

Financial statements 2010



Lassila & Tikanoja's full-year net sales amounted to EUR 598.2 million (EUR 582.3 million), showing an increase of 2.7%. Operating profit was EUR 40.2 million (EUR 50.3 million), representing 6.7% (8.6%) of net sales. Operating profit excluding non-recurring items fell to EUR 45.5 million (EUR 51.3 million). Earnings per share were EUR 0.68 (EUR 0.85).

#### Breakdown of operating profit excluding non-recurring items

EUR million	2010	2009
Operating profit	40.2	50.3
Non-recurring items:		
Discontinuation of wood pellet business of L&T Biowatti	3.4	
Discontinuation of cleaning business in Moscow	0.4	
Discontinuation of soil washing services		-0.4
Restructuring costs	1.5	1.6
Closure of wood pellet plant in Luumäki		0.3
Refund of supplementary insurance fund of former Lassila & Tikanoja		-0.5
Operating profit excluding non-recurring items	45.5	51.3

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All figures of Annual Report have been rounded and, consequently, the sum of individual figures may deviate from the sum total presented.

**Changes to L&T's Annual Report.** L&T's Annual Report for 2010 is published in two parts. L&T's Annual Report 2010 consists of these financial statements and a general section.

# Report of the Board of Directors

## Net sales and financial performance

Lassila & Tikanoja's full-year net sales amounted to EUR 598.2 million (EUR 582.3 million; EUR 606.0 million), showing an increase of 2.7%. Operating profit was EUR 40.2 million (EUR 50.3 million; EUR 55.5 million), representing 6.7% (8.6%; 9.2%) of net sales. Operating profit excluding non-recurring items fell to EUR 45.5 million (EUR 51.3 million; EUR 45.0 million). Earnings per share were EUR 0.68 (EUR 0.85; EUR 1.03).

Net sales grew, thanks to the large number of commissioned and contract assignments in the property maintenance sector, caused by heavy snowfalls. The demand for Environmental Services perked up in the second half, and prices of secondary raw materials rose significantly. The Renewable Energy Sources division's (L&T Biowatti) net sales fell below the previous year's level, because of the low price level of fossil fuels and emission rights.

All other divisions except Property Maintenance saw their full-year operating profit excluding non-recurring items decline from the figure for the comparison period. The investments made in Renewable Energy Sources (L&T Biowatti) and in L&T Recoil have not generated the profits expected, and operations continued to make a loss. The preliminary agreement negotiated in the spring for L&T Recoil's ownership rearrangement was cancelled.

Non-recurring restructuring costs of EUR 1.5 million and a EUR 3.4 million cost associated with the discontinuation of L&T Biowatti's wood pellet business were recognised for the year.

## Environmental Services

The Environmental Services division's net sales for 2010 grew by 2.0%, to EUR 290.0 million (EUR 284.2 million; EUR 295.7 million). Operating profit totalled EUR 33.7

million (EUR 36.0 million; EUR 34.2 million), and operating profit excluding non-recurring items was EUR 34.0 million (EUR 36.7 million; EUR 33.8 million).

Waste volumes grew, thanks to recovery in industrial operations and construction. Similarly, the demand for secondary raw materials picked up from the previous year's level and their price took a marked upward turn. Demand for process cleaning and hazardous waste services perked up after a time of sluggish demand in the first half, and partnership agreements were signed with industrial clients.

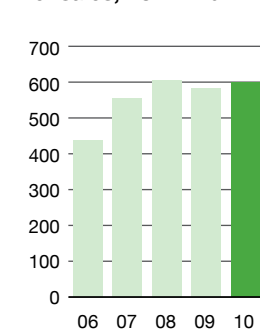
The exceptionally heavy snowfall seen in the course of the year strained waste management production efficiency and decreased the demand for industrial services in the first half. In the comparison period, major project-based assignments boosted net sales and improved profitability.

The second stage of the Kerava recycling plant's investment programme was completed. A new combined recycling plant for construction waste and trade and industrial waste was introduced at the start of the year, resulting in an increase in the recovery rate of the waste processed at the Kerava plant.

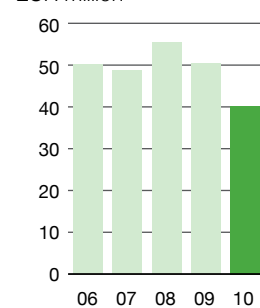
Joint venture L&T Recoil's re-refinery experienced some technical problems, and an investment shutdown was carried out at the plant in August–September, which helped improve the plant's reliability. L&T Recoil's full-year operating loss stands at EUR 3.6 million (a loss of EUR 3.8 million). In the final quarter, losses shrank from the comparison period.

Net sales for international operations remained at the previous year's level, and profitability improved. The challenging market conditions in Latvia have held back business development. The first recycling plant was introduced in Russia.

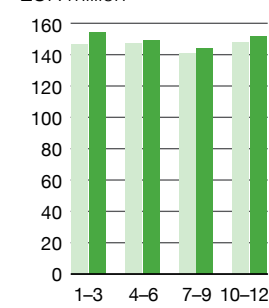
Net sales, EUR million



Operating profit, EUR million

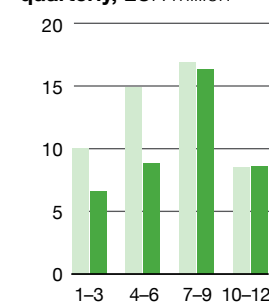


Net sales quarterly, EUR million



2009  
2010

Operating profit quarterly, EUR million



2009  
2010

## Cleaning and Office Support Services

The division's net sales for 2010 fell by 1.9%, to EUR 140.6 million (EUR 143.3 million; EUR 149.6 million). Operating profit totalled EUR 7.5 million (EUR 10.3 million; EUR 0.9 million), and operating profit excluding non-recurring items was EUR 8.0 million (EUR 10.6 million; EUR 5.1 million).

Both net sales from Finnish operations and profitability declined from the comparison period's level as a result of fierce price competition. Despite the challenging market conditions, sales of commissioned assignments remained at the 2009 level. Net sales from international operations were at the comparison period's level. The operating profit excluding non-recurring items continued to be negative even though Swedish operations were able to cut their losses.

A credit loss of EUR 0.7 million was recognised in Russia in the first half, and the business was divested at the end of the third quarter.

## Property Maintenance

The division's net sales for 2010 totalled EUR 123.5 million (EUR 100.2 million; EUR 93.8 million); an increase of 23.3%. Its operating profit was EUR 7.8 million (EUR 7.4 million; EUR 5.0 million), and operating profit excluding non-recurring items was EUR 7.9 million (EUR 7.5 million; EUR 5.0 million).

A larger contract portfolio and the commissioned assignments resulting from the year's exceptionally cold and snowy weather boosted the division's net sales, bringing them above the previous year's level.

The order book for damage repair services remained healthy throughout the year. Service contracts were renewed, and new partnership agreements with insurance companies were signed. The demand for maintenance services for technical systems improved, particularly to-

ward year-end 2010, following growth in the construction industry.

Operating profit excluding non-recurring items improved as a consequence of net sales growth and management of fixed costs.

## Renewable Energy Sources

The Renewable Energy Sources division's net sales for 2010 were down by 14.1%, to EUR 55.1 million (EUR 64.1 million; EUR 73.4 million). The operating loss totalled EUR 6.6 million (a loss of EUR 1.0 million; a profit of EUR 3.3 million), and the operating loss excluding non-recurring items totalled EUR 3.1 million (a loss of EUR 0.6 million; a profit of EUR 3.3 million).

Both demand for wood-based fuels and their competitiveness declined from the comparison period's level because of the low prices of emission rights and fossil fuels (peat, coal, and oil). Profitability improved toward year-end 2010 because of the cold weather and measures to improve production efficiency.

A decision was made to discontinue the wood pellet business, as a result of the unfavourable market conditions and the poor availability of raw materials. A non-recurring expense of EUR 3.4 million was recognised for the discontinuation.

## Net sales of operations abroad by country

EUR 1,000	2010	2009	2008
Sweden	24,443	21,282	25,302
Latvia	18,584	21,303	24,418
Russia	8,489	8,894	8,347
Norway		12	1,165

## Net sales by division

EUR 1,000	2010	2009	Change %	2008
Environmental Services	290,031	284,219	2.0	295,657
Cleaning and Office Support Services	140,615	143,273	-1.9	149,611
Property Maintenance	123,469	100,164	23.3	93,811
Renewable Energy Sources	55,106	64,125	-14.1	73,445
Eliminations	-11,028	-9,475		-6,528
Total	598,193	582,306	2.7	605,996

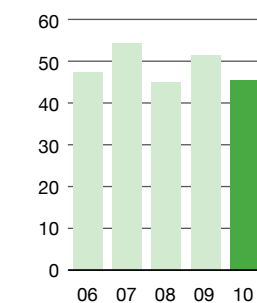
## Operating profit by division

EUR 1,000	2010	%	2009	%	Change %	2008	%
Environmental Services	33,674	11.6	35,959	12.7	-6.4	34,193	11.6
Cleaning and Office Support Services	7,524	5.4	10,308	7.2	-27.0	935	0.6
Property Maintenance	7,764	6.3	7,378	7.4	5.2	4,973	5.3
Renewable Energy Sources	-6,553	-11.9	-958	-1.5		3,300	4.5
Group administration and other	-2,190		-2,423			12,097	
Total	40,219	6.7	50,264	8.6	-20.0	55,498	9.2

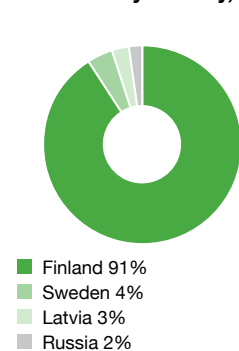
## Income statement by quarter

EUR 1,000	10-12/ 2010	7-9/ 2010	4-6/ 2010	1-3/ 2010	10-12/ 2009	7-9/ 2009	4-6/ 2009	1-3/ 2009
<b>Net sales</b>								
Environmental Services	73,992	75,806	75,624	64,609	71,178	72,055	74,121	66,865
Cleaning and Office Support Services	34,580	35,659	35,710	34,666	35,686	36,338	36,108	35,141
Property Maintenance	31,596	26,926	28,090	36,857	25,829	23,746	24,541	26,048
Renewable Energy Sources	15,266	7,617	12,097	20,126	17,702	10,669	14,691	21,063
Inter-division net sales	-3,927	-2,238	-2,507	-2,356	-2,354	-2,069	-2,367	-2,685
L&T total	151,507	143,770	149,014	153,902	148,041	140,739	147,094	146,432
<b>Operating profit</b>								
Environmental Services	8,204	10,930	10,124	4,416	6,793	11,816	10,937	6,413
Cleaning and Office Support Services	181	4,088	2,218	1,037	1,697	4,076	2,597	1,938
Property Maintenance	633	3,263	1,075	2,793	1,070	3,157	1,695	1,456
Renewable Energy Sources	-361	-1,432	-3,900	-860	-321	-1,029	-279	671
Group administration and other	-104	-574	-762	-750	-735	-1,111	-84	-493
L&T total	8,553	16,275	8,755	6,636	8,504	16,909	14,866	9,985
<b>Operating margin</b>								
Environmental Services	11.1	14.4	13.4	6.8	9.5	16.4	14.8	9.6
Cleaning and Office Support Services	0.5	11.5	6.2	3.0	4.8	11.2	7.2	5.5
Property Maintenance	2.0	12.1	3.8	7.6	4.1	13.3	6.9	5.6
Renewable Energy Sources	-2.4	-18.8	-32.2	-4.3	-1.8	-9.6	-1.9	3.2
L&T total	5.6	11.3	5.9	4.3	5.7	12.0	10.1	6.8
Finance costs, net	-987	-1,272	-917	-1,053	-1,078	-1,242	-1,233	-1,685
Profit before tax	7,566	15,003	7,838	5,583	7,426	15,667	13,633	8,300

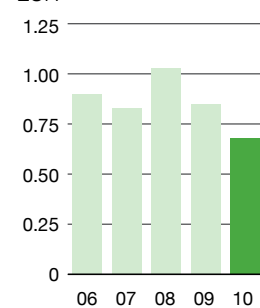
## Operating profit excluding non-recurring items, EUR million



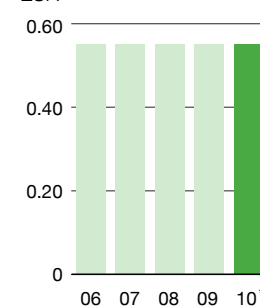
## Net sales by country, %



## Earnings per share, EUR



## Dividend per share, EUR



\* Proposal by the Board of Directors

## Financing

Cash flows from operating activities amounted to EUR 63.8 million (EUR 66.2 million; EUR 70.4 million). EUR 2.2 million was tied up in the working capital (EUR 12.0 million tied up; EUR 2.2 million released).

At the end of the period, interest-bearing liabilities amounted to EUR 126.8 million (EUR 143.9 million; EUR 147.1 million). Net interest-bearing liabilities amounted to EUR 112.3 million, showing a decrease of EUR 4.0 million from the turn of the year. New long-term loans were not taken out in 2010 (EUR 24.0 million; EUR 47.0 million).

Long-term loans totalling EUR 22.2 million will mature in 2011. The average interest rate of loans (with interest rate hedging) was 3.3% (3.2%).

Net finance costs amounted to EUR 4.2 million which is EUR 1.0 million below the amount of the comparison period. Net finance costs were 0.7% (0.9%; 0.8%) of net sales.

In 2010, a total of EUR 0.2 million (EUR -0.3 million; EUR -1.0 million) arising from the changes in the fair values of interest rate swaps to which hedge accounting under IAS 39 is applied was recognised in other comprehensive income, after tax.

The equity ratio was 46.5% (44.1%; 43.2%) and the gearing rate 50.3 (53.5; 58.8). Liquid assets at the end of the period amounted to EUR 14.5 million (EUR 27.6 million; EUR 26.5 million).

Of the EUR 50 million commercial paper programme, EUR 5.0 million (EUR 0.0 million) was in use. The EUR 15.0 million committed limit, renewed in June for two years, was not in use, as was the case in the comparison period.

## Key figures for financing

	2010	2009	2008
Interest-bearing liabilities, EUR million	126.8	143.9	147.1
Net interest-bearing liabilities, EUR million	112.3	116.3	120.5
Interest expenses, EUR million	4.7	5.9	6.1
Net finance costs, EUR million	4.2	5.2	4.8
Net finance costs, % of net sales	0.7	0.9	0.8
Net finance costs, % of operating profit	10.5	10.4	8.7
Equity ratio, %	46.5	44.1	43.2
Gearing, %	50.3	53.5	58.8
Cash flows from operating activities, EUR million	63.8	66.2	70.4
Change in working capital in the cash flow statement, EUR million	-2.2	-12.0	2.2

Financial risks and financial risk management are presented in the Note 37 Financial risk management.

## Invested capital

Invested capital amounted to EUR 11.3 million less than a year ago as liquid assets normalised. The rate of circulation for invested capital was 1.7 (1.6; 1.7).

EUR 1,000	31 December 2010	31 December 2009	31 December 2008
Non-current assets	354,851	357,891	356,609
Inventories and receivables	114,343	110,914	94,559
Liquid assets	14,548	27,583	26,517
Deferred tax liability	-33,718	-33,622	-32,898
Trade and other payables	-94,891	-94,130	-88,298
Provisions	-3,148	-2,155	-1,755
Other non-interest-bearing liabilities	-2,167	-5,374	-2,640
Invested capital	349,818	361,107	352,094

### Capital expenditure

Capital expenditure totalled EUR 39.3 million (EUR 44.9 million; EUR 84.2 million). The most significant construction project was the Kerava combined recycling plant, which was introduced for production use at year end.

On 1 June 2010, the property maintenance services business of Kiinteistöpalvelu Oy Hollola and 1 July 2010, Kiinteistöhuolto Oy Forsblom were acquired into Property and Office Support Services. On 1 December 2010, the cleaning business of SiivousJyvä was acquired into Cleaning and Office Support Services and Säkkipalvelu Oy, a waste management company operating in Tampere region was acquired into Environmental Services. The business acquisitions totalled EUR 1.7 million and the net sales of the acquired businesses totalled EUR 3.3 million.

In the beginning of September, the cleaning business in Moscow was divested.

#### Capital expenditure by balance sheet item

EUR million	2010	2009	2008
Real estates	10.4	14.4	25.5
Machinery, equipment and other property, plant and equipment	24.7	25.0	51.7
Goodwill and intangible rights arising from business acquisitions	1.2	1.4	3.1
Other intangible assets	2.9	4.0	3.8
Other non-current assets	0.1	0.1	0.1
<b>Total</b>	<b>39.3</b>	<b>44.9</b>	<b>84.2</b>

#### Capital expenditure by division

EUR million	2010	2009	2008
Environmental Services	31.4	36.3	65.2
Cleaning and Office Support Services	2.1	2.4	3.9
Property Maintenance	5.1	3.8	5.8
Renewable Energy Sources	0.7	2.3	9.2
Group administration and other	0.1	0.1	0.1
<b>Total</b>	<b>39.3</b>	<b>44.9</b>	<b>84.2</b>

### Changes in the Group structure

The Group acquired the business operations of Kiinteistöpalvelu Oy Hollola, Kiinteistöhuolto Oy Forsblom and tmi SiivousJyvä, and the share capital of Säkkipalvelu Oy. Salvor Oy merged with Lassila & Tikanoja plc, and L&T Inno LLC and L&T Services LLC merged with L&T Podmoskovie LLC, which changed its name to L&T LLC. L&T LLC's cleaning business in Moscow was divested. L&T Ecoinvest LLC was established in Dubna, Russia. The remaining 16.5% holding of the Muoviportti Group was acquired (previous holding: 83.5%).

### Personnel

In 2010, the average number of employees converted into full-time equivalents was 7,835 (8,113; 8,363). At the year end, the total number of full-time and part-time employees was 8,732 (8,743; 9,490). Of them 6,849 (6,762; 7,269) people worked in Finland and 1,883 (1,981; 2,221) people in other countries.

The wages and salaries paid in 2010 totalled EUR 193.8 million (EUR 190.4 million; EUR 192.0 million).

#### Total number of full-time and part-time employees at year end by country

	2010	2009	2008
Finland	6,849	6,762	7,269
Latvia	1,060	912	1,050
Sweden	603	588	738
Russia	220	481	433
<b>Total</b>	<b>8,732</b>	<b>8,743</b>	<b>9,490</b>

### Product development

The goal of product development is to give L&T's services a competitive edge and thereby help the company achieve its growth targets.

The current market instability and increasingly fierce competition are forcing customers to consider support services from the viewpoint of the added value they create. Consequently, L&T's product development strategy is aimed at promoting the competitiveness of customer companies and differentiation in the customer's mind.

The most important new service concept in 2010 was the ecological cleaning service; this involves paying special attention to the customer's energy and material efficiency. Furthermore, the L&T Energy Efficiency Guarantee operating model was developed, to enhance energy savings in large properties. L&T has also conducted pilot projects on customer liaison management and has developed a model for customer relationship management.

The ecological cleaning service combines professional ecological cleaning, effective material recycling and environmental expertise, with practices that boost energy and material efficiency. Before launching the service, an initial assessment is conducted at the customer's facilities, to establish the level of recycling, material and energy efficiency. Under this concept, observations made by cleaners during their work deliver added value to the customer. While providing the service, our cleaners make observations on recycling practices and unnecessary wa-

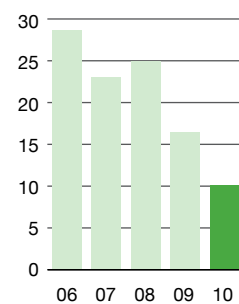
ter, energy and material consumption. An observation can refer to a leaking tap, an open window, or unnecessary use of electrical equipment. An observation form has been created to help cleaners record their findings. Observations made are reported to the customer in line with an agreed procedure.

L&T Energy Efficiency Guarantee is an operating model co-developed by L&T and Siemens, providing properties with a guarantee on energy savings and energy consumption. The potential fall in a property's energy consumption can be as high as 30%. The model combines L&T's property maintenance with Siemens' building automation excellence. It also enables the financing of equipment investments improving energy efficiency, without any financial risk to the customer.

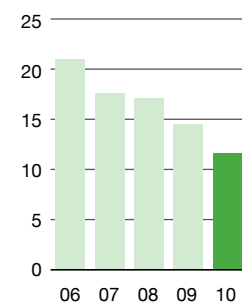
### Research and development expenses

An expense of EUR 1.6 million (EUR 2.4 million; EUR 3.0 million) of centrally managed product development projects was recognised in the income statement and it was 0.3% of net sales (0.4%; 0.5%). Computer software development costs of EUR 1.8 million (EUR 2.4 million; EUR 2.0 million) were recognised as an asset in the balance sheet. Computer software development costs are recognised as an asset starting from the time when the projects move out of the research phase into the development phase and the outcome of a project is an identifiable intangible asset.

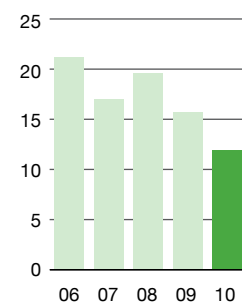
EVA, EUR million



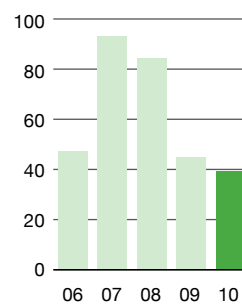
ROI, %



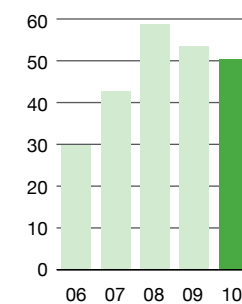
ROE, %



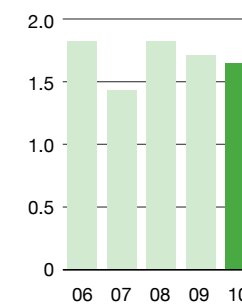
Capital expenditure, EUR million



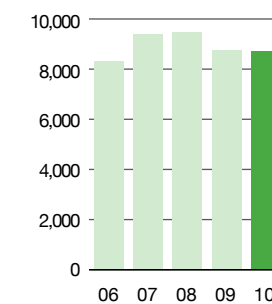
Gearing, %



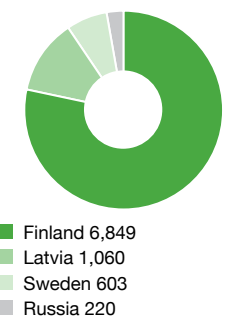
Cash flows from operating activities/share, EUR



Employees



Employees by country



Total number of full-time and part-time employees at year end

Total number of full-time and part-time employees at year end by country

## Risk management

### Objective

L&T's risk management aims to identify significant risk factors, prepare for them and manage them in an optimal way so that company's objectives are achieved. Comprehensive risk management endeavours to manage the Group's risk as a whole and not just individual risk factors.

### Responsibilities

The principles of L&T's risk management are approved by the company's Board of Directors. The Board monitors the implementation of risk management and assesses the efficiency of the methods employed. The President and CEO is responsible for the organisation and implementation of risk management.

Principles for financial risk management are defined in the Financial Policy.

### Identification, assessment and reporting of risks

The risk management process is determined in L&T's Integrated Management System. Regular risk survey take place as part of the annual strategy process at the group and division levels, in units outside Finland as well as within centralised functions defined as being critical. The operative management assesses strategic, financial, damage-related and operational risk factors for each area of responsibility. L&T evaluates risks using a risk matrix and by assigning monetary values to risks. Contingency plans for significant risks are prepared and the responsibilities for risk management measures are allocated. Any risks identified and preparations for them are regularly reported to the President and CEO and to the Board of Directors.

### Risk analysis

The following is a description of the most important strategic, operational and damage-related risks of L&T's business which, if realised, can endanger or prevent the achievement of business objectives.

Financial risks and their management are described in Note 37 Financial risk management.

### Strategic and operational risks

#### Risks relating to information and communications systems

If realised, risks associated with the information and communications systems can cause interruptions in L&T's operations and customer services. In 2010, determined work continued, in order to develop the system environment and secure the IT environment's reliability.

#### Market-related risks

Key market-related risks include a continuance of the economic recession and the resulting decline in customers' operating volumes, the entry of new competitors

into the market, and legislative changes. Market price development for emission rights, secondary raw materials or oil products may affect the company's business operations.

Future developments are difficult to predict due to the continuing general economic uncertainty. Major changes in the markets may have a negative impact on business growth and cause profitability to decline.

L&T is independent of single large customers, which, together with L&T's extensive service offering, helps reduce market-related risks. As a means of standing out from its competitors and creating value-adding elements other than price, L&T is continuously developing and launching new service products. To prepare for market risks, L&T pays special attention to profitability improvement and customer care.

#### Acquisitions

L&T seeks growth both organically and through acquisitions. The success of acquisitions affects the achievement of the company's growth and profitability targets. Failures in acquisitions may impact the company's competitive ability and profitability and may change the company's risk profile. Risk related to acquisitions is managed through strategic and financial analysis of acquisition targets, comprehensive audits of due diligence, as well as an efficiently implemented integration programme after the closing of an acquisition.

#### Operations in developing markets

L&T has business operations in Latvia and Russia. Business operations in these countries make the company vulnerable to political and financial risks as well as risks relating to changes in social conditions and, for example, any restriction of the free pricing of services. L&T endeavours to mitigate these risks by becoming familiar with the international market situation and the business culture through means such as commissioning studies of the country-specific risks of developing markets.

#### Availability of competent personnel

L&T's business is labour-intensive. The economic recession and the decrease in turnover have contributed to good workforce availability in the last few years, but in the long term competition for skilled labour will toughen as a result of ageing of the population.

L&T runs several human resources management programmes aimed at ensuring the availability and competence of labour. We focus on the good work community, management and leadership, improving multicultural skills, work rotation and occupational safety. L&T endeavours to be the most attractive employer in its sector.

#### Damage-related risks

To cover for unexpected damage, L&T has continuous insurance coverage in all of the operating countries, including policies for injuries, property damage, business

interruption, third-party liability, environmental damage and transport damage.

#### Risk of fire

The manufacture of recovered fuels within the Environmental Services business constitutes a risk of fire. A fire at a recycling plant may result in a momentary or extended interruption of the plant's operations. However, the significance of the risk is reduced by the fact that individual plants or production lines have no substantial impact on L&T's overall profitability. In addition to taking out insurance, L&T endeavours to mitigate the risks of fire damage by constructing automated extinguishing systems, carrying out systematic contingency planning and training personnel to prepare for emergencies.

#### Risk of environmental damage

L&T's business comprises the collection and transport of hazardous waste, as well as processing at the company's own plants. Incorrect handling of hazardous waste or damage to equipment may result in harmful substances being released into the environment or injuries through explosion or poisoning. L&T may become liable for damages due to this. In addition to taking out insurance, the company manages environmental damage risks through systematic environmental surveys of its plants, preventive maintenance plans of equipment, audits, long-span training for personnel and emergency drills.

#### Premature retirement of personnel

An increase in the personnel's disability pension costs may materially affect competitiveness and profitability, particularly in Cleaning and Office Support Services and Property Maintenance. As a major employer, L&T is liable for pension costs in full arising from the disability of its personnel. L&T makes efforts towards promoting the health of employees and managing occupational health care through the Sirius programme aimed at minimising sickness-related absence and disability pensions.

## Environmental factors

As an industry leader, L&T bears a heavy responsibility for environmental issues. Corporate responsibility is the foundation of our day-to-day operations and a key element of L&T's strategy. We make our environmental expertise available to our customers, equipping them to meet their environmental obligations and achieve their environmental targets. Growing awareness of environmental matters is creating greater expectations with respect to L&T's services. Improvement in material and energy efficiency is becoming an even more integral part of customer companies' daily operations.

L&T collects and processes waste and by-products into secondary raw materials and recovered fuels: these are replacing fossil fuels and helping to save natural resources, thereby contributing to the effort to curb climate change.

The EU's recycling objectives, the national waste plan and national legislation are gradually turning Finland into a recycling society. Its waste tax base will expand and taxes will rise, steering our customers towards choices that promote sustainable development.

Over the next few years, L&T will assume a major role as Finland increases its use of renewable energy sources. L&T's wood-based biofuels and recovered fuels are replacing fossil fuels in energy production.

L&T's operations reduced Finland's CO<sub>2</sub> emissions calculatory by more than a million CO<sub>2</sub> tonnes in 2010. Emissions caused by L&T's operations decreased.

Emissions and noise from vehicles used for collection and transport services represent the most significant negative environmental impacts of L&T's operations. To minimise these impacts, L&T acquires low-emission vehicles and focuses on better route planning.

## Environmental management

The L&T Integrated Management System is a tool used to plan, develop and steer our everyday work and operations. It includes jointly defined operating procedures and provides tools for strategy implementation and the achievement of business goals. The system also extends to international operations. It is used to ensure that the operations are consistent, harmonised and of high quality in all locations. The management system is certified for compliance with the ISO 9001 (quality), ISO 14001 (environment) and OHSAS 18001 (occupational health and safety) standards.

Environmental, health and occupational safety risk management is an integral part of L&T's management system. Ensuring personnel's well-being, providing a safe working environment and setting an example in environmental matters are factors that allow L&T to drive the company and its operations forward. Environmental and safety risks are regularly and extensively assessed across all organisational levels.

Environmental management and waste processing operations are governed by strict laws and regulation, and operations often require a permit. In Finland, L&T has 81 environmental permits related to the handling and storage of waste and biofuels.

### Year 2010

Because L&T is one of Finland's biggest logistics companies, improvements in this area offer huge potential for reducing environmental impacts. In 2010, L&T launched a programme to assess the logistics processes of the Environmental Services and Renewable Energy Sources divisions, and draw up a development plan to improve our logistical efficiency. An equipment training course designed for the personnel of the Environmental Services division was launched, with the objective of improving drivers' equipment skills and to achieve a higher standard in equipment maintenance.

The modernisation of the Kerava recycling park permits the recovery of an even larger proportion of the waste received. Following the modernisations, the Kerava plant will have a recovery rate of more than 90%.

One of our new eco-concepts is the L&T Energy Efficiency Guarantee operating model, that was co-developed with Siemens. This operating model helps reduce energy consumption in properties. L&T introduced ecological cleaning that combines ecological cleaning and material and energy efficiency and helps customers to reduce the environmental impacts of their premises.

In 2010, approximately 300 cleaners received training in environmental issues and 150 EcoMaintenance specialists were trained.

Compliance with the L&T® EcoMaintenance concept is required in maintenance agreements for properties owned by L&T, to ensure minimum energy and water consumption. Energy consumption in properties owned by L&T is monitored on a monthly basis.

More details on environmental responsibility is presented on pages 30–37 of the general section of Annual Report.

### Loans, liabilities and contingent liabilities to related parties

Related-party transactions are accounted for in Note 34 Related-party transactions.

### Corporate Governance Statement

Corporate Governance Statement for the financial year 2010 is disclosed as a separate statement.

### Administrative organs

In accordance with Lassila & Tikanoja plc's Articles of Association, the management of the company and the proper arrangement of its operations is the responsibility of a Board of Directors comprising a minimum of three (3) and a maximum of seven (7) members appointed by the General Meeting of Shareholders. The term of each member of the Board of Directors expires at the end of the next Annual General Meeting following his/her election. The company has a President and CEO appointed by the Board of Directors. In accordance with the Companies Act, the General Meeting shall decide on any amendments to the Articles of Association.

According to a written service contract with the President and CEO, the period of notice is 12 months if the company terminates his employment.

The Annual General Meeting held on 31 March 2010 confirmed the number of the members of the Board of Directors six (6). The following Board members were re-elected to the Board until the end of the following AGM: Heikki Bergholm, Eero Hautaniemi, Matti Kavetvuo, Hille Korhonen and Juhani Lassila. Miikka Majjala was elected as a new member for the same term. In its constitutive meeting the Board elected Matti Kavetvuo as Chairman

of the Board and Juhani Lassila as Vice Chairman. From among its members, the Board elected Juhani Lassila as Chairman of the audit committee and Eero Hautaniemi and Miikka Majjala as members of the committee. The Board decided to establish a remuneration committee. From among its members, the Board elected Matti Kavetvuo as Chairman of the remuneration committee and Heikki Bergholm and Hille Korhonen as members of the committee. PricewaterhouseCoopers Oy, Authorised Public Accountants, acts as Auditor of the Company.

Jari Sarjo has served as the President and CEO since 2001.

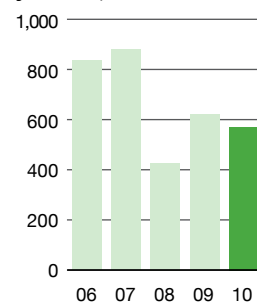
### Group Executive Board

On 1 July 2010, Lassila & Tikanoja plc's Board of Directors appointed Henri Turunen as Vice President, Cleaning and Office Support Services and Juha Simola as Vice President, Property Maintenance. Anna-Maija Apajalahti, Vice President, Property and Office Support Services, retired on 31 July 2010. Laura Aarnio, Accounting Director, left the Group Executive team on 31 August 2010 and Kimmo Huhtimo, Director responsible for product and process development, marketing communications and Contact Centre left the team on 31 December 2010.

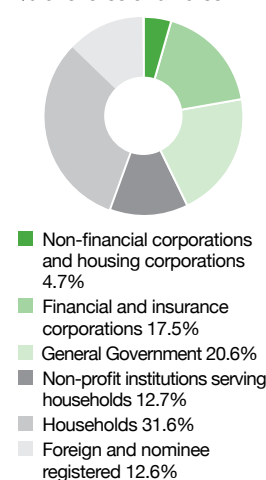
As of 1 January 2011, the team of Group Executives was renamed the Group Executive Board.

The members of the new Group Executive Board are Jari Sarjo, President and CEO, Jorma Mikkonen, Vice President, Environmental Services, Inkeri Puputti, HR Director, Ville Rantala, CFO, Tomi Salo, Managing Director of L&T Biowatti Oy, Juha Simola, Vice President, Property Maintenance and Henri Turunen, Vice President, Cleaning and Office Support Services.

Market capitalisation at year end, EUR million



Breakdown of shareholding, % of shares and votes



### Distribution of profit

The Group's earnings per share amounted to EUR 0.68 (EUR 0.85; EUR 1.03) and cash flow from operating activities per share EUR 1.65 (EUR 1.71; EUR 1.82). The Board of Directors will propose payment of a dividend of EUR 0.55 per share (EUR 0.55; EUR 0.55) to the Annual General Meeting to be held on 17 March 2011. No dividend shall be paid on shares held by the company on the dividend payment record date. On the day when the distribution of profit was proposed, the number of shares conferring entitlement to receive dividend totalled 38,738,116 shares, on which the total dividend payment would be EUR 21,305,963.80. The proposed dividend is 81.4% of the earnings per share (64.4%; 53.4%).

### Near-term uncertainties

If the operating rate target set for L&T Recoil's production is not reached, this will have a negative impact on the Environmental Services division's performance. End-product price fluctuations and changes in the availability of raw material would have a major effect on L&T Recoil's performance.

The planned government support for renewable fuels should have a positive effect on the demand for wood based fuels but with some delay, and with its extent depending on these measures' scope and level. Sustained low prices of emission rights may adversely affect the competitiveness of L&T Biowatti's wood-based fuels.

### Prospects for the year 2011

The outlook for the Environmental Services division's waste management services and recycling business for 2011 has improved. Rising operating rates in the industry are expected to increase waste volumes and the demand for process cleaning and material recovery solutions. Higher prices of secondary raw materials and a rise in waste tax improve the outlook for the recycling business.

The markets for Cleaning and Office Support Services and for Property Maintenance are expected to remain challenging.

Demand for L&T Biowatti's wood-based fuels is expected to remain moderate. The positive effect of the planned government support measures related to renewable fuels is forecast to materialise in the second half.

Net sales and operating profit excluding non-recurring items in 2011 are expected to remain at the 2010 level.

### Shares and shareholders

#### Share capital and number of shares

The registered share capital of Lassila & Tikanoja plc is EUR 19,399,437. The number of shares is 38,798,874. In January–December, the average number of shares excluding the shares held by the company totalled 38,748,649. Each share carries one vote. There is no maximum to the number of the shares and the share capital in the Articles of Association. A share has neither a nominal value nor a book equivalent value.

Changes in share capital and number of shares between 30 September 2001 and 31 December 2010

Change	Change in share capital, EUR	Change in number of shares	Share capital, EUR	Number of shares
<b>30 September 2001–31 December 2003</b>			<b>7,913,154</b>	<b>15,826,308</b>
Subscriptions pursuant to share options during 2004	35,390	106,170	7,948,544	15,897,088
Bonus issue 1:1	7,948,544	15,897,088	15,897,088	31,794,176
Rights offering 5:2 at EUR 7.50 each *	3,171,029	6,342,058	19,068,117	38,136,234
<b>31 December 2004</b>			<b>19,068,117</b>	<b>38,136,234</b>
Subscriptions pursuant to share options during 2005	120,770	241,540	19,188,887	38,377,774
<b>31 December 2005</b>			<b>19,188,887</b>	<b>38,377,774</b>
Subscriptions pursuant to share options during 2006	75,200	150,400	19,264,087	38,528,174
<b>31 December 2006</b>			<b>19,264,087</b>	<b>38,528,174</b>
Subscriptions pursuant to share options during 2007	128,100	256,200	19,392,187	38,784,374
<b>31 December 2007</b>			<b>19,392,187</b>	<b>38,784,374</b>
Subscriptions pursuant to share options during 2008	7,250	14,500	19,399,437	38,798,874
<b>31 December 2008</b>			<b>19,399,437</b>	<b>38,798,874</b>
<b>31 December 2009</b>			<b>19,399,437</b>	<b>38,798,874</b>
<b>31 December 2010</b>			<b>19,399,437</b>	<b>38,798,874</b>

\* Subscription ratio before the bonus issue

The changes in share capital and the number of the shares in 2010 and 2009 are listed in more detail in Note 23 Equity.

The company's shares are included in the book-entry system of securities maintained by Euroclear Finland Ltd. Euroclear Finland maintains the company's official list of shareholders.

### Trading in shares and share options in 2010

The company's shares are quoted on the mid-cap list of the NASDAQ OMX Helsinki Ltd in the Industrials sector. The trading code is LAT1V and the ISIN code is FI0009010854.

The volume of trading in Lassila & Tikanoja plc shares on the NASDAQ OMX Helsinki during 2010 was 7,736,454, which is 20.0% (25.9%; 45.0%) of the average number of outstanding shares. The value of trading was EUR 111.1 million (EUR 126.9 million; EUR 287.9 million). The trading price varied between EUR 12.85 and EUR 16.20. The closing price was EUR 14.73. The company holds 60,758 own shares. The market capitalisation excluding the shares held by the company was EUR 570.6 million (EUR 619.9 million; EUR 426.8 million) at the end of the period.

Lassila & Tikanoja's 2008 share options have been listed on the NASDAQ OMX Helsinki since 1 November 2010 (trading code LAT1VEW108).

### Own shares

In the beginning of 2010, the company held 30,000 of its own shares and at the end of the period, 60,758 of its own shares, representing 0.2% of all shares and votes. Based on the authorisation given by the Annual General Meeting, the company repurchased 80,000 shares in the period from 17 May to 2 June 2010 at a total acquisition cost of EUR 1.1 million. On 25 May 2010, the Board of Directors decided on a directed bonus issue involving the issue, in which a total of 49,242 shares held by the company were issued to the company's key personnel on 4 June 2010, as

a part of the rewards for the year 2009 of the share-based incentive programme.

### Dividend policy

The amount of dividend is tied to the results for the financial year. Profits not considered necessary for ensuring the healthy development of the company are distributed to shareholders.

### Authorisation for the Board of Directors

The Annual General Meeting held on 31 March 2010 authorised Lassila & Tikanoja plc's Board of Directors to make decisions on the repurchase of the company's own shares using the company's unrestricted equity and on the issuance of these shares. Shares will be repurchased otherwise than in proportion to the existing shareholdings of the company's shareholders in public trading on the NASDAQ OMX Helsinki Ltd at the market price quoted at the time of the repurchase.

The Board of Directors is authorised to repurchase and transfer a maximum of 500,000 company shares, which is 1.3% of the total number of shares. The repurchase authorisation will be effective for 18 months and the share issue authorisation for four years. These authorisations revoke the authorisation for the repurchase of the company's own shares and the authorisation to issue shares issued by the Annual General Meeting 2009.

The Board of Directors is not authorised to launch a convertible bond or share option rights.

### Redemption obligation

Under Article 14 of Lassila & Tikanoja plc Articles of Association, a shareholder whose holding either alone or together with other shareholders as specified in the Article reaches or exceeds 33 1/3 or 50 per cent of all shares has

### Summary of share option schemes at 31 December 2010

	2005C	2008
Maximum number of options	230,000	230,000
Granted to	37 key employees	33 key employees
Held by L&T Advance Oy	30,000	62,000
Outstanding options	200,000	168,000
Listed since	2 November 2009	1 November 2010
Exercise period	2 November 2009– 31 May 2011	1 November 2010– 31 May 2012
Exercise price, EUR	26.87	16.27
Number of shares to which each share option entitles holder	1	1

The dividend right and other shareholder rights associated with shares subscribed for using share options shall commence once the increase in share capital or new shares issued are registered in the Trade Register.

an obligation upon the request of other shareholders to redeem their shares or securities entitling them to shares.

### Restrictions in voting power

According to the Articles of Association, at a General Meeting no shareholder may cast more than one fifth of the total number of votes represented at the meeting.

### Change in control

According to a shareholder agreement concerning the joint venture L&T Recoil Oy, the right to transfer shares in the joint venture is restricted, and any change in control of the parent companies specified in the agreement may create a right of redemption of the joint venture's shares for the other party.

### Terms and conditions of share subscriptions based on the share option schemes

The exercise price for 2005C options is EUR 26.87 and for 2008 options EUR 16.27. The exercise prices will be deducted by any amount of per-share dividend, distributed after the determination of the exercise price and before the subscription of shares, which exceeds a total of 70% of the per-share earnings for the financial period for which the dividends are distributed. The exercise period for 2005C options is 2 November 2009 to 31 May 2011 and for 2008 options from 1 November 2010 to 31 May 2012.

As a result of the exercise of outstanding share options a maximum of 368,000 may be subscribed for, which is 0.9% of the current number of shares.

More details of share option schemes are given in Note 24 Share-based payment. The complete terms and conditions of the share option plans are available on the company website.

### Share-based incentive programme

Lassila & Tikanoja plc's Board of Directors decided on 24 March 2009 on a share-based incentive programme to form a part of the incentive and commitment scheme for the company's key personnel. Payment of the reward is subject to reaching the financial targets set by the Board.

The criteria for the determination of the rewards are decided annually. No rewards will be paid for the year 2010. The basis of the payment in 2010 was the EVA result of Lassila & Tikanoja group.

The programme includes three earnings periods one year each, of which the first one began on 1 January 2009 and the last one ends on 31 December 2011. Potential rewards will be paid during the year following each earnings period partly as shares and partly in cash. The proportion paid in cash will cover taxes arising from the reward. No reward will be paid if a key person's employment ends before the reward payment. Any shares earned through the incentive programme shall be held for a minimum period of two years following the payment of each reward. After that, the members of the Group Executive Board are still required to hold company shares with a value equal to their gross salary for six months and the other programme participants with a value equal to their gross salary for three months as long as they are employed by the company.

A maximum total of 180,000 Lassila & Tikanoja plc shares may be paid out on the basis of the programme. The shares will be obtained in public trading. In the beginning of 2011, the programme covers 23 persons.

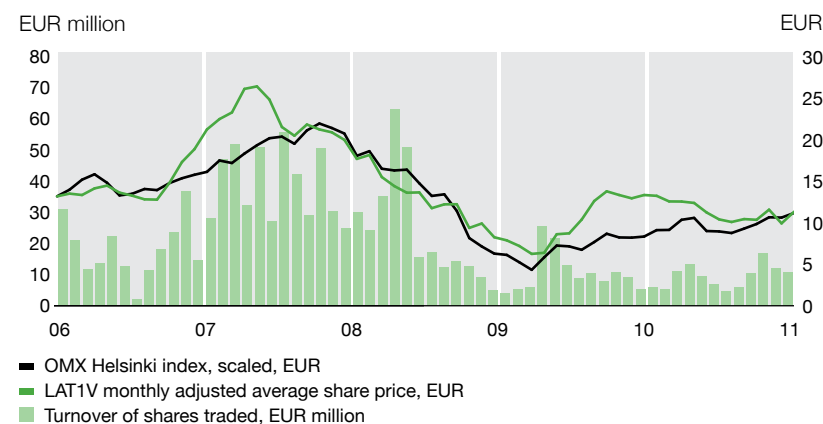
### Shareholders

Lassila & Tikanoja plc had 9,151 registered shareholders at the end of 2010 (7,595; 6,135). Nominee-registered shares and shares in direct foreign ownership accounted for 12.6% of the stock (9.6%; 10.3%).

### Holdings of the Board of Directors and President and CEO

The Members of the Board, the President and CEO, and organisations under their control held a total of 3,418,771 shares in the company on 31 December 2010. They represent 8.8% of the number of shares and votes. Share options held by the President and CEO on 31 December 2010 entitle to the subscription of 60,000 shares.

### Adjusted share price development and turnover of shares traded





## Breakdown of shareholding by category at year end

	Number of shareholders	Percentage	Number of shares	Percentage of shares and votes
Non-financial corporations and housing corporations	591	6.5	1,838,198	4.7
Financial and insurance corporations	63	0.7	6,801,661	17.5
General Government	30	0.3	8,010,720	20.6
Non-profit institutions serving households	224	2.4	4,908,687	12.7
Households	8,197	89.6	12,258,692	31.6
Foreign shareholders	46	0.5	162,465	0.4
	9,151	100.0	33,980,423	87.5
Own shares			60,758	0.2
Shares registered in a nominee's name			4,717,157	12.2
Shares not transferred to the book-entry securities system			40,536	0.1
<b>Total</b>			38,798,874	100.0

## Breakdown of shareholding by size of holding at year end

Number of shares	Number of shareholders	Percentage	Number of shares	Percentage of shares and votes
1-1,000	7,608	83.1	2,144,050	5.5
1,001-5,000	1,105	12.1	2,456,560	6.3
5,001-10,000	192	2.1	1,417,982	3.7
10,001-100,000	199	2.2	5,617,766	14.5
100,001-500,000	31	0.3	5,475,000	14.1
Over 500,000	16	0.2	16,869,065	43.5
	9,151	100.0	33,980,423	87.6
Own shares			60,758	0.2
Shares registered in a nominee's name			4,717,157	12.2
Shares not transferred to the book-entry securities system			40,536	0.1
<b>Total</b>			38,798,874	100.0

## Major shareholders at year end

Shareholder	Number of shares	Percentage of shares and votes
1. Ilmarinen Mutual Pension Insurance Company	2,854,858	7.4
2. Evald and Hilda Nissi Foundation	2,413,584	6.2
3. Mandatum Life Insurance Company Limited	2,256,397	5.8
4. Tapiola Mutual Pension Insurance Company	1,974,240	5.1
5. Juhani Majjala	1,529,994	3.9
6. Varma Mutual Pension Insurance Company	1,265,690	3.3
7. Tapiola Group	1,180,545	3.0
8. Nordea investment funds	1,062,885	2.7
9. OP-Pohjola Group	833,650	2.1
10. Heikki Bergholm	776,807	2.0
11. Mikko Majjala	700,000	1.8
12. Kristiina Turjanmaa	585,842	1.5
13. The State Pension Fund	562,000	1.4
14. Aktia investment funds	481,280	1.2
15. Veritas Pension Insurance Company Ltd.	440,000	1.1
16. Eeva Majjala	320,000	0.8
17. Chemec Ltd	300,000	0.8
18. Evli investment funds	279,553	0.7
19. Sampo investment funds	272,704	0.7
20. Etera Mutual Pension Insurance Company	241,815	0.6
Total	20,331,844	52.4

All information concerning the company's shareholders is based on the list of shareholders maintained by Euroclear Finland Oy as on 31 December 2010. Current information on shares and shareholders is available on the company website and is updated monthly.

## Key figures on shares

	2010	2009	2008	2007	2006
Earnings per share (EPS), EUR	0.68	0.85	1.03	0.83	0.90
Earnings per share (EPS), diluted, EUR	0.68	0.85	1.03	0.82	0.90
Equity per share, EUR	5.75	5.60	5.28	5.21	4.52
Dividend per share, EUR	0.55*	0.55	0.55	0.55	0.55
Dividend/earnings ratio, %	81.4*	64.4	53.4	66.7	61.1
Effective dividend yield, %	3.7*	3.4	5.0	2.4	2.5
Price/earnings ratio	21.8	18.7	10.7	27.5	24.1
Cash flows from operating activities/share, EUR	1.65	1.71	1.82	1.43	1.82
Share price adjusted for issues:					
lowest, EUR	12.85	9.16	10.26	20.03	14.75
highest, EUR	16.20	17.19	23.00	27.96	22.46
average, EUR	14.36	12.61	16.50	23.59	16.99
closing, EUR	14.73	15.99	11.00	22.70	21.66
Market capitalisation at 31 December, EUR million	570.6	619.9	426.8	880.4	834.5
Number of shares adjusted for issues					
average during the year	38,748,649	38,780,589	38,796,135	38,670,047	38,444,950
at year end	38,738,116	38,768,874	38,798,874	38,784,374	38,528,174
average during the year, diluted	38,772,906	38,784,285	38,816,873	38,843,151	38,600,805
Adjusted number of shares traded during the year	7,816,454	10,089,598	17,452,448	19,802,194	12,807,684
as a percentage of the average	20.2	26.0	45.0	51.2	33.3
Volume of shares traded, EUR 1,000	112,270	127,213	287,928	467,215	217,562

\* Proposal by the Board of Directors

## Key figures on financial performance

	2010	2009	2008	2007	2006
Net sales, EUR million	598.2	582.3	606.0	554.6	436.0
Operating profit, EUR million	40.2	50.3	55.5	48.8	50.2
as % of net sales	6.7	8.6	9.2	8.8	11.5
Profit before tax, EUR million	36.0	45.0	50.7	44.5	48.5
as % of net sales	6.0	7.7	8.4	8.0	11.1
Profit for the period, EUR million	26.2	33.1	40.0	32.2	35.3
as % of net sales	4.4	5.7	6.6	5.8	8.1
Profit for the period attributable to the equity holders of the parent company, EUR million	26.2	33.1	40.0	31.9	34.6
as % of net sales	4.4	5.7	6.6	5.8	7.9
EVA, EUR million	10.1	16.5	25.0	23.0	28.6
Cash flows from operating activities, EUR million	63.8	66.2	70.4	55.4	69.9
Balance sheet total, EUR million	483.7	496.4	477.7	438.3	352.6
Return on equity, % (ROE)	11.9	15.7	19.6	17.0	21.2
Return on invested capital, % (ROI)	11.6	14.5	17.1	17.6	21.0
Equity ratio, %	46.5	44.1	43.2	46.6	50.4
Gearing, %	50.3	53.5	58.8	42.7	29.7
Net interest-bearing liabilities, EUR million	112.3	116.3	120.5	86.4	52.5
Capital expenditure, EUR million	39.3	44.9	84.2	93.2	47.2
as % of net sales	6.6	7.7	13.9	16.8	10.8
Depreciation, amortisation and impairment, EUR million	43.9	40.3	41.0	33.4	28.2
Average number of employees in full-time equivalents	7,835	8,113	8,363	7,819	6,775
Total number of full-time and part-time employees at year end	8,732	8,743	9,490	9,387	8,328

## Calculation of the key figures

Earnings per share	=	$\frac{\text{profit attributable to equity holders of the parent company}}{\text{adjusted average basic number of shares}}$	
Earnings per share, diluted	=	$\frac{\text{profit attributable to equity holders of the parent company}}{\text{adjusted average diluted number of shares (Note 10 Earnings per share)}}$	
Equity per share	=	$\frac{\text{equity attributable to equity holders of the parent company}}{\text{adjusted basic number of shares at the balance sheet date}}$	
Dividend per share	=	$\frac{\text{dividend for the financial period}}{\text{share issue adjustment factor for issues made after the financial period}}$	
Dividend/earnings ratio, %	=	$\frac{\text{dividend per share}}{\text{earnings per share}} \times 100$	
Effective dividend yield, %	=	$\frac{\text{dividend per share}}{\text{closing price of the financial period}} \times 100$	
Price/earnings ratio =	=	$\frac{\text{closing price of the financial period}}{\text{earnings per share}}$	
Cash flows from operating activities/share	=	$\frac{\text{cash flows from operating activities as in the cash flow statement}}{\text{adjusted average basic number of shares}}$	
Market capitalisation of shares	=	basic number of shares at the balance sheet date x closing price of the financial period	
EVA	=	operating profit - cost calculated on invested capital (average of four quarters) before taxes WACC 2010: 8.70% WACC 2009: 9.40% WACC 2008: 9.30% WACC 2006–2007: 8.75%	
Return on equity, % (ROE)	=	$\frac{\text{profit for the period}}{\text{equity (average)}} \times 100$	
Return on investment, % (ROI)	=	$\frac{(\text{profit before tax} + \text{finance costs})}{(\text{balance sheet total} - \text{non-interest-bearing liabilities (average)})} \times 100$	
Equity ratio, %	=	$\frac{\text{equity}}{(\text{balance sheet total} - \text{advances received})} \times 100$	
Gearing, %	=	$\frac{\text{interest-bearing liabilities}}{\text{equity}} \times 100$	
Net interest-bearing liabilities	=	interest-bearing liabilities - liquid assets	
Operating profit excluding non-recurring items	=	operating profit +/- non-recurring and imputed items	

## Consolidated income statement

1 January–31 December EUR 1,000	Note	2010	%	2009	%
<b>Net sales</b>	1	598,193	100.0	582,306	100.0
Cost of sales		-531,066	-88.8	-505,699	-86.8
<b>Gross profit</b>		67,127	11.2	76,607	13.2
Other operating income	6	2,708	0.5	2,425	0.4
Selling and marketing costs		-13,779	-2.3	-14,636	-2.5
Administrative expenses		-10,519	-1.8	-11,705	-2.0
Other operating expenses	6	-2,686	-0.4	-2,427	-0.4
Impairment	13	-2,632	-0.4		
<b>Operating profit</b>	3, 5	40,219	6.7	50,264	8.6
Finance income	8	1,053	0.2	1,290	0.2
Finance costs	8	-5,282	-0.9	-6,528	-1.1
<b>Profit before tax</b>		35,990	6.0	45,026	7.7
Income tax expense	9	-9,786	-1.6	-11,881	-2.0
<b>Profit for the period</b>		26,204	4.4	33,145	5.7
<b>Attributable to:</b>					
Equity holders of the company		26,188		33,140	
Non-controlling interest		16		5	
<b>Earnings per share for profit attributable to the equity holders of the company:</b>					
Basic earnings per share, EUR	10	0.68		0.85	
Diluted earnings per share, EUR		0.68		0.85	

## Consolidated statement of comprehensive income

1 January–31 December EUR 1,000	Note	2010	2009
<b>Profit for the period</b>		26,204	33,145
<b>Other comprehensive income, after tax</b>			
Hedging reserve, change in fair value		223	-343
Current available-for-sale investments	8		
Gains in the period		-58	-21
Reclassification adjustments			
Current available-for-sale investments		-58	-21
Currency translation differences		792	324
<b>Other comprehensive income, after tax</b>		957	-40
<b>Total comprehensive income, after tax</b>		27,161	33,105
<b>Attributable to:</b>			
Equity holders of the company		27,130	33,020
Non-controlling interest		31	85

More information on taxes in consolidated statement of comprehensive income is presented in Note 9 Income taxes. The notes are an integral part of these consolidated financial statements.

# Consolidated statement of financial position

31 December EUR 1,000	Note	2010	%	2009	%
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	12				
Goodwill		113,467		113,771	
Customer contracts arising from acquisitions		4,736		6,232	
Agreements on prohibition of competition		10,023		11,641	
Other intangible assets arising from acquisitions		1,229		3,194	
Other intangible assets		13,226		13,579	
		142,681	29.5	148,417	29.9
Property, plant and equipment	14				
Land		4,671		4,015	
Buildings and constructions		78,908		72,072	
Machinery and equipment		111,733		110,817	
Other		85		81	
Prepayments and construction in progress		5,303		14,666	
		200,700	41.5	201,651	40.6
Other non-current assets					
Available-for-sale investments	17, 30	598		525	
Finance lease receivables	18, 30	3,547		4,425	
Deferred income tax assets	9	3,924		2,147	
Other receivables	30	3,401		726	
		11,470	2.4	7,823	1.6
<b>Total non-current assets</b>		<b>354,851</b>	<b>73.3</b>	<b>357,891</b>	<b>72.1</b>
<b>Current assets</b>					
Inventories	19	27,957		32,842	
Trade and other receivables	20, 30	85,662		77,702	
Derivative receivables	30, 31	407			
Prepayments		317		370	
Available-for-sale investments	21, 30	9,895		18,484	
Cash and cash equivalents	22, 30	4,653		9,099	
<b>Total current assets</b>		<b>128,891</b>	<b>26.7</b>	<b>138,497</b>	<b>27.9</b>
<b>Total assets</b>		<b>483,742</b>	<b>100.0</b>	<b>496,388</b>	<b>100.0</b>

The notes are an integral part of these consolidated financial statements.

31 December EUR 1,000	Note	2010	%	2009	%
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity attributable to equity holders of the company	23				
Share capital		19,399		19,399	
Share premium reserve		50,673		50,673	
Other reserves		-2,141		-3,084	
Retained earnings		128,597		116,874	
Profit for the period		26,188		33,140	
		222,716		217,002	
Non-controlling interest		278		247	
<b>Total equity</b>		<b>222,994</b>	<b>46.1</b>	<b>217,249</b>	<b>43.8</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Deferred income tax liabilities	9	33,718		33,622	
Retirement benefit obligations	25	615		671	
Provisions	26	2,748		2,100	
Borrowings	27, 30	95,563		120,969	
Other liabilities	28, 30	364		1,510	
		133,008	27.5	158,872	32.0
<b>Current liabilities</b>					
Borrowings	27, 30	31,261		22,890	
Trade and other payables	29, 30	94,891		94,130	
Derivative liabilities	30, 31	1,173		1,073	
Tax liabilities		15		2,119	
Provisions	26	400		55	
		127,740	26.4	120,267	24.2
<b>Total liabilities</b>		<b>260,748</b>	<b>53.9</b>	<b>279,139</b>	<b>56.2</b>
<b>Total equity and liabilities</b>		<b>483,742</b>	<b>100.0</b>	<b>496,388</b>	<b>100.0</b>

The notes are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

EUR 1,000	Note	2010	2009
<b>Cash flows from operating activities</b>			
Profit for the period		26,204	33,145
Adjustments	33	59,522	59,192
Net cash generated from operating activities before change in working capital		<b>85,726</b>	<b>92,337</b>
Change in working capital			
Change in trade and other receivables		-6,118	-4,654
Change in inventories		4,874	-14,022
Change in trade and other payables		-918	6,689
Change in working capital		-2,162	-11,987
Interest paid		-5,409	-7,511
Interest received		914	1,505
Income tax paid		-15,259	-8,156
<b>Net cash generated from operating activities</b>		<b>63,810</b>	<b>66,188</b>
<b>Cash flows from investing activities</b>			
Acquisitions of subsidiaries and businesses, net of cash acquired	2	-1,655	-1,747
Proceeds from sale of subsidiaries and businesses, net of sold cash	33	199	197
Purchases of property, plant and equipment and intangible assets		-36,003	-42,735
Proceeds from sale of property, plant and equipment and intangible assets		3,655	4,328
Purchases of available-for-sale investments		-74	-54
Change in other non-current receivables		-2,673	-13
Proceeds from sale of available-for-sale investments			7
Dividends received		1	1
<b>Net cash used in investing activities</b>		<b>-36,550</b>	<b>-40,016</b>
<b>Cash flows from financing activities</b>			
Changes in short-term borrowings		5,091	-12,044
Proceeds from long-term borrowings			43,000
Repayments of long-term borrowings		-23,166	-34,388
Repurchase of own shares		-1,125	-356
Dividends paid		-21,301	-21,318
<b>Net cash generated from financing activities</b>		<b>-40,501</b>	<b>-25,106</b>
<b>Net change in liquid assets</b>			
Liquid assets at beginning of period		-13,241	1,066
Effect of changes in foreign exchange rates		27,583	26,517
Change in fair value of current available-for-sale investments		206	28
Change in fair value of current available-for-sale investments			-28
<b>Liquid assets at end of period</b>	22	<b>14,548</b>	<b>27,583</b>

The notes are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

EUR 1,000	Note	Share capital	Share premium reserve	Revaluation and other reserves	Retained earnings	Equity attributable to equity holders of the company	Non-control-ling interest	Total equity
<b>Equity at 1 January 2009</b>		<b>19,399</b>	<b>50,673</b>	<b>-2,964</b>	<b>137,768</b>	<b>204,876</b>	<b>162</b>	<b>205,038</b>
Expense recognition of share-based benefits	24				757	757		757
Repurchase of own shares	23				-356	-356		-356
Dividends paid	11				-21,295	-21,295		-21,295
Total comprehensive income				-120	33,140	33,020	85	33,105
<b>Equity at 31 December 2009</b>		<b>19,399</b>	<b>50,673</b>	<b>-3,084</b>	<b>150,014</b>	<b>217,002</b>	<b>247</b>	<b>217,249</b>
<b>Equity at 1 January 2010</b>		<b>19,399</b>	<b>50,673</b>	<b>-3,084</b>	<b>150,014</b>	<b>217,002</b>	<b>247</b>	<b>217,249</b>
Expense recognition of share-based benefits	24				386	386		386
Repurchase of own shares	23				-489	-489		-489
Dividends paid	11				-21,313	-21,313		-21,313
Total comprehensive income				943	26,187	27,130	31	27,161
<b>Equity at 31 December 2010</b>		<b>19,399</b>	<b>50,673</b>	<b>-2,141</b>	<b>154,785</b>	<b>222,716</b>	<b>278</b>	<b>222,994</b>

More information on equity is shown in Note 23 Equity, and on taxes recognised in equity in Note 9 Income taxes. The notes are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

## General information

Lassila & Tikanaja plc is a Finnish public limited company. Its domicile is Helsinki. The registered address of the company is Hopeatie 2, 00440 Helsinki. The Group consists of the parent Lassila & Tikanaja plc and its subsidiaries (together L&T), and it specialises in environmental management and property and plant support services and is a leading supplier of wood-based biofuels, recovered fuels and secondary raw materials. The Group has business operations in Finland, Sweden, Latvia and Russia.

Lassila & Tikanaja plc is listed on NASDAQ OMX Helsinki.

The consolidated financial statements are available on the company website at [www.lassila-tikanaja.com](http://www.lassila-tikanaja.com) or from the parent company's head office, address Lassila & Tikanaja plc, P.O. Box 28, 00441 Helsinki, Finland.

These consolidated financial statements have been approved for issue by the Board of Directors of Lassila & Tikanaja plc on 2 February 2011. Under the Finnish Companies Act, the shareholders may accept or reject the financial statements at the general meeting of shareholders held after they are published. The meeting also has the power to alter the financial statements.

## Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are described below. These policies have been consistently applied to all the information presented, unless otherwise stated.

## Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards, with application of the IFRS and IAS standards as well as IFRIC and SIC interpretations that were effective on 31 December 2010. In the Finnish Accounting Act and regulations enacted by virtue of it, International Financial Reporting Standards refer to standards and related interpretations approved for adoption within the EU according to the procedure described in regulation (EC) No 1606/2002. The notes to the consolidated financial statements also comply with the Finnish accounting and community legislation supplementing the IFRS regulations.

The consolidated financial statements have been prepared in euros, and figures are presented as thousands of euros. The financial statements have been prepared under the historical cost convention with the exception of available-for-sale investments for which a fair value can be determined from market prices and derivative contracts, which have been measured at fair value. Share-based payments have been recognised at fair value on the grant date.

## Consolidation

The consolidated financial statements include parent Lassila & Tikanaja plc and all subsidiaries in which it directly or indirectly holds over 50% of the voting power. The subsidiaries are fully consolidated from the date on which control is transferred to L&T until the date that control ceases. Control means the right to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Acquired companies are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given as consideration and liabilities assumed, as well as costs directly attributable to the acquisition. Acquired identifiable assets and liabilities are recognised at acquisition-date fair value. The amount of acquisition cost that exceeds the Group's portion of the fair value of the net assets acquired is recognised as goodwill. The excess of the fair value of the net assets of the acquired subsidiary over the cost is recognised directly in the income statement. For goodwill arising from business combinations made before the year 2004, the carrying amounts according to the accounting principles applied prior to IFRS are recognised. The first-time adoption standard is applied to these acquisitions, and the acquisitions have not been restated according to IFRS 3 in preparation of the opening IFRS balance sheet (1 January 2004).

All intra-Group transactions, receivables, liabilities and unrealised margins, as well as distribution of profits within the Group, are eliminated in the consolidated financial statements. The distribution of profit for the period between equity holders of the parent company and the non-controlling interest is presented in connection with the income statement, and the share of equity belonging to the non-controlling interest is presented as a separate item in the consolidated statement of financial position under equity. The non-controlling interest in accrued losses is recognised in the consolidated financial statements up to the amount of the investment at the maximum.

Business combinations between entities under shared control are measured using the purchase prices, as such acquisitions do not belong to the scope of application of IFRS 3 Business Combinations. With regard to the acquisition of minority interests, the difference between the acquisition cost and the acquired equity is recognised as goodwill.

Joint ventures are entities over which L&T has joint control. Joint ventures are accounted for by the proportionate method line by line. L&T's share of the assets, liabilities, revenues, expenses and contingent liabilities of the joint ventures is included in the consolidated financial statements.

## Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euros, which is the parent's functional currency.

Foreign currency transactions are translated into euros using the exchange rates prevailing at the dates of the transactions. Monetary assets denominated in foreign currency are translated into euros using the exchange rates in effect on the balance sheet date. Non-monetary assets are translated using the exchange rates on the dates prevailing at the dates of the transactions. There are no non-monetary assets denominated in foreign currency that are measured at fair value. Exchange rate gains and losses arising from foreign currency transactions and the translation of monetary assets are recognised in the income statement. Foreign exchange gains and losses on business transactions are included in the respective items above operating profit. Foreign exchange gains and losses on financial assets and liabilities are included in finance income or finance costs.

The income statements of the Group entities whose functional currency is not the euro are translated into euros at average exchange rates for the period, and the statements of financial positions at the exchange rates for the balance sheet date. The difference in exchange rates applicable to the translation of profit in the income statement and statement of financial position result in a translation difference recognised in the translation reserve within equity. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries, as well as translation differences in equity items accumulating after the acquisition, are recognised in the translation reserve. Non-current loan receivables for which settlement is neither planned nor likely to occur in the foreseeable future are treated as part of the net investment in subsidiaries. The translation differences on such receivables are also recognised in the translation reserve. When a subsidiary is sold, any accumulated translation differences are recognised in profit or loss as part of the total gain or loss on the sale.

Goodwill and fair value adjustments to the assets and liabilities arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated into euro at the closing rate.

## Revenue recognition

Sales of services are recognised after the services have been provided. At plants producing materials for sale, the cost of materials is recognised in inventories. When the

processed materials have no sales price, cost provisions are recognised in accrued expenses.

Sales of goods are recognised after the decisive risks and rewards connected to the ownership of the goods sold have been transferred to the buyer, and the amount of the revenue can be reliably measured.

Sales are shown net of indirect tax and discounts. Interest income is recognised using the effective interest method. The Group's dividend income is minor, and it is recognised when the right becomes vested if information on dividends is available at that time. Otherwise it is recognised on the date of payment.

## Construction contracts

Contract revenue and contract costs are recognised on the basis of the stage of completion once the outcome of the project can be estimated reliably. Landfill closure contracts are recognised using the percentage-of-completion method. Their initiation and completion generally take place in different financial periods. The stage of completion of a contract is determined as the proportion of costs incurred from work completed up to the time of examination in relation to the estimated total contract costs. If the incurred costs and recognised profits exceed the progress billings, the difference is presented in the statement of financial position under accruals. If the incurred costs and recognised profits are less than the progress billings, the difference is presented under advances received.

When the outcome of a construction contract cannot be estimated reliably, the costs incurred are recognised as an expense in the period in which they are incurred, and revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. If it is probable that the total contract costs will exceed total contract revenues, the expected loss is recognised as an expense immediately.

The collection of contaminated soil has not been treated as a construction contract because the outcome of the projects cannot be estimated reliably. According to the prudence principle, revenue from the contaminated soil collection operations will not be recognised as revenue until the soil has been finally disposed of. The costs of the projects are recognised as an expense in the period in which they are incurred.

## Research and development

Research expenditure is recognised as an expense during the period in which it is incurred. The probable future revenues from new service concepts are evident at such a late stage that the portion to be recognised as an asset

has no material importance, and thus the costs are not recognised as an asset.

Computer software development costs recognised as an asset in the statement of financial position are described in more detail in the following chapter.

### Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of L&T's share of the net identifiable assets of the acquiree on the date of acquisition. Goodwill is not amortised, but it is tested annually for impairment. Goodwill is presented in the statement of financial position at original cost less impairment losses, if any.

Intangible assets acquired in a business combination are measured at fair value. The useful lives of intangible assets are assessed to be finite or indefinite. In L&T, the intangible assets recognised in business combinations include items such as customer relations, non-competition agreements and environmental permits. They have finite useful lives varying between three and thirteen years.

Other intangible assets consist primarily of software and software licences.

The costs of software projects are recognised in other intangible assets starting from the time when the projects move out of the research phase into the development phase and the outcome of a project is an identifiable intangible asset. Such an intangible asset must provide L&T with future economic benefit that exceeds the costs of its development. The cost comprises all directly attributable costs necessary for preparing the asset to be capable of operating in the manner intended by the management. The largest cost items are consultancy fees paid to third parties, as well as salaries and other expenses for the Group's personnel.

The amortisation period for computer software and software licences is five years.

### Property, plant and equipment

Property, plant and equipment are stated at historical cost. The historical cost includes expenditure that is directly attributable to the acquisition of each asset. The financial costs attributable to the construction of the joint venture L&T Recoil's re-refinery have been capitalised as part of the cost of the asset and they are depreciated over ten years. As L&T Recoil's borrowings have been taken out for the construction of the re-refinery, the actual borrowing costs have been capitalised in the acquisition cost.

In business combinations, property, plant and equipment are measured at fair value at the acquisition date. In the statement of financial position, property, plant and equipment are shown less depreciation and impairment, if any.

Property, plant and equipment are depreciated using the straight-line method over the expected useful lives excluding new landfills. The expected useful lives are reviewed on each balance sheet date and, if expectations differ substantially from previous estimates, the deprecia-

tion periods are adjusted to reflect the changes in the expectations for future economic benefits.

The depreciation in the financial statements is based on the following expected useful lives:

Buildings and structures	5–30 years
Vehicles	6–15 years
Machinery and equipment	4–15 years

For landfills completed in 2008 and later the Group applies the units of production method. Landfills are depreciated on the basis of the volume of waste received. This method reflects more closely than the straight-line method the expected future benefits to be derived from the landfills. Land is not depreciated.

When an asset included in property, plant and equipment consists of several components with different estimated useful lives, each component is treated as a separate asset. Ordinary repair and maintenance costs are recognised in the income statement during the period in which they are incurred. Costs of significant modification and improvement projects are capitalised if it is probable that the projects will result in future economic benefits to the Group. Gains and losses on sales and disposal of property, plant and equipment are determined by comparing the net proceeds with the carrying amount and are recognised in other operating income or expenses.

### Impairment of assets

The carrying amounts of assets are reviewed continuously for impairment. If any indication exists, an estimate of the asset's recoverable amount is made for impairment testing. The need for impairment is assessed at the level of cash generating units – that is, the lowest level of unit that is primarily independent of other units and that generates cash flows that are separately identifiable.

The recoverable amount is the higher of an asset's fair value less selling costs and its value in use. Value in use refers to the estimated future net cash flows available from an asset or cash generating unit, discounted to present value. An impairment loss is recognised in the income statement when an asset's carrying amount exceeds its recoverable amount. An impairment loss recognised in prior periods is reversed if there is a change in the circumstances and the recoverable amount has changed.

Goodwill is tested for impairment annually or whenever there is any indication that it may be impaired. Recoverable amount calculations based both on values in use and on net sales price are made for the cash generating units to which the goodwill has been allocated. Impairment losses attributable to a cash generating unit are used to deduct first the goodwill allocated to the cash generating unit and, thereafter, the other assets of the unit on an equal basis. An impairment loss recognised on goodwill is not reversed.

Intangible assets under construction are software projects that cannot be tested separately for impairment

as they do not generate separate cash flow. There is no need for impairment if it is stated at the end of the financial period that the projects will be completed and the software will be brought to use. The intangible assets under construction are, however, tested for impairment as a part of the cash generating unit to which they belong.

### Leases

The Environmental Services division leases equipment, such as waste compactors, out to customers under long-term leases that transfer substantially all of the risks and rewards incidental to ownership to the lessee. Such leases are classified as finance lease, and net investment in them is recognised as a trade receivable at the commencement of the lease term. Each lease payment is apportioned between finance income and repayment of trade receivables. Finance income is allocated over the lease term on the basis of a pattern that reflects a constant periodic rate of return on the net investment.

The assets leased under a finance lease are recognised in property, plant and equipment at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. They are depreciated over the lease term or over their expected useful lives, if shorter. However, when there is reasonable assurance that the ownership of the leased asset will transfer to L&T by the end of the lease term, the asset will be depreciated using the method applied for a corresponding asset being utilised by the company. Liabilities arising from the lease agreements are recognised in borrowings. Each lease payment is apportioned between interest cost and reduction of finance lease liabilities. Finance costs are allocated to each period of the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases of assets and premises that do not transfer substantially all of the risks and rewards incidental to ownership to the lessee are classified as operating leases. The lease payments are recognised on a straight-line basis over the lease term as income or cost depending on whether L&T is the lessor or the lessee. Assets leased out under operating leases are recognised in property, plant and equipment and are depreciated over their expected useful lives using the method applied for corresponding property, plant and equipment being utilised by the company.

The joint venture L&T Recoil has signed a purchase agreement covering the procurement of hydrogen, hot oil and steam. Pursuant to this agreement, L&T Recoil undertakes to purchase the entire production of the production facilities for its re-refinery. The purchase agreement contains a lease as specified in IFRIC 4. This is classified as an IAS 17 compliant financial lease with the same term as the purchase agreement.

### Financial instruments

Financial assets and liabilities are classified as loans and receivables, available-for-sale investments, financial assets and liabilities at fair value through profit or loss and as other financial liabilities. The classification is done when the asset or liability is acquired and is based on the purpose of the acquisition.

A financial asset is derecognised when the rights to the cash flows from the asset expire or when substantially all risks and rewards of the ownership of the asset have been transferred outside L&T.

Borrowings and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are included in this category, and they are recognised in the statement of financial position at historical cost less credit adjustments and impairment losses.

Available-for-sale investments include shares as well as certificates of deposit and commercial papers. By definition, the category includes financial assets that do not belong to actual business and are not in production use on the one hand, and financial assets that can be sold to obtain working capital for business operations on the other hand. The financial instruments in this category are measured at fair value. All unlisted shares are, however, measured at cost or at cost less impairment loss, if any, as the markets for these shares are inactive and their fair value cannot be measured reliably.

Available-for-sale investments are included in non-current assets if management intends not to dispose of the investment within 12 months of the balance sheet date. All purchases and sales of available-for-sale investments are recognised on the settlement date. Any change in fair value between the trade date and settlement date is recognised in equity.

In the financial statements, available-for-sale investments are measured at fair value at market prices of the balance sheet date. Changes in fair values are recognised considering tax effects in the revaluation reserve within equity and transferred to the income statement when the asset is sold or becomes due. Changes in fair values are transferred to the income statement also when the fair value of an investment has been permanently impaired.

Financial assets and liabilities at fair value through profit or loss are derivative financial instruments to which hedge accounting is not applied. Accounting policies applied to them are described below under Derivative financial instruments and hedge accounting.

Borrowings are recognised in the statement of financial position at the settlement date at fair value on the basis of the consideration received including transaction costs that are directly attributable to the acquisition or issue. Subsequently these financial liabilities are measured at amortised cost using the effective interest rate method.

Trade and other current non-interest-bearing payables are recognised in the statement of financial position at cost. Their fair value is considered to equal to or approximate the cost.

### Derivative financial instruments and hedge accounting

As specified in its financial policy, L&T uses derivative contracts to reduce the financing risks associated with interest rate, commodity and exchange rate fluctuations. L&T's derivative financial instruments include interest rate swaps to hedge the cash flow of variable-rate borrowings against interest rate risk, commodity derivatives made to balance price fluctuations in future diesel purchases, and currency derivatives made to hedge purchases in foreign currencies against foreign exchange risk.

Derivatives are recognised initially in the statement of financial position at cost, which is their fair value at the time of acquisition. After acquisition, they are measured at fair value at each balance sheet date. The fair values of interest rate swaps, commodity swaps and forward contracts are based on market quotations at the balance sheet date. Any gains and losses arising from fair valuation are accounted for in the manner determined by the purpose of the derivative financial instrument.

All interest rate hedges, commodity hedges and currency hedges meet the criteria set for efficient hedging in the Group's risk management policy. The profits and losses from derivatives covered by hedge accounting are recognised consistently with the underlying commodity. Derivative agreements are defined as hedging instruments for future cash flows and anticipated purchases (cash flow hedging), or as derivative agreements to which hedge accounting is not applied (financial hedging).

L&T applies cash-flow hedge accounting for interest rate swaps and commodity derivatives. When hedge accounting is initiated, L&T documents the relationship between the hedged item and the hedging instrument, as well as the Group's risk management objectives and hedging strategy. The Group does not use derivatives to hedge net investments made in independent foreign units.

When hedging begins and in connection with each interim report, L&T documents and estimates the effectiveness of the hedging relationships by assessing the hedging instrument's ability to cancel any changes in the cash flows of the hedged item.

To the extent that cash flow hedging is efficient, changes in fair values of hedging instruments are recognised in the hedging reserve within equity. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, the gain or loss on the hedging instrument remains in equity until the hedged cash flow becomes realised. If the hedged cash flow no longer is expected to be realised, the gain or loss incurred on the hedging instrument is recognised immediately through profit or loss. The inef-

fective portion of a hedging relationship is also recognised through profit or loss.

The economic characteristics and risks of interest options included in borrowing agreements are embedded derivatives closely related to the host contracts. L&T does not, under IAS 39, account for them separately from the host contracts.

Hedge accounting in accordance with IAS 39 was not applied to foreign currency forward contracts and changes in the fair values of these items were recognised in the income statement as finance income or costs. Derivatives to which hedge accounting is not applied are categorised as financial assets and liabilities held for trading.

The positive fair values of all derivatives are recognised in the balance sheet under derivative receivables. Similarly, the negative fair values of derivatives are recorded under derivative payables. All fair values of derivatives are included in current assets or liabilities.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank deposits redeemable on demand, as well as other short-term liquid investments. Their maturity is no longer than three months from the acquisition date and they are recognised as of the settlement date and measured at historical cost. Foreign currency transactions are translated into euros using the average exchange rates prevailing at the balance sheet date.

### Impairment of financial assets

The Group assesses on each balance sheet date whether there is objective evidence that any financial asset item is impaired. If there is evidence of impairment, the cumulative loss in the fair value reserve is recognised in profit or loss. Impairment losses on shares classified as financial assets available for sale are not reversed through profit or loss, as is the case with impairment losses recognised on fixed income instruments that are subsequently reversed.

Doubtful debts are reviewed each month. If there is objective evidence that the balance sheet values of the receivables exceed their recoverable amounts, the difference is recognised as an impairment loss in other operating expenses in the income statement. The criteria for recognising an impairment loss on a receivable include the debtor's substantial financial difficulties, corporate restructuring, a credit loss recommendation issued by a collection agency or extended default on payments. If the difference between the balance sheet value of receivables and the recoverable amounts is reduced later, the impairment loss will be cancelled through profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The inventories of L&T Bio-watti, L&T Recoil and Environmental Products are measured

using the weighted average cost method. The value of other inventories is determined using the FIFO method.

At its recycling plants, L&T processes recyclable materials into secondary raw materials for sale. The cost of the inventories of these materials comprises raw materials, direct labour costs, other direct costs of manufacturing and a proportion of variable and fixed production overheads based on normal operating capacity.

### Employee benefits

#### Retirement benefit obligations

Pension plans are categorised as defined benefit and defined contribution plans. Under defined contribution plans the Group pays fixed contributions for pensions, and it has no legal or factual obligation to pay further contributions. All pension arrangements that do not fulfil these conditions are considered defined benefit plans. Contributions to defined contribution plans are recognised in the income statement in the financial period to which they relate. L&T operates pension schemes in accordance with local regulations and practices in the countries in which it operates, and these are mainly defined contribution plans.

L&T operates some minor defined benefit plans originating from business acquisitions. Some of these defined benefit pension plans are the Group's own responsibilities while some are covered by pension insurance. The obligations have been calculated for each plan separately using the projected unit credit method. Pension costs are recognised in the income statement over employees' periods of service in accordance with actuarial calculations. The discount rate used for determining the present value of a retirement benefit obligation is based on the swap interest rate curve plus a risk premium and the estimated duration of the retirement benefit obligation. The risk premium is based on bonds issued by companies with AAA credit rating. The pension plan assets measured at fair value on the balance sheet date, the share of unrecognised actuarial gains and losses, as well as any past-service costs are deducted from the present value of the retirement benefit obligation to be recognised in the statement of financial position.

The portion of the actuarial gains and losses that exceeds the greater of 10% of the retirement benefit obligations and 10% of the fair value of plan assets is recognised in the income statement over the expected remaining working lives of the persons participating in the scheme.

Past-service costs are recognised as expenses in the income statement on a straight-line basis over their vesting period.

#### Share-based payment

IFRS 2, Share-based Payment, has been applied to the share-based incentive programme and the share option

plans that have been granted after 7 November 2002 and had not become vested before 1 January 2005.

#### Share options

The cost recognition of an option plan is based on fair value determined on the grant date and the final amount of benefits granted. The fair value is measured using the Black-Scholes option pricing model. The fair value on the grant date is recognised as an expense on a straight-line basis during the vesting period. In this respect, the expense recognition is not reversible, regardless of whether the recipient subsequently has exercised the share option. The offset item for any income statement recognition always is recognised in equity, and therefore it does not affect the amount of equity as a whole.

Non-market vesting conditions are not taken into account in the determination of the fair value of benefits granted. The rate of rejection of options is expected to be 0% on the grant date. The estimate of the number of options to be exercised is reviewed quarterly, and the amount of benefits included in the cost recognition is adjusted to correspond to the amount that is expected to become finally vested once the vesting period expires. The effects of any changes are recognised in the income statement and in equity.

When options are exercised, the proceeds from share subscriptions are recognised in equity. Proceeds received from share subscriptions based on options issued prior to the new Finnish Companies Act becoming effective are recognised in accordance with the terms and conditions of the plan in share capital and share premium. Such are options issued in 2005. Proceeds from options issued after the new Finnish Companies Act becoming effective are recognised net of any transaction costs in accordance with the terms and conditions of the plan in a non-restricted equity fund. Such are options issued in 2008.

#### Share-based incentive programme

Lassila & Tikanoja plc's Board of Directors decided on 24 March 2009 on a share-based incentive programme to form a part of the incentive and commitment scheme for the company's key personnel. Payment of the reward is subject to reaching the financial targets set by the Board. The criteria for the determination of the rewards are decided annually. No rewards will be paid for the year 2010. The basis of the payment in 2010 was the EVA result of Lassila & Tikanoja group. The programme includes three earnings periods one year each, of which the first one began on 1 January 2009 and the last one ends on 31 December 2011. Potential rewards will be paid during the year following each earnings period partly as shares and partly in cash. The fair value of the share is its market price on the grant date.

#### Provisions

A provision is recognised when L&T has a legal or actual obligation toward a third party resulting from past events and the event involves a probable payment obligation in

an amount that can be estimated reliably. A liability of uncertain timing and amount is recognised as a provision. In other cases a liability is recognised in accrued expenses.

Environmental provisions are recognised when it is probable that an obligation has arisen and its amount can be estimated reliably. Environmental provisions related to the restoration of sites are made at the commencement of each project. The costs recognised as a provision, as well as the original acquisition cost of assets, are depreciated over the useful life of the asset. Provisions are discounted to present value. The most significant provisions recognised in the statement of financial position are the site restoration provisions for landfills and the contaminated soil processing site.

### Borrowing costs

The standard IAS 23 requires that the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be included in the acquisition cost of that asset. The revised standard shall be applied to the qualifying assets for which the commencement date for capitalisation of the borrowing costs is on or after 1 January 2009, the effective date of the standard.

Transaction costs directly attributable to the issue of a financial liability have been included in the historical cost of the liability and have been recognised as interest expense during the expected life of the liability applying the effective interest method already before the effective date of the standard.

### Government grants

Government grants or other grants relating to actual costs are recognised in the income statement when the group complies with the conditions attached to them and there is reasonable assurance to that the grants will be received. They are presented in other operating income. Government grants directly associated with the recruitment of personnel, such as employment grants, apprenticeship grants and the like, are recognised as reductions in personnel expenses. Grants for acquisition of property, plant and equipment are recognised as deductions of historical cost. The grant is recognised as revenue over the life of a depreciable asset by way of a reduced depreciation charge.

### Income taxes

The Group's income taxes consist of current tax and deferred tax. Tax expenses are recognised in the income statement with the exception of items directly recognised in equity, in which case the tax effect is recognised correspondingly in equity. Current tax is determined for the taxable profit for the period according to prevailing tax rates in each country. Taxes are adjusted by the current tax for previous periods, if any.

Deferred tax assets and liabilities are recognised for all temporary differences between the tax bases of assets and liabilities and their carrying amounts. Principal

temporary differences arise from goodwill amortisation performed under FAS, depreciation on property, plant and equipment and revaluation of derivative financial instruments and measurement at fair value in business combinations. Deferred tax is measured at the tax rates enacted by the balance sheet date. No deferred tax is recognised for impairment of goodwill that is not tax-deductible. A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilised.

### Critical judgments in applying the Group's accounting policies

The Group's management makes judgments when making decisions on the choice and application of accounting policies. In particular, this concerns cases in which valid IFRS standards provide for alternative methods of recognition, measurement or presentation. A significant choice of accounting policy is to use the proportionate method, not the equity method, in the consolidation of joint ventures within the Group.

### Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS require the management to make such estimates and assumptions that affect the carrying amounts at the balance sheet date for assets and liabilities and the amounts of revenues and expenses. Actual results may differ from the estimates and assumptions. The items wherein critical estimates and judgements have been made are described below.

#### Fair value measurement of assets and liabilities acquired in business combinations

Assets and liabilities acquired in business combinations are measured at fair value according to IFRS 3. Whenever possible, the management uses available market values when determining the fair values. When this is not possible, the measurement is based on the historical revenues from the asset. In particular, the measurement of intangible assets is based on discounted cash flows and requires the management to make estimates on future cash flows and the future use of assets, along with their effect on the Group's financial position. Although these estimates are based on the management's best knowledge, actual results may differ from the estimates (Note 2 Business acquisitions). The carrying amounts of assets are reviewed continuously for impairment. More information about this is provided in the section "Impairment of assets" under the accounting policies.

#### Goodwill impairment testing

In testing of goodwill for impairment, the recoverable amounts of the cash generating units to which the goodwill belongs are determined on the basis of value-in-use calculations. These calculations require the judgment by the management. Though the assumptions used are appropriate according to the manage-

ment's judgment, the estimated cash flows may differ fundamentally from those realised in the future (Note 13 Goodwill impairment tests).

### Distribution of dividend

The dividend liability to the company's shareholders is recognised as a liability in the consolidated financial statements after the Annual General Meeting has decided on the dividend distribution.

### Application of new or amended IFRS standards

In preparing these consolidated financial statements, the group has followed the same accounting policies as in the annual financial statements for 2009 except for the effect of changes required by the adoption of the following new standards, interpretations and amendments to existing standards and interpretations on 1 January 2010:

- IFRS 3 (Revised) Business Combinations. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.
- IAS 27 (Revised) Consolidated and Separate Financial Statements. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The revised standard has had no impact on the current period.
- IFRIC 16 Net Investment in a Foreign Operation. IFRIC 16 clarifies the accounting for the hedge of a net investment in a foreign operation in an entity's consolidated financial statements. The interpretation does not have an impact on the consolidated financial statements as the company has no hedges of a net investment in a foreign operation.
- IFRIC 17 Distribution of non-cash assets to owners. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation does not have an impact on the consolidated financial statements as it is unlikely that the Group would distribute non-cash assets as dividends.
- IFRIC 18 Transfers of Assets from Customers. The interpretation clarifies the requirements of IFRS stand-

ards for agreements in which an entity receives from a customer an item of property, plant and equipment or cash to be invested in an item that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation does not have an impact on the consolidated financial statements as the Group does not have any agreements to which the interpretation should be applied.

- IAS 39 (Amendment) Financial Instruments: Recognition and measurement – Eligible Hedged Items'. The amendment prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The amendment does not have a material impact on the consolidated financial statements.
- IFRS 2 (Amendment) Share-based Payment – Group Cash-settled Share-based Payment Transactions. The amendment to IFRS 2 clarifies that an entity that receives goods or services from its suppliers must apply IFRS 2 even though the entity has no obligation to make the required share-based cash payments. The interpretation does not have an impact on the consolidated financial statements.
- IASB published changes to 12 standards or interpretations in April 2009 as part of the annual Improvements to IFRSs project. These changes will not have significant impact on the consolidated financial statements.

The following new standards, interpretations and amendments to existing standards and interpretations issued during the year 2010 will be adopted by the group as of 1 January 2011.

- IAS 24 (Revised) Related Party Disclosures. The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The interpretation does not have an impact on the consolidated financial statements.
- IAS 32 (Amendment) Financial Instruments: Presentation – Classification of Rights Issues. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The interpretation does not have an impact on the consolidated financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. The interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor. IFRIC 19 requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity's own equity instruments. The amount of the gain or loss recognised in profit or loss will be the difference between the carrying value of the financial liability and the fair value of the equity



instruments issued. The interpretation does not have an impact on the consolidated financial statements.

- IFRIC 14 (Amendment) Prepayments of a Minimum Funding Requirement. The amendment is aimed at correcting an unintended consequence of IFRIC 14. As a result of the interpretation, entities are in some circumstances not permitted to recognise some prepayments for minimum funding contributions as an asset. The amendment remedies this unintended consequence by requiring prepayments in appropriate circumstances to be recognised as assets. The Group will adopt these amendments as of 1 January 2011.
- IASB published changes to 7 standards or interpretations in July 2010 as part of the annual Improvements to IFRSs project. The changes are still subject to endorsement by the European Union. The Group will adopt the changes after EU endorsement in the consolidated financial statements 2011. The Group estimates that the changes will not be significant.

The following new standards, interpretations and amendments to existing standards and interpretations will be adopted in 2012 or later:

- IFRS 9 Financial Assets – Classification and Measurement. The first part of IFRS 9 was published in November 2009. The standard represents the first milestone in the IASB's planned replacement of IAS 39. It addresses classification and measurement of financial assets. IFRS 9 includes new classification and measurement requirements for financial liabilities and it will likely have an impact on the accounting of the financial liabilities.
- IFRS 9 Financial Assets – Classification and Measurement. The second part of IFRS 9 was published in October 2010. It complements previously issued IFRS 9, 'Financial instruments' to include guidance on financial liabilities. The accounting and presentation for financial liabilities shall remain the same except for those financial liabilities for which fair value option is applied.
- IFRS 7 (Amendment) Disclosures - Transfers of financial assets. The amendment adds disclosure requirements related to risk exposures derived from transferred assets. Additional disclosures, where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, are required. The amendment can increase the disclosures in the notes to financial statements in the future.
- IFRS 12 (Amendment) Income taxes. Currently IAS 12 requires an entity to estimate, which part of the carrying value of an item measured at fair value is recovered through use (for example, rental income) and which part through sale (capital gain). The amendment introduces a rebuttable presumption that certain assets measured at fair value are recovered entirely by sale. Presumption applies to deferred tax arising from investment properties, property, plant and equipment or intangible assets that are measured using the fair value model or revaluation model.

## 1. Segment reporting

Segment information is reported for business segments and for geographical segments, the primary reporting format being the business segments. The business segments are based on internal organisational structure and internal financial reporting. Inter-segment transactions are based on market prices.

Segment assets are those operating assets that are employed by a segment in its operating activities and that can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of the segment and can be allocated to the segment on a reasonable basis. Segment assets consist of intangible assets, property, plant and equipment, finance lease receivables, inventories and trade and other receivables excluding accrued receivables from interests and tax receivables. Segment liabilities consist of provisions and retirement benefit obligations and such non-current liabilities as prepayments, accrued liabilities and acquisition price liabilities, and such current liabilities as trade and other payables excluding accrued liabilities related to interests, and tax liabilities.

### Business segments of the Group:

**Environmental Services** collects waste materials and processes these into secondary raw materials or recovered fuel. In addition, it offers hazardous waste and wastewater services and process cleaning services to the industry as well as is engaged in wholesale trade in environmental management products.

**Cleaning and Office Support Services** offers cleaning services as well as office support services.

**Property Maintenance** offers property maintenance, maintenance of technical systems and damage repair services.

**Renewable Energy Sources (L&T Biowatti)** specialises in comprehensive fuel solutions based on wood-based biofuels as well as supply of raw material and forestry services.

Lassila & Tikanoja's segments reported externally were changed to reflect new business structure as of 1 January 2010. The business was regrouped into three divisions: Environmental Services, Property and Office Support Services and Renewable Energy Sources (L&T Biowatti). As of 1 July 2010, Property and Office Support Services was divided into two divisions: Cleaning and Office Support Services and Property Maintenance. The company's internal reporting, as well as the segments reported externally, were changed to reflect the new divisions as of 1 July 2010.

Group administration and other consist of cost of Group management, and cost arising from managing a listed company, as well as corresponding assets and liabilities. In addition, Group administration assets consist of available-for-sale investments.

Unallocated assets consist of liquid assets, receivables of interest rate and foreign currency derivatives, accrued

interest receivables and accrued other finance income as well as tax receivables. Unallocated liabilities consist of borrowings, liabilities of interest rate and foreign currency derivatives and accrued interest and other financing liabilities and tax liabilities.

The geographical segments are Finland and other countries. Net sales of geographical segments are reported based on the geographical location of the customer, and assets are reported by geographical location.

### 1.1. Business segments

2010	Environmen- tal Services	Cleaning and Office Sup- port Services	Property Maintenance	Renewab- le Energy Sources	Group administrati- on and other	Eliminations	Group
<b>EUR 1,000</b>							
<b>Net sales</b>							
External net sales	286,260	139,399	121,546	50,988			598,193
Inter-division net sales	3,771	1,216	1,923	4,118		-11,028	0
Total net sales	290,031	140,615	123,469	55,106		-11,028	598,193
Operating profit	33,674	7,524	7,764	-6,553	-2,190		40,219
Operating margin, %	11.6	5.4	6.3	-11.9			6.7
Finance income and costs (Note 8)							-4,229
Profit before tax							35,990
Income tax expense (Note 9.1)							-9,786
Profit for the period							26,204
<b>Assets</b>							
Assets of the division	330,963	39,007	38,098	49,113	1,902		459,083
Unallocated assets							24,659
Total assets							483,742
<b>Liabilities</b>							
Liabilities of the division	50,300	25,654	15,784	4,835	1,193		97,766
Unallocated liabilities							162,982
Total liabilities							260,748
<b>Capital expenditure</b> (Notes 12 and 14)	31,409	2,112	5,074	654	72		39,321
<b>Depreciation and amortisation</b> (Note 5)	28,558	4,023	4,017	4,702	5		41,305
<b>Impairment</b>				2,632			2,632
<b>Other expenses of no-cash transactions</b>							
Share-based payment					663		663
Retirement benefit obligations	16	22			62		100
Provisions	703	51	46	400			1,200
Total	719	73	46	400	725		1,963

2009							
EUR 1,000	Environmen- tal Services	Cleaning and Office Sup- port Services	Property Maintenance	Renewab- le Energy Sources	Group administrati- on and other	Eliminations	Group
<b>Net sales</b>							
External net sales	280,632	142,103	98,311	61,260			582,306
Inter-division net sales	3,587	1,170	1,853	2,865		-9,475	0
Total net sales	284,219	143,273	100,164	64,125		-9,475	582,306
Operating profit	35,959	10,308	7,378	-958	-2,423		50,264
Operating margin, %	12.7	7.2	7.4	-1.5			8.6
Finance income and costs (Note 8)							-5,238
Profit before tax							45,026
Income tax expense (Note 9.1)							-11,881
Profit for the period							33,145
<b>Assets</b>							
Assets of the division	324,918	41,278	34,275	63,436	473		464,380
Unallocated assets							32,008
Total assets							496,388
<b>Liabilities</b>							
Liabilities of the division	51,510	24,386	12,926	6,310	1,951		97,083
Unallocated liabilities							182,056
Total liabilities							279,139
<b>Capital expenditure</b> (Notes 12 and 14)							
	36,346	2,418	3,809	2,288	21		44,882
<b>Depreciation and amortisation</b> (Note 5)							
	27,029	4,548	4,073	4,676	8		40,334
<b>Other expenses of no-cash transactions</b>							
Share-based payment					1,453		1,453
Retirement benefit obligations	29	27			16		72
Provisions	234						234
Total	263	27	0	0	1,469		1,759

## Reconciliation of reportable segments' assets to total assets

EUR 1,000	2010	2009
Segment assets for reportable segments	457,181	463,907
Other segments' assets	1,902	473
	459,083	464,380
<b>Unallocated assets</b>		
Liquid assets	14,548	27,583
Receivables of interest rate and foreign currency derivatives	4,629	1,739
Accrued interest receivables and other finance income	64	72
Tax assets	5,418	2,614
Total	24,659	32,008
Total assets	483,742	496,388

## Reconciliation of reportable segments' liabilities to total liabilities

EUR 1,000	2010	2009
Segment liabilities for reportable segments	96,573	95,132
Other segments' liabilities	1,193	1,951
	97,766	97,083
<b>Unallocated liabilities</b>		
Liabilities of interest rate and foreign currency derivatives	127,997	145,096
Accrued interest and other financing liabilities	1,252	1,219
Tax liabilities	33,733	35,741
Total	162,982	182,056
Total liabilities	260,748	279,139

## 1.2. Geographical segments

EUR 1,000	2010	2009
<b>Net sales</b>		
Finland	531,188	522,914
Other countries	67,005	59,392
Total	598,193	582,306
<b>Assets</b>		
Finland	420,991	425,430
Other countries	38,092	38,950
Unallocated assets	24,659	32,008
Total	483,742	496,388
<b>Capital expenditure</b>		
Finland	36,261	41,565
Other countries	3,060	3,317
Total	39,321	44,882

## 2. Business acquisitions

In business combinations, all property, plant and equipment acquired is measured at fair value on the basis of the market prices of similar assets, taking into account the age of the assets, wear and tear and similar factors. Tangible assets will be depreciated over their useful life according to the management's estimate, taking into account the depreciation principles observed within the Group.

Intangible assets arising from business combinations are recognised separately from goodwill at fair value at the time of acquisition if they are identifiable. In connection with acquired business operations, the Group mostly has acquired agreements on prohibition of competition and customer relationships. The fair value of customer agreements and customer relationships associated with them has been determined on the basis of estimated duration of customer relationships and discounted net cash flows arising from current customer relationships. The value of agreements on prohibition of competition is calculated in a similar manner through cash flows over the duration of the agreement. Other intangible assets will be amortised over their useful life according to agreement or the management's estimate.

In addition to the skills of the personnel of the acquired businesses, goodwill arising from business combinations comprises other intangible items. These unidentified items include the potential for gaining new customers in the acquired businesses and the opportunities for developing new products and services, as well as the regionally strong position of an acquired business. All business combinations also create synergy benefits that consist primarily of savings in fixed production costs.

Changes in goodwill arising from acquisitions or acquisition costs may arise on the basis of terms and conditions related to the acquisition price in the deeds of sale. In many acquisitions a small portion of the acquisition price is contingent on future events (less than 12 months). These conditional acquisition prices are recorded at fair value at the time of acquisition, and any changes will be recognised through profit or loss in the income statement for the period. Changes in the acquisition prices for the acquisitions made in 2009 and for the Biowatti acquisition in 2007 will be recorded in goodwill in line with the old IFRS 3.

The consolidated net sales for the year 2010 would have been EUR 600.0 million and the operating profit for the period EUR 40.2 million if all the acquisitions had occurred on 1 January 2010. The realised net sales of the acquired businesses have been added to the consolidated net sales, and their realised profits and losses have been added to the consolidated profit in accordance with interim accounts at the time of acquisition. Profit for the period is stated less the current amortisation on intangible assets and depreciation charges on property, plant and equipment. Synergy benefits have not been accounted for.

The aggregate net sales of the acquired businesses totalled EUR 3.3 million in 2010.

2010

## Business combinations in aggregate

EUR 1,000	Fair values used in consolidation
<b>Consideration</b>	
Cash	1,684
Equity instruments	0
Contingent consideration	30
<b>Total consideration transferred</b>	<b>1,714</b>
Indemnification asset	0
Fair value of equity interest held before the acquisition	0
<b>Total consideration</b>	<b>1,714</b>
<b>Acquisition-related costs</b> (included in the administrative expenses in the consolidated financial statements)	0
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>	
Property, plant and equipment	500
Customer contracts	356
Agreements on prohibition of competition	339
Non-current available-for-sale financial assets	8
Trade and other receivables	173
Cash and cash equivalents	59
<b>Total assets</b>	<b>1,435</b>
Deferred tax liabilities	92
Trade and other payables	109
Total liabilities	201
<b>Total identifiable net assets</b>	<b>1,234</b>
Goodwill	480
<b>Total</b>	<b>1,714</b>

The property maintenance services business of Kiinteistöpalvelu Oy Hollola was acquired into Property Maintenance on 1 June 2010, and the business of Kiinteistöhuolto Oy Forsblom on 1 July 2010. On 1 December 2010, the business of Siivousjyvä Oy was acquired into Cleaning and Office Support Services and Säkkipalvelu Oy, a waste management company operating in the Tampere region, was acquired into Environmental Services.

The figures for these acquired businesses are stated in aggregate, because none of them is of material importance when considered separately. Fair values have been determined as of the time the acquisition was realised. No business operations have been divested as a consequence of any acquisition. All acquisitions have been paid for in cash. With share acquisitions, L&T was able to gain 100% of the voting rights. The contingent consideration is tied to the transfer of the customer contracts to Lassila & Tikanoja plc,

and the estimates of the fair values of considerations were determined on the basis of probability-weighted final acquisition price. The estimates for the contingent consideration did not change between the time of acquisition and the balance sheet date. Trade and other receivables have been recognised at fair value at the time of acquisition. Individual acquisition prices have not been itemised because none of them is of material importance when considered separately.

By annual net sales, the largest acquisitions were Kiinteistöpalvelu Oy Hollola (EUR 1,618 thousand) and Säkkipalvelu Oy (EUR 1,054 thousand).

It is not possible to itemise the effects of the acquired businesses on the consolidated net sales and profit for the period, because L&T integrates its acquisitions into the current business operations as quickly as possible to gain synergy benefits.

On 1 July 2010, L&T acquired the remaining 16.5% of the Muoviportti Group (83.5% held previously). An estimate of the acquisition price for the remaining 16.5% was recognised as current interest-bearing liability, as L&T had made a commitment to acquire the remaining shares. The acquisition is not subject to IFRS 3, because it concerns corporations under the same control.

On 18 December 2006, an agreement was signed on the acquisition of the majority (70%) of the shares of Biowatti Oy from the acting management of the company. L&T also made a commitment to redeem the remaining 30% of the shares by the beginning of the year 2012. The acquisition price for the 70% portion was EUR 30.9 million, and it was settled in cash. No interest-bearing liabilities were transferred in the acquisition. In the consolidated financial statements the whole acquisition price (100%) was recognised as acquisition cost. No minority interest was separated from the profit or equity, but the estimated acquisition price of the remaining 30% was recognised as interest-bearing non-current liability. The final price of the 30% portion will be determined based on the future earnings of L&T Biowatti. The estimate is assessed annually as of 31 December, or whenever any indication exists. According to the assessment of 30 June 2010, the acquisition price for the remaining 30% was reduced by EUR 1,113 thousand to EUR 2,650 thousand (EUR 3,763 thousand). The adjustment is subject to IFRS 3 and it has no impact on the profit or loss, as the adjustment was recognised accordingly under cost of the combination, goodwill and interest-bearing liabilities.

In addition, on 1 January 2011, the Cleaning and Office Support Services division acquired the operations of Kes-tosiivous Oy, a cleaning company operating in the Helsinki region, and on the same date the Environmental Services division acquired Pentti Laurila Ky, an environmental management business operating in the Keuruu and Multiala region, in Central Finland. The accounting process for these acquisitions is still in progress.

2009

## Business combinations in aggregate

EUR 1,000	Fair values used in consolidation	Carrying amounts before consolidation
Property, plant and equipment	395	395
Customer contracts	718	
Agreements on prohibition of competition	598	
<b>Total assets</b>	<b>1,711</b>	<b>395</b>
Net assets	1,711	395
Goodwill arising from acquisitions	36	
<b>Acquisition cost</b>	<b>1,747</b>	
Acquisition cost	1,747	
Cash flow effect of acquisitions	1,747	

In the comparison period 2009, presentation of business acquisitions is based on requirements of IFRS 3 (2004).

The property maintenance services business of Valkeakosken Talohuolto Ky was acquired into Property and Office Support Services on 1 June 2009. The waste collection operations of Kuljetusliike Veli-Pekka Hiltunen Oy were acquired into Environmental Services on 1 October and the business operations of Raahen Kuljetus Maunula Ky on 1 November 2009.

The figures for these acquired businesses are stated in aggregate, because none of them is of material importance when considered separately. Fair values have been determined as of the time the acquisition was realised. No business operations have been divested as a consequence of any acquisition. All acquisitions have been paid for in cash. Individual purchase prices have not been itemised because none of them is of material importance when considered separately.

By annual net sales, the largest acquisition was Kuljetusliike Veli-Pekka Hiltunen (EUR 1.3 million).

It is not possible to itemise the effects of the acquired businesses on the consolidated net sales and profit for the period, because L&T integrates its acquisitions into the current business operations as quickly as possible to gain synergy benefits.

L&T holds 83.5% of the Muoviportti Group and has committed to redeeming the remaining 16.5% of the shares by the end of the year 2010. An estimate of the acquisition price for the remaining 16.5% was recognised as interest-bearing current liability.

L&T has made a commitment to redeem the remaining 30% of the shares of Biowatti Oy by the beginning of the year 2012. The estimated acquisition price of the remaining 30% was recognised as interest-bearing non-current liability. The final price of the 30% portion will be determined based on the future earnings of L&T Biowatti. According to the assessment of the estimate of 31 Decem-

ber 2009, the acquisition price for the remaining 30% was reduced by EUR 2,043 thousand to EUR 3,763 thousand (EUR 5,806 thousand). The adjustment has no impact on the profit or loss, as the adjustments were recognised accordingly under cost of the combination, goodwill and interest-bearing liabilities.

## 3. Employee benefit expenses

EUR 1,000	2010	2009
Wages and salaries	193,764	190,414
Pension costs		
Defined contribution plans	37,292	31,073
Defined benefit plans	100	72
Share-based payment	663	1,453
Other personnel expenses	10,827	16,360
<b>Total</b>	<b>242,646</b>	<b>239,372</b>
Defined benefit plan costs by function		
Cost of sales	22	27
Sales and marketing	16	29
Administration	62	16
<b>Total</b>	<b>100</b>	<b>72</b>

Details on granted share options and share-based payment are presented in Note 24 Share-based payment.

The employee benefits of the top management are presented in Note 34 Related-party transactions.

Details on the items of defined benefit pension plans in the consolidated statement of financial position are presented in Note 25 Retirement benefit obligations.

## Average number of employees in full-time equivalents

	2010	2009
Salaried employees	1,319	1,381
Non-salaried employees	6,516	6,732
<b>Total</b>	<b>7,835</b>	<b>8,113</b>
Finland	6,044	6,087
Other countries	1,791	2,026
<b>Total</b>	<b>7,835</b>	<b>8,113</b>

#### 4. Construction contracts

At the end of the financial year 2010, the Group had no construction contracts where revenue recognition is based on the percentage of completion. Receiving of contaminated soil is not treated as a construction contract, as it is not yet possible to estimate the outcome of the contracts reliably. In accordance with the prudence principle, revenues will not be recognised before final disposal of the contaminated soil. The costs of these construction contracts are recognised as expenses in the period they have incurred.

#### 5. Depreciation, amortisation and impairment

Depreciation and amortisation by function

EUR 1,000	Intangible assets	Property, plant and equipment	Total
<b>2010</b>			
<b>Depreciation and amortisation</b>			
On cost of sales	8,586	31,999	40,585
On sales and marketing	17	68	85
On administration	531	104	635
Total depreciation and amortisation	9,134	32,171	41,305
<b>Impairment</b>	0	2,632	2,632
<b>2009</b>			
<b>Depreciation and amortisation</b>			
On cost of sales	8,228	31,051	39,279
On sales and marketing	58	281	339
On administration	594	122	716
Total depreciation and amortisation	8,880	31,454	40,334

#### 6. Other operating income and expenses

EUR 1,000	2010	2009
<b>Other operating income</b>		
Gains on sales of property, plant and equipment	481	393
Lease income	58	
Reversals of impairment losses on trade receivables	113	117
Reimbursements and government grants	332	453
Change in fair value of commodity derivatives	403	
Other	1,321	1,462
Total	2,708	2,425
<b>Other operating expenses</b>		
Losses on disposals and scrapping of property, plant and equipment	364	529
Impairment losses on trade receivables	1,496	866
Losses on sale of businesses		318
Discontinuation of wood pellet business of L&T Biowatti	580	
Restructuring provision of the wood pellet plant in Luumäki		202
Other	245	511
Total	2,686	2,427

#### 7. Research and development expenses

EUR 1.6 million (EUR 2.4 million) research and development expenses arising from centralised development projects are included in the income statement.

#### 8. Finance income and costs

EUR 1,000	2010	2009
<b>Finance income</b>		
Dividend income on available-for-sale investments	1	1
Interest income on available-for-sale investments	101	360
Interest income on loans and other receivables	803	763
Gains on interest rate swaps hedging cash flow, transferred from equity		162
Foreign exchange gains	148	4
Total finance income	1,053	1,290
<b>Finance costs</b>		
Interest expenses on borrowings measured at amortised cost	-3,764	-5,397
Losses on non-hedging interest rate swaps, transferred from equity	-893	-519
Losses on sale of non-current available-for-sale investments		-3
Other finance expenses	-625	-609
Total finance costs	-5,282	-6,528

Exchange rate differences apply to financing. In 2010, there were no exchange rate differences arising from sales to be recognised as adjustment items for net sales (EUR 1.3 thousand). Exchange rate differences arising from purchases totalling EUR 8.1 thousand (EUR 15.9 thousand) have been recognised as adjustment items for cost of sales.

A loss of EUR 8 thousand (a gain of EUR 29 thousand) on available-for-sale investments was recognised in the revaluation reserve in the equity.

During the financial period, no interest expenses related to constructing were recognised as an asset as a portion of the cost of L&T Recoil's re-refinery investment (EUR 155 thousand).

#### 9. Income taxes

##### 9.1. Income tax in the income statement

EUR 1,000	2010	2009
Income tax on taxable profit		
Income tax for the period	-12,121	-12,262
Income tax for previous periods	-7	-10
Deferred income tax	2,342	391
Total	-9,786	-11,881

The differences between income tax expense recognised in the income statement and income tax calculated at the statutory tax rate of 26% in Finland, are as follows

EUR 1,000	2010	2009
Income tax at Finnish tax rate on consolidated profit before tax	-9,357	-11,707
Different tax rates and losses of foreign subsidiaries	-176	131
Expenses not deductible for tax purposes	-222	-314
Tax exempt income	9	0
Income tax for previous periods	-7	-10
Other items	-33	19
Total	-9,786	-11,881

## 9.2. Tax effects of components of other comprehensive income

EUR 1,000	2010			2009		
	Before tax	Tax expense/benefit	After tax	Before tax	Tax expense/benefit	After tax
Hedging reserve, change in fair value	301	-78	223	-464	121	-343
Current available-for-sale investments	-60	2	-58	-29	8	-21
Currency translation differences	1,290	-498	792	380	-56	324
Components of other comprehensive income	1,531	-574	957	-113	73	-40

## 9.3. Changes in deferred income tax assets and liabilities during the period

2010	At 1 January 2010	Recognised in income statement	Recognised in equity	Exchange differences	Acquired/sold businesses	At 31 December 2010
<b>EUR 1,000</b>						
<b>Deferred tax assets</b>						
Pension benefits	174	-14				160
Provisions	494	131				625
Fair value adjustments	278	15	-76			217
Revenue recognition	458	-442				16
Deferred depreciation	71	17				88
Losses of joint ventures	1,533	1,226	206			2,965
Losses of subsidiaries	-10	1,164		5		1,159
Translation differences	524		-499			25
Other tax deductible temporary differences	374	0	-6			368
Total	3,896	2,097	-375	5		5,623

2009	At 1 January 2009	Recognised in income statement	Recognised in equity	Exchange differences	Acquired/sold businesses	At 31 December 2009
<b>EUR 1,000</b>						
<b>Deferred tax liabilities</b>						
Depreciation differences	-34,792	159			-92	-34,725
Finance lease agreements	-582	51				-531
Share-based benefits	26	-51				-25
Other current differences	-23	86	-199			-136
Total	-35,371	245	-199		-92	-35,417

Net deferred tax liability	-31,475	2,342	-574	5	-92	-29,794
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2009	At 1 January 2009	Recognised in income statement	Recognised in equity	Exchange differences	Acquired/sold businesses	At 31 December 2009
<b>EUR 1,000</b>						
<b>Deferred tax assets</b>						
Pension benefits	175	-1				174
Provisions	374	120				494
Fair value adjustments	119	30	129			278
Revenue recognition	203	255				458
Deferred depreciation	29	42				71
Share-based benefits		26				26
Losses of joint ventures	510	1,023				1,533
Losses of subsidiaries	453	-461		-2		-10
Translation differences	580		-56			524
Other tax deductible current differences	377	-3				374
Total	2,820	1,031	73	-2		3,922

2009	At 1 January 2009	Recognised in income statement	Recognised in equity	Exchange differences	Acquired/sold businesses	At 31 December 2009
<b>EUR 1,000</b>						
<b>Deferred tax liabilities</b>						
Depreciation differences	-33,997	-811		16		-34,792
Finance lease agreements	-526	-56				-582
Other current differences	-250	227				-23
Total	-34,773	-640		16		-35,397

Net deferred tax liability	-31,953	391	73	14		-31,475
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## 9.4. Deferred tax in the statement of financial position

EUR 1,000	2010	2009
Deferred tax assets	3,924	2,147
Deferred tax liabilities	-33,718	-33,622
Net deferred tax liabilities	-29,794	-31,475

Deferred tax is set off if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax liabilities and assets on a net basis.

In 2010 deferred tax assets amounting to EUR 1,196 thousand (EUR 899 thousand) in respect of losses of subsidiaries were not recognised in the financial statements, because the realisation of the related tax benefit is not probable.

Deferred tax assets of EUR 2,965 thousand (EUR 1,533 thousand) in respect of losses of joint ventures are recognised in the balance sheet. The recognition is based on the estimated realisation of the related tax benefit through future taxable income.

No deferred tax liability is recognised from the non-distributed profits of subsidiaries, because subsidiary dividends received from EU countries are not taxable under taxation of source.

## 10. Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the company by the adjusted weighted average number of ordinary shares outstanding during the period excluding ordinary shares purchased by the company and held as treasury shares.

EUR 1,000	2010	2009
Profit attributable to equity holders of the company	26,188	33,140
Adjusted weighted average number of ordinary shares outstanding during the year, 1,000 shares	38,749	38,781
Earnings per share, EUR	0.68	0.85

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. In 2010 and 2009, earnings per share are diluted by the share-based payments of the share-based incentive programme for the years 2009–2011, for which the cost recognition period has not yet ended. These payments are treated as share options in the calculation for diluted earnings per share even though they remain contingent.

Options have a diluting effect, when the exercise price with an option is lower than the market value of the company share. Not yet recognised option expenses are accounted for in the exercise price. The diluting effect is the number of shares that the company has to issue gratuitously because the funds received from the exercised options do not cover the fair value of the shares. The fair value of the company's share is determined as the average market price of the share during the period.

EUR 1,000	2010	2009
Profit attributable to equity holders of the company	26,188	33,140
Adjusted weighted average number of ordinary shares outstanding during the year, 1,000 shares	38,749	38,781
Effect of shares included in the share-based incentive programme, 1,000 shares	24	3
Effect of share options, 1,000 shares		
Adjusted average number of shares during the period, diluted, 1,000 shares	38,773	38,784
Earnings per share, diluted, EUR	0.68	0.85

## 11. Dividend per share

At the Annual General Meeting on 17 March 2011, a dividend of EUR 0.55 will be proposed by the Board of Directors, corresponding to total dividends of EUR 21,305,963.80. This dividend payable is not recognised as a liability in the financial statements. A dividend of EUR 0.55 per share was paid in respect of 2009.

## 12. Intangible assets

2010	Goodwill	Customer contracts arising from acquisitions	Agreements on prohibition of competition	Other intangible assets arising from acquisitions	Internally generated intangible assets	Intangible rights	Other intangible assets	Pre-payments	Total
Opening net book amount	116,690	14,000	19,894	9,395	4,516	12,544	9,182	1,894	188,115
Additions					1,310	445	282	907	2,944
Business acquisitions	480	356	339						1,175
Disposals	-1,688	-447				-43	-24		-2,202
Transfers between items					-515	109	1,409	-1,007	-4
Exchange differences	1,305	345	85	40		12	36	32	1,855
Closing net book amount	116,787	14,254	20,318	9,435	5,311	13,067	10,885	1,826	191,883
Accumulated amortisation and impairment at 1 January 2010	-2,919	-7,768	-8,253	-6,201	-1,715	-8,828	-4,014		-39,698
Accumulated amortisation on disposals and transfers		418					24		442
Amortisation charge		-1,905	-1,957	-1,966	-751	-1,035	-1,520		-9,134
Exchange differences	-401	-263	-85	-39		-6	-18		-812
Accumulated amortisation and impairment at 31 December 2010	-3,320	-9,518	-10,295	-8,206	-2,466	-9,869	-5,528		-49,202
Net book amount at 31 December 2010	113,467	4,736	10,023	1,229	2,845	3,198	5,357	1,826	142,681

Other intangible assets arising from acquisitions include mainly patents and permits.

In 2010, there were no contractual commitments related to acquisition of intangible assets.

In June, the acquisition price for the remaining 30% of L&T Biowatti was reassessed and the price was reduced by EUR 1,113 thousand to EUR 2,650 (EUR 3,763 thousand). The change in acquisition price has no impact on the profit or loss as the adjustment was recognised under goodwill and interest-bearing liabilities. The acquisition price is presented in more detail in Note 2 Business acquisitions.

In September, the cleaning business in Moscow was disposed of. Goodwill and intangible assets allocated to the component of an entity disposed of were measured in accordance with IAS 36.86 on the basis of the relative values of the operations disposed of and the portion of the unit retained. The goodwill and the intangible assets arising from acquisitions allocated to the component of an entity disposed of were recognised as losses on sale of businesses in other operating expenses. This component of entity does not meet the criteria concerning presentation of discontinued operations specified in IFRS 5.31–32.

2009	Goodwill	Customer contracts arising from acquisitions	Agreements on prohibition of competition	Other intangible assets arising from acquisitions	Internally generated intangible assets	Intangible rights	Other intangible assets	Pre-payments	Total
Opening net book amount	118,204	13,224	19,263	9,385	3,483	11,310	6,833	2,016	183,718
Additions					781	918	365	1,988	4,052
Business acquisitions	36	718	598						1,352
Disposals	-2,085	-54	-2	-7		-553	-1		-2,702
Transfers between items					252	865	1,971	-2,110	978
Exchange differences	535	112	35	17		4	14		717
Closing net book amount	116,690	14,000	19,894	9,395	4,516	12,544	9,182	1,894	188,115
Accumulated amortisation and impairment at 1 January 2009	-2,753	-5,878	-5,993	-4,227	-1,028	-8,420	-2,792		-31,091
Accumulated amortisation on disposals and transfers		14	-44	48		535	1		554
Amortisation charge		-1,841	-2,187	-2,006	-687	-942	-1,217		-8,880
Exchange differences	-166	-63	-29	-16		-1	-6		-281
Accumulated amortisation and impairment at 31 December 2009	-2,919	-7,768	-8,253	-6,201	-1,715	-8,828	-4,014		-39,698
Net book amount at 31 December 2009	113,771	6,232	11,641	3,194	2,801	3,716	5,168	1,894	148,417

Other intangible assets arising from acquisitions include mainly patents and permits.

Contractual commitments related to acquisition of intangible assets totalled EUR 160 thousand.

In December, the acquisition price for the remaining 30% of L&T Biowatti was reassessed and the price was reduced by EUR 2,043 thousand to EUR 3,763 (EUR 5,806 thousand). The change in acquisition price has no impact on the profit or loss as the adjustment was recognised under goodwill and interest-bearing liabilities. The acquisition price is presented in more detail in Note 2 Business acquisitions.

In June, the waste management business in Virrat was disposed of. Goodwill and intangible assets allocated to the component of an entity disposed of were measured in accordance with IAS 36.86 on the basis of the relative values of the operations disposed of and the portion of the unit retained. The goodwill and the intangible assets arising from acquisitions allocated to the component of an entity disposed of were recognised as losses on sale of businesses in other operating expenses. This component of entity does not meet the criteria concerning presentation of discontinued operations specified in IFRS 5.31–32.

### 13. Goodwill impairment tests

#### Goodwill allocation

Lassila & Tikanoja's segments reported externally have been changed to reflect the new divisions as of 1 January 2010. The business operations were regrouped into three divisions: Environmental Services, Property and Office Support Services and Renewable Energy Sources (L&T Biowatti). As of 1 July 2010, Property and Office Support Services were divided into two divisions: Cleaning and Office Support Services and Property Maintenance. These changes have an impact on the cash generating units used in goodwill impairment tests.

Due to the changes, Environmental Services in Finland was divided into three business operations forming cash generating units: Environmental Services, L&T Recoil and Environmental Products. Cleaning and Office Support Services in Finland forms a cash generating unit. The Property Maintenance and Renewable Energy Sources (L&T Biowatti) divisions are tested as cash generating units. In addition, the Latvian/Baltic and Swedish business operations form cash generating units. For the purpose of impairment testing, goodwill is allocated to the cash generating units.

In 2009, impairment was tested according to the former organisation. Comparative figures for Environmental Services are not restated accordingly.

#### Allocation of book values of goodwill

EUR 1,000	2010	2009
Environmental Services excluding Environmental Products and L&T Recoil	80,294	80,570
Cleaning and Office Support Services	10,884	10,412
Property Maintenance	4,526	4,813
Renewable Energy Sources (L&T Biowatti)	4,606	5,719
Latvia	5,564	5,568
Sweden	7,516	6,608
Total	113,390	113,690
Units for which the amount of goodwill allocated is not significant in proportion to the balance sheet value of the Group	77	81
Total	113,467	113,771

#### Impairment tests

In estimation of the recoverable amounts, an asset's value in use is used. Future cash flows are based on annual estimates of income statements and upkeep investments made by the management in connection with the budgeting process for a five-year period. The management bases its estimates on actual development and the management's opinion on the outlook of the industry (general market development and profitability specific to the business, pricing, municipalisation decisions, personnel costs and raw material costs). Approved investment decisions are taken into account in the growth estimates. In these estimates, the percentages of net sales growth of the cash generating units vary between -7.2% and 14.7% (-3.2% and 14.1%). Beyond that period, upkeep investments and a residual growth rate on a par with inflation rate (2%) or slightly higher than the inflation rate (3%) have been estimated for the cash flows. The EBITDA percentages for the future have been determined on a conservative basis. Their values are based on actual development, and no substantial changes are expected to occur during the estimate period.

The value in use has been determined using the Discounted Cash Flow method. The calculation components for the cost of capital are risk-free return rate (10-year government bond), market risk premium, illiquidity premium on unlisted companies, industry beta, cost of debt and debt equity ratio. The industry beta, cost of debt and debt equity ratio have been calculated for each cash generating unit on the basis of the key figures of peer group companies determined by the management. The peer group companies are listed companies operating in the same business sectors as L&T. In 2010, changes in return rates are mainly due to the changes of risk-free return rate and industry betas. Based on these factors, the discount rate used in the impairment tests is pre-tax return on equity (WACC) as follows: Environmental Services excluding Environmental Products and L&T Recoil 9.7% (9.1-10.8%), Property Maintenance 10.2% (10.9%), Cleaning and Office Support Services 10.0% (10.8%), Renewable Energy Sources (L&T Biowatti) 10.4% (9.6%), Sweden 10.9% (10.0%) and Latvia 13.3% (15.9%). The WACC was defined on 30 September 2010 except for Sweden, for which the impairment was retested in December due to the weakened market outlook.

Adjustments to acquisition costs, if any, are recognised within 12 months from the acquisition date.

The impairment testing does not show impairment in any of the cash generating units.

In June 2010, the acquisition price for the remaining 30% of L&T Biowatti was reassessed and the price was reduced by EUR 1,113 thousand to EUR 2,650 (EUR 3,763 thousand). The change in acquisition price has no impact on the profit or loss as the adjustment was recognised under goodwill and interest-bearing liabilities. The acquisition price is presented in more detail in Note 2 Business acquisitions.

#### Sensitivity analysis of impairment testing

Principal assumptions	Share of goodwill	Required change	Required change in the most critical CGU
<b>2010</b>			
Residual EBITDA percentage	89%	≥ -50%	-7%
WACC (before tax)	84%	≥ 99%	7%
<b>2009</b>			
Residual EBITDA percentage	76%	≥ -50%	-23%
WACC (before tax)	60%	≥ 99%	25%

In 50% of the cash generating units and 84% of the consolidated goodwill (50% and 60%), the change in the discount rate would have to be 99% or more to make the value in use equal to the book value. In 67% of the cash generating units and 89% of the consolidated goodwill (50% and 76%), the residual EBITDA percentage would have to decrease by 50% or more to make the value in use

equal to the book value. In the most critical cash generating unit, the interest rate would have to increase by 7% (25%) and the residual EBITDA percentage would have to decrease by 7% (23%) to make the value in use equal to the book value. Recognition of impairment loss would require even greater changes in the critical variables.

### 14. Property, plant and equipment

#### 2010

EUR 1,000	Land	Buildings and constructions	Machinery and equipment	Other	Prepayments and construction in progress	Total
Opening net book amount	4,015	101,794	264,391	169	14,666	385,035
Additions	453	3,554	18,229		12,392	34,628
Business acquisitions			500			500
Disposals	-59	-1,726	-8,548		-16	-10,349
Transfers between items	262	12,845	8,748		-21,851	4
Exchange differences		77	439	5	112	633
Closing net book amount	4,671	116,544	283,759	174	5,303	410,451
Accumulated depreciation at 1 January 2010	0	-29,722	-153,574	-88	0	-183,384
Accumulated depreciation on disposals and transfers		1,019	7,619			8,638
Impairment		-1,682	-950			-2,632
Depreciation charges		-7,234	-24,937			-32,171
Exchange differences		-17	-184	-1		-202
Accumulated depreciation at 31 December 2010	0	-37,636	-172,026	-89	0	-209,751
Net book amount at 31 December 2010	4,671	78,908	111,733	85	5,303	200,700

## Assets acquired under finance lease arrangements included in property, plant and equipment

EUR 1,000	Buildings and constructions	Machinery and equipment	Total
Opening net book amount	3,350	1,019	4,369
Additions			0
Closing net book amount	3,350	1,019	4,369
Accumulated depreciation at 1 January 2010	-70	-993	-1,063
Accumulated depreciation on disposals	-168	-24	-192
Accumulated depreciation at 31 December 2010	-238	-1,017	-1,255
Net book amount at 31 December 2010	3,112	2	3,114

Contractual commitments related to property, plant and equipment totalled EUR 5,106 thousand.

In May 2010, the wood pellet business of L&T Biowatti was discontinued. Property, plant and equipment of the wood pellet plant in Suonenjoki were measured at fair value and an impairment loss of EUR 2,632 was recognised.

In 2010, Ministry of Employment and the Economy granted L&T Biowatti Oy EUR 248 thousand for the acquisition of equipment. The grant was recognised as deductions of historical cost.

## 2009

EUR 1,000	Land	Buildings and constructions	Machinery and equipment	Other	Prepayments and construction in progress	Total
Opening net book amount	3,832	68,254	254,303	166	35,433	361,988
Additions	183	5,506	18,109	2	15,229	39,029
Business acquisitions			395			395
Disposals		-1,011	-13,410	-1	-799	-15,221
Transfers between items		29,082	5,097		-35,157	-978
Exchange differences		-37	-103	2	-40	-178
Closing net book amount	4,015	101,794	264,391	169	14,666	385,035
Accumulated depreciation at 1 January 2009	0	-24,296	-140,452	-88	0	-164,836
Exchange differences		3	6			9
Accumulated depreciation on disposals and transfers		575	12,322			12,897
Depreciation charges		-6,004	-25,450			-31,454
Accumulated depreciation at 31 December 2009	0	-29,722	-153,574	-88	0	-183,384
Net book amount at 31 December 2009	4,015	72,072	110,817	81	14,666	201,651

## Assets acquired under finance lease arrangements included in property, plant and equipment

EUR 1,000	Buildings and constructions	Machinery and equipment	Prepayments and construction in progress	Total
Opening net book amount	0	1,019	3,350	4,369
Transfers between items	3,350		-3,350	0
Exchange differences				0
Closing net book amount	3,350	1,019	0	4,369
Accumulated depreciation at 1 January 2009	0	-866	0	-866
Depreciation charges	-70	-127		-197
Exchange differences	0		0	0
Accumulated depreciation at 31 December 2009	-70	-993		-1,063
Net book amount at 31 December 2009	3,280	26		3,306

Contractual commitments related to property, plant and equipment totalled EUR 7,390 thousand. No impairment losses on property, plant and equipment were recognised.

In 2009, Ministry of Employment and the Economy granted L&T Biowatti Oy EUR 639 thousand for the acquisition of equipment. The grant was recognised as deductions of historical cost.

## 15. Joint ventures

The Group holds a 50% interest in L&T Recoil Oy, Helsinki.

The assets, liabilities, revenues and expenses of the joint venture included in the consolidated income statement and the statement of financial position

EUR 1,000	2010	2009
Non-current assets	34,195	32,414
Current assets	4,630	5,595
Non-current liabilities	-17,408	-20,635
Current liabilities	-8,261	-6,077
Net assets	13,156	11,297
Revenues	8,237	2,011
Expenses	-11,376	-4,748
Profit/loss for the period	-3,139	-2,737

	2010	2009
Average personnel in joint venture	42	31

More details on the joint venture are shown in Note 34 Related-party transactions.

## 16. Investments in subsidiaries

	Group holding of shares and votes %
Kiinteistö Oy Vantaan Valimotie 33, Helsinki	100.0
Lassila & Tikanoja Service AB, Stockholm, Sweden	100.0
Lassila & Tikanoja Services OÜ, Tallin, Estonia	100.0
L&T Advance Oy, Helsinki	100.0
L&T Biowatti Oy, Helsinki	70.0
L&T Ecoinvest LLC, Dubna, Russia	100.0
L&T Hankinta Ky, Helsinki	100.0
L&T Hygienutveckling AB, Kävlinge, Sweden	100.0
L&T Improvement Oy, Helsinki	100.0
L&T Kalusto Oy, Helsinki	100.0
L&T LLC, Dubna, Russia	100.0
L&T Muoviportti Oy, Merikarvia	100.0
L&T Relations Oy, Helsinki	100.0
L&T Toimi Oy, Helsinki	100.0
L&T Viwaplast Oy, Valkeakoski	100.0
Pussihukka Oy, Helsinki	100.0
SIA L&T, Riga, Latvia	100.0
Suomen Keräystuote Oy, Helsinki	100.0
The Russian-Finnish Company Ecosystem LLC, Dubna, Russia	90.0

On 1 July 2010, L&T acquired the remaining 16.5% of the Muoviportti Group (83.5% held previously).

## 17. Non-current available-for-sale investments

EUR 1,000	2010	2009
Carrying amount at 1 January	525	502
Additions	65	23
Business acquisitions	8	
Transfers between items		
Carrying amount at 31 December	598	525

Non-current available-for-sale investments include unlisted shares.

## 18. Finance lease receivables

EUR 1,000	2010	2009
<b>Maturity of minimum lease payments</b>		
Not later than one year	2,007	2,139
Later than one year and not later than five years	3,947	5,096
Later than five years	227	193
Gross investment in finance lease agreements	6,181	7,428
<b>Maturity of present value of minimum lease payments</b>		
Not later than one year	1,937	2,060
Later than one year and not later than five years	3,409	4,292
Later than five years	138	133
Total present value of minimum lease payments	5,484	6,485
Unearned finance income	697	943
Gross investment in finance lease agreements	6,181	7,428

Finance lease receivables result from leases of compactors, balers and other assets to customers. The minimum payments include the payment of the transfer of the title to the asset at the end of lease term if the option to purchase is such that it is reasonably certain at the commencement of the lease term that the option will be exercised or if a binding contract has been made on the purchase.



## 19. Inventories

EUR 1,000	2010	2009
Raw materials and consumables	19,545	19,206
Unfinished goods	281	
Finished goods	5,341	11,206
Other inventories	2,790	2,430
Total	27,957	32,842

Cost of inventory recognised as an expense under cost of sales in the income statement, totalled EUR 14,200 thousand (EUR 31,306 thousand).

EUR 1.8 million (EUR 1.1 million) of the carrying amounts of inventories was recognised as an expense, and a write-down of inventories to net realisable value was made respectively. The expense is included in the cost of sales.

## 20. Trade and other receivables

EUR 1,000	2010	2009
Trade receivables	72,887	64,532
Current finance lease receivables	1,937	2,060
Loan receivables	987	501
Accruals	7,888	9,480
Tax receivables	1,494	467
Other receivables	471	663
Total	85,662	77,702

Accruals include the following:

	2010	2009
Interest	64	72
Employees' health care compensation	2,934	3,591
Statutory pension insurances	927	1,231
Insurances		262
Indirect tax	1,012	2,665
Other	2,951	1,659
Total	7,888	9,480

The receivables are not collateralised, and they do not include any significant concentrations of credit risk. Impairment losses and their reversals recognised in trade receivables are shown in Note 6 Other operating income and expenses.

## 21. Current available-for-sale investments

EUR 1,000	2010	2009
Certificates of deposit and commercial papers	9,895	18,484
Total	9,895	18,484
At 1 January	18,484	20,368
Additions/disposals	-8,581	-1,855
Changes in fair values transferred into equity	-8	-29
At 31 December	9,895	18,484

Gains of EUR 101 thousand (EUR 360 thousand) were transferred from the equity to the income statement in 2010.

Available-for-sale investments are stated in the financial statements at fair value. Changes in the fair values are recognised in the revaluation reserve in equity.

## 22. Cash and cash equivalents

EUR 1,000	2010	2009
Cash on hand and in banks	4,653	9,099
Total	4,653	9,099

Cash and cash equivalents are presented in nominal values, which equal to their fair values.

Liquid assets in the consolidated statement of cash flows include the following:

EUR 1,000	2010	2009
Cash	4,653	9,099
Certificates of deposit and commercial papers	9,895	18,484
Total	14,548	27,583

## 23. Equity

Share capital and share premium fund

2010	Number of shares, 1,000 shares	Share capital	Share premium reserve	Own shares	Total
EUR 1,000					
At 1 January 2010	38,769	19,399	50,673	-356	69,716
At 17 May 2010	Purchase of own shares	-7		-105	-105
At 18 May 2010	Purchase of own shares	-6		-88	-88
At 19 May 2010	Purchase of own shares	-8		-110	-110
At 20 May 2010	Purchase of own shares	-7		-98	-98
At 21 May 2010	Purchase of own shares	-11		-153	-153
At 24 May 2010	Purchase of own shares	-2		-32	-32
At 25 May 2010	Purchase of own shares	-6		-82	-82
At 26 May 2010	Purchase of own shares	-8		-111	-111
At 27 May 2010	Purchase of own shares	-10		-138	-138
At 28 May 2010	Purchase of own shares	-8		-108	-108
At 31 May 2010	Purchase of own shares	-1		-19	-19
At 1 June 2010	Purchase of own shares	-4		-55	-55
At 2 June 2010	Purchase of own shares	-2		-26	-26
At 4 June 2010	Transfer of own shares	49		636	636
At 31 December 2010	38,738	19,399	50,673	-845	69,227
At 1 January 2009	38,799	19,399	50,673		70,072
At 20 May 2009	Purchase of own shares	-10		-119	-119
At 22 May 2009	Purchase of own shares	-10		-118	-118
At 25 May 2009	Purchase of own shares	-4		-48	-48
At 26 May 2009	Purchase of own shares	-6		-71	-71
At 31 December 2009	38,769	19,399	50,673	-356	69,716

Lassila & Tikanoja plc has one share series. There is no maximum to the number of the shares and the share capital in the Articles of Association. A share has neither a nominal value nor a book equivalent value. All issued shares have been paid for in full.

Share premium reserve consists of share premiums of share issues carried out under the old Corporate Act (29.9.1978/734). Proceeds from share subscriptions pursuant to share option scheme resolved under this act (2005) are recognised in equity and in share premium in accordance with the terms and conditions of the scheme.

## Other reserves

### Translation reserve

Translation reserve contains currency translation differences arising from net investments in Group companies in currencies other than the euro. Translation differences arise from the translation of the equity and earnings of subsidiaries into euros. Furthermore, non-current loan receivables for which settlement is neither planned nor likely to occur in the foreseeable future are handled as part of the net investment in subsidiaries.

### Revaluation reserve

Revaluation reserve includes a fair value fund for changes in fair values of available-for-sale investments and a hedge fund for the changes in the fair values of derivative instruments used for hedging of cash flow.

## Capital management

The objective of the Group's capital management is to secure the continuity of Lassila & Tikanoja's operations and maintain an optimal capital structure to enable investments, taking the cost of capital into account. The capital includes equity and liabilities less advances received.

The amount of annual dividend is linked to earnings. Profits not considered necessary for ensuring the healthy development of the company are distributed to shareholders. The share capital shall be increased if extraordinarily rapid growth or large investments call for more capital.

## 24. Share-based payment

The Group has share option schemes granted in 2005 and 2008. The 2005 option scheme is divided into series A, B and C. Expenses arising from fair values of options are recognised as expenses on a straight-line basis during the vesting periods. The fair values are measured using the Black-Scholes option pricing model.

### Option rights

Option	Exercise period	Exercise price EUR/share	Number of shares to be subscribed for at 31 Dec. 2010	Number of shares to be subscribed for at 31 Dec. 2009	End of vesting period
2005A	2.11.2007–29.5.2009	14.22			2.11.2007
2005B	3.11.2008–31.5.2010	16.98		176,000	3.11.2008
2005C	2.11.2009–31.5.2011	26.87	200,000	200,000	2.11.2009
2008	1.11.2010–31.5.2012	16.27	168,000	196,000	1.11.2010
Total			368,000	572,000	

The development of the capital structure is monitored quarterly using the equity ratio. This ratio is calculated by dividing the Group's equity by the balance sheet total less advances received.

EUR 1,000	2010	2009
Equity in the consolidated statement of financial position	222,994	217,249
Statement of financial position total	483,742	496,388
Current advances received	-4,239	-3,981
Non-current advances received	-263	-205
Total	479,240	492,202
Equity ratio, %	46.5%	44.1%

The equity ratio has remained at a high level, and it increased slightly in comparison with the previous year. The gross capital expenditure totalled EUR 39.3 million (EUR 44.9 million). EUR 2.2 million were tied up in the working capital (EUR 12.0 million). The amount of net cash generated from operating activities was EUR 63.8 million (EUR 66.2 million).

Covenants for long-term bank borrowings are shown in Note 27 Borrowings.

## Amounts and average exercise prices of outstanding option rights

	2010		2009	
	Weighted average exercise price EUR/share	Number of options	Weighted average exercise price EUR/share	Number of options
Beginning of year	20.19	572,000	19.11	765,500
New options granted				
Forfeited options	16.27	-28,000	21.22	-46,000
Exercised options				
Expired options	16.98	-176,000	14.22	-147,500
End of year	22.03	368,000	20.19	572,000
Options exercisable at year end	22.03	368,000	22.24	376,000

In 2010 and 2009, no options were exercised.

## Parameters used in the Black-Scholes option pricing model

	2008	2005C	2005B	2005A
Grant date	5 June 2008	12 June 2007	12 June 2006	7 June 2005
Number of options in the scheme	230,000	230,000	200,000	170,000
Share price at grant date	16.65	25.18	16.50	14.76
Exercise price	16.27	26.87	16.98	14.22
Expected volatility	53%	26%	27%	19%
Expected vesting period	3y 360d	3y 354d	3y 354d	3y 359d
Vesting conditions	Employment period 2y 4m	Employment period 2y 4m	Employment period 2y 4m	Employment period 2y 4m
Risk-free interest	4.57%	4.56%	3.60%	2.40%
Expected dividends, EUR	2.13	2.73	2.10	1.11
Fair value at grant date, EUR	5.16	4.70	3.16	2.35

Expected volatility has been determined as average of 50, 100 and 260 days prior to the measurement date. The determination of the volatility is based on information in Bloomberg database.

The terms and conditions of the options do not include any exercising conditions, which should be taken into account when estimating the fair value of the options. The returning rate assumption at grant date is 0%.

**Option schemes**

Share options have been granted to key persons belonging to the management. The share options entitle their holders to subscribe for the shares of Lassila & Tikanoja plc at a subscription price and over a period determined in the terms and conditions of the option scheme. The exchange ratio for all option rights is 1:1.

Those share options whose share subscription period has not commenced and which have not yet been vested, may not be transferred to a third party. Should a participant cease to be employed by L&T for any reason other than retirement or death, such a person shall without delay offer to the company, free of charge, those options whose share subscription period has not commenced. After the exercise period the option rights will expire with no value.

The entitlement for dividends of the shares subscribed for pursuant to the option rights, together with other shareholder rights, shall commence once the increase in the share capital or new shares have been entered in the trade register. The share subscription periods and prices are presented in the above table. The subscription prices will, as per the dividend record date, be reduced by the amount of dividend which exceeds 70% of the profit per share for the financial period to which the dividend applies.

Pursuant to share options outstanding on 31 December 2010, a maximum of 368,000 new shares may be subscribed for, which is 0.9% of the current number of shares and votes.

**Option scheme 2005**

The Annual General Meeting of 2005 decided to issue 600,000 share options. The exercise period for the 2005A options ended on 29 May 2009 and for 2005B options on 31 May 2010.

At the beginning of the exercise period, 37 key persons held 200,000 2005C options. A total of 30,000 2005C options are held by L&T Advance Oy, a wholly-owned subsidiary of Lassila & Tikanoja plc, and these options will not be exercised.

The share subscription price for 2005C options is EUR 26.87. As a result of the exercise of the outstanding 2005 share options at 31 December 2010, the number of shares issued by Lassila & Tikanoja plc may increase by a maximum of 200,000 new shares which is 0.5% of the current number of shares.

2005C options have been listed on NASDAQ OMX Helsinki since 2 November 2009.

**Option scheme 2008**

The Annual General Meeting of the year 2008 resolved to issue a maximum of 230,000 share options. 33 key persons hold 168,000 options. L&T Advance Oy, a wholly-owned subsidiary of Lassila & Tikanoja plc, holds 62,000 option and these options will not be exercised.

The exercise price of the 2008 share options is EUR 16.27. The exercise price shall be recognised in the invested non-restricted equity fund.

As a result of the exercise of the outstanding 2008 share options, the number of shares issued by Lassila & Tikanoja plc may increase by a maximum of 168,000 new shares which is 0.4% of the current number of shares.

2008 options have been listed on NASDAQ OMX Helsinki since 1 November 2010.

**Share-based incentive programme**

Lassila & Tikanoja plc's Board of Directors decided on 24 March 2009 on a share-based incentive programme to form a part of the incentive and commitment scheme for the company's key personnel. Payment of the reward is subject to reaching the financial targets set by the Board. The criteria for the determination of the rewards are decided annually. Rewards paid for 2009 were based on the EVA result of Lassila & Tikanoja Group. Rewards to be paid for the year 2010 were also based on the EVA result of Lassila & Tikanoja group. No rewards will be paid for 2010.

The programme includes three earnings periods one year each, of which the first one began on 1 January 2009 and the last one ends on 31 December 2011. Potential rewards will be paid during the year following each earnings period partly as shares and partly in cash. The proportion paid in cash will cover taxes arising from the reward. No reward will be paid if a key person's employment ends before the reward payment. Any shares earned through the incentive programme shall be held for a minimum period of two years following the payment of each reward. After that, the members of the Group Executive Board are still required to hold company shares with a value equal to their gross salary for six months and the other programme participants with a value equal to their gross salary for three months as long as they are employed by the company.

A maximum total of 180,000 Lassila & Tikanoja plc shares may be paid out on the basis of the programme. The shares will be obtained in public trading. In the starting phase the programme covered 28 persons.

The share component is measured at fair value at the grant date and the measurement will not be changed during the validity of the programme. Expenses from the share component are deferred to three years over vesting period and recognised as personnel expenses in the income statement and under the equity.

Cash components are measured at fair value based on the share price on the balance sheet date. Cash components of the share-based incentive programme are recognised under personnel expenses and liabilities and deferred over the earnings period.

In the beginning of June 2010, the shares for the first earnings period 2009 were transferred. The obligation to hold shares earned through the incentive programme ceases on 31 May 2012.

**Share-based incentive programme 2009-2011**

Date of issue	Issued by the Board's decision 24 March 2009
<b>Share-based incentive programme</b>	
<b>Share-based incentive programme 2010</b>	
Grant date	9 February 2010
Start of earnings period	1 January 2010
End of earnings period	31 December 2010
Average share price at grant date	15.26
Realisation on closing date, shares	0
Obligation to hold shares, years	2
Release date of shares	31 March 2013
Number of persons included	25
Expenses arising from share-based incentive programme, EUR 1,000	
Share component	192.4
Cash component	277.8
Total	470.2
No share-based payments were paid for 2010 as the criteria for the rewards was not fulfilled.	
<b>Share-based incentive programme 2009</b>	
Grant date	20 May 2009
Start of earnings period	1 January 2009
End of earnings period	31 December 2009
Average share price at grant date	11.87
Realisation on closing date, shares	49,242
Obligation to hold shares, years	2
Release date of shares	31 May 2012
Number of persons included	26
Expenses arising from share-based incentive programme, EUR 1,000	
Share component	118.6
Cash component	555.8
Total	674.4

**25. Retirement benefit obligations**

L&T operates some minor defined benefit plans concerning a few persons in Finland. Most of them originate from company acquisitions. These plans are administered either by insurance companies or by the company.

EUR 1,000	2010	2009
<b>The amounts recognised in the consolidated statement of financial position</b>		
Present value of funded obligations	623	597
Fair value of plan assets	-546	-529
	77	68
Present value of unfunded obligations	537	519
Unrecognised actuarial gain (+) and loss (-)		65
Closing net liability	614	652
<b>Changes in present value of obligation</b>		
Opening defined benefit obligation	1,116	1,047
Current service cost	49	49
Interest cost	57	62
Actuarial gain (-) and loss (+) on obligation	23	35
Benefits paid	-85	-77
Closing present value of obligation	1,160	1,116
<b>Changes in fair value of plan assets</b>		
Opening fair value of plan assets	529	436
Expected return on plan assets	24	20
Employee contributions	7	20
Actuarial gain (+) and loss (-) on plan assets	11	76
Benefits paid	-25	-23
Closing fair value of plan assets	546	529
<b>Movements in the net liability recognised in the consolidated statement of financial position</b>		
Opening net liability	671	676
Expense recognised in the income statement	10	72
Contributions paid	-70	-77
Closing net liability	611	671
<b>The amounts recognised in the income statement</b>		
Current service cost	49	49
Interest cost	57	63
Expected return on plan assets	-24	-20
Actuarial gain (-) and loss (+) recognised	18	-20
Total	100	72

The return on plan assets was EUR 17 thousand in 2010 (EUR 96 thousand).

Expected contributions to post-employment benefit plans for the year 2011 are EUR 83 thousand.

EUR 1,000	2010	2009	2008
<b>The amounts for the period and for two preceding periods</b>			
Present value of obligation	1,160	1,116	1,047
Fair value of plan assets	-546	-529	-436
Deficit	614	587	611
Actuarial gain (+) / loss (-) on plan assets due to experience adjustments	11	76	-61
Actuarial gain (+) / loss (-) on obligation due to experience adjustments	2	96	-15
<b>The principal actuarial assumptions used</b>			
Discount rate	4.8%	5.0%	6.0%
Expected rate of inflation	2.0%	2.0%	2.0%
Expected rate of return on plan assets	4.5%	4.5%	4.5%
Rate of salary increase	4.5%	4.5%	4.5%

## 26. Provisions

EUR 1,000	Environmental provisions	Other provisions	Total
Provisions at 1 January 2010	1,975	180	2,155
Additional provisions	577	1,542	2,119
Used during the year	-72	-994	-1,066
Released provisions		-111	-111
Effect of discounting	51		51
Provisions at 31 December 2010	2,531	617	3,148

EUR 1,000	2010	2009
Non-current provisions	2,748	2,100
Current provisions	400	55
Total	3,148	2,155

The environmental provisions cover the following obligations:

The Group has leased from the Cities of Kerava and Kotka sites that it uses as landfills. In Varkaus the Group uses a site for intermediate storing, processing and final disposal of contaminated soil. At the expiry of the leases or at the discontinuation of operations, the Group is responsible for site restoration comprising landscaping and post-closure environmental monitoring called for in the terms and conditions of environmental permits.

The site restoration provision for the Kerava landfill has been divided into two portions. For one portion, future expenditure has been measured at the price level of the time of calculation adjusted by an annual inflation rate of 2% to 3%, because the cost level will be higher at the moment when the provision will be used than during the construction

of the landfill. The expenditure adjusted by inflation has been discounted to the date of construction of the landfill. The interest rate used is the yield expectation of a risk-free five-year government bond at the time of construction plus L&T's loan margin at the time in question. This portion arising from the construction of the landfill is recognised at present value in the balance sheet as a part of the cost of the site and it is depreciated using the straight-line method. A corresponding amount has been recognised as a provision in liabilities. This amount is increased annually by a discount interest recognised in finance costs. The other portion of the provision is calculated on the basis of the tonnage taken to the landfill.

The site restoration provision for the Kotka landfill also consists of two portions. For one portion, the construction expenditure is recognised at present value in the balance sheet as a part of the cost of the site as the provision for the Kerava landfill. The accrual method, however, is applied to the depreciations on the Kotka landfill, and it will be depreciated on the basis of the volume of the waste taken to the site. The other portion consists of a provision for post-closure environmental monitoring, which is based on depreciation where the straight-line method is used. Future expenditure is measured at the price level of the time of calculation adjusted by an annual inflation rate of 3%.

The principle applied for the Kerava site has been applied to the restoration provision of the processing and final disposal site of contaminated soil in Varkaus.

The settlement of the obligations recognised under long-term provisions will probably require an outflow of resources embodying economic benefits over a period of 1 to 5 years from now, except for the provision for the post-closure monitoring of the Kotka landfill the period is 30 years.

Other provisions are mainly related to restructuring and arbitration claims.

## 27. Borrowings

EUR 1,000	2010 Carrying amount	2009 Carrying amount
<b>Non-current</b>		
Bank borrowings and loans from pension institutions	92,849	114,802
Finance lease liabilities	2,714	2,843
Acquisition price liabilities		3,324
Total	95,563	120,969
<b>Current</b>		
Repayments of long-term borrowings	22,202	18,922
Repayments of finance lease liabilities	341	403
Short-term borrowings	4,994	
Acquisition price liabilities	1,691	1,747
Other interest-bearing liabilities	2,033	1,818
Total	31,261	22,890

Fair values of financial liabilities are presented in Note 30 Financial assets and liabilities by category.

## 27.1. Maturity of long-term borrowings

EUR 1,000	2011	2012	2013	2014	2015	2016 and later	Total
Bank borrowings and loans from pension institutions	22,202	31,777	25,067	15,283	7,196	13,526	115,051
Finance lease liabilities	341	318	296	276	259	1,565	3,055
Total	22,543	32,095	25,363	15,559	7,455	15,091	118,106

The average duration of long-term borrowings at 31 December 2010 was 2.8 years (3.2 years) and the weighted average of effective interest rates 3.3% (3.2%).

The loan agreements include equity ratio and interest cover covenants and other normal terms which restrict giving of collaterals to other financiers and discontinuation or disposal of present business. The breaching of the terms will entitle the borrowers to call in the loans immediately. The terms of loans being in Lassila & Tikanoja plc's name have not been close to breaching during 2010 and 2009.

The ratio of net liabilities and gross margin for the year 2010 provided for in the loan agreements of the joint venture L&T Recoil Oy was not achieved due to the technical problems of the re-refinery that continued until autumn. However, the borrowers have accepted the breach of covenants for a definite duration.

## 27.2. Finance lease liabilities

EUR 1,000	2010	2009
<b>Maturity of minimum lease payments</b>		
Not later than one year	354	418
Later than one year and not later than five years	1,416	1,416
Later than five years	2,919	3,267
Total minimum lease payments	4,689	5,101
<b>Maturity of present values of minimum lease payments</b>		
Not later than one year	341	403
Later than one year and not later than five years	1,149	1,149
Later than five years	1,565	1,694
Total present value of minimum lease payments	3,055	3,246
Future finance costs	1,634	1,855
Total finance lease liabilities	4,689	5,101

The finance lease concerns the purchase agreement signed by joint venture L&T Recoil, covering the procurement of hydrogen, hot oil and steam. Pursuant to this agreement, L&T Recoil undertakes to purchase the entire production of the production facilities for its re-refinery. The purchase agreement contains a lease as specified in IFRIC 4.

The minimum lease payments stated above comprise the redemption price to be paid at the end of the lease term, if it is included in the lease agreement.

## 28. Other non-current liabilities

EUR 1,000	2010	2009
Accrued expenses and deferred income		1,255
Advances received	263	205
Other liabilities	101	50
Total	364	1,510

## 29. Trade and other current payables

EUR 1,000	2010	2009
Advances received	4,239	3,981
Trade payables	22,834	22,218
Other liabilities	18,168	18,115
Accrued expenses and deferred income	49,650	49,815
Total	94,891	94,130
<b>Accrued expenses and deferred income</b>		
Liabilities related to personnel expenses	40,798	40,587
Waste charges	1,265	1,276
Interest liabilities	1,252	1,287
Other accrued expenses	6,335	6,665
Total	49,650	49,815

The fair values of trade and other current payables do not differ significantly from the carrying amounts presented above.

### 30. Financial assets and liabilities by category

2010	Financial assets and liabilities at fair value through profit or loss		Loans and other receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Derivatives under hedge accounting	Carrying amounts by balance sheet item	Fair values by balance sheet item	Fair value hierarchy level under IFRS 7
<b>EUR 1,000</b>									
<b>Non-current financial assets</b>									
Available-for-sale investments				598			598	598	
Finance lease receivables			3,547				3,547	3,923	
Other receivables			3,401				3,401	3,401	
<b>Current financial assets</b>									
Trade and other receivables			76,280				76,280	76,280	
Derivative receivables	7					400	407	407	2
Available-for-sale investments				9,895			9,895	9,895	2
Cash and cash equivalents			4,653				4,653	4,653	
Total financial assets	7		87,881	10,493		400	98,781	99,157	
<b>Non-current financial liabilities</b>									
Borrowings					95,563		95,563	96,943	
Other liabilities					101		101	101	
<b>Current financial liabilities</b>									
Borrowings					29,289		29,289		
Trade and other payables					44,546		44,546		
Derivative liabilities						1,173	1,173	1,173	2
Total financial liabilities					169,499	1,173	170,672	98,217	

2009	Financial assets and liabilities at fair value through profit or loss		Loans and other receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Derivatives under hedge accounting	Carrying amounts by balance sheet item	Fair values by balance sheet item	Fair value hierarchy level under IFRS 7
<b>EUR 1,000</b>									
<b>Non-current financial assets</b>									
Available-for-sale investments				525			525	525	
Finance lease receivables			4,425				4,425	4,843	
Other receivables			726				726	726	
<b>Current financial assets</b>									
Trade and other receivables			73,339				73,339	73,339	
Derivative receivables									
Available-for-sale investments				18,484			18,484	18,484	2
Cash and cash equivalents			9,099				9,099	9,099	
Total financial assets			87,589	19,009			106,598	107,016	
<b>Non-current financial liabilities</b>									
Borrowings					120,969		120,969	121,788	
Other liabilities					1,305		1,305	1,305	
<b>Current financial liabilities</b>									
Borrowings					21,072		21,072	21,072	
Trade and other payables					51,379		51,379	51,379	
Derivative liabilities						1,073	1,073	1,073	2
Total financial liabilities					194,725	1,073	195,798	196,617	

In the above tables, Non-current other liabilities do not include advances received, Trade and other receivables do not include tax receivables and accruals, and Trade and other payables do not include statutory liabilities (e.g. tax liabilities), as such classifications are required of financial instruments only.

### Principles for determining fair values of financial assets and liabilities

#### Available-for-sale investments

Available-for-sale investments consist of unquoted shares and certificates of deposit and commercial papers. The unquoted equity instruments whose fair values are not available due to inactive markets, are measured at acquisition cost. The certificates of deposit and commercial papers are tradable on the secondary market and their fair value is based on the interest rate market quotations at the balance sheet date.

#### Derivatives

Fair values of interest rate swaps are valued using a technique based on present value of future cash flows, which is supported by market interest rates at the balance sheet date. Fair values describe the prices that the Group would gain or should pay, if the derivative financial instruments were cancelled at the balance sheet date.

#### Bank and other borrowings

Fair values of borrowings are based on discounted cash flows. The discount rate is defined to be the interest rate the Group would pay for an equivalent loan at the balance sheet date. The overall interest is composed of a risk-free market interest rate and a company-based risk premium.

#### Finance lease liabilities

Fair value of finance lease liabilities is calculated by discounting future cash flows. The discount rate is defined to

be the interest rate with which the Group could enter into an equivalent lease contract at the balance sheet date.

#### Trade and other receivables

Trade and other receivables, which are non-derivative financial assets, are recognised in the balance sheet at historical cost less credit adjustments and impairment losses. This corresponds with their fair value as the periods for payment are short and thus the discounting effect is not essential.

#### Trade and other payables

Trade and other current non-interest-bearing payables are recognised in the balance sheet at historical cost which corresponds with their fair value, as the discounted effect is not essential considering the maturity of the payables.

#### Fair value hierarchy of financial assets and liabilities measured at fair value

The financial assets and liabilities measured at fair value must be classified using a three-level fair value hierarchy that reflects the significance of input data used for value definition. At L&T, only non-current available-for-sale investments and derivatives are measured at fair value. The fair value of non-current available-for-sale investments consisting of certificates of deposit and commercial papers and derivatives consisting of interest rate swaps, currency derivatives and commodity derivatives represent level 2. The fair values of both financial instruments are based on prices derived from prices quoted in active markets or on generally accepted valuation techniques, the input data for which is, however, materially based on verifiable market data.

### 31. Derivative financial instruments

#### Currency derivatives

EUR 1,000	2010		2009	
	Nominal value	Fair value	Nominal value	Fair value
<b>Maturity of currency derivatives held for trading</b>				
Not later than one year	196	7		

Currency derivatives are entered into in order to hedge against foreign currency risk associated with foreign currency transactions.

Hedge accounting under IAS 39 has not been applied to currency derivatives. Changes in fair values have been recognised in finance income and costs.

EUR 1,000	2010		2009	
	Nominal value	Fair value	Nominal value	Fair value
<b>Maturity of interest rate swaps under hedge accounting</b>				
Not later than one year	11,010		4,629	
Later than one year and not later than five years	49,355		30,785	
Later than five years	267			
Total	60,632	-1,173	35,414	-1,073

Interest rate swaps were entered into in order to hedge against cash flow interest rate risk associated with floating rate borrowings. Hedge accounting under IAS 39 has been applied. The hedges have been effective and the changes in fair values are presented in the consolidated statement of comprehensive income.

The fixed interest rates of the interest rate swaps at 31 December 2010 varied between 1.67% and 4.22% (2.07% and 4.306%). The floating interest rate was 1-, 3- or 6-month Euribor.

The fair values of the interest rate swaps are based on the market quotations at the balance sheet date.



### 37. Financial risk management

The principles for L&T's financial risk management are defined in the financial policy approved by the Board of Directors. The purpose of financial risk management is to mitigate significant financial risks and strive to reduce the effects of the unfavourable fluctuations in the financial market on the Group's result.

The Group's financing and liquidity management are handled centrally at the Group's financial management managed by the CFO. Transactions related to financial risk management are carried out by Group's financial management. The joint venture L&T Recoil's financing arrangements are separate from the rest of the Group, but the Group's financial management is responsible for the related hedging transactions and for the company's liquidity management.

#### Foreign exchange risk

L&T comprises the parent company operating in Finland and subsidiaries operating in Finland, Sweden, Latvia and Russia. The functional and reporting currency of the parent company and Finnish subsidiaries is the euro, while the other subsidiaries use the currency of each country of location. Therefore exchange rate fluctuations have an effect on consolidated earnings and equity but this is not very significant.

#### Transaction risk

The business operations of L&T's foreign subsidiaries are carried out almost completely in their functional currency. Financing for subsidiaries is generally provided through intra-Group loans that are denominated in the functional currency of each subsidiary. Group companies operating in Finland use the euro as the invoicing currency for sales almost exclusively, while minor amounts of purchases are also invoiced in Swedish kronor. Loans taken out by L&T are denominated in euros, apart from three minor loans taken out by the Latvian subsidiary in Latvian lats.

#### Repricing date or maturity date of long-term borrowings (incl. interest rate swaps)

EUR 1,000	2011	2012–2015	2016 and later	Total
<b>31 December 2010</b>				
Bank borrowings and loans from pension institutions	99,107	13,612	2,332	115,122
Finance lease liabilities	341	1,416	1,298	3,055
Total	99,448	15,028	3,630	118,106
Effect of interest rate swaps	-49,622	49,356	266	
	49,826	64,384	3,896	118,106

EUR 1,000	2010	2011–2014	2015 and later	Total
<b>31 December 2009</b>				
Bank borrowings and loans from pension institutions	99,662	22,952	11,110	133,724
Finance lease liabilities	403	1,149	1,694	3,246
Total	100,065	24,101	12,804	136,970
Effect of interest rate swaps	-30,785	30,785		
	69,280	54,886	12,804	136,970

#### Translation risk

L&T's exposure to translation risk consists of net investments in foreign subsidiaries, which include equity and loans. The position of net investments in foreign subsidiaries is not hedged, as these holdings are considered long-term strategic investments.

Changes in exchange rates in 2010 resulted in translation differences of EUR 1, 275 thousand in equity (EUR 300 thousand). Net investments by currency are presented in the table below

#### Translation exposure of net investments

EUR 1,000	2010	2009
SEK	14,342	13,923
LVL	8,341	8,527
RUB	8,069	7,536
<b>Total</b>	<b>30,752</b>	<b>29,986</b>

#### Price risk of investments

L&T has not invested in listed securities, the value of which changes as the market prices change, and L&T is not exposed to securities price risk. L&T has only a minor holding in unlisted shares, and there is no substantial price risk related to these shares.

#### Commodity risk

The fluctuations of world market price of crude oil are reflected in the price of fuel used in waste management transports as well as in the purchase prices of Environmental Products through oil-based raw materials. In waste management, some customer contracts specify such invoicing periods and contract terms that the sales prices cannot be raised monthly. This means that the rise in fuel prices is passed on to the process of the services with a delay. This price risk has been partly hedged using commodity derivatives, for the period 2011–2012. Hedge accounting under IAS 39 has been applied to these derivatives.

The joint venture L&T Recoil started its production at the end of the year 2009. The plant suffered from technical problems almost throughout the year. Its production level improved considerably at the year-end. Disruption of the plant's reliability and efficiency would still constitute a significant risk to L&T's financial performance. The price development of the base oil produced at the plant partly follows crude oil prices.

L&T manages the raw material price risk for Environmental Products through fixing sales prices for a period not exceeding the period for which the suppliers' purchase prices are valid.

#### Interest rate risk

The most significant interest risk of L&T relates to borrowings, which are tied to variable interest rates and create cash flows that vary with the interest rate level. As the demand for L&T's services or their prices are not significantly dependent on fluctuations in economic trends, L&T tries to keep interest costs steady. On account of this, a major portion of the cash flow associated with variable-rate borrowings is hedged against interest rate risk by interest rate swaps. Moreover, some of the loans have been taken out with fixed interest rates.

At 31 December 2010, 70% (56%) of the company's borrowings were either fixed interest rate borrowings or hedged with interest rate swaps. Variable-rate borrowings accounted for 30% (44%). Moreover, some of long-term variable-rate borrowing agreements include interest rate options to attenuate the effect of changes in interest rates. Therefore changes in the interest rate level will not impact interest costs in full.

All interest rate swaps made to hedge the cash flow are hedges in accordance with the Group's risk management policy.

In accordance with L&T's financial policy, the company seeks to minimise the amount of interest-bearing assets in proportion to the current short-term financing requirements, and invests in relatively short-term instruments. The Group has been holding the larger amount of interest-rate investments for the whole year 2009, but in 2010 the amount was reduced. The investment period for none of the interest rate investments exceeds six months. L&T has no other significant, interest-bearing receivables involving income tied to changes in market rates.

#### Credit and counterparty risk

Financial instruments involve the risk of the counterparty being unable to fulfil its contractual commitments. Counterparty risk is managed by making financial and derivative contracts with major Nordic banks only and by making investments related to liquidity management only in certificates of deposit and commercial papers of issuers with a good credit standing in accordance with the counterparty list approved by the Board. No impairment is expected on any outstanding investments at the balance sheet date.

L&T has a wide customer base comprising companies, industrial plants, office and business properties, institu-

tional property owners, housing corporations, public sector and households. Its accounts receivable consist mostly of a high number of relatively small receivables and there are no significant concentrations of credit risk. L&T has credit control guidelines to ensure that services and products are sold only to customers with an appropriate credit standing or, if a customer's creditworthiness is inadequate, prepayment is required. Most customer relationships are based on long-term service contracts, and customers are not generally required to provide collateral.

With regard to Finnish trade receivables, collection operations related to trade receivables are managed centrally by the financial management function. The foreign subsidiaries manage the collection of their accounts receivable locally. 88.8% of net sales originated from Finland in 2010.

The net amount of impairment on the accounts receivable in proportion to the net sales was still at the same level as in the last few years, corresponding to less than 0.25% of the net sales. The figure includes a credit loss of EUR 0.7 million recognised in Russia in the first half. The total of carrying amounts of financial assets at 31 December 2010 represents best the Group's maximum exposure to credit risk at the balance sheet date in case that the counterparties are not able to fulfil their commitments related to the financial instruments.

#### Analysis of trade receivables by age

EUR 1,000	2010	2009
Trade receivables past due	63,178	57,868
Trade receivables past due 1-90 days	7,325	5,175
Trade receivables past due 91-180 days	837	724
Trade receivables past due 181-365 days	1,496	690
Trade receivables past due over 365 days	51	76
<b>Total</b>	<b>72,887</b>	<b>64,533</b>

Impaired trade receivables have been recognised as expenses in the income statement. Impairment losses and reversals of impairment losses recognised in previous periods are shown in Note 6 Other operating income and expenses.

#### Credit risk related to financial assets

EUR 1,000	2010 Carrying amount	2009 Carrying amount
Non-current available-for-sale investments	598	525
Non-current finance lease receivables	3,547	4,425
Other non-current receivables	3,402	726
Trade and other current receivables	72,887	64,533
Derivative receivables	407	
Current available-for-sale investments	9,895	18,484
Cash and cash equivalents	4,653	9,099
<b>Total</b>	<b>95,389</b>	<b>97,792</b>

Financial assets are not collateralised, and they do not include any significant concentrations of credit risk. The maximum exposure to credit risk is the carrying amount of the financial assets. The criteria for recognising an impairment loss on a receivable include, based on the management's judgement, the debtor's substantial financial difficulties, corporate restructuring, a credit loss recommendation issued by a collection agency or extended default on payments. No impairment was recognised on other financial assets.

#### Liquidity and refinancing risk

Liquidity risk management ensures that L&T continuously will be able to answer for its financial obligations associated with operations at the lowest possible cost. L&T seeks to maintain good liquidity through efficient cash management and by investing in money market instruments which can be realised quickly. The liquidity situation is monitored in real time and predicted using cash flow forecasts. The netting of the Finnish Group companies' liquidity is done using Group bank accounts, and the Group's financial management is responsible for investing any excess liquidity. To ascertain the availability of funding, L&T uses several banks in its financial operations. Refinancing risk is managed by a broad-based maturity profile of loans and by maintaining the level of the average duration of the loan portfolio at least 2.5 years.

#### Maturity of financial liabilities

EUR 1,000	Carrying amount	Contractual cash flows	2011	2012	2013	2014	2015	2016 and later
<b>31 December 2010</b>								
Bank borrowings and loans from pension institutions	115,051	123,136	24,614	33,799	26,349	15,981	7,830	14,562
Finance lease liabilities	3,055	4,689	354	354	354	354	354	2,919
Acquisition price liabilities	1,691	1,748	1,748					
Other non-current financial liabilities	306	306	306					
Commercial paper liabilities	4,994	5,000	5,000					
Derivative liabilities	1,173	1,173	1,173					
Trade and other payables	51,988	51,988	51,988					
<b>Total</b>	<b>178,258</b>	<b>188,040</b>	<b>85,183</b>	<b>34,153</b>	<b>26,703</b>	<b>16,335</b>	<b>8,184</b>	<b>17,481</b>

EUR 1,000	Carrying amount	Contractual cash flows	2010	2011	2012	2013	2014	2015 and later
<b>31 December 2009</b>								
Bank borrowings and loans from pension institutions	133,724	146,791	22,492	24,011	32,640	25,417	14,976	27,255
Finance lease liabilities	3,246	5,101	418	354	354	354	354	3,267
Acquisition price liabilities	5,121	5,410	1,786	3,624				
Other non-current financial liabilities	1,255	1,255		628	627			
Derivative liabilities	1,073	1,073	1,073					
Trade and other payables	51,379	51,379	51,379					
<b>Total</b>	<b>195,798</b>	<b>211,009</b>	<b>77,148</b>	<b>28,617</b>	<b>33,621</b>	<b>25,771</b>	<b>15,330</b>	<b>30,522</b>

L&T seeks to keep its cash assets fairly small, while ensuring sufficient credit limits for liquidity management purposes. Following the global financial crisis, in 2009, the Group was holding intentionally a larger amount of liquid assets than normally.

To meet any temporary need for cash arising from cash flow fluctuations, L&T has credit limits for short-term loans (totalling EUR 23 million), current accounts with overdraft facilities (totalling EUR 3.2 million) and a commercial paper programme (EUR 50 million). At 31 December 2010, the Group's liquid assets and investments amounted to EUR 14.5 million (EUR 27.6 million). At 31 December 2010, EUR 2.0 million (EUR 1.8 million) of the short-term credit limits were in use and EUR 5.0 million of the commercial paper programme was in use (not in use in 2009).

The following table shows the Group's financial liabilities classified according to contractual maturity dates at the balance sheet date. The figures shown are undiscounted contractual cash flows. The long-term borrowings include equity ratio and interest cover covenants and other normal terms which restrict giving of collaterals to other financiers and discontinuance or disposal of present business. Breaching of these terms would entitle the borrowers to call in the loans immediately, which would lead to earlier realisation of the cash flows related to the borrowings.

#### Breakdown of borrowings

EUR 1,000	In use at 31 December 2010	Undrawn at 31 December 2010	Total	In use at 31 December 2009	Undrawn at 31 December 2009	Total
Bank borrowings and loans from pension institutions	115,051		115,051	133,724		133,724
Finance lease liabilities	3,055		3,055	3,246		3,246
Committed credit facility with maturity in 2012		15,000	15,000		15,000	15,000
Non-committed credit facilities		8,000	8,000		8,000	8,000
Commercial paper programme	5,000	45,000	50,000		50,000	50,000
Overdraft facilities	1,972	1,221	3,193	1,818	1,375	3,193
Acquisition price liabilities	1,691		1,691	5,121		5,121
<b>Total</b>	<b>126,769</b>	<b>69,221</b>	<b>195,990</b>	<b>143,909</b>	<b>74,375</b>	<b>218,284</b>

#### Sensitivity for market risks arising from financial instruments

The following sensitivity analysis required by IFRS 7 illustrates the sensitivity of the Group's profit for the period and equity to changes in the interest rate level and diesel oil price level with regard to financial instruments in the statement of financial position at 31 December, including financial assets and liabilities as well as derivative contracts. Changes in the fair value of derivative contracts under hedge accounting are assumed to be allocated entirely to equity, while changes in the fair value of other derivative contracts are assumed to be allocated entirely to the income statement.

The following assumptions have been used in calculating sensitivity to changes in the interest rate level:

- The change in the interest rate level is assumed to be +/-0.5 percentage point.
- The change in diesel oil price is assumed to be +/-10 percentage point.
- The exposure underlying the calculation includes interest-bearing financial liabilities and receivables, as well as interest rate swaps and commodity derivatives.

Net investments in foreign subsidiaries are not included in the sensitivity analysis.

#### Sensitivity analysis under IFRS 7 of market risk arising from financial instruments

EUR million	2010	Equity	2009	Equity
+0.5% change in market interest rate	-0.1	0.4	-0.2	0.3
-0.5% change in market interest rate	0	-0.4	0.1	-0.3
+10% change in diesel oil CIF CARGO NWE price		0.5		
-10% change in diesel oil CIF CARGO NWE price		-0.5		

#### 38. Disputes and litigation

L&T Hankinta Ky appealed in Helsinki administrative court against the decision of the Rectification Board of Uusimaa Regional Tax Office concerning amortisation on dissolution losses deducted from the company's taxable profit in 2005, totalling EUR 1,037,255.46.

L&T Biowatti Oy is a defendant in arbitration proceedings regarding damages related to the company's business. Lassila & Tikanoja plc is a defendant in a dispute over damages related to the company's business. The company has adequate insurance coverage for the liability for damages.

Lassila & Tikanoja is involved in a few minor disputes incidental to the Group's business operations. The outcome of these disputes will not have material effect on the Group's financial position.

#### 39. Events after the balance sheet date

The company's management is not aware of any events of material importance after the balance sheet date, which might have affected the preparation of the financial statements.









## 15. Liabilities

Repayments of non-current liabilities in coming years

EUR 1,000	2011*	2012	2013	2014	2015	2016 and later
Loans from financial institutions	18,372	18,372	23,897	14,504	7,196	13,596

\* In the balance sheet under current liabilities

EUR 1,000	2010	2009
<b>Liabilities to Group companies</b>		
Trade payables	834	228
Other liabilities	11,978	20,634
<b>Total</b>	<b>12,812</b>	<b>20,862</b>
<b>Accruals and deferred expenses</b>		
Personnel expenses	34,619	34,108
Interests	632	841
Waste charges	1,084	847
Other matched expenses	5,076	4,029
<b>Total</b>	<b>41,411</b>	<b>39,825</b>

## 16. Contingent liabilities

EUR 1,000	2010	2009
<b>For own commitments</b>		
Mortgages on rights of tenancy	179	179
Other securities	166	171
<b>Liabilities related to leasing and leases</b>		
Falling due next year	7,520	7,361
Falling due in subsequent years	19,108	19,246
<b>Total</b>	<b>26,628</b>	<b>26,607</b>
<b>For Group companies</b>		
Guarantees	13,788	13,788
<b>For joint ventures</b>		
Guarantees	20,802	20,802
Bank guarantees required for environmental permits	4,624	3,078

## 17. Derivatives

EUR 1,000	2010	2009
<b>Interest rate swaps</b>		
Nominal value	51,132	25,914
Fair value	-1,056	-1,027

Interest rate swaps were entered into in hedging purposes. Their fair values are based on the market prices at the balance sheet date.

EUR 1,000	2010	2009
<b>Currency derivatives</b>		
Nominal value	196	
Fair value	7	

Currency derivatives were entered into in hedging purposes. Their fair values are based on the market quotations at the balance sheet date.

metric tonnes	2010	2009
<b>Commodity derivatives</b>		
Nominal value	10,140	
Fair value	400	

Commodity derivatives were entered into in hedging purposes. Their fair values are based on the market quotations at the balance sheet date.

# Proposal for the distribution of profit

According to the financial statements, Lassila & Tikanoja plc's distributable assets amount to EUR 71,211,992.73, of which EUR 37,665,785.66 constitutes profit for the financial period. There were no substantial changes in the financial standing of the company after the end of the financial period, and the solvency test referred to in Chapter 13, Section 2 of the Companies Act does not affect the amount of distributable assets. The Board of Directors proposes to the General Meeting of Shareholders that distributable assets be used as follows:

A dividend of EUR 0.55 will be paid on each share. No dividend shall be paid on shares held by the company on the dividend payment record date. On the day when the distribution of profit was proposed, the number of shares conferring entitlement to receive dividend totalled 38,738,116 shares, on which the total dividend payment would be	EUR 21,305,963.80
To be retained and carried forward	EUR 49,906,028.93
<b>Total</b>	<b>EUR 71,211,992.73</b>

In accordance with the resolution of the Board of Directors, the record date is 22 March 2011. The Board of Directors proposes to the Annual General Meeting that the dividend be paid on 29 March 2011.

## Signatures to the Report of the Board of Directors and the Financial Statements for the year 2010:

Helsinki on 2 February 2011

Matti Kavetvuo  
Heikki Bergholm  
Hille Korhonen

Juhani Lassila  
Eero Hautaniemi  
Miikka Maijala

Jari Sarjo  
President and CEO

# Auditor's report

## To the Annual General Meeting of Lassila & Tikanoja plc

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Lassila & Tikanoja plc for the period 1 January – 31 December 2010. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

## Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

## Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstate-

ment, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

## Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

## Other Opinions

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki, 7 February 2011

**PricewaterhouseCoopers Oy**  
Authorised Public Accountants

Heikki Lassila  
Authorised Public Accountant

# Information to investors

## Lassila & Tikanoja Disclosure Policy

This disclosure policy defines the principles and operating procedures in Lassila & Tikanoja plc's (L&T) communication with the capital market. The policy is approved by the Board of Directors.

## Principles and goals of investor communications

L&T complies with the requirements of the Finnish legislation and with the regulations and guidelines issued by The Finnish Financial Supervision Authority and NASDAQ OMX Helsinki.

The purpose of L&T's investor communications is to provide correct and relevant information for the capital market, in order to support the correct valuation of L&T's share. All material information on L&T's activities, operating environment, strategy, goals and financial standing is disclosed timely, clearly and sufficiently comprehensively. All market participants are provided with the same information simultaneously, and both positive and negative events are reported. Periodical reports are produced in a continuous, consistent format in terms both of figures and written assessments.

## Regular disclosure requirements

L&T issues a financial statement release, interim reports, financial statements, report of the Board of Directors and an annual summary according to a previously disclosed calendar. The calendar is disclosed prior to the start of each financial year.

## Other disclosure requirements

L&T discloses without undue delay information on decisions and circumstances concerning the company and its activities, which is expected to materially affect the price of its listed securities. In evaluating whether information is immaterial, the expected extent or importance of the matter compared to the company's activities as a whole is considered. Material information is always disclosed by a stock exchange release.

Examples of information that could be material: changes in the management, profit warnings, major capital expenditure, major business acquisitions, major reorientation of business, major new partnership arrangements, major litigation pending or decisions rendered in legal disputes, major decision made by authorities, significant information regarding a subsidiary or a joint venture.

## Information leaks

In the event that confidential material information leaks out, the company will make immediate disclosure of that information without undue delay.

## Forward looking information and guidance

Forecasts and forward-looking statements are disclosed in the financial statements release and interim reports. L&T discloses forecasts for the current financial year as a whole only. L&T does not comment on analyst estimates nor market rumours.

## Communication practices

L&T discloses without undue delay a profit warning, if either a forecast or prospects deviate significantly from a previous forecast. In deciding whether a deviation is significant enough, the deviation is compared to the latest disclosed financial report. Primarily the decision on the disclosure of a profit warning is made by the Board. If a sufficient number of directors to constitute a quorum cannot be reached quickly enough, the decision is made by the Chairman of the Board or the President and CEO, who endeavour to discuss with as many members of the Board as possible prior to the disclosure.

In crisis situations, the company's crisis communication guidelines are followed.

Stock exchange releases are available on the company website [www.lassila-tikanoja.com](http://www.lassila-tikanoja.com) immediately after the disclosure.

## Responsibilities and designated spokespersons

The President and CEO is in charge of investor relations. Investor communications are the responsibility of the CFO. Announcements are published by IR personnel supervised by the CFO. Individual investor relations and meetings are the responsibility of Jari Sarjo, President and CEO, together with Ville Rantala, CFO, and Keijo Keränen, Head of Treasury and Investor Relations.

Within the operative management public statements on the company's finances are issued only by the President and CEO or a person designated by him. Others must not respond to any inquiries concerning the company as a whole or its finances. Such inquiries are directed to the Head of Treasury and Investor Relations.

## Procedures in investor and analyst meetings

In conjunction with the publication of its annual and interim results L&T holds conferences for analysts and investors. Investors are met at the analyst and investor meetings and in the road shows organised by banking companies. Analysts and investors are also invited to visit the company.

## Silent period

No appointments will be arranged with L&T's representatives, nor will they comment on the financial result during

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### Other disclosure requirements

### Lassila & Tikanoja plc share and listed share options

The company's shares are quoted on the mid-cap list of the NASDAQ OMX Helsinki Ltd. in the Industrials sector. Listing date is 1 October 2001.

	Share	2005C share option	2008 share option
Trading code	LAT1V	LAT1VEW305	LAT1VEW108
ISIN code	FI0009010854	FI0009618391	FI0009648190

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# Annual General Meeting and payment of dividend

### Annual General Meeting

The Annual General Meeting of Lassila & Tikanoja plc will be held on Thursday 17 March at 4 pm in the Helsinki room of the Finlandia Hall, Mannerheimintie 13 e, Helsinki. Each shareholder, who is registered on 7 March 2011 in the shareholders' register of the company held by Euroclear Finland Ltd, has the right to participate in the Annual General Meeting. A shareholder, whose shares are registered on his/her personal Finnish book-entry account, is registered in the shareholders' register of the company.

### Registration

A shareholder, who wants to participate in the Annual General Meeting, shall register for the meeting no later than 14 March 2011 at 4 pm by giving a prior notice of participation. Such notice can be given:

- via the company website [www.lassila-tikanoja.com](http://www.lassila-tikanoja.com)
- by e-mail at [taru.maatta@lassila-tikanoja.fi](mailto:taru.maatta@lassila-tikanoja.fi)
- by telephone at +358 10 636 2882 / Taru Määttä
- by fax at +358 10 636 2899 or
- by regular mail to Lassila & Tikanoja plc, Taru Määttä P.O. Box 28, FI-00441 Helsinki, Finland.

Any powers of attorney and proxy documents shall be delivered in originals to the above mentioned address by the end of the registration period.

### Holders of nominee registered shares

A holder of nominee registered shares, who wants to participate in the Annual General Meeting, shall be temporarily entered into the Company's shareholder register on 14 March 2011 at 10 am at the latest. A holder of nominee registered shares is advised to request without delay necessary instructions regarding the registration in the Company's shareholder register, the issuing of proxy documents and registration for the Annual General Meeting from his/her custodian bank.

### Payment of dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.55 per share be paid for the 2010 financial year. The dividend determined by the Annual General Meeting will be paid to a shareholder registered in the company's list of shareholders maintained by the Euroclear Finland Ltd on the record date.

Annual General Meeting	17 March 2011
Ex-date	18 March 2011
Record date	22 March 2011
Payment of dividend	29 March 2011

**Lassila & Tikanoja plc**

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