# DESTIA Q3

## INTERIM REPORT
## JANUARY-SEPTEMBER 2011

**BUILDING THE BIGGER PICTURE**

# Interim report January–September 2011

- Turnover declined as forecast in comparison with the previous year.
- The downturn in the operating result stemmed from both a fall in turnover and a weakening in individual projects.
- Cash flow was significantly better than in the previous year.
- The value of the order book remains at a strong level.
- Destia's Board of Directors approved the company's strategic updates and the targets for the strategic period 2012–2014.
- Destia estimates that the turnover for the whole year will decrease and that the operating result will remain negative.

**KEY FIGURES**

| | | 1-9/2011 | 1-9/2010 | 7-9/2011 | 7-9/2010 | 1-12/2010 |
|---|---|---|---|---|---|---|
| **Turnover** | Me | 352,9 | 390,9 | 155,3 | 179,2 | 539,2 |
| **Operating result** | Me | -8,2 | 7,8 | 5,7 | 12,1 | 8,3 |
| **Operating result** | % | -2,3 | -2,0 | 3,7 | 6,8 | 1,5 |
| **Profit/loss for the period** | Me | -10,1 | 4,6 | 5,2 | 11,1 | 8,3 |
| **Profit/loss for the period** | % | -2,9 | 1,2 | 3,4 | 6,2 | 1,5 |
| **Order book** | Me | 789,8 | 839,0 | | | 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. The economic conditions for civil engineering and hydraulic engineering have been worse than expected in the current year. This year, the volume of infrastructure construction will reduce by a further 3 per cent, but next year the volume will start to grow when the new road projects begin to have an impact. The large projects will provide local jobs particularly in the Helsinki metropolitan region, Ostrobothnia and, as from next year, in South-Eastern Finland; elsewhere in Finland it will be quieter. VTT (The Technical Research Centre of Finland)/TAMK (Tampere University of Applied Sciences) predicts a 2% reduction in infrastructure investment for this year and a 2% increase for next year. (Rakennusteollisuus and Euroconstruct).

According to the draft budget published by the Finnish Ministry of Finance on 22 August 2011, financing of roads, tracks and waterways will remain unchanged and it may even grow somewhat in 2012. For the transport policy sector, a total allowance of around EUR 1.9 billion is proposed. A nominal increase of 4 per cent is proposed for primary-route maintenance, and according to the draft budget around EUR 1.7 billion will be used for the transport network next year.

The costs of the civil engineering industry rose 6.9% from September 2010 to September 2011. The annual change in costs varied by subindex from 3.9% in civil engineering structures to 14.3% in surfacings. The increase in the total index was particularly affected by price increases in materials and a rise in costs for own equipment. Material costs were increased by the rise in the prices of bitumen and plastic products in particular. The costs of own equipment were inflated by higher fuel costs in particular. (Cost index of civil engineering works, Statistics Finland, 18 October 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, which still forms a minor part of Destia's business. 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 as demand for machine capacity declines. 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 uncertainty about 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 also create problems in obtaining finance in infrastructure construction.

**Orders Received and the Order Book**

At the end of September, the Group's order book amounted to MEUR 789.8 (30 September 2010: MEUR 839.0) A significant factor in the downturn 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.

New projects obtained during the third quarter:

An agreement was established with Posiva Oy for continuing the ONKALO excavation work. Destia has been responsible for the ONKALO excavation contract since the spring of 2010. The new excavation contract comprises excavations at the technical level of ONKALO at a depth of 438 metres, where an exhaust-air shaft tunnel link and hall areas, amongst other things, will be built, along with a tunnel to the pumping-station area. The agreement runs until May 2012, and it is intended that the excavation work will be finished in March next year. The intention is to undertake research work and excavation work at the same time.

In July, Destia signed a contract agreement 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. This building contract will be worth around MEUR 14, and its planned completion date is June 2013.

An agreement for the planning and construction of Tikkurilantie was signed with the City of Vantaa, in which the construction planning and building work is Destia's responsibility. The contract involves the extension of Tikkurilantie between Katriinantie and Riipiläntie. The contract concerns around 1.5 kilometres of road and totals MEUR 10. This contract will be completed in autumn 2013.

In August, Destia signed an agreement with Vesikolmio Oy, a wholesale water company owned by the Northern Ostrobothnia Centre for Economic Development, Transport and the Environment and the Kalajokilaakso municipalities, for the construction of a sewer pipeline around 28 kilometres long from Haapajärvi to Nivala. The contract, which will total around MEUR 3, will be completed in December 2012.

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. It has been granted a contract authorisation of MEUR 650, which will form the basis for the agreement negotiations with the Finnish Transport Agency following the tender process. The Koskenkylä-Kotka motorway will be implemented via the life-cycle model, in which the Finnish Transport Agency commissions from an intermediary service provider an entity including planning, construction, maintenance and financing of the road. The aim is to sign a service agreement in November 2011, and it is estimated that construction work on the motorway will begin in the latter half of 2011. It is estimated that the road section will be completely finished in 2015.

Consulting Services have successfully gained international consultancy projects in Azerbaijan, amongst other places.

**Turnover**

Destia's turnover was lower than the previous year and was for the third quarter at MEUR 352.9 (1–9/2010: MEUR 390.9). Turnover declined as predicted, and this 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 -8.2 (1–9/2010: MEUR 7.8). The lower profitability than in the previous year was mainly due to three factors that already arose in the second quarter: the significant weakening in Norwegian projects and goodwill write-downs, and the failure of one track maintenance contract and one rock construction project. The losses recorded for the first two quarters totalled MEUR 16.1. A significant weakening in track projects was encountered in the third quarter too. In other respects, business has developed as planned. Other business profit during the period amounted to MEUR 5.5 (4.2).

**Balance Sheet and Cash Flow**

At the end of September, the sum total of the Group's balance sheet was MEUR 243.7 (MEUR 281.1). The equity ratio was 26.5% (25.0%), the net debt-to-equity ratio was 84.0% (141.4%) and the return on investments was -5.2% (-7.4%).

The cash flow for January-September 2011 comprised business cash flow of MEUR -3.9 (-51.1), investment cash flow of MEUR 1.9 (-5.4) and financing cash flow of MEUR -5.9 (27.0). The financial assets at the end of the reporting period according to the balance sheet were MEUR 18.4 (11.8).

The Group's interest-bearing liabilities declined by MEUR 5.9 during the third quarter of the year to MEUR 66.3 (101.7). Net financing costs totalled MEUR 1.9 (1.9), which was 0.5% (0.5%) of turnover. Interest-bearing net liabilities at the end of the reporting period were MEUR 47.9 (89.9).

**Investments and Company Acquisitions**

Gross investments for the third quarter of the year totalled MEUR 3.2 (8.7). The investments were mainly equipment-related ones.

On 24 March 2011, Destia and NCC signed a contract concerning surfacing business, 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. The transaction requires the approval of the Finnish Competition Authority, which has proposed that the Market Court reject the transaction. The transaction is still under consideration by the Market Court.

**Personnel**

The Group's average number of personnel during the reporting period was 1,699 (2,137). At the end of September, the number of personnel was 1,732 (2,094), of which permanent staff totalled 1,605 (1,858) and temporary employees 189 (236). The change compared to the previous year is due to the adjustments to personnel implemented previously. Due to the seasonal nature of the business, the number of personnel varies during the year and peaks in the summer. Collaborative negotiations concerning temporary lay-off requirements for the coming winter have begun in the business units.

**Near-Future Risks and Uncertainties**

Destia's most significant short-term risks concern the market situation, which continues to be uncertain. If it continues, uncertainty in the financial markets may result in degeneration of the financial environment for Destia's operations and a weakening in demand. In addition, the uncertainty impacts on the price and availability of finance.

Public-sector customers have little authority to place orders, and the readiness of private customers to invest is low. With regards to demand for infrastructure construction, the industry's ample capacity is reflected in the current price level.

In addition to market demand, an increase in costs is also a risk. Trying to estimate how costs will develop is challenging in the current economic environment. A higher than predicted increase in the prices of fuel, energy and other materials is particularly affecting the profitability of projects.

**Decisions of the General Meeting**

The Annual General Meeting of Destia Oy was held on 23 March 2011. The meeting approved the company's financial statements for 2010 and granted discharge 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 shall be paid for the accounting period ending 31 December 2010.

The meeting ratified the total number of Board members as five and 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 appointed Deloitte & Touche Oy (Authorised Public Accountants) as Destia Oy's auditor for the accounting period 2011.

**Strategy 2012-2014**

Destia Oy's Board of Directors approved the company's strategy on 30 September 2011 along with the financial targets for the strategic period 2012–2014. The key elements of the strategy are the improvement of operational profitability and the strengthening of the company's position in core business operations. The financial targets were kept unchanged: growth in core business operations that exceeds growth in the market, an operating profit of 4%, a return on investments of

15%, and an equity ratio of 35%. Destia's aim is to be a provider of best customer service and one of the most profitable infrastructure-service companies in Finland.

**Events Following the Reporting Period**

Destia won the Kuokkala ring-road contract in Jyväskylä which was put out to tender by the Central Finland Centre for Economic Development, Transport and the Environment. The contract is worth around MEUR 9.5, and the contract will run from 2011 to 2013. The contract comprises, in addition to a 2.8 kilometre road, the associated building of two bridges and six subway bridges, streets, three roundabouts, pedestrian and cycle lanes, and noise screening measures.

**Prospects for 2011**

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

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 improved on average. The multiplicative effects of the weakening in Norwegian projects and individual track and rock construction projects that took place mainly during the second quarter will have a negative impact on Destia's result for 2011.

The turnover of the Destia Group in 2011 will be lower than in the previous year, and it is forecast that the operating result will remain negative on account of the loss-yielding projects.

Vantaa, 31 October 2011

Destia Oy
Board of Directors

## GROUPS'S PROFIT AND LOSS ACCOUNT

| *EUR MILLION* | **1-9/2011** | **1-9/2010** | **7-9/2011** | **7-9/2010** | **1-12/2010** |
|---|---|---|---|---|---|
| **TURNOVER** | 352,9 | 390,9 | 155,3 | 179,2 | 539,2 |
| Other operating income | 5,5 | 4,2 | 1,2 | 1,0 | 6,1 |
| Materials and services | -240,6 | -253,1 | -108,0 | -122,4 | -355,4 |
| Personnel expenses | -67,8 | -76,9 | -23,5 | -26,8 | -103,4 |
| Depreciation and write-downs | -17,1 | -16,5 | -5,6 | -5,6 | -22,7 |
| Other operating expenses | -41,1 | -40,8 | -13,7 | -13,3 | -55,5 |
| **OPERATING RESULT** | -8,2 | 7,8 | 5,7 | 12,1 | 8,3 |
| Financial income and expenses | -1,9 | -1,9 | -0,5 | -0,7 | -2,5 |
| **RESULT BEFORE EXTRAORDINARY I** | -10,1 | 5,9 | 5,2 | 11,4 | 5,8 |
| Extraordinary items | | -0,1 | | -0,1 | |
| Taxes | | -1,2 | | -0,2 | 2,5 |
| **RESULT FOR THE PERIOD** | -10,1 | 4,6 | 5,2 | 11,1 | 8,3 |

## GROUP'S BALANCE SHEET

| EUR MILLION | 30.9.2011 | 31.12.2010 | 30.9.2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | 98,6 | 115,4 | 120,0 |
| **CURRENT ASSETS** | | | |
| Inventories | 27,9 | 24,4 | 28,1 |
| Deferred tax assets | 6,5 | 6,9 | 3,2 |
| Receivables | 92,3 | 78,6 | 118,0 |
| Cash and bank | 18,4 | 26,3 | 11,8 |
| **CURRENT ASSETS** | 145,1 | 136,2 | 161,1 |
| **ASSETS** | 243,7 | 251,6 | 281,1 |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | 57,1 | 67,1 | 63,6 |
| **MINORITY INTEREST** | 19,4 | 17,7 | 17,6 |
| **GROUP RESERVE** | | 0,1 | 0,1 |
| **LIABILITIES** | | | |
| Deferred tax liability | 2,8 | 2,8 | 2,8 |
| Long-term liabilities | 60,8 | 60,8 | 31,8 |
| Short-term liabilities | 103,6 | 103,1 | 165,1 |
| **LIABILITIES** | 167,2 | 166,7 | 199,7 |
| **EQUITY AND LIABILITIES** | 243,7 | 251,6 | 281,1 |

## GROUP'S CASH FLOW STATEMENT

| EUR MILLION | 1-9/2011 | 1-9/2010 | 1-12/2010 |
|---|---|---|---|
| **Liiketoiminnan rahavirta** | | | |
| Payments received from customers | 340,0 | 331,9 | 530,3 |
| Payments to suppliers of goods/services and to personnel | -342,5 | -380,2 | -533,7 |
| **Cash flow from business operations before financial** | -2,5 | -48,3 | -3,4 |
| Interest paid on business operations | -1,2 | -1,6 | -2,3 |
| Interest received from business operations | 0,3 | 0,1 | 0,6 |
| Other financial items from business operations | -0,4 | -0,5 | -0,8 |
| Taxes paid on business operations | -0,1 | -0,7 | -0,1 |
| **Cash flow from business operations** | -3,9 | -51,0 | -6,0 |
| **Cash flow from investment activities** | | | |
| Investments in tangible and intangible assets | -3,2 | -7,5 | -10,4 |
| Proceeds from the sale of tangible and intangible assets | 4,8 | 5,4 | 7,5 |
| Acquired and divested shares in subsidiaries and associates | | -3,3 | -3,3 |
| Proceeds from the sale of other investments | 0,3 | | |
| **Cash flow from investment activities** | 1,9 | -5,4 | -6,2 |
| **Cash flow from financing activities** | | | |
| Withdrawals of short-term loans | 5,4 | 27,5 | |
| Repayment of short-term loans | -11,3 | | -31,3 |
| Withdrawals of long-term loans | | 0,1 | 30,0 |
| Repayment of long-term loans | | -0,6 | -1,4 |
| **Cash flow from financing activities** | -5,9 | 27,0 | -2,7 |
| **Change in liquid assets** | -7,9 | -29,4 | -14,9 |
| Liquid assets on balance sheet in the end of financial period | 18,4 | 11,8 | 26,3 |
| Liquid assets on balance sheet in the beginning of financial period | 26,3 | 41,2 | 41,2 |
| Change in liquid assets | -7,9 | -29,4 | -14,9 |

## GROUP’S KEY FIGURES

| *EUR MILLION* | **1-9/2011** | **1-9/2010** | **7-9/2011** | **7-9/2010** | **1-12/2010** |
|---|---|---|---|---|---|
| Turnover | 352,9 | 390,9 | 155,3 | 179,2 | 539,2 |
| Year-on-year change, % | -9,7 | -13,2 | -13,3 | -12,7 | -10,6 |
| Operating result | -8,2 | 7,8 | 5,7 | 12,1 | 8,3 |
| % of turnover | -2,3 | 2,0 | 3,7 | 6,8 | 1,5 |
| Profit/loss for the period | -10,1 | 4,6 | 5,2 | 11,1 | 8,3 |
| % of turnover | -2,9 | 1,2 | 3,4 | 6,2 | 1,5 |
| Gross capital expenditure | 3,2 | 8,7 | 1,5 | 2,0 | 11,7 |
| % of turnover | 0,9 | 2,2 | 1,0 | 1,1 | 2,2 |
| Balance sheet total | 243,7 | 281,1 | 243,7 | 281,1 | 251,6 |
| Equity | 57,1 | 63,6 | 57,1 | 63,6 | 67,1 |
| Equity ratio, % 1) | 26,5 | 25,0 | 26,5 | 25,0 | 30,4 |
| Return on equity, % 2) | -10,4 | -19,7 | 33,6 | 70,0 | 12,5 |
| Return on investment, % 3) | -5,2 | -7,4 | 17,5 | 31,0 | 6,2 |
| Gearing, % 4) | 84,0 | 141,4 | 84,0 | 141,4 | 68,4 |
| Interest-bearing liabilities | 66,3 | 101,7 | 66,3 | 101,7 | 72,2 |
| Current ratio 5) | 1,3 | 1,0 | 1,3 | 1,0 | 1,3 |
| Quick ratio 6) | 1,1 | 0,7 | 1,1 | 0,7 | 1,2 |
| Order book | 789,8 | 839,0 | | | 726,5 |
| Research and development costs | 0,5 | 0,5 | 0,2 | 0,2 | 0,6 |
| % of other operating expenses | 1,2 | 1,2 | 1,5 | 1,5 | 1,1 |
| Earnings per share, EUR | -14,79 | 6,89 | 7,67 | 16,52 | 12,16 |
| Equity per share, EUR | 83,90 | 93,46 | 83,90 | 93,46 | 98,62 |
| Average personnel | 1 854 | 2 137 | 1 849 | 2 161 | 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 | 30.9.2011 | 30.9.2010 | 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 | 88,0 | 93,3 | 86,6 |
| | | | |
| Leasing commitments | | | |
| Falling due during next 12 months | 1,7 | 1,9 | 1,0 |
| Falling due later | 1,0 | 2,0 | 2,6 |
| | | | |
| Future payments for long-term rental agreements | 6,5 | 4,6 | 7,5 |

## GROUP'S DERIVATIVE CONTRACTS

*EUR MILLION*

| | 30.9.2011 | 30.9.2010 | 31.12.2010 |
|---|---|---|---|
| Currency derivatives | | | |
| Nominal value | 3,3 | 9,3 | 8,5 |
| Fair value | 0,0 | 0,0 | 0,0 |
| | | | |
| Interest rate derivatives | | | |
| Nominal value | 60,0 | 30,0 | 60,0 |
| Fair value | -1,8 | -1,2 | -0,4 |
| | | | |
| Commodity derivatives | | | |
| Nominal value | 0,9 | 3,9 | 1,4 |
| Fair value | 0,1 | 0,3 | 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.*