/2011	1-6/2010	4-6/2011	4-6/2010	1-12/2010
Turnover	197,6	211,7	108,2	122,3	539,2
Year-on-year change, %	-6,6	-13,5	-11,5	-17,3	-10,6
Operating result	-13,9	-4,3	-6,8	-1,2	8,3
% of turnover	-7,0	-2,0	-6,3	-1,0	1,5
Profit/loss for the period	-15,3	-6,5	-7,6	-1,9	8,3
% of turnover	-7,7	-3,1	-7,0	-1,6	1,5
Gross capital expenditure	1,7	6,7	1,2	2	11,7
% of turnover	0,9	3,2	1,1	1,6	2,2
Balance sheet total	225,3	265,5	225,3	265,5	251,6
Equity	51,7	52,3	51,7	52,3	67,1
Equity ratio, % 1)	27,0	22,7	27,0	22,7	30,4
Return on equity, % 2)	-0,8	-22,6	-51,2	-13,1	12,5
Return on investment, % 3)	-0,3	-8,3	-21,3	-3,4	6,2
Gearing, % 4)	121,8	133,2	121,8	133,2	68,4
Interest-bearing liabilities	63,0	79,6	63,0	79,6	72,2
Current ratio 5)	1,3	0,9	1,3	0,9	1,3
Quick ratio 6)	1,1	0,7	1,1	0,7	1,2
Order book	753,4	908,0			726,5
Research and development costs	0,3	0,3	0,1	0,2	0,6
% of other operating expenses	1,1	1,1	0,6	1,2	1,1
Earnings per share, EUR	-22,47	-9,63	-11,18	-2,86	12,16
Equity per share, EUR	76,07	76,91	76,07	76,91	98,62
Average personnel	1 857	2 126	1 868	2 181	2 096

Formulas:
1) ((Equity + minority interest/(Balance sheet total - advances received) *100
2) ((Profit before extraordinary items - taxes/Equity + minority interest))*100 (balance sheet at beginning and end of year)
3) (Profit before extraordinary items + interests and other financial expenses/Average equity invested
(balance sheet total - non-interest-bearing liabilities - provisions, balance sheet at beginning and end of year)
4) ((Interest-bearing liabilities - cash, bank balances and securities)/(Equity + minority interest))*100
5) (Inventories + financial assets)/Short-term liabilities
6) Financial assets excluding receivables from uncompleted contracts/Short-term debts excluding advances paid

Under points 2 and 3 the result has been converted into yearly result (12 months back).

GROUP'S CONTINGENT LIABILITIES

EUR MILLION	**30.6.2011**	**30.6.2010**	**31.12.2010**
Loans secured by mortgages			
Loans from financial institutions	0,1	0,1	0,1
Mortgages given as security	0,4	0,4	0,4
Pledged mortgages		0,8	0,1
Pledged deposits		0,1	0,1
Pledged shares of subsidiaries, book value in subsidiary		1,3	
Guarantees on behalf of others	82,0	86,2	86,6
Leasing commitments			
Falling due during next 12 months	1,7	2,1	1,0
Falling due later	1,3	2,1	2,6
Future payments for long-term rental agreements	6,2	5,1	7,5

GROUP'S DERIVATIVE CONTRACTS

EUR MILLION	**30.6.2011**	**30.6.2010**	**31.12.2010**
Currency derivatives			
Nominal value	4,2	7,9	8,5
Fair value	-0,1		
Interest rate derivatives			
Nominal value	60,0	30,3	60,0
Fair value	0,2	-1,0	-0,4
Commodity derivatives			
Nominal value	1,2	3,9	1,4
Fair value	0,5	0,6	0,3

Nominal values and fair values are presented as net amounts.
Fair value is an estimate of the gains or losses that would have been realised if the derivative contracts had been terminated at the balance sheet date.

SHARES AND SHAREHOLDERS

Shareholder	Number of shares	EUR / share	%	Voting right	Share capital EUR
State of Finland	680 000	25	100	1 vote/share	17 000 000

The information provided in the Interim Report has not been audited.