



# LASSILA & TIKANOJA INTERIM REPORT Q3/2013

Pekka Ojanpää, President and CEO

23 October 2013



# HIGHLIGHTS OF Q3/2013

- Q3/2013 net sales EUR 161.9m (EUR 161.2m) 0.4% (yoy)
  - Comparable net sales includes EUR 0.7 million worth of net sales generated by the divested parts of eco product business.
- Q3/2013 operating profit EUR 20.0m (EUR 19.6m); operating profit excluding EO items EUR 20.1m (EUR 19.7m)
  - Profitability developed favourably in the third quarter, especially in Environmental Services and Industrial Services.
  - Fixed cost management and efficiency enhancement measures taken across the Group supported the profitability.

# HIGHLIGHTS OF 1-9/2013

- 1-9/2013 net sales EUR 498.5m (EUR 502.2m) -0.7% (yoy)
  - Comparable net sales includes EUR 8.0 million worth of net sales generated by L&T Recoil and the divested parts of the eco product business.
- 1-9/2013 operating profit EUR 34.8m (EUR 38.7m); operating profit excluding EO items EUR 40.3m (EUR 36.9m)
  - The non-recurring reorganisation costs of EUR 1.0 million (EUR 2.1 million) and the EUR 5.0 million impairment on EcoStream Oy's shares had a negative impact on operating profit.
  - A sales gain of EUR 4.2 million on the divestment of L&T Recoil shares improved the reported operating profit in the comparison period.

# FINANCIAL SUMMARY AND KEY FIGURES

|  | Q3/<br>13    | Q3/<br>12 | Change<br>% | 1-9/<br>13   | 1-9/<br>12 | Change<br>% | 2012  |
|--|--------------|-----------|-------------|--------------|------------|-------------|-------|
| Net sales, EUR million                       | <b>161.9</b> | 161.2     | 0.4         | <b>498.5</b> | 502.2      | -0.7        | 674.0 |
| Operating profit excl. EO items, EUR million | <b>20.1</b>  | 19.7      | 2.3         | <b>40.3</b>  | 36.9       | 9.2         | 47.4  |
| Operating margin excl. EO items, %           | <b>12.4</b>  | 12.2      |             | <b>8.1</b>   | 7.3        |             | 7.0   |
| Operating profit, EUR million                | <b>20.0</b>  | 19.6      | 2.0         | <b>34.8</b>  | 38.7       | -10.1       | 48.4  |
| Profit before tax, EUR million               | <b>18.9</b>  | 19.1      | -0.9        | <b>32.7</b>  | 33.8       | -3.4        | 43.0  |
| Earnings per share, EUR                      | <b>0.35</b>  | 0.40      | -12.5       | <b>0.61</b>  | 0.71       | -14.1       | 0.89  |
| EVA, EUR million                             | <b>15.0</b>  | 13.8      | 8.7         | <b>19.3</b>  | 20.2       | -4.5        | 24.1  |

# FINANCIAL SUMMARY AND KEY FIGURES

|  | Q3/<br>13   | Q3/<br>12 | Change<br>% | 1-9/<br>13   | 1-9/<br>12 | Change<br>% | 2012  |
|--|-------------|-----------|-------------|--------------|------------|-------------|-------|
| Capital expenditure, EUR million                       | <b>7.1</b>  | 8.4       | -16.2       | <b>23.7</b>  | 36.3       | -34.6       | 49.4  |
| Depreciation, amortisation and impairment, EUR million | <b>10.4</b> | 10.8      | -3.1        | <b>36.5</b>  | 32.9       | 11.1        | 43.6  |
| Net cash from operating activities, EUR million        |             |           |             | <b>61.1</b>  | 49.7       | 22.8        | 80.5  |
| Return on equity (ROE), %                              |             |           |             | <b>13.5</b>  | 16.4       |             | 15.3  |
| Return on invested capital (ROI), %                    |             |           |             | <b>14.4</b>  | 15.2       |             | 14.4  |
| Equity ratio, %  |             |           |             | <b>50.2</b>  | 47.5       |             | 49.4  |
| Gearing, %   |             |           |             | <b>28.1</b>  | 45.1       |             | 35.3  |
| Total number of employees at the end of the period     |             |           |             | <b>9,017</b> | 9,101      | -0.9        | 8,962 |

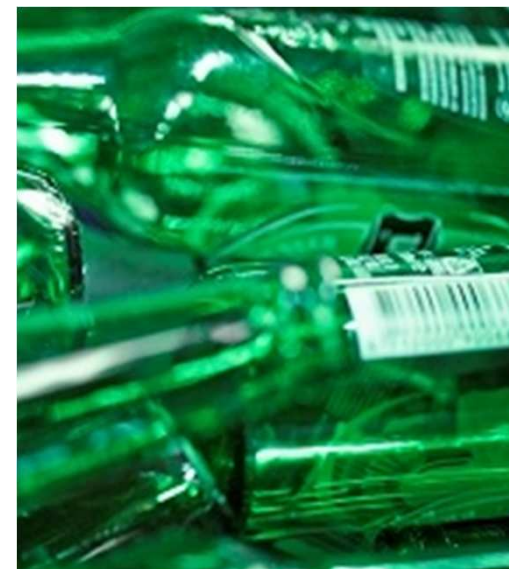
# OPERATING MARGIN EXCLUDING NON-RECURRING ITEMS, %

|                          | Q3/2013     | Q3/2012 | 1-9/2013    | 1-9/2012 | 2012 |
|--------------------------|-------------|---------|-------------|----------|------|
| Environmental Services   | <b>18.2</b> | 16.7    | <b>14.1</b> | 12.0     | 11.5 |
| Industrial Services      | <b>12.3</b> | 9.9     | <b>7.3</b>  | 6.0      | 6.3  |
| Facility Services        | <b>9.4</b>  | 10.8    | <b>4.7</b>  | 5.2      | 4.9  |
| Renewable Energy Sources | <b>-5.0</b> | -4.8    | <b>1.3</b>  | -0.6     | 0.1  |
| L&T Group                | <b>12.4</b> | 12.2    | <b>8.1</b>  | 7.3      | 7.0  |



# ENVIRONMENTAL SERVICES

- Profitability developed favourably in the third quarter, thanks to a strict fixed cost management and greater operational efficiency.
- Comparable net sales includes EUR 0.7 million worth of net sales generated by the divested parts of the eco product business.



| EUR million                     | Q3/<br>13    | Q3/<br>12 | Change<br>% | 1-9/<br>13   | 1-9/<br>12 | Change<br>% | 2012  |
|---------------------------------|--------------|-----------|-------------|--------------|------------|-------------|-------|
| Net sales                       | <b>65.4</b>  | 66.4      | -1.4        | <b>192.2</b> | 201.0      | -4.4        | 265.7 |
| Operating profit excl. EO items | <b>11.9</b>  | 11.1      | 7.5         | <b>27.2</b>  | 24.0       | 13.2        | 30.6  |
| Operating margin excl. EO items | <b>18.2%</b> | 16.7%     |             | <b>14.1%</b> | 12.0%      |             | 11.5% |

# INDUSTRIAL SERVICES

- Net sales grew, primarily as a result of the increase in net sales in environmental construction.
- Operating profit excluding non-recurring items rose thanks to efficiency enhancement measures and effective cost control.



| EUR million                     | Q3/<br>13    | Q3/<br>12 | Change<br>% | 1-9/<br>13  | 1-9/<br>12 | Change<br>% | 2012 |
|---------------------------------|--------------|-----------|-------------|-------------|------------|-------------|------|
| Net sales                       | <b>20.9</b>  | 18.1      | 15.4        | <b>54.7</b> | 51.2       | 6.7         | 70.0 |
| Operating profit excl. EO items | <b>2.6</b>   | 1.8       | 43.8        | <b>4.0</b>  | 3.1        | 30.4        | 4.4  |
| Operating margin excl. EO items | <b>12.3%</b> | 9.9%      |             | <b>7.3%</b> | 6.0%       |             | 6.3% |



# FACILITY SERVICES

- The major restructuring process being deployed in the division continues to affect business profitability.
- The entire business segment is currently going through a major restructuring process to adapt operations to the changes in market conditions, especially in cleaning and property maintenance.



| EUR million                     | Q3/<br>13   | Q3/<br>12 | Change<br>% | 1-9/<br>13   | 1-9/<br>12 | Change<br>% | 2012  |
|---------------------------------|-------------|-----------|-------------|--------------|------------|-------------|-------|
| Net sales                       | <b>71.6</b> | 72.7      | -1.5        | <b>220.8</b> | 224.7      | -1.7        | 299.5 |
| Operating profit excl. EO items | <b>6.7</b>  | 7.8       | -14.0       | <b>10.4</b>  | 11.7       | -10.7       | 14.7  |
| Operating margin excl. EO items | <b>9.4%</b> | 10.8%     |             | <b>4.7%</b>  | 5.2%       |             | 4.9%  |

# RENEWABLE ENERGY SOURCES

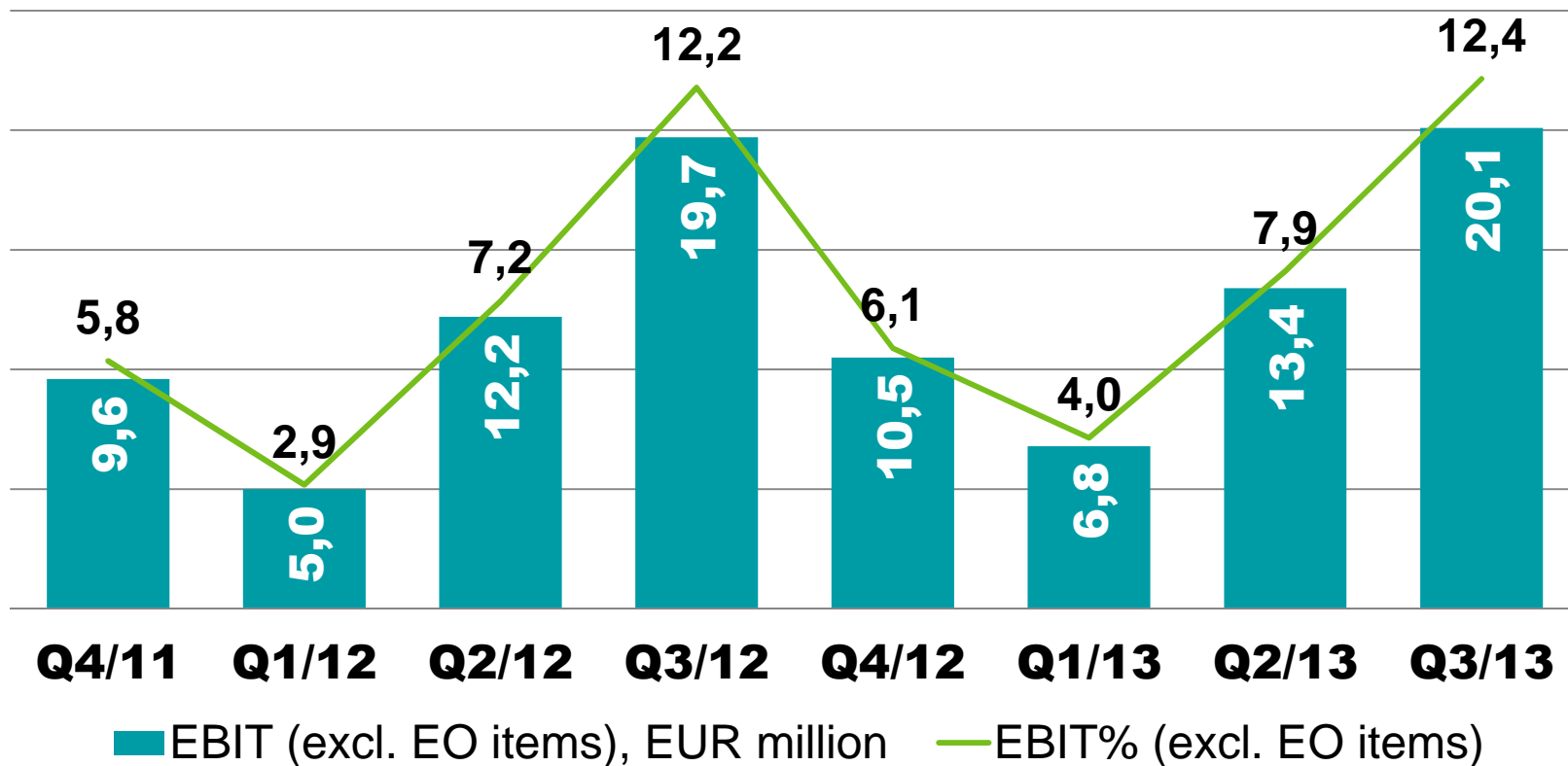
- The decline in net sales can be largely attributed to business downsizing in Eastern Finland.
- Activities to improve the operational efficiency were continued.



| EUR million                     | Q3/<br>13 | Q3/<br>12 | Change<br>% | 1-9/<br>13 | 1-9/<br>12 | Change<br>% | 2012 |
|---------------------------------|-----------|-----------|-------------|------------|------------|-------------|------|
| Net sales                       | 7.4       | 8.0       | -6.9        | 42.2       | 37.7       | 12.0        | 55.9 |
| Operating profit excl. EO items | -0.4      | -0.4      |             | 0.5        | -0.2       |             | 0.1  |
| Operating margin excl. EO items | -5.0%     | -4.8%     |             | 1.3%       | -0.6%      |             | 0.1% |

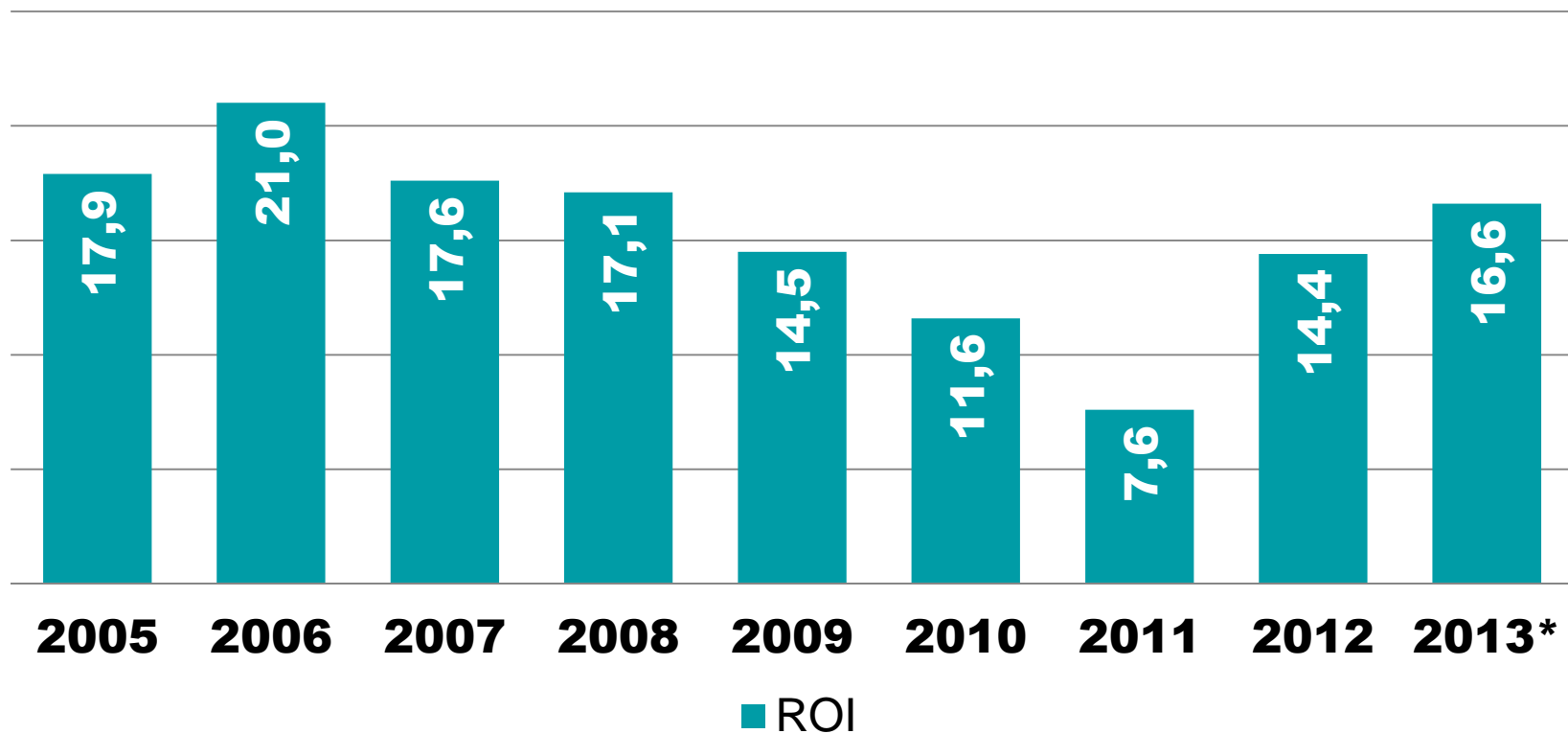
# OPERATING PROFIT

- Strategic target: EBIT 9%



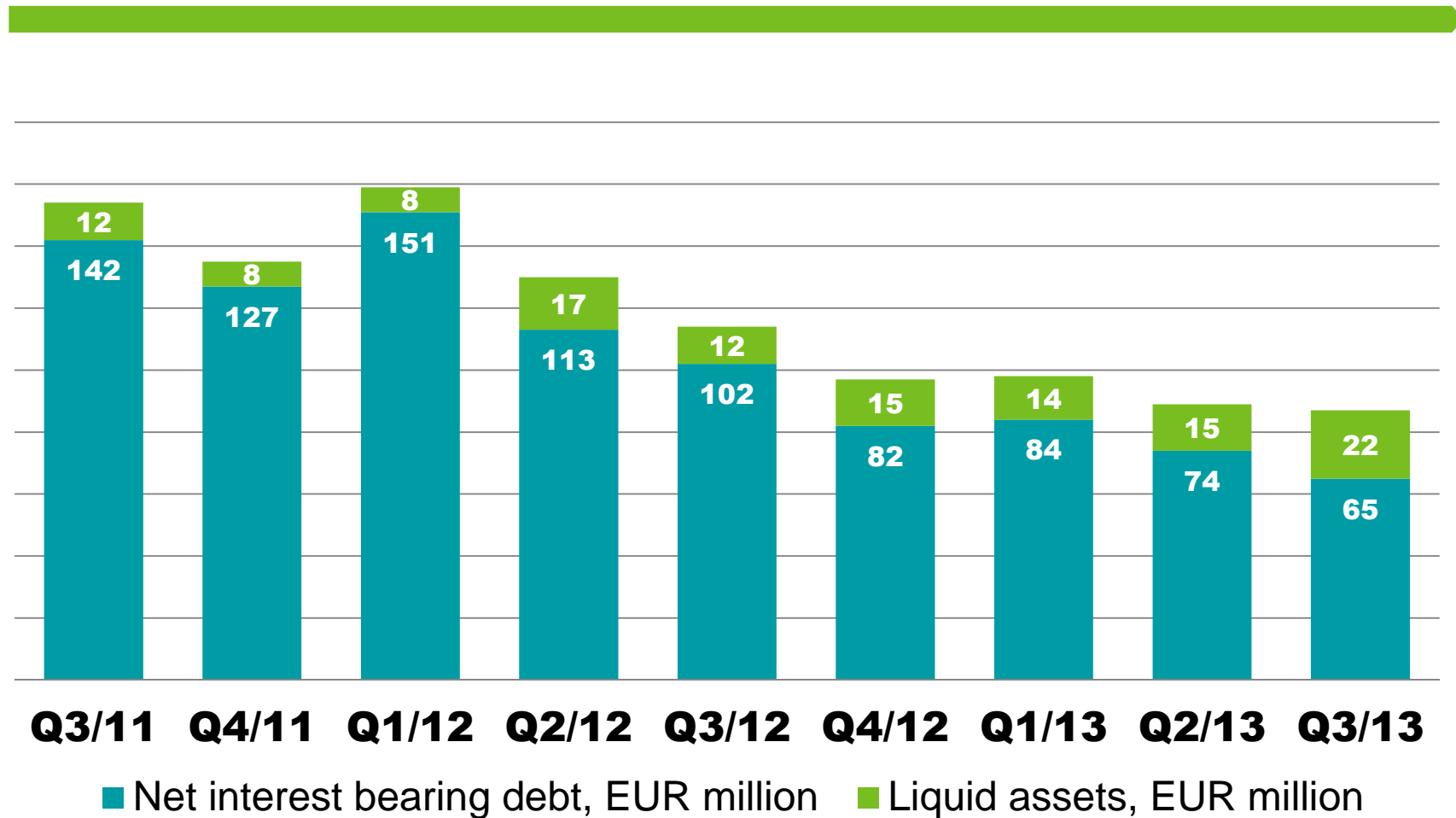
# RETURN ON INVESTMENT

- Strategic target: ROI 20%



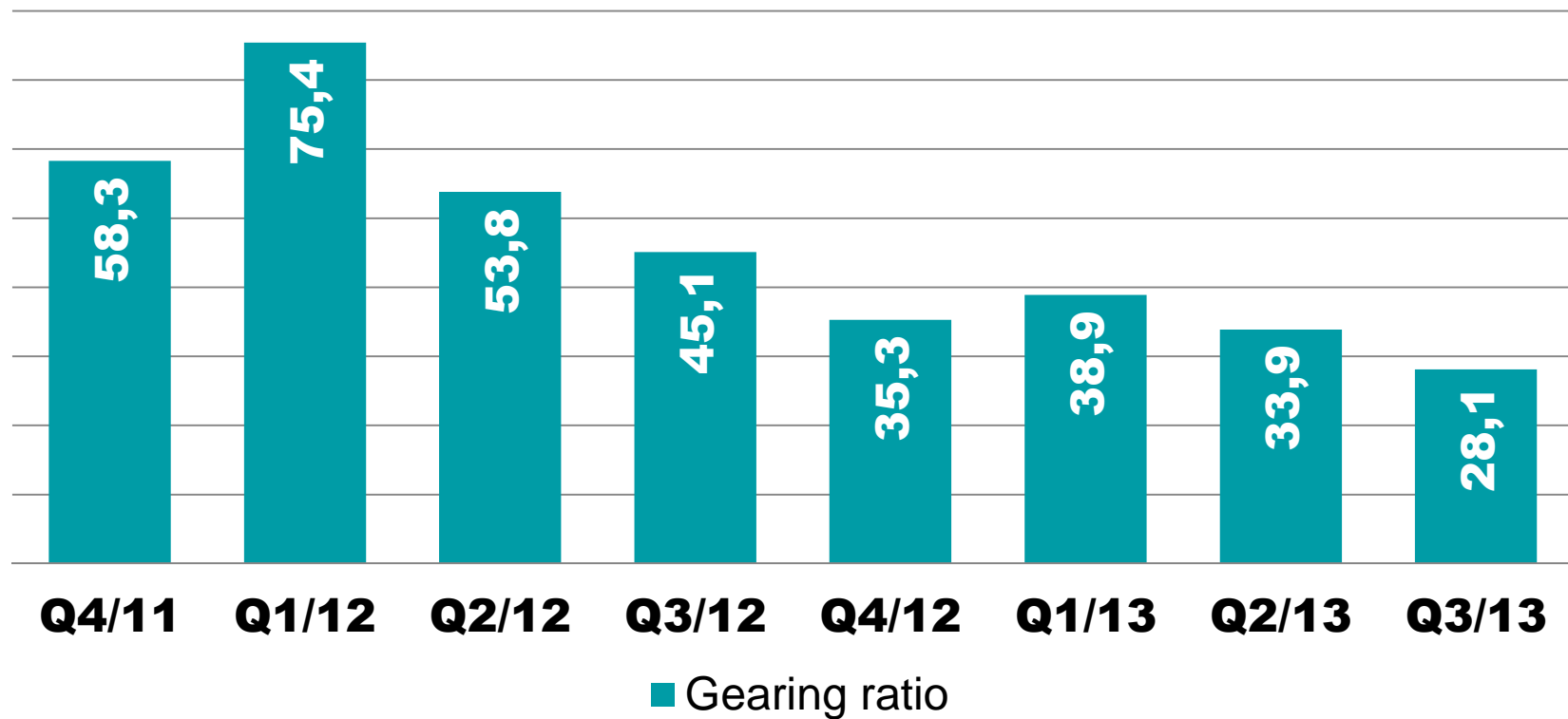
\* Annualised operative

# INTEREST BEARING DEBT



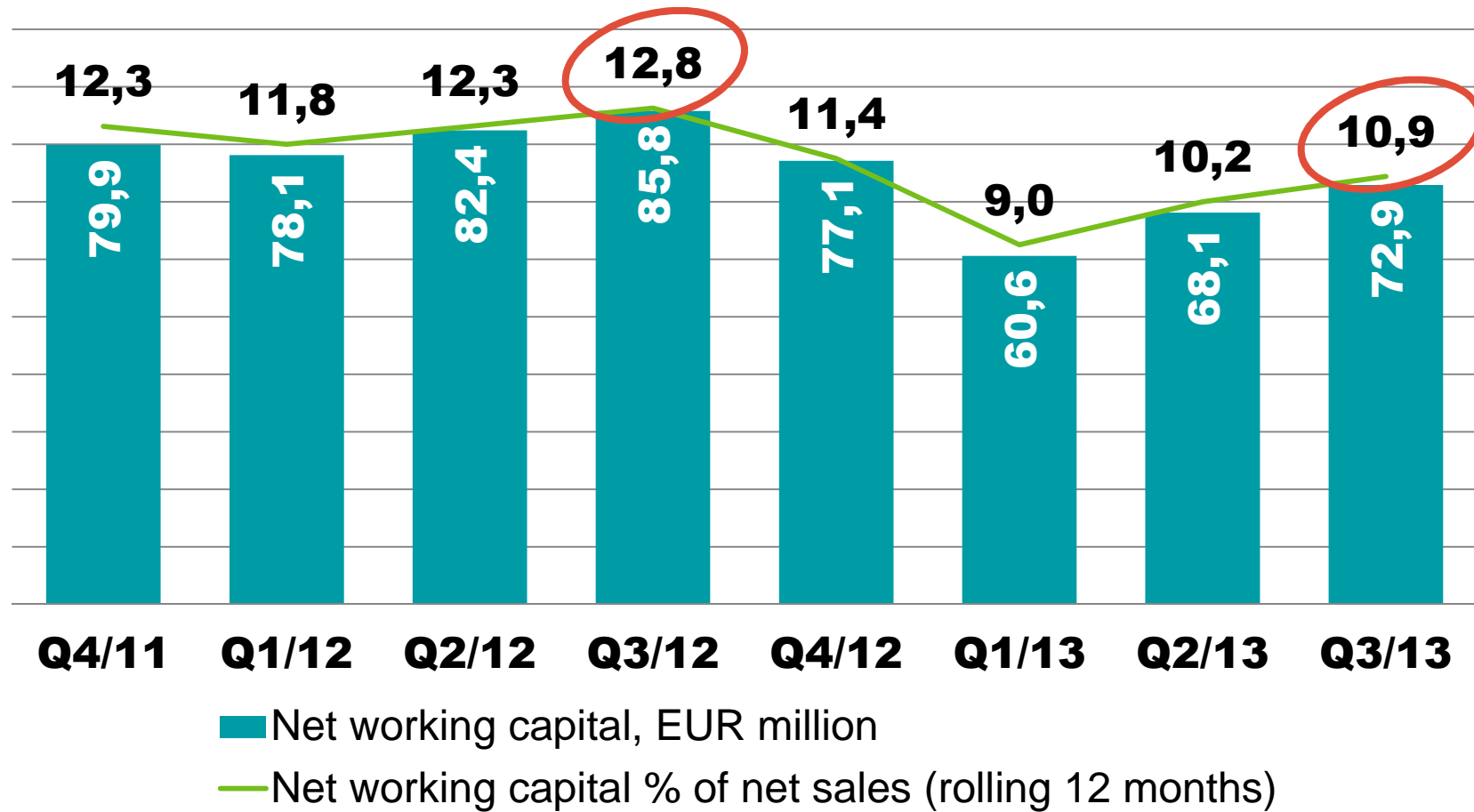
# GEARING

- Strategic target: Gearing 30–80%

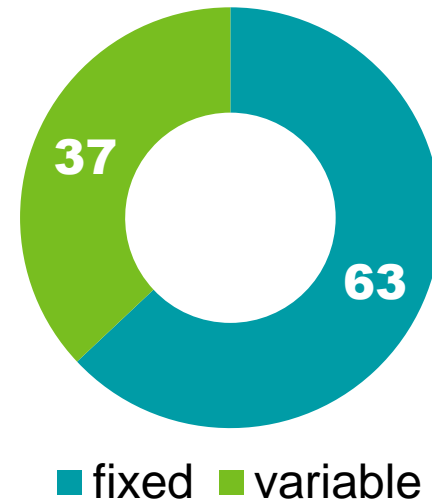
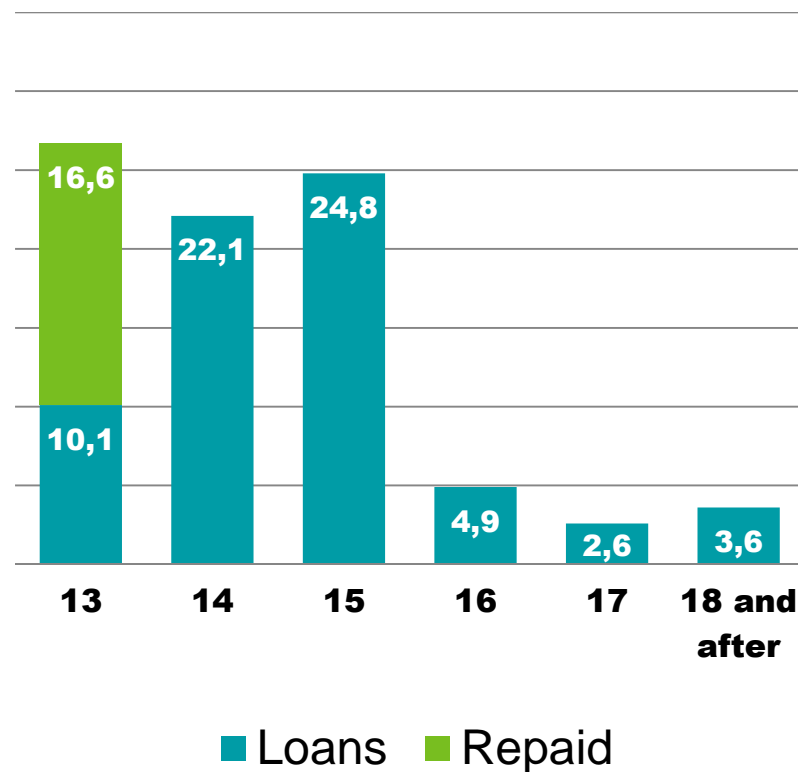




# NET WORKING CAPITAL

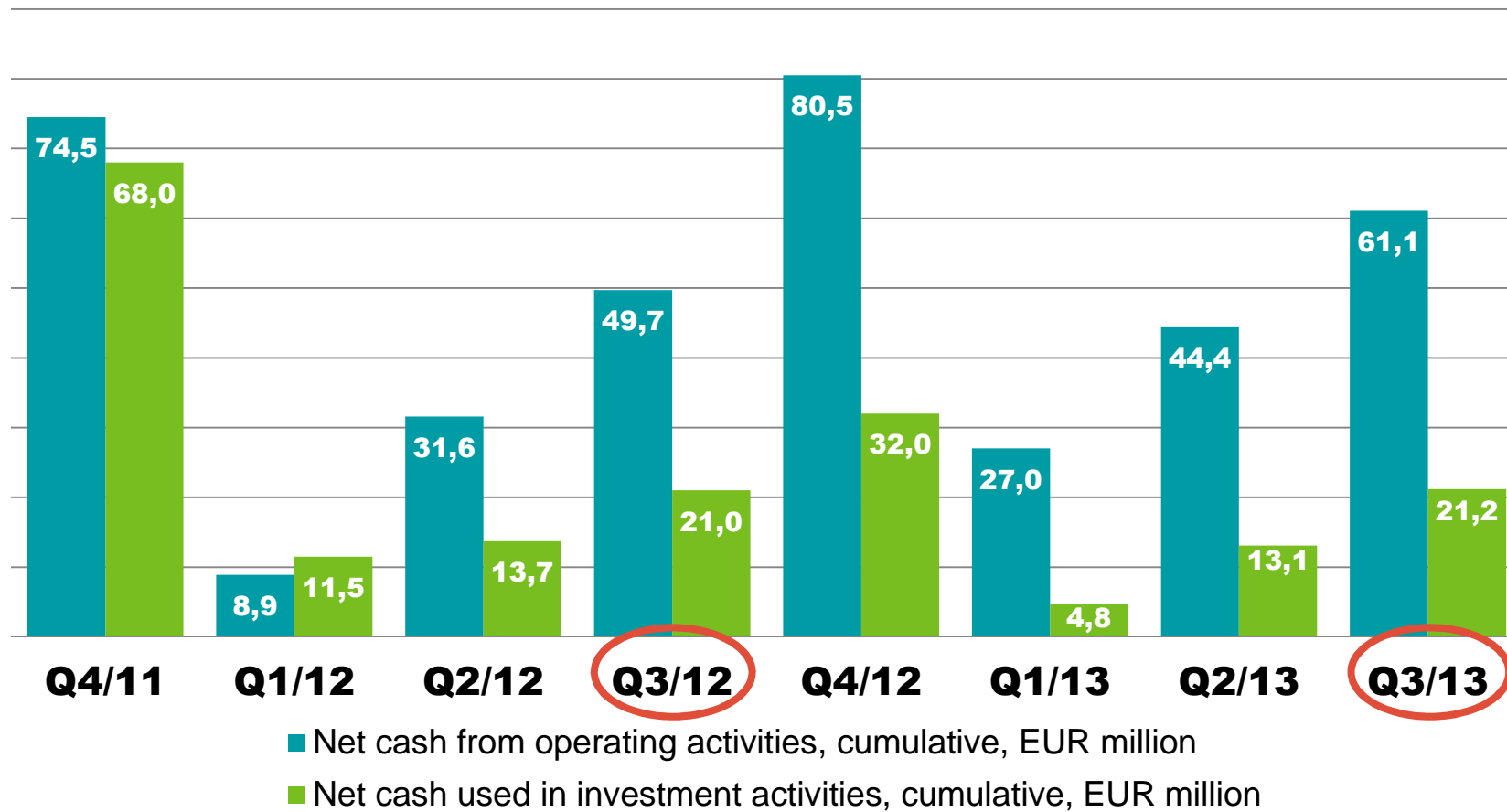


# MATURITY STRUCTURE OF LONG-TERM LOANS



Weighted average of effective interest rate 2.2%

# CASH FLOW AND INVESTMENTS



# CURRENT ISSUES

- Extraordinary General Meeting to be held on Monday 18 November 2013.
- The Board of Directors proposes to the Extraordinary General Meeting that based on the balance sheet adopted for the financial period ended on 31 December 2012, an extra dividend of EUR 0.35 per share as well as an additional capital repayment of EUR 0.15 per share be distributed to shareholders in addition to already paid capital repayment of EUR 0.60 per share decided by the Annual General Meeting on 12 March 2013.



# OUTLOOK FOR THE REST OF THE YEAR

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Full-year net sales in 2013 are expected to remain at the 2012 level. Operating profit, excluding non-recurring items, is expected to remain at the 2012 level or improve slightly.

This estimate was included in the Interim Report Q3/2013 released on 23 October 2013.

# CONTACT INFORMATION



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# APPENDIX

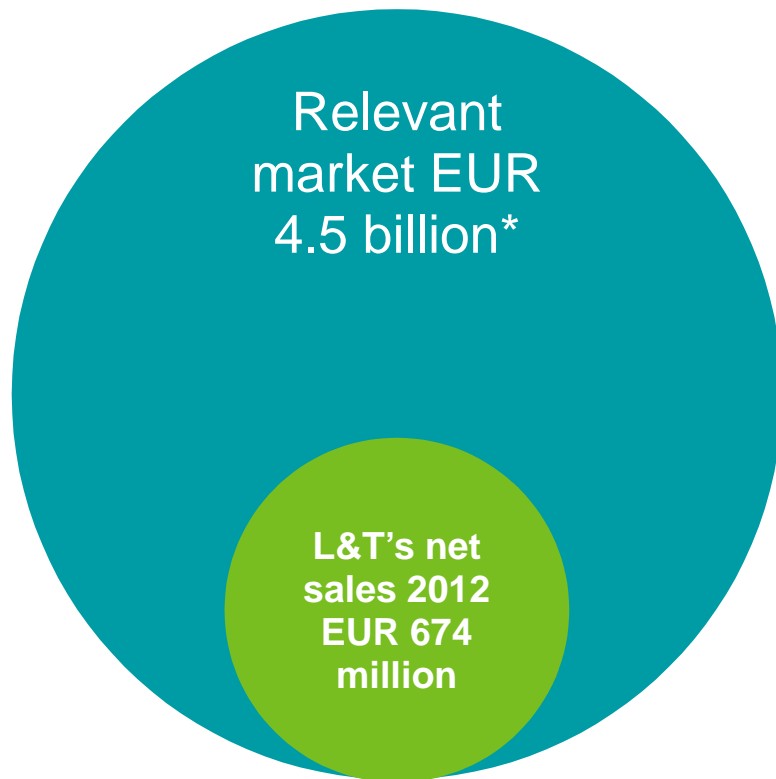


# OPERATING ENVIRONMENT

# OPERATING ENVIRONMENT AND CHANGES IN CUSTOMER BEHAVIOUR

| Change in operating environment                | Effect on L&T | Change in customer behaviour  | Effect on L&T |
|--|---------------|---|---------------|
| Ban on the landfill disposal of organic waste  | +             | More professional procurement functions                             | +/-           |
| Municipalisation of household waste management | +/-           | Expectations for wider service offerings                            | +             |
| Increased mass incineration of waste           | +/-           | Increasing outsourcing in insurance companies and in municipalities | +             |
| Decline in available workforce                 | -             | More technical property maintenance                                 | +             |

# STRONG GROWTH POTENTIAL IN CORE BUSINESSES



- The relevant market is growing at compound annual rate of ~3%.
- Focus on organic growth remains.
- Healthy balance sheet enable business acquisitions.

*\*Based on L&T's estimate and research data on the size of relevant markets in Finland*

# STRONG AND STABLE MARKET POSITION IN CORE BUSINESSES

## Environmental Services

- No. 1–2\*
- Relevant market EUR 1.2 billion
- Market growth: 2-3% annually

## Industrial Services

- No. 1–3\*
- Relevant market EUR 0.35 billion
- Market growth: 4% annually

## Facility Services

- No. 2\*
- Relevant market EUR 3.0 billion
- Market growth: 3% annually

*Market positions and sizes based on management estimate  
\*In current businesses*

# GROWTH POTENTIAL DURING STRATEGY PERIOD

| Division                      | Service line                     | Organic growth potential | Acquisitions  |
|-------------------------------|----------------------------------|--------------------------|---|
| <b>Environmental Services</b> | Recycling                        | High                     | Targeted acquisitions to expand within the value chain and geographically |
|                               | Waste management                 | Low                      |   |
| <b>Facility Services</b>      | Property maintenance             | Moderate                 | Targeted acquisitions to expand service offering and geographically       |
|                               | Cleaning and support services    | Moderate                 |   |
|                               | Maintenance of technical systems | High                     |   |
|                               | Damage repair services           | High                     |   |
| <b>Industrial Services</b>    | Process cleaning                 | Moderate                 |   |
|                               | Environmental construction       | High                     |   |
|                               | Sewer maintenance                | Moderate                 |   |



# STRATEGY OVERVIEW

MANY PEOPLE  
— ONE L&T



## OUR VISION

We are our customers' preferred partner in environmental, industrial and facility services

### STRATEGIC PROGRAMMES 2014

- Sales and account management
- Development of customer service
- Workforce management
- Development of leadership skills
- Enhancement of supply chain



### KEY SUCCESS FACTORS

- Profitable growth in core businesses
- Customer orientation
- Skilled and sufficient personnel
- Cost efficiency
- Uniform corporate and positive safety culture

FROM A CONSUMER SOCIETY  
TO A RECYCLING SOCIETY

**X** DEPLETION OF  
KEY RAW MATERIALS

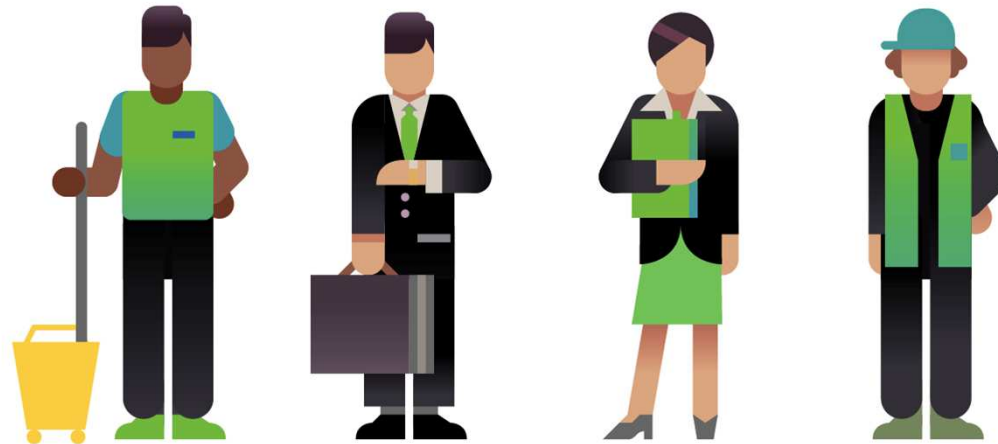
**X** FINLAND AND EUROPE  
LOSING THEIR  
COMPETITIVE  
STRENGTH

**X** GLOBAL  
WARMING

# L&T'S VISION AND MISSION

**OUR VISION:**  
We are the customer's preferred partner in environmental, industrial and facility services.

**OUR MISSION:**  
We will make your environment a better place to live and work.



# TRANSITION FROM RE-STRUCTURING TO PROFITABLE GROWTH

## 2012-2013

Focus and cost efficiency, investment in organic growth

### Key actions:

- New management and organisation structures
- Development of procurement and logistics
- Enhancement of working capital management
- Development of sales operations and more extensive service packages
- Resource and labour cost management

Strategy evolution

## 2014-2016

Growth and scalability in core businesses

### Key actions:

- Organic growth and expansion utilising existing service network
- Offering larger service packages to expand customer accounts
- Centralised supply chain management
- Focused acquisitions in core businesses

# FINANCIAL TARGETS

| Key figure                 | Target 2016 |
|----------------------------|-------------|
| Organic growth             | >5%         |
| Return on investment (ROI) | 20%         |
| Operating profit           | 9%          |
| Gearing                    | 30–80%      |

# BUSINESS SEGMENTS



# NET SALES BY DIVISION

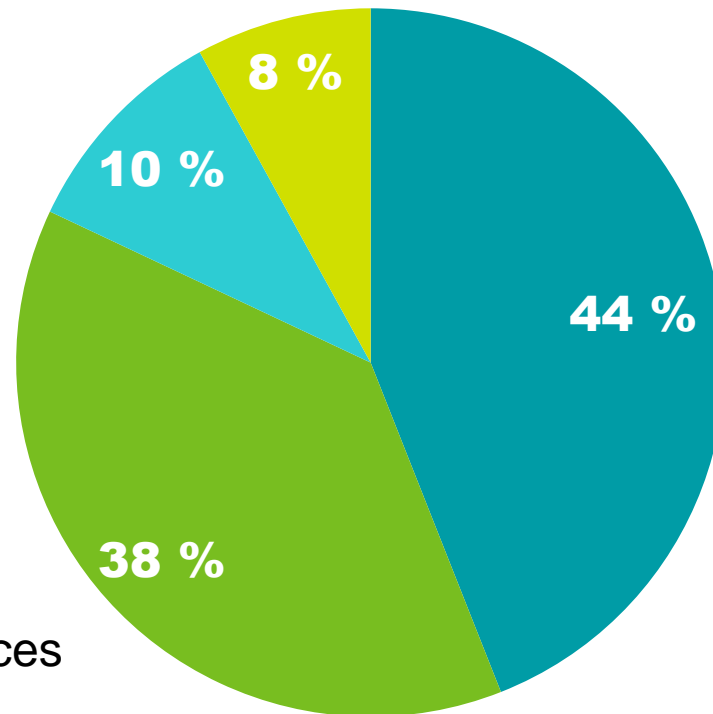


Renewable Energy Sources\*

Industrial Services

Facility Services

Environmental Services



*\*Non-core business*

# L&T'S ORGANISATION



# CYCLICALITY OF L&T'S CORE BUSINESS



# ENVIRONMENTAL SERVICES

# WE MANAGE THE VALUE CHAIN WITH EXCEPTIONALLY STRONG RESOURCES



600 trucks

24 plants and terminals



200 000 customers

Personnel 1 250

# L&T IS MARKET LEADER IN FINNISH WASTE MANAGEMENT MARKET

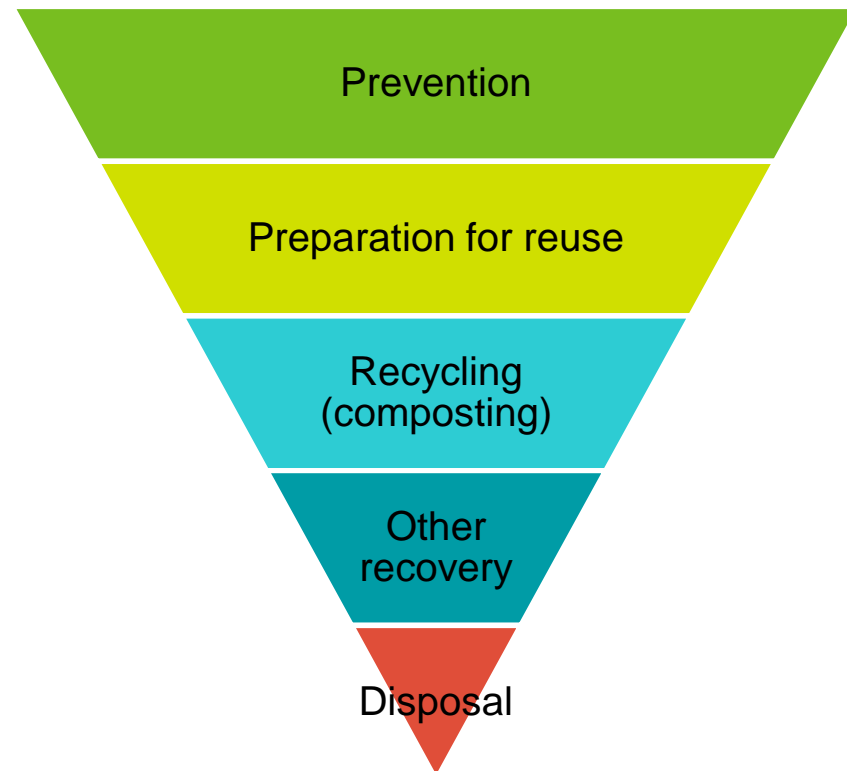
|  |   |
|--|---|
| <b>Environmental Services in total</b>         | <ul style="list-style-type: none"><li>• No. 1 – 2</li><li>• Relevant market EUR 1.2 billion</li><li>• Market growth: 2-3 % annually</li></ul>                               |
| <b>Subcontractor for municipalities</b>        | <ul style="list-style-type: none"><li>• No. 1</li><li>• Relevant market EUR 0.1 billion</li><li>• Market growth: below inflation rate</li></ul>                             |
| <b>Waste management</b>                        | <ul style="list-style-type: none"><li>• No. 1</li><li>• Relevant market EUR 0.65 billion</li><li>• Market growth: inflation rate</li></ul>                                  |
| <b>Recycling (fibres, plastic &amp; glass)</b> | <ul style="list-style-type: none"><li>• No. 1 or 2 depending on material</li><li>• Relevant market EUR 0.35 billion</li><li>• Market growth: above inflation rate</li></ul> |
| <b>Environmental products</b>                  | <ul style="list-style-type: none"><li>• No. 1 – 3 depending on product</li><li>• Relevant market EUR 0.1 billion</li><li>• Market growth: inflation rate</li></ul>          |

*Market positions and sizes are based on management estimates*

# GROWTH POTENTIAL IN RECYCLING

- Recycling offers growth potential in spite of the decline in the total amount of waste. The total waste amount is not predicted to grow.
  - Scarcity of raw materials and their rising prices
  - Growing consumption and rising prices of energy
- Regulation supports recycling and the creation of new forms of services. Waste management is highly regulated.
  - EU regulation prefers recycling and reusing materials over landfilling
  - The attitudes of Finns support the implementation of regulations. Attitudes towards recycling are positive but Finland is lagging behind its recycling targets
  - More demands on companies' environmental responsibility

## EU's Waste Hierarchy



# EVER-STRICTER ENVIRONMENTAL NORMS SUPPORT RECYCLING

- **2008** The European Parliament adopted the proposed Waste Directive
- **2012** The new Finnish Waste Act entered into force on 1 May 2012
- **2013** The waste tax rose to EUR 50 per tonne
- **2013** The material-specific recycling targets for municipal waste were specified
- **2013** Emissions trade tightened
- **2015-16** Full producer responsibility for packaging waste will be transferred from the municipalities to the producer organisations
- **2016** Ban on the landfill disposal of organic waste will enter into force
- **2016** Under the Waste Decree, no less than 50% of municipal waste must be recycled
- **2016** In the nationwide waste plan, the target is that less than 20% of municipal waste is landfilled
- **2020** Under the Waste Decree, at least 70% of construction/demolition waste must be recycled



# MARKET DEVELOPMENT AND L&T'S ACTIONS

## Market changes and utilising them

- Largest fleet provides sufficient capacity for waste collection
- An extensive network of plants that can process growing material flows
- Proactively offering new processing solutions instead of landfill processing
- Strong know-how and experience of the producer organisations

## Utilising internal capabilities & current market position

- Expanding our role and coverage in the waste management value chain
- New business opportunities in the environmental business and expansion into new locations
- Good platform for bolt on acquisitions

# INDUSTRIAL SERVICES

# INTEGRATING INTO OUR CUSTOMERS' PROCESSES

Personnel 550



Trucks 200



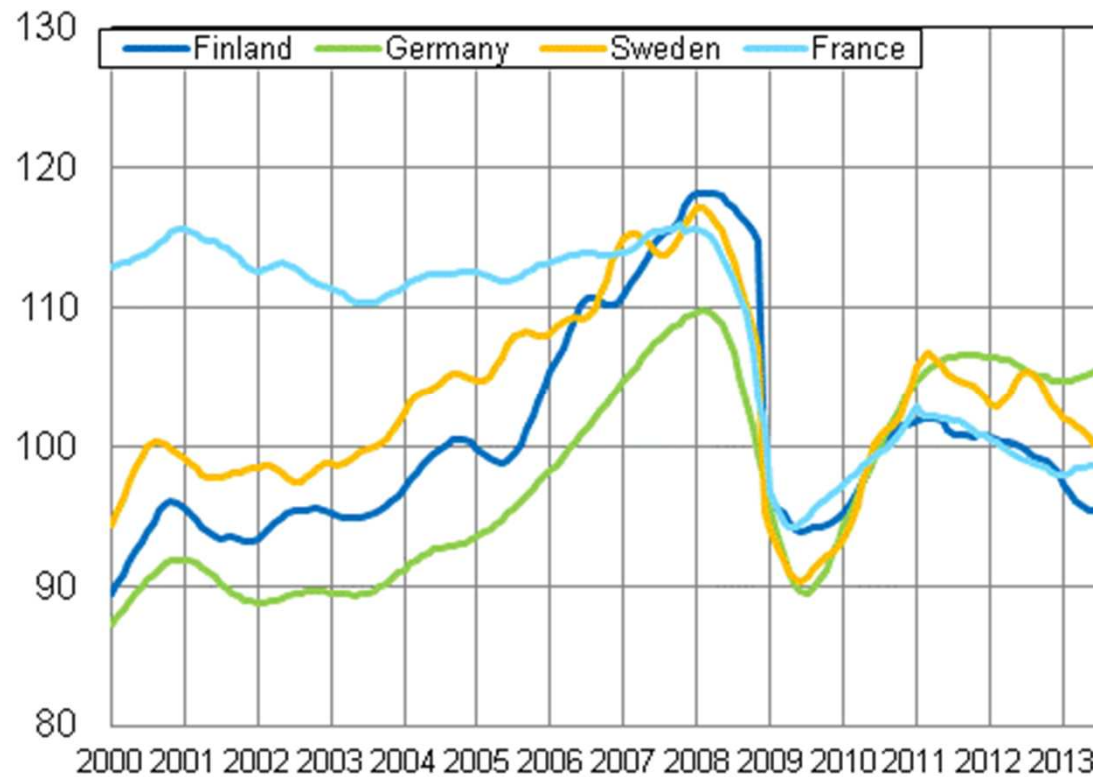
Customers 7 500

# STRONG MARKET POSITION IN ALL SERVICE LINES

|                                 |   |
|---------------------------------|---|
| Industrial Services<br>in total | <ul style="list-style-type: none"><li>• No. 2</li><li>• Relevant market EUR 0.3 billion</li><li>• Market growth: 4% annually</li></ul>          |
| Industrial process<br>cleaning  | <ul style="list-style-type: none"><li>• No. 1</li><li>• Relevant market EUR 0.1 billion</li><li>• Market growth: inflation rate</li></ul>       |
| Sewer maintenance<br>services   | <ul style="list-style-type: none"><li>• No. 2</li><li>• Relevant market EUR 0.1 billion</li><li>• Market growth: above inflation rate</li></ul> |
| Hazardous waste<br>services     | <ul style="list-style-type: none"><li>• No. 2</li><li>• Relevant market EUR 65 million</li><li>• Market growth: inflation rate</li></ul>        |
| Environmental<br>construction   | <ul style="list-style-type: none"><li>• No. 2</li><li>• Relevant market EUR 80 million</li><li>• Market growth: above inflation rate</li></ul>  |

*Market positions and sizes based on management estimate*

# TREND OF INDUSTRIAL OUTPUT 2000–2013



Source: Statistics Finland

# MARKET DEVELOPMENT AND L&T'S ACTIONS

## Market development

## L&T's actions

Tightening environmental legislation: opening new business in industrial waste streams

- Utilising Total Waste Management concept to boost our position in environmental construction
- Expanding current reuse and final waste disposal network
- Offering solutions for the mining industry
- Improving our market position in hazardous waste through our country wide terminal network

Outsourcing non-core operations to central service providers

- Centralised labour and fleet management to improve resource allocation and utilisation rates
- An efficient, centrally directed sales organisation enables L&T to achieve growth in its total offering for industrial customers

# MARKET DEVELOPMENT AND L&T'S ACTIONS

## Market development

## L&T's actions

Demand for sewer maintenance will increase as the infrastructure ages

- Strengthening sales of sewer maintenance services
- Utilising cross sales
- Improving operational efficiency to enhance competitiveness
- Leveraging scale by increasing municipal sewer maintenance business

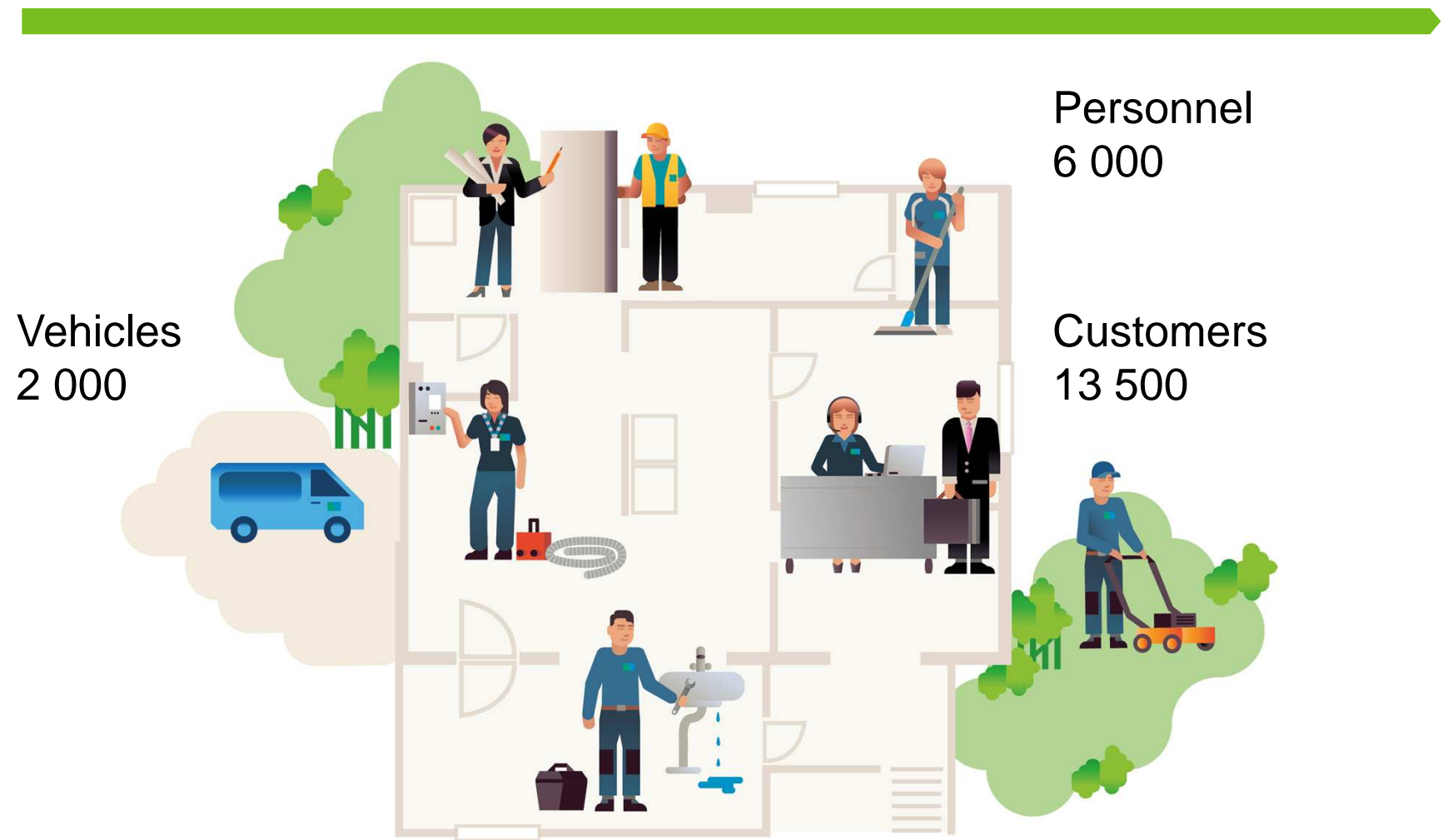
Industry will not grow in Finland, which could lead to a tougher competitive environment

- Group focus on major customers and cross selling
- Integration into the customer's core processes
- With our current equipment, we can also offer new services to new customers

# FACILITY SERVICES



# FACILITY SERVICES CREATES GOOD WORKING CONDITIONS

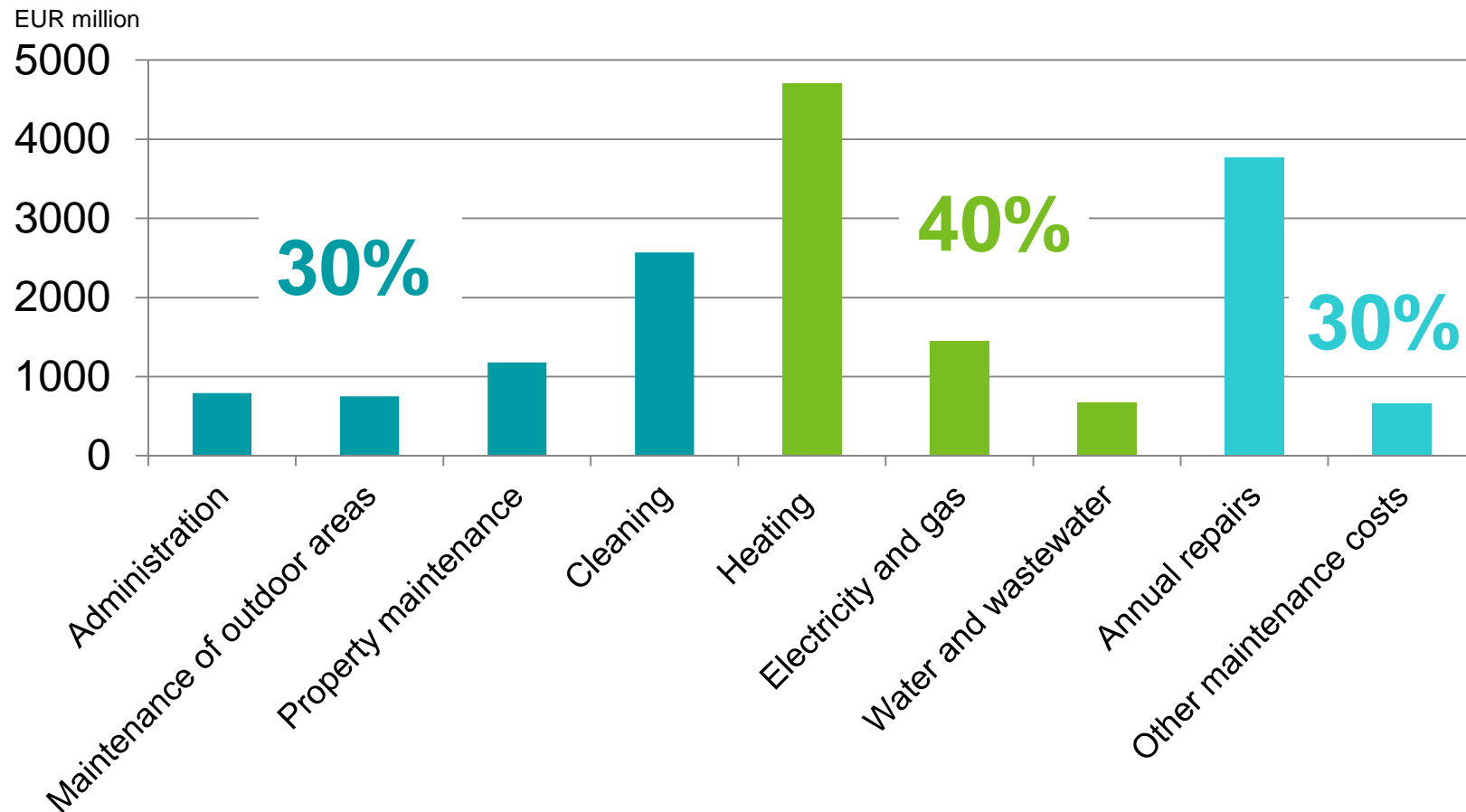


# MARKETS AND L&T'S MARKET POSITION

|   |   |
|---|---|
| <b>Facility Services in total</b>             | <ul style="list-style-type: none"><li>• No. 2</li><li>• Relevant market EUR 3.0 billion</li><li>• Market growth: 3 % annually</li></ul>         |
| <b>Cleaning and facility support services</b> | <ul style="list-style-type: none"><li>• No. 2</li><li>• Relevant market EUR 1.0 billion</li><li>• Market growth: inflation rate</li></ul>       |
| <b>Property maintenance</b>                   | <ul style="list-style-type: none"><li>• No. 1</li><li>• Relevant market EUR 0.8 billion</li><li>• Market growth: inflation rate</li></ul>       |
| <b>Damage repair services</b>                 | <ul style="list-style-type: none"><li>• No. 2</li><li>• Relevant market EUR 0.2 billion</li><li>• Market growth: above inflation rate</li></ul> |
| <b>Maintenance of technical systems</b>       | <ul style="list-style-type: none"><li>• No. 5</li><li>• Relevant market EUR 1.0 billion</li><li>• Market growth: above inflation rate</li></ul> |

*Market positions and sizes based on management estimate*

# MAINTENANCE OF THE BUILDING STOCK: EUR 16.5 BILLION IN 2013



Source: VRK/RHR and VTT on the basis of data from Statistics Finland

# MARKET DEVELOPMENT AND L&T'S ACTIONS

## Market development

## L&T's actions

Customers will change the way they buy services, favouring service packages

- Focusing on large customer accounts, harnessing the potential of cross-sales and support services
- Offering bundled facility services
- Operational efficiency
- Offering technical system services in new localities

Greater technical complexity of properties, rising energy prices and growing environmental awareness

- Focus on eco-maintenance
- An energy control center established
- Offering technical system services in new localities
- Increasing expertise in technical systems

# MARKET DEVELOPMENT AND L&T'S ACTIONS

## Market development

## L&T's actions

Outsourcing is becoming more common among companies and in the public sector

- Centralisation of sales
- Proactive operations in the municipal sector
- Focus on support services

Significance of office premises is on the rise

- Services for modifying premises have been launched
- Organisation has been clarified to improve customer care
- Focus on technical systems

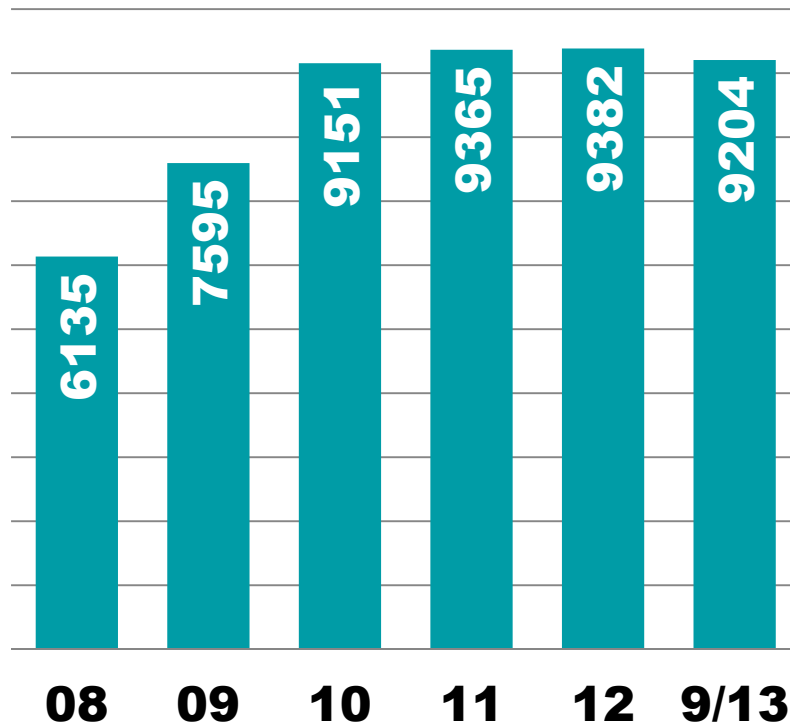
Growth in the number and value of damages

- Harnessing large partnerships with insurance companies
- Developing expertise in special damage repair services
- Cross-use of resources across the businesses

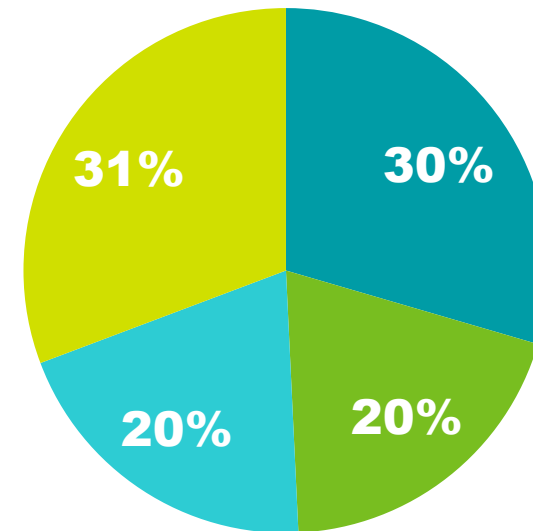
# SHAREHOLDERS

# SHAREHOLDER STRUCTURE

## Number of shareholders



## Shareholder structure



- Households
- Financial and insurance corp.
- Foreign and nominee registered
- Others

# MAJOR SHAREHOLDERS AT 30 SEPTEMBER 2013

| Shareholder                                | Shares     | %      |
|--|------------|--------|
| Evald and Hilda Nissi Foundation           | 2 413 584  | 6.22   |
| Mandatum Life Insurance Company Limited    | 2 231 238  | 5.75   |
| Nordea Investment Funds                    | 1 769 468  | 4.56   |
| Maijala Juhani                             | 1 529 994  | 3.94   |
| Ilmarinen Mutual Pension Insurance Company | 1 512 803  | 3.90   |
| Danske Investment Funds                    | 1 126 421  | 2.90   |
| LähiTapiola Group                          | 1 074 280  | 2.77   |
| Bergholm Heikki                            | 796 247    | 2.05   |
| Maijala Mikko                              | 720 000    | 1.86   |
| Varma Mutual Pension Insurance Company     | 600 690    | 1.55   |
| Nominee-registered shares                  | 7 592 231  | 19.57  |
| Number of shares                           | 38 798 874 | 100.00 |
| Number of shareholders                     | 9 204      |        |



**IT'S EASY TO TRANSFORM A  
KETCHUP BOTTLE INTO FUEL  
OR A TUNA CAN INTO A FORK.  
IT'S MUCH HARDER TO CHANGE**

**HOW PEOPLE THINK.**



**WORKING SUSTAINABLY**

