Destia's Half year financial report January–June 2017

DESTIA'S OPERATING RESULT CONTINUES TO DEVELOP FAVOURABLY

- Revenue was MEUR 191.9 (200.1).
- The operating result improved year-on-year, to MEUR 0.3 (-1.2).
- Net financial costs were significantly lower than in the previous year and amounted to MEUR 0.6 (1.9).
- The order book was MEUR 773.5 (800.2).
- Occupational safety remained at a good level: the accident frequency was 8.0 (5.3).
- Destia maintains its guidance published on 10 February 2017: Destia's revenue and operating profit for 2017 are expected to grow slightly from the previous year.
- Destia's President and CEO Hannu Leinonen left his position on 7 August 2017 by the mutual agreement with the Board of Directors. The Board of Directors has appointed Arto Pohjonen, member of the company's Boad of Directors, as the interim President and CEO of Destia effective 7 August 2017.

Group

Key figures (IFRS), MEUR	**4-6/2017**	**4-6/2016**	**1-6/2017**	**1-6/2016**	**1-12/2016**
Revenue	114.6	116.8	191.9	200.1	493.2
Operating result	3.7	4.4	0.3	-1.2	14.1
% of revenue	3.2	3.8	0.2	-0.6	2.9
Result for the period	4.9	3.0	2.4	-1.7	5.7
% of revenue	4.2	2.6	1.2	-0.8	1.2
Return on investment, %			12.4	10.9	11.1
Earnings per share, EUR			35.30	-34.51	50.13
Equity ratio, %			33.7	31.3	33.5
Net gearing, %			48.6	75.9	35.3
Average personnel			1,550	1,455	1,492
Occupational accidents resulting in absence from work*)			8.0	5.3	5.9
Order book at the end of review period			773.5	800.2	708.0

*) Occupational accidents per one million working hours. Since the beginning of the year 2017 the number also covers Destia Engineering.

CFO Pirkko Salminen comments on the reporting period:
"Destia's performance in the first half of the year was reasonably good in a competitive market. We were able to increase our operating result year-on-year, but our revenue decreased slightly. Our order book is at a fairly good level due to contracts signed during the reporting period in our core businesses, such as the contract for the upgrading of National Road 4 near Oulu in the road construction business and the renovation contract for the Oulu–Kontiomäki section in railway construction. Another addition to the order book during the reporting period was the third phase of the alliance contract for the expansion of Helsinki Airport. The tendering stages of certain large projects were postponed from spring to autumn, pushing the revenue associated with them to the next year. In line with our previously published outlook, we expect Destia's revenue and operating profit for 2017 to grow slightly from the previous year.

Our improved profitability is supported by our motivated and highly competent employees. This summer, they are assisted by more than 200 summer workers and trainees, and a growing proportion of Destia's trainees are staying on as permanent employees after graduation. Personnel development is a central theme in our operations and the digital transformation has provided opportunities for further developing our capacity for efficient production. Occupational safety continues to play a key role in everything we do. While our accident frequency of 8.0 is a good figure for a company in our industry, there is still much room for improvement."

Operating environment

The rate of growth in construction is slowing down after last year's exceptionally high level and the peak in the rise in construction investments is now behind us. In the current construction season, the focus of construction is on growth centres. Area development related to housing construction is also boosting infrastructure construction, which remains high in urban areas. Measures to reduce the repair backlog are bringing work to other parts of Finland.

According to a forecast published by the Bank of Finland in June, the Finnish economy has improved. The Bank of Finland states that, in spite of the strengthening export sector, Finnish economic growth still relies heavily on private consumption and investment. The forecast suggests that the current exceptionally high growth in investments will slow down once the boom in the construction industry gradually levels off. Nevertheless, construction activity is expected to remain reasonably high this year and next.

According to the confidence indicator of the Confederation of Finnish Industries (EK), confidence in construction declined slightly in July compared to the previous figure, but long-term confidence remains slightly stronger than average in spite of the decrease. According to EK, the order book is described as being close to the average level. The number of personnel is predicted to remain largely unchanged in the next few months. The confidence indicator of Finnish construction companies was close to the EU average in June.

The Confederation of Finnish Construction Industries RT (CFCI) forecasts that the rate of construction will slow down this year compared to the previous year. The civil engineering sector is predicted to grow by two per cent this year, mainly supported by new road projects, the reduction of the repair backlog, large-scale regional construction projects and the high level of activity in the energy sector. Civil engineering costs are estimated to increase this year due to the price of crude oil being substantially higher than a year ago. According to CFCI's assessment, the increase in costs will limit the growth of production.

According to the cost index of civil engineering works of Statistics Finland, the costs of the civil engineering industry increased by 1.7 per cent from June 2016 to June this year. The annual change in costs varied by sub-index from 0.2 per cent in earth structures to 9.3 per cent in surfacing. The increase in the total index was particularly attributable to the higher prices of bitumen and metal products. The rise in costs was curbed by interest and labour costs being lower than in June last year.

Order book and new orders

The Group's order book was at a good level at the end of the reporting period, amounting to MEUR 773.5 (30 June 2016: 800.2). During the first half of 2017, the order book increased by more than 9 per cent (11.5 per cent).

The most significant new contracts valued at no less than €3 million and signed during the second quarter:

- Upgrading of National Road 4 near Oulu, will be completed in autumn 2019
- Renovation of the Oulu–Kontiomäki track section, superstructure contract, will be completed in autumn 2017
- Construction of the Ranta-Kartano area in Lahti, phase 1, will be completed in autumn 2019
- Closure of leftover rock and ore-dressing sand areas at a mining facility in Kolari, will be completed by the end of 2018
- Pit compaction work at a factory site in Pyhäjärvi, will be completed in autumn 2017
- Regional main road contracts for 2017–2022: Alavus, Kiuruvesi, Pielavesi, Pyhäjärvi and Viinijärvi.

In addition, Destia signed a large number of smaller new contracts during the reporting period.

Revenue development

In the reporting period, Destia's revenue was MEUR 191.9 (200.1), and in the second quarter it was MEUR 114.6 (116.8). The decline in revenue was attributable to the effect of the mild early part of the winter on the revenue accrual of certain maintenance contracts, as well as springtime construction volumes being lower than in the previous year.

Other operating income amounted to MEUR 1.4 (1.3). This mainly consisted of sales income from fixed assets and rental profit.

Result development

In the reporting period, the operating result was MEUR 0.3 (-1.2), and in the second quarter it was MEUR 3.7 (4.4). The year-on-year improvement in the result was attributable to strong project implementation as well as an easier winter period than the previous year with regard to maintenance.

The Group's net financial costs amounted to MEUR 0.6 (1.9) during the reporting period. The decrease in financial costs was attributable to financing arrangements implemented late last year. Income taxes in the reporting period were positive in the amount of MEUR 2.6 (1.5). Income taxes for the second quarter were MEUR 1.5 (-0.5). The Group recognised a deferred tax asset in excess of MEUR 2 during the second quarter when the deductibility of confirmed losses in previous years was confirmed.

The Group's result for the reporting period was MEUR 2.4 (-1.7), and in the second quarter it was MEUR 4.9 (3.0).

Due to the seasonality of the construction business, the accumulation of profit mostly focuses on the second half of the year. The maintenance business is focused on the winter season.

Balance sheet, cash flow and financing

Total assets on the consolidated balance sheet were MEUR 255.8 (249.1) at the end of the reporting period. Return on investment (ROI) was 12.4 per cent (10.9), the equity ratio was 33.7 per cent (31.3), and gearing was 48.6 per cent (75.9).

In the first half of the year, the development of cash flow remained good in relation to the comparison period, taking seasonal fluctuation into account. Owing to the seasonality of construction, the demand for working capital is at its greatest in the second and third quarters. The cash flow for the reporting period comprised operating cash flow of MEUR -8.2 (-14.2), investment cash flow of MEUR -3.0 (-10.2) and financial cash flow of MEUR 14.9 (-2.4). The financial cash flow includes short-term commercial papers issued for the purpose of working capital financing with a nominal value of MEUR 15.

The Annual General Meeting of Destia Group Plc, held on 7 March 2017, resolved that the accrued interest of MEUR 1.2 and repayment of MEUR 1.5 of the hybrid loan from Ahlström Capital Oy as well as the accrued interest of MEUR 2.5 of the previously converted hybrid loan from AC Infra Oy, totalling MEUR 5.2, will be paid to the owners. These payments were not yet made during the reporting period. A group contribution of MEUR 2.3 was paid to Ahlström Capital Oy in the comparison period.

The Group's financial position remained quite good. The financial assets on the balance sheet amounted to MEUR 19.6 (16.1) at the end of the reporting period. Of Destia's MEUR 150 commercial paper programme, MEUR 15 was in use. The short-term credit limit of MEUR 10.3 was not used. At the end of the reporting period, interest-bearing liabilities totalled MEUR 57.8 (69.9). Of all loans, 26.4 per cent (0.5) were short-term and

73.6 per cent (99.5) were long-term. Interest-bearing net liabilities at the end of the reporting period totalled MEUR 38.3 (53.9).

Consolidated shareholders' equity includes an equity hybrid loan of MEUR 11.5 from Ahlström Capital, with an interest rate of 10.0 per cent.

Investments and acquisitions

In the reporting period, gross investments amounted to MEUR 4.1 (11.6), which corresponds to 2.1 per cent (5.8) of revenue, and in the second quarter they were MEUR 3.0 (11.0), or 2.6 per cent (9.4) of revenue. The investments were mainly fleet investments. In the comparison period, Destia acquired a majority interest of 51 per cent in ITS-Vahvistus Oy from its acting management. As a result of the transaction, the company's name was changed to Destia Engineering Ltd. The company has been consolidated 100% into Destia Group since 1 April 2016.

Personnel

The Group's average number of personnel during the reporting period was 1,550 (1,455). At the end of June, the number of personnel was 1,680 (1,585), of whom 1,407 (1,340) were permanent staff and 273 (245) were temporary employees. Due to the seasonality of the business, the number of personnel varies during the year, peaking in the summer.

Destia is continuing to invest in personnel training and strengthening its capacity for efficient production in the current three-year strategy period, which extends until 2019. The deployment of the new ERP system has been successful and it enables the continued development and digitalisation of production processes. Occupational safety plays a key role in ensuring the well-being of the company's personnel. The accident frequency remained at a good level during the reporting period, at 8.0 (5.3). Since the beginning of the year 2017 the number also covers Destia Engineering.

Destia is committed to making the infrastructure sector a safe and attractive prospect for employment in the future. The industry-wide shortage of human resources is something that Destia takes very seriously, and the company has worked together with external partners to develop training programmes that make it easier for new talents to become Destia professionals. During the reporting period, more than 200 summer workers and trainees have had the opportunity to take on the types of interesting challenges that Destia offers across the entire infrastructure life cycle.

Litigation and disputes

At the end of 2015, Destia initiated a lawsuit against Länsimetro Oy at the Espoo District Court concerning a dispute over contract payments. Länsimetro has issued a countersuit. The case remains pending at the Espoo District Court.

In April 2016, the Tuusula District Court imposed unit fines on three Destia employees and a corporate fine of EUR 50,000 on Destia and ordered Destia to lose the financial benefit resulting from the offence, some EUR 86,000, with regard to criminal charges pressed against the Destia employees in December 2015 for environmental offences at the Harjula soil area in Mäntsälä between autumn 2010 and summer 2012. The decision is not yet legally binding as all persons convicted have appealed to the Court of Appeal where the case is still being processed.

The Southern Savo District Court has pressed criminal charges against two Destia employees for a negligent occupational safety offence. According to the charges, the employees are suspected of committing a criminal occupational safety offence in connection with demolition work on a pedestrian and bicycle bridge in Mikkeli's Urpola district in summer 2015. The prosecutor has also called for a corporate fine of at most 10 thousand euros to be imposed on Destia Ltd. Destia denies the claims made.

Short-term risks and uncertainties

Destia classifies risks as market and operating environment risks, operational risks, financial risks and damage risks. A more detailed analysis of these risks is presented in the annual report for 2016 under "Short-term risks and uncertainties".

Events following the reporting period

Destia's President and CEO Hannu Leinonen left his position on 7 August 2017 by the mutual agreement with the Board of Directors. The Board of Directors appointed Arto Pohjonen, member of the company's Boad of Directors, as the interim President and CEO of Destia effective 7 August 2017. The appointment of the new President and CEO will be communicated later in the autumn.

Outlook for 2017

The outlook for the eurozone economy has improved compared to last year. The rate of growth has increased in the eurozone, which also creates opportunities for Finland. The Finnish economy is likely to see continued growth with exports as the engine, but private consumption and investments remain key factors for the Finnish economy. Construction activity is focused on growth centres. Measures to reduce the repair backlog are bringing work to other parts of Finland. In addition to the projects that are already underway, there are several large infrastructure projects about to begin, which keeps the industry outlook favourable for the most part. The tendering stages of certain large projects being postponed from spring to autumn will push the revenue associated with them to the next year.

The measures implemented by Destia to improve profitability through personnel development and stronger project management, along with the Group's order book extending several years ahead, create a solid foundation for the positive development of business.

Destia maintains its guidance for 2017, as published on 10 February 2017:
Destia's revenue and operating profit for 2017 are expected to grow slightly from the previous year.

Vantaa, 10 August 2017

Destia Group Plc
Board of Directors

More information
CFO Pirkko Salminen, tel. +358 50 302 2485

Financial reporting in 2017

24 October 2017 Business Review 1-9/2017

The figures presented in the half year financial report have been prepared in accordance with the same accounting and valuation principles as those applied in the 2016 financial statements. All figures have been rounded up or down, so the sums of individual figures may differ from the sums shown. The information provided in the half year financial report has not been audited.

CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IFRS

MEUR	4-6/2017	4-6/2016	1-6/2017	1-6/2016	1-12/2016
Revenue	**114.6**	**116.8**	**191.9**	**200.1**	**493.2**
Other operating income	0.8	0.7	1.4	1.3	4.5
Materials and services	76.8	78.5	130.0	138.6	342.9
Employee related expenses	23.3	22.9	41.8	43.1	93.4
Depreciations	2.3	2.3	4.4	4.2	9.6
Other operating expenses	9.4	9.3	16.8	16.8	37.6
Operating result	**3.7**	**4.4**	**0.3**	**-1.2**	**14.1**
Financial income	0.0	0.1	0.0	0.2	0.4
Financial expense	0.3	1.1	0.6	2.1	8.7
Result before taxes	**3.4**	**3.4**	**-0.3**	**-3.2**	**5.8**
Income taxes	-1.5	0.5	-2.6	-1.5	0.1
Result for the period	**4.9**	**3.0**	**2.4**	**-1.7**	**5.7**
Other comprehensive income including tax effects					
Items that will not be reclassified to profit or loss					
Items resulting from remeasurement of the defined benefits-based net liability (or asset item)					-0.4
					-0.4
Items that may be subsequently reclassified to profit or loss					
Translation difference from foreign subsidiaries	0.0	0.0	0.0	0.0	0.0
Cash flow hedges	0.0	-0.1	0.0	-0.4	1.0
	0.0	-0.1	0.0	-0.4	1.0
Other comprehensive income net of tax	**0.0**	**-0.1**	**0.0**	**-0.4**	**0.7**
Comprehensive income for the period, total	**4.8**	**2.9**	**2.3**	**-2.1**	**6.4**

Result for the period and comprehensive income for the period belong to parent company shareholders.

CONSOLIDATED BALANCE SHEET
IFRS
MEUR

ASSETS

	30.6.2017	30.6.2016	31.12.2016
Non-current assets			
Property, plant and equipment	60.3	60.4	61.7
Goodwill	83.6	83.6	83.6
Other intangible assets	3.7	3.0	2.6
Financial assets available-for-sale	2.0	2.1	2.1
Deferred tax assets	4.5	2.8	2.6
Non-current assets, total	**154.3**	**151.9**	**152.8**
Current assets			
Inventories	18.0	16.2	17.4
Accounts and other receivables	64.0	64.9	71.1
Cash and cash equivalents	19.6	16.1	16.0
Current assets, total	**101.6**	**97.2**	**104.4**
Assets, total	**255.8**	**249.1**	**257.1**

EQUITY AND LIABILITIES

	30.6.2017	30.6.2016	31.12.2016
Equity attributable to equity holders of the parent company			
Share capital	0.1	0.1	0.1
Invested non-restricted equity fund	53.0	38.0	53.0
Hybrid loans	11.5	27.0	11.5
Other items	0.0	-1.5	0.0
Retained earnings	14.2	7.4	12.0
Equity, total	**78.7**	**71.0**	**76.5**
Non-current liabilities			
Deferred tax liabilities	2.9	1.5	2.8
Pension liabilities	0.6	0.2	0.6
Provisions	14.8	13.4	15.1
Financial liabilities	42.5	68.1	42.7
Other liabilities	4.2	3.2	3.7
Non-current liabilities, total	**65.0**	**86.4**	**64.9**
Current liabilities			
Accounts payable and other liabilities	69.7	63.8	81.1
Provisions	4.8	5.0	5.5
Financial liabilities	15.3	0.4	0.3
Advances received	22.4	22.5	28.7
Current liabilities, total	**112.1**	**91.7**	**115.7**
Equity and liabilities, total	**255.8**	**249.1**	**257.1**

CONSOLIDATED CASH FLOW STATEMENT
IFRS
MEUR

	4-6/2017	4-6/2016	1-6/2017	1-6/2016	1-12/2016
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers	87.5	86.1	193.8	191.1	481.5
Expenses paid to suppliers and personnel	-99.5	-98.3	-202.1	-201.9	-457.9
Interests paid	0.0	-0.9	0.0	-1.7	-3.5
Dividends received	0.0	0.0	0.0	0.0	0.0
Interest received	0.0	0.0	0.0	0.0	0.1
Other financial items	-0.1	-0.1	-0.1	-0.1	-0.4
Tax paid	0.2	-0.9	0.2	-1.5	-0.8
Net operating cash flow	**-11.8**	**-14.1**	**-8.2**	**-14.2**	**19.0**
CASH FLOWS FROM INVESTING ACTIVITIES					
Investments in intangible and tangible assets	-1.9	-6.7	-3.4	-9.3	-15.4
Sale of intangible and tangible assets	0.2	0.4	0.4	0.4	2.8
Subsidiary shares acquired		-1.3		-1.3	-1.3
Net investment cash flow	**-1.7**	**-7.7**	**-3.0**	**-10.2**	**-14.0**
CASH FLOWS FROM FINANCING ACTIVITIES					
Decrease in non-current loans from financial institutions (-)	0.0	-0.1	-0.1	-0.1	-65.2
Increace in non-current loans from financial institutions (+)					40.0
Increase in short-term financing (+)	25.0		25.0		
Decrease in short-term financing (-)	-10.0		-10.0		
Dividends paid	0.0		0.0		
Group contributions granted				-2.3	-2.3
Interests and other financial items paid					-4.4
Net financial cash flow	**14.9**	**-0.1**	**14.9**	**-2.4**	**-31.9**
Change in cash and cash equivalents	**1.4**	**-21.9**	**3.6**	**-26.8**	**-26.9**
Cash and cash equivalents at the beginning of the period	18.1	38.0	16.0	42.9	42.9
Cash and cash equivalents at the end of the period	**19.6**	**16.1**	**19.6**	**16.1**	**16.0**

GROUP´S KEY FIGURES
IFRS

	4-6/2017	4-6/2016	1-6/2017	1-6/2016	1-12/2016
Revenue	114.6	116.8	191.9	200.1	493.2
Change from previous year, %	-1.9	10.9	-4.1	11.4	6.6
Operating result for the period	3.7	4.4	0.3	-1.2	14.1
% of revenue	3.2	3.8	0.2	-0.6	2.9
Operating result, comparable	3.7	4.4	0.3	-1.2	12.5
% of revenue	3.2	3.8	0.2	-0.6	2.5
Result for the period	4.9	3.0	2.4	-1.7	5.7
% of revenue	4.2	2.6	1.2	-0.8	1.2
EBITDA 1)	5.9	6.7	4.7	3.0	22.1
% of revenue	5.2	5.7	2.5	1.5	4.5
Gross investments	3.0	11.0	4.1	11.6	17.9
% of revenue	2.6	9.4	2.1	5.8	3.6
Balance sheet total			255.8	249.1	257.1
Equity			78.7	71.0	76.5
Equity ratio, % 2)			33.7	31.3	33.5
Net gearing, % 3)			48.6	75.9	35.3
Interest-bearing liabilities			57.8	69.9	43.0
Current Ratio 4)			0.9	1.1	0.9
Quick Ratio 5)			0.8	1.0	0.9
Return on equity, % 6)			12.6	13.5	7.6
Return on investment, % 7)			12.4	10.9	11.1
Earnings per share, EUR *)			35.30	-34.51	50.13
Equity per share, EUR			983.18	887.51	956.09
Average personnel			1,550	1,455	1,492
Occupational accidents resulting in absence from work **)			8.0	5.3	5.9
Order book			773.5	800.2	708.0
Research and development expenses			0.4	0.4	0.9
% of other operating expenses			2.5	2.3	2.4

*) The profit for the reporting period belonging to the shareholders of the parent company of Destia Group Plc, deducted by the interest on the hybrid loan adjusted for tax, divided based on the weighted average of the shares. Destia Group Plc has 80,000 shares.
**) Occupational accidents per one million working hours. Since the beginning of the year 2017 the number also covers Destia Engineering.

Formulas:
1) Operating result + depreciation, amortisation and impairment losses. Not IFRS key figure.
EBITDA adjusted by comparable items
2) (Equity/(balance sheet total - advances received))*100
3) ((Interest-bearing liabilities - cash and cash equivalents and held-to-maturity investments/equity)*100
4) (Inventories + liquid assets) / current liabilities
5) Financial assets without receivables from uncompleted contracts/current liabilities without advance payments
6) (Result for the period/average equity)*100
(opening and closing balance)
7) (Result before taxes + interest costs and other financial expenses/(invested capital average)*100
(balance sheet total - non-interest-bearing liabilities - provisions, opening and closing balance)