

ANNUAL REPORT 2008



LASSILA & TIKANOJA

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# Lassila & Tikanoja 2008

Lassila & Tikanoja 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. L&T is operative in Finland, Sweden, Latvia and Russia. L&T is listed on NASDAQ OMX Helsinki.

## Effective environmental management saves raw material and energy

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L&T uses its secondary raw materials production plants to process waste into secondary raw materials and recovered fuels. L&T is making continuous efforts to raise its waste material recovery rate and thereby to help decrease the amount of waste delivered to landfills. As industrial raw materials, L&T supplies paper, board, plastics, glass and various metals.

L&T's environmental management services cover recyclable material and waste collection, transport, recycling and processing for recovery, as well as safe disposal. In addition to the collection services it offers to properties, L&T provides solutions for environmental management and material efficiency at industrial plants as well as hazardous waste management services, such as contaminated soil cleaning and treatment.

During 2009, the joint venture L&T Recoil will start up a waste oil re-refinery in Hamina, Finland, that will process used lubricating oil into base oil to serve as a raw material for new lubricants. L&T Recoil collects the raw material for this facility from countries in the Baltic Sea region.

## Renewable energy sources replace fossil fuels

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L&T is Finland's leading supplier of wood-based biofuels and recovered fuels. The fuels supplied by L&T replace fossil fuels such as coal and peat in thermal power plants and industrial power plants, among others.

L&T Biowatti procures wood raw material from the forest industry and wood procurement organisations and processes them into various biofuels, such as wood chips and wood pellets.

L&T uses non-recyclable waste from the trade and industry sectors as well as from households, to produce solid recovered fuel, a 60 to 80 per cent renewable source of energy. L&T also makes recovered fuel from hazardous waste containing oil.

## Enhanced competitiveness by concentrating all support services with one partner

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L&T offers a wide range of property maintenance services to properties and plants, as well as the maintenance of technical systems, cleaning services and office support services. L&T's services for heavy basic industry include process equipment cleaning, and its damage repair services cover fire renovation and drying services.

By obtaining all the support services needed from one cost-efficient service provider with a full range of service options, customer companies can focus on their core business and thereby sharpen their competitive edge. The outsourcing of support services is increasingly popular, including in the municipal sector.

As a pioneer in its line of business, L&T is continuously developing new solutions to address the needs of properties and plants. L&T offers service packages designed to address the specific needs of various customer groups.

## Three mutually supportive divisions

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L&T's business is divided into three divisions:

**Environmental Services** comprising waste management, recycling services and L&T Biowatti.

**Property and Office Support Services** comprising property maintenance and cleaning services.

**Industrial Services** comprising hazardous waste services, industrial solutions, damage repair services (within Property and Office Support Services as of beginning of 2009) and wastewater services. L&T Recoil is a separate product line as of the beginning of 2009.

A more detailed presentation of the divisions is on pages 10–17.

A description of L&T's services is available on the company website at [www.lassila-tikanoja.com](http://www.lassila-tikanoja.com).

# 2008 in brief

Lassila & Tikanoja's net sales in 2008 increased by 9.3% to EUR 606.0 million. Growth was primarily organic due to the small number of business acquisitions. Organic growth outperformed market growth, and the company's market position strengthened, primarily as a result of successful new sales. New service products were introduced to the market.

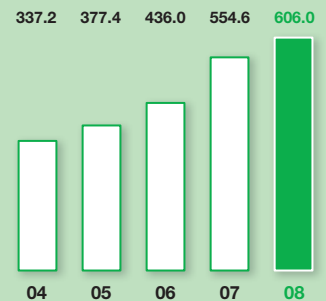
Earnings improved due to non-current items, but operating profit excluding non-recurring and imputed items fell due to rocketing production costs and higher traffic fuel prices in the first half of the year. Market prices of secondary raw materials sank and demand fell rapidly, which burdened profitability towards the year-end.

| Key figures   | 2008  | 2007  | Change % |
|---|-------|-------|----------|
| Net sales, EUR million  | 606.0 | 554.6 | 9.3      |
| Operating profit, EUR million                                 | 55.5  | 48.8  | 13.8     |
| Profit before tax, EUR million                                | 50.7  | 44.5  | 14.0     |
| Return on equity, % (ROE)                                     | 19.6  | 17.0  |          |
| Return on invested capital, % (ROI)                           | 17.1  | 17.6  |          |
| Gearing, %  | 58.8  | 42.7  |          |
| Equity ratio, %   | 43.2  | 46.6  |          |
| Capital expenditure, EUR million                              | 84.2  | 93.2  | -9.7     |
| Total number of full-time and part-time employees at year end | 9 490 | 9 387 | 1.1      |
| EVA, EUR million  | 25.0  | 23.0  | 8.7      |
| Earnings per share, EUR (EPS)                                 | 1.03  | 0.83  | 24.1     |
| Cash flows from operating activities/share, EUR               | 1.82  | 1.43  | 27.3     |
| Dividend per share, EUR                                       | 0.55* | 0.55  |          |

\* Proposal by the Board of Directors

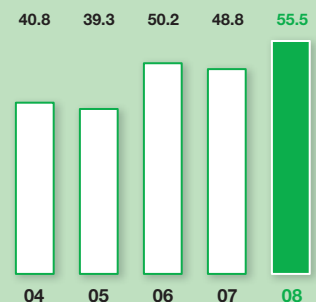
Calculation of the key figures is presented on pages 44 and 45.

## Net sales, EUR million



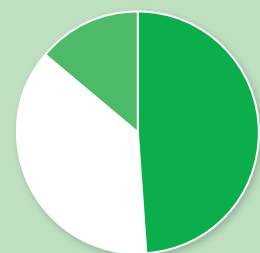
## Operating profit, EUR million

2004 excluding revenue recognition of pension liability



## Net sales by division

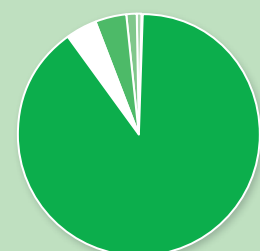
Total EUR 606.0 million



- Environmental Services
- Property and Office Support Services
- Industrial services

## Net sales by country

Total EUR 606.0 million



- Finland
- Sweden
- Latvia
- Russia
- Norway

# Review by the President and CEO



*“Although the markets in which L&T primarily operates can be considered low-cyclical, the company is not immune to changes in the economy. About three quarters of L&T’s net sales are generated in markets that could be considered low-cyclical. Furthermore, almost all of the products and services the company offers are still required and ordered, even in weak general economic conditions.”*

## Year 2008

Lassila & Tikanoja operates in growing and non-cyclical markets, and the company’s organic growth can therefore be expected to outperform the growth of the national economy. L&T’s net sales in 2008 grew by 9.3 per cent to EUR 606 million, the majority of this growth being organic. Once again, we outperformed market growth and were able to cement our market position in many areas. Due to our small number of acquisitions, we fell slightly short of our long-term growth target, which is more than 10 per cent annually on average.

We can be satisfied with our growth, but our financial performance leaves much room for improvement. Non-recurring items boosted the result but operating profit declined, despite growth in net sales. There are several reasons for this; some factors can be attributed to the external markets and some to the company itself.

The market conditions in 2008 were exceptional in many respects. The first half was strongly affected by soaring production costs as traffic fuel prices in particular rose sharply. We were not able to transfer cost increases to our prices. Meanwhile, the mild winter hampered L&T Biowatti’s raw material procurement and reduced fuel sales.

As a result of the steep economic downturn towards the year-end, secondary material prices and demand plunged. Production limitations in the forest industry tightened quickly, further aggravating the difficulties in wood-based fuel raw material procurement. This also made it more difficult to plan work in the Industrial Services division.

We have enjoyed growing and stable market conditions for a long time. Fixed costs grew at least on a par with net sales, or even faster. In hindsight, it is

clear we should have started trimming our cost structure and launched productivity enhancement measures much earlier.

What is more, not all of our new projects were successful. For example, in Sweden the integration of acquired companies took too long, and the planned schedules for the construction of the L&T Recoil facility and the introduction of new IT systems proved overly optimistic.

But we also succeeded in a number of things last year. All division saw organic growth, which remained at a strong level. Cash flow from operating activities was strong and we maintained a healthy financial position. Recycling plant investments moved on, the Finnish business operations of the Property and Office Support Services division showed positive development, and our

operational targets were met in Russia. L&T Biowatti's organisation was revised, and a Forestry service concept was developed in order to significantly increase fuelwood procurement. This concept was launched in early 2009.

### L&T operates in low-cyclical markets

Although the markets in which L&T primarily operates can be considered low-cyclical, the company is not immune to changes in the economy. About three quarters of L&T's net sales are generated in markets that could be considered low-cyclical. Furthermore, almost all of the products and services the company offers are still required and ordered, even in weak general economic conditions.

The majority of the net sales of waste management, cleaning services, property management and wastewater services are based on long-term service contracts. Although the slowdown in trade, industry and particularly in construction will reduce waste volumes and the number of individual orders, the services provided by these product lines are necessary in order to comply with environmental legislation and hygiene requirements.

L&T Biowatti offers power plants a CO<sub>2</sub> emission-free alternative to fossil fuels. Demand for wood-based fuels is strong, and is expected to increase considerably in the future. However, forest industry production restrictions and tightening competition in procurement of fuelwood may hamper the procurement of raw material.

The oil re-refinery of the joint venture L&T Recoil, which is currently under construction, will produce high-quality base oil for the lubricant industry. There is steady demand for base oil but the market price instability of the final product renders the preparation of business forecasts difficult.

Recycling services depend on the volumes and market prices of recyclable waste materials (such as plastic, fibres and metals). To a certain extent, hazardous waste and cleaning services offered to heavy industry depend on the industrial utilisation rate, although changes in this rate affect demand for these services only after a certain delay.

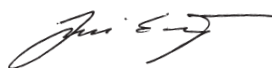
### Challenges ahead in 2009

It is easier for L&T to forecast future market developments than it is for most other companies. The economic recession is expected to be long and deep enough to affect L&T's markets, which means markets in L&T's business areas in 2009 are unlikely to grow.

There is little we can do to change the outside world, which is why the company must focus on its own operations and identify ways of making improvements from within. We intend to examine our organisational structure, cut fixed costs and take several measures to improve our operational efficiency. In 2009, L&T will focus on improving profitability and maintaining a strong cash flow. Our capital expenditure level will be much lower than last year. At the time of writing this review, the company will have already launched statutory employer-employee negotiations with its personnel alongside extensive productivity enhancement measures, in order to adapt its operations and cost development to the prevailing market conditions.

I would like to thank our personnel for their contributions last year. I am convinced that we will be able to forge ahead with determination and persistence, even in these times of uncertainty.

In February 2009



Jari Sarjo

# Goals

## Lassila & Tikanoja aims to be

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- a profitable and competitive investment
- a challenging and secure place to work
- a reliable partner
- a good corporate citizen.

## We will achieve our goals

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- by producing added value for our customers
- by sharing power and responsibility in our organisation
- by ensuring profitability.

## Profitable and competitive investment

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L&T's objective is to make the company's shares a sound and competitive investment in the long term through growth and high profitability.

## Our personnel

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The management of L&T is based on trust at every level of the organisation. In practice, this means genuinely sharing responsibility extensively throughout the company, which increases job satisfaction and makes work more challenging. Personnel always have sufficient authority to carry out their responsibilities. L&T aims to be a safe place to work, encouraging self-development and boldness.

When we select staff, we take account of professional skills, the ability to assume responsibility, the desire for self-development and to develop our operations. We support the transfer of current employees to new jobs within our company. We expect the agreed operating methods to be observed. A supervisor's main objective is to guarantee the best possible conditions enabling members of staff to succeed in their work.

## Our customers' needs

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Our aim is cooperation partnership. We want to be an integral part of our customers' business processes, which requires the ability to understand our customers' actual needs and expertise in integrating our services with their operations and goals. We will endeavour to develop our operations so that our services are competitive both in terms of quality and price.

## Good corporate citizenship

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L&T is the biggest company in the environmental management sector in Finland, so it carries a particularly heavy responsibility in terms of environmental issues. Environmental considerations are firmly linked with our everyday activities, which are based on a high degree of environmental awareness. L&T makes its environmental expertise available to its customers and develops its operations so as to place its customers in the best possible position to meet their environmental targets. We also endeavour to predict changes in environmental standards and values and to influence their formation by developing our procedures and technology.

We observe the legislation and regulations that are binding on us and operate in accordance with good business practices. We are also committed to continuous improvement of our operations.

# Strategy

## The key points of strategy:

- **profitability**
- **continuing to strengthen the market position in Finland**
- **investing in recycling plants and concentrating on product development**

## Lassila & Tikanoja's strategy

L&T's target is to make the company's shares a sound and competitive investment in the long term through growth and high profitability.

L&T intends to remain in its present operating sectors and expand in a controlled manner. Growth will be pursued mainly organically, in addition to which there will be acquisitions. The company aims to grow faster in Finland than the market average. The long-term growth target for the company's net sales is more than 10 per cent annually.

L&T's competitiveness will be maintained through improved efficiency and differentiation. Efficiency will be improved by viewing the business as processes and changing its operating methods. Process evaluation will be based on time and costs evaluations. Differentiation from the customer's perspective will be achieved through price and product development.

Success at L&T is measured primarily in terms of profitability. The most important indicator of profitability is the EVA (Economic Value Added) result, which the company aims to improve every year. In today's growing market, exceptions to this goal may be made only temporarily, for example when the interest rate level rises sharply, operations are significantly burdened by the initial stages of unusually large investments or expansion in international activities places a temporary burden on the result.

## Divisions' competitive strategies

**Environmental Services** is the sector's market leader in Finland. It also aims to be a major player abroad in selected business activities in environmental management.

Environmental Services seeks to operate as comprehensively as possible in all sections of the logistics chain and to endeavour to achieve nationwide market leadership in an increasing number of materials in Finland. Its operations are based mainly on the division's own collection, the aim being the assurance of large volumes for its own processing plants. Besides this, the company has strategic partners with whom it will be possible to expand operations into tangential markets.

Over the last few years, major investments have been made in plants for the recycling operations, in order to raise the degree of waste recovery and continue to strengthen L&T's position in the final section of the logistics chain. These investments will continue. A comprehensive plant network brings a competitive edge to the company.

Environmental Services is endeavouring to exploit its expertise, especially in the Baltic States and selected areas in Russia, where market development lags considerably behind Finland. The aim is to extend the business to the entire logistics chain, although investments will be focused on recycling plants.

## Property and Office Support Services

is the second-biggest operator in its field in Finland. L&T will endeavour to distinguish itself from its competitors through the quality of its work and the high standard of its production management systems. An important tool for achieving this aim lies in its system of service concepts for specific customer segments. The company provides office support services, e.g. mailing, reception and catering, either on its own or in cooperation with other companies in the field.

**Industrial Services:** L&T offers the broadest selection of industrial services in Finland, and in terms of product lines it is the nation's largest or second-largest operator. In Industrial Services, Lassila & Tikanoja is a customer-oriented supplier of comprehensive solutions. Its focus is on constructing operating models that can optimise capacity allocation to correspond to fluctuations in demand.



# Operating environment

**The markets for environmental management services and property and plant support services are outstripping general economic growth in all the countries in which L&T operates. L&T's markets are primarily low-cyclical in nature, but major changes in economic development will affect those markets, too.**

The growth of our environmental services business is fuelled by increasingly strict environmental regulations, changes in attitude, and the rising price of raw materials and energy in the long term. Actions taken to curb climate change place higher demands on energy and material efficiency, and environmental management will play an increasingly strong role in fighting climate change in the future.

Trends boosting our support services market include customers' intent to focus on their core business and enhance support services procurement by buying extensive service packages, and the change taking place in the public sector, where service producers are now becoming service users. Companies that produce support services are also expected to invest in service development.

## Increasingly efficient recovery of waste materials

Actions taken to curb climate change and the need to improve material efficiency have led to more active recycling and use of secondary raw materials. Rising raw material prices and new environmental technologies are the motivational factors behind industrial operations that raise the recyclable material recovery rate.

Finland's National Waste Plan sets out the goals and objectives for waste management until 2016, as well as measures to be taken to meet those goals. One of these objectives is to raise the municipal waste recovery rate from the current 40 per cent to 80 per cent. Half of all municipal waste generated is to be recycled, in other words used as material.

In fact, the volume of recycling is growing, particularly in trade and industry waste management, and with growing environmental management and material efficiency requirements, it is easier for environmental management companies to gain access to industrial waste markets. In the next few years, the household waste recovery rate should

be raised significantly in order to meet the recovery targets. Moreover, several landfills have been closed down because they failed to meet the criteria of the EU Landfill Directive, leading to longer transport distances and higher landfill fees.

Projects set to reform Finland's Waste Act and Waste Tax Act will substantially affect L&T's operating environment. It is estimated that the revised Waste Act will take effect in 2011 but it is impossible to predict the content of this legislative reform with any accuracy at the moment. It is clear, however, that the principles of the revised EU Waste Framework Directive that came into force in December 2008 will be included in the Waste Act meaning that the revised legislation will demand more efficient waste prevention measures and the imposition of stricter requirements on the recovery of municipal, building and demolition waste.

The 2007 amendment of the Waste Act involved changing the roles and responsibilities of the parties involved in waste management in such a way that municipalities were no longer responsible for the business sector's waste management. This change has simplified the division of duties between environmental management companies and municipalities.

## Growing use of renewable fuels

The European Union wants to see renewable energy account for 20 per cent of energy end use by 2020. This will oblige Finland to raise its proportion of renewable energy by nearly ten percentage points, to 38 per cent of end use. At the same time, emissions should be significantly reduced. In the emissions trading sector, which includes energy production and industry, the targeted reduction is 21 per cent while in sectors not included in the emissions trading system, such as housing, traffic and waste management, emissions should be reduced by 16 per cent.

Waste management, recycling and the recovery of waste as energy can all contribute to an increase in the use of renewable energy and a reduction in carbon dioxide emissions. Choices related to the recovery of waste as energy are only just taking shape, and will be considerably affected by the energy and climate policy in force, as well as the roles of various operators as determined in conjunction with the Waste Act reform. In order to achieve the best outcome, non-recyclable waste should be used as recovered fuel in industrial power plants.

According to the climate and energy strategy devised by the Council of State, Finland could increase its bioenergy use, particularly in heat and power co-generation and heating of buildings. Wood-based biofuels play a crucial role with regard to increased use of renewable energy. Correspondingly, the national climate strategy requires that the use of forest processed chips, a by-product of forest management, be increased from the current 3.6 million solid cubic meters to 12 million solid cubic meters by 2020.

In the future, wood-based biofuels and recovered fuels will constitute an important replacement for fossil fuels in energy production. Furthermore, bioenergy will be increasingly important in building-specific heating, which will increase demand for wood pellets.

## Outsourcing and networking expand support services markets

A popular trend among companies in the industrial sector involves the discontinuation of their property management and maintenance organisations in order to focus on their core business. These companies network with support service providers, in order to jointly develop productivity and cost-efficiency enhancing service solutions, with the service provider closely involved in the customer's processes.

Service procurement processes are also changing; customers are buying more extensive service packages with the objective of optimising total costs instead of unit prices. In this context, service providers are expected to take

an active role in development efforts. This change in the procurement culture will help strengthen the position of service providers offering comprehensive service packages, accentuating the importance of account management and development.

While the commercial market accounts for approximately one half of the overall cleaning services and property maintenance market in Finland, the support service outsourcing rate in office and commercial properties is gradually picking up. In the Finnish municipal sector, an ageing workforce is creating a labour shortage and a need to boost operational efficiency, which in the next few years will increase the need to outsource support services that do not represent the core duties of municipalities. At the moment, the support service outsourcing rate in Finnish municipalities is less than 20 per cent.

The cleaning services and property management markets have consolidated rapidly in the past few years, the three biggest operators now accounting for more than half of the net sales of the commercial market. Similarly, consolidation is underway in property ownership, and large owner corporations are prioritising big partners when acquiring services.

In Finland, a significant part of the built infrastructure such as service water and wastewater systems, as well as power and data networks, will reach the end of their economic life in 2010–2020. This will increase the need for repairs, maintenance and renovation, in other words demand for the maintenance of technical systems and for wastewater services. Similarly, industrial and municipal wastewater treatment and sludge management will be outsourced to a growing extent.

**Availability of competent personnel to be secured**

In labour-intensive service industries, competition for skilled workforce will be increasingly fierce as demand for services grows and the number of working-age people decreases. Human resources management will be extremely important, forcing service companies to invest in effective recruitment and employee working capacity management. Furthermore, more personnel training and job rotation will be offered and measures will be taken to improve occupational safety.

More information on the risks associated with L&T's operating environment and business is available on pages 35–37.

**L&T's operating area**

**Finland**

All L&T services

**Sweden**

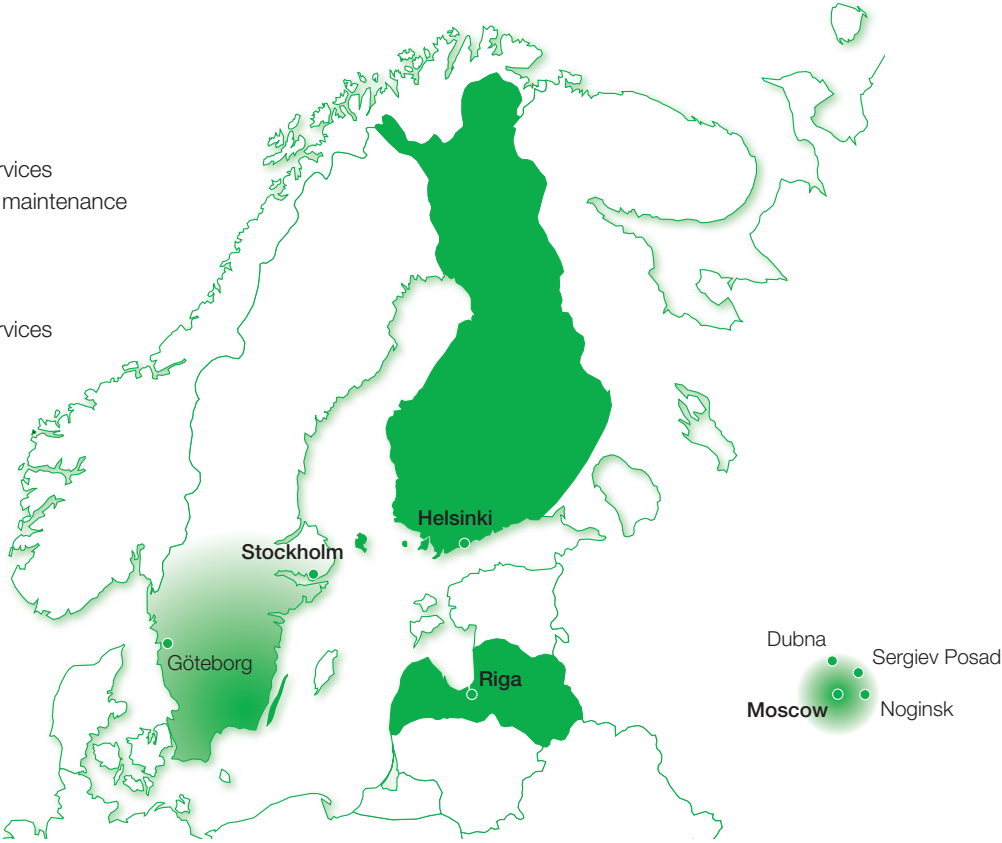
Cleaning and office support services

**Latvia**

Waste management and recycling services  
Cleaning and office support services, maintenance of outdoor areas

**Russia**

Waste management and recycling services  
Cleaning and office support services, maintenance of outdoor areas



# Divisions in brief

## Environmental Services

### Product lines

- waste management
- recycling services
- L&T Biowatti

### Waste management

Waste management covers the collection and transportation of recyclable material and waste and also supplement services (receptacles cleaning and maintenance included, planning and consulting, reporting). The Bajamaja service provides comprehensive services for event organisers.

### Recycling services

Recycling services includes processing of materials into secondary raw materials and fuels, as well as the supply of secondary raw materials for reuse.

### L&T Biowatti

L&T Biowatti specialises in the supply of wood-based fuels and wood raw materials. It procures the raw materials from the forest and wood industries and wood procurement organisations.

**Environmental Products** engages in the wholesale trade and export of environmental management products.

## Property and Office Support Services

### Product lines

- property maintenance
- cleaning services

### Property maintenance

Property maintenance comprises maintenance, monitoring, maintenance of outdoor areas, on-call services and supplementary services. Maintenance of technical systems engages in the installation, maintenance and repair of the technical systems of properties.

### Cleaning services

Cleaning services provides daily cleaning as well as various special cleaning jobs. Office support services includes access control, reception, switchboard operator, mailing and copying services, as well as facility management.

The Huomenta Toimitilapalvelut franchising chain provides cleaning services and office support services for SME customers.

In the beginning of 2009 **damage repair services** was transferred from Industrial Services into property maintenance.

## Industrial Services

### Product lines

- hazardous waste services
- industrial solutions
- damage repair services
- wastewater services

### Hazardous waste services

Hazardous waste services provides comprehensive collection services. Collected waste materials are processed to be used as material or energy. Joint venture L&T Recoil's waste oil re-refinery producing base oil from waste oil will start up in 2009. L&T Recoil is a separate product line as of the beginning of 2009.

### Industrial solutions

Industrial solutions produces and develops solutions such as cleaning of industrial process equipment, as well as maintenance, environmental management and material efficiency solutions for industry.

### Damage repair services

Damage repair services specialises in minimising property damage in various loss situations, such as fires, accidents, and the occurrence of damage caused by water and damp. In the beginning of 2009 damage repair services was transferred from Industrial Services into Property and Office Support Services.

### Wastewater services

Wastewater services provides services related to the maintenance and operation of wastewater systems and networks.

**Customers**

- business premises
- industry
- properties
- municipalities

**Net sales 2008**  
EUR 300.1 million

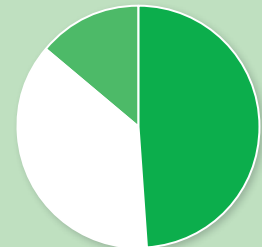
**Operating profit 2008**  
EUR 32.3 million

**EVA 2008**  
EUR 11.3 million

**Capital expenditure 2008**  
EUR 41.8 million

**Net sales by division**

Total EUR 606.0 million



- Environmental Services 49%
- Property and Office Support Services 37%
- Industrial Services 14%

**Customers**

- properties
- industry
- customers operating in leaseholds

**Net sales 2008**  
EUR 227.6 million

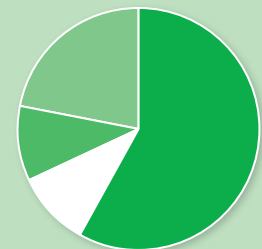
**Operating profit 2008**  
EUR 5.5 million

**EVA 2008**  
EUR 1.7 million

**Capital expenditure 2008**  
EUR 9.1 million

**Operating profit by division**

Total EUR 55.5 million



- Environmental Services 58%
- Property and Office Support Services 10%
- Industrial Services 10%
- Group administration and other 22%

**Customers**

- industry
- municipalities
- insurance companies
- properties
- institutions

**Net sales 2008**  
EUR 84.6 million

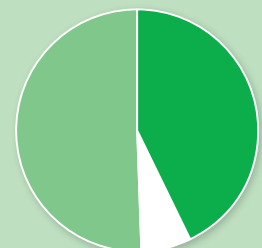
**Operating profit 2008**  
EUR 5.6 million

**EVA 2008**  
EUR -1.3 million

**Capital expenditure 2008**  
EUR 33.3 million

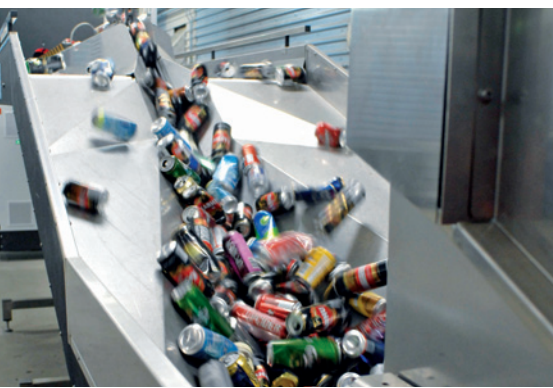
**EVA by division**

Total EUR 25.0 million



- Environmental Services 43%
- Property and Office Support Services 6%
- Group administration and other 51%

# Environmental services



## Services

The Environmental Services division covers the collection, transportation and processing of waste and recyclable materials, and the supply of recycled materials and solid recovered fuel (SRF) for recovery. Long-term service contracts with customers generate the majority of the division's net sales.

Collection services for properties cover the pick-up service as well as the design, dimensioning, marking, leasing, cleaning and maintenance of bins. Often, the service also includes environmental consultation, staff training and reporting. Materials collected separately include paper, board, cardboard, metal, plastic, glass, biowaste, energy waste, packaging waste, wood, waste electrical and electronic equipment (WEEE), confidential material and tyres.

L&T organises so-called Environmental Academy training sessions for SMEs in the industry and trade sectors as well as for building superintendents around Finland. The objective of this is to provide information on the obligations involved in environmental regulations, and to deliver tangible benefits and efficiency in companies' waste management and recycling operations.

L&T manages recycling services based on producer liability for waste paper, tyres, packaging and waste electrical and electronic equipment.

L&T Biowatti specialises in the supply of wood-based biofuels for heating and power plants, as well as the supply of raw material for the building board and pulp industries, pellet manufacturers, environmental construction, composting and litter material. L&T Biowatti procures its raw material from the forest and wood industries and wood procurement organisations.

The Bajamaja service provides outdoor-event organisers with a comprehensive, customised service, from portable lavatories to cleaning.

The environmental products unit is engaged in the wholesale trade and export of environmental management products and acts as the purchaser of these products for the service divisions. It is also responsible for the product development of collection equipment for environmental management.

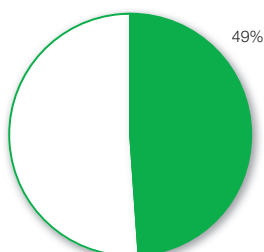
## Competitive business across the environmental management chain

L&T primarily takes collected waste materials for processing to its own recycling plants. By increasing its processing capacity, L&T strives to raise the recovery rate of collected waste and thus reduce the amount of waste ending up at landfills. L&T sells the processed secondary raw materials and recovered fuels to end-users, generally on long-term contracts. At the end of the year, the company had 23 recycling plants in Finland, one in Latvia and one under construction in Dubna, Russia. In addition, L&T has landfills in Kerava and Kotka in Finland that meet EU standards. These are used for the final disposal of unusable reject material from L&T's own recycling plants.

Environmental Services uses state-of-the-art equipment and competent personnel to ensure competitive operations. L&T's competence extends over the entire logistics chain, from the waste generation point to its processing plants, and further on for recovery. The company's extensive service selection and service network is particularly appreciated by big customers with operations in several locations. L&T's competitive edge is further sharpened by investments in systems development, new service concepts as well as skilled sales and customer service operations.

With a 30 per cent market share, Environmental Services is a strong market leader in Finland.

Percentage of net sales



In Latvia, L&T is the market leader in waste collection and transports. In Russia it has operations in the Moscow region: In Dubna, L&T is responsible for waste collection, transport and landfill management, as well as for waste collection and transports in Sergiev Posad. In 2008, operations were extended to cover the town of Zapрудnya that has a population of 15,000. In the first quarter of 2009, operations will be launched in Noginsk; a city with 120,000 inhabitants. There is a growing need and motivation in Russia to modernise waste management.

### Year 2008

Net sales of Environmental Services totalled EUR 300.1 million (EUR 279.8 million); an increase of 7.2%. Operating profit was EUR 32.3 million (EUR 35.0 million), while operating profit excluding non-recurring and imputed items totalled EUR 32.3 million (EUR 36.3 million).

Organic growth and customer loyalty remained good, although prices were revised following the steep rise in general cost level and transport fuel prices. The growing financial uncertainty and, in particular, the slowdown in construction lowered intake volumes at recycling plants. Furthermore, the market prices of secondary raw materials and demand for them sank in the second half.

Construction of substantial added capacity began at the Kerava recycling plant. It is estimated that the first stage (wood shredding line) will be taken into use during the second quarter of 2009. Construction of the second stage (construction and demolition waste treatment plant; commercial and industrial waste treatment plant) is about to begin, and the plant is expected to be completed in about a year. This expansion will significantly increase the recovery rate of the waste processed at the plant.

The costs of the disposal of plant reject rose due to reduced landfill capacity at the Kerava plant, which was in turn due to technical reasons. A new industrial landfill site was opened in Kotka, Finland, at the end of the year.

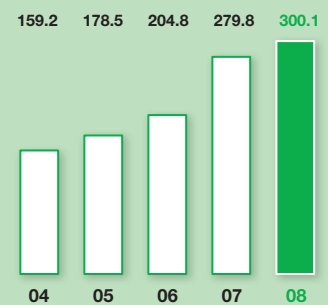
Demand for L&T Biowatti's biofuels fell clearly short of the expected level due to the exceptionally mild winter, which also hampered the collection of forest processed chips and raised procurement costs. To compensate for the impacts of production restrictions in the forest industry, the organisation was revised and the service offering was expanded. In addition, investments were made in the company's own collecting, processing and transport equipment for forest processed chips. These measures help increase the company's own fuelwood procurement considerably. The production of wood pellets was launched in Luumäki at the beginning of the final quarter.

Business in Russia and Latvia developed as planned. The uncertainty of the Latvian economy has posed challenges for business development while it has translated into high availability of labour and lower labour costs. At the year-end, a waste management agreement was signed with the City of Noginsk near Moscow, where operations will begin in the first half of the year.

All units of Lassila & Tikanoja plc's Environmental Services received certificates for quality, environmental management, occupational health and safety.

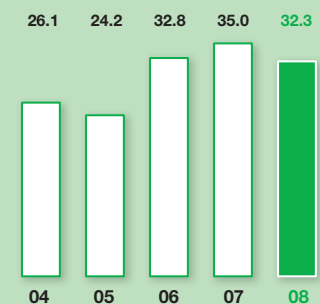
Net sales for environmental products increased and performance development was positive. Based on new customers, the Bajamaja rental operations became a year-round service, which clearly boosted net sales.

#### Net sales, EUR million

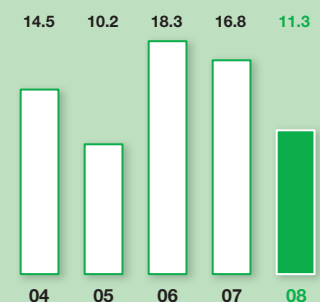


#### Operating profit, EUR million

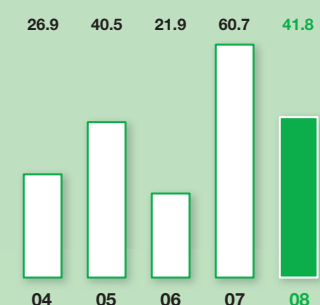
2004 excluding revenue recognition of pension liability



#### EVA, EUR million



#### Capital expenditure, EUR million



# Property and Office Support Services



## Services

Property and Office Support Services consist of the maintenance, servicing and operation of buildings, rooms and equipment.

Property maintenance comprises the general security, operation and maintenance of technical systems, the maintenance of outdoor areas, the cleaning of public facilities, facility and resident services and multiple non-recurring special services. Technical systems maintenance engages in the installation, maintenance and repair of HVAC systems, electrical systems, refrigeration systems, fire protection systems and building automation systems.

The cleaning services product line provides daily cleaning as well as various special cleaning jobs, such as window and floor cleaning. Cleaning and office support services for small and medium-sized customers are provided by the franchising chain, Huomenta Toimitilapalvelut.

Office support services include access control, reception, switchboard operator services, mailing, copying, security and catering services, as well as facility management. These extensive service packages are provided either by L&T itself, or by networking with the leading company in each sector.

## Service packages provide competitive advantages

Property and Office Support Services has extended its service range to address changing customer needs. Both the private sector and, gradually, the public sector are becoming increasingly interested in outsourcing their support services. For L&T, this trend has provided the opportunity to extend its service selection from the traditional property management services to new service segments, and to become more closely integrated with the customer's operations.

Long-term service contracts with customers covering property management, cleaning and office support services generate the majority of the division's net sales. Non-recurring special services such as window cleaning and property repair and renovation work are primarily sold to these contract customers.

The division's customers include property owners and managers, facility managers, and customers operating from leased premises. The properties can be divided by type into office, commercial, industrial and residential properties, and public sector properties.

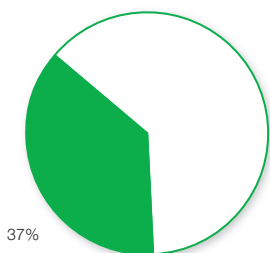
In property services, L&T's competitive edge is based on customer-responsiveness, high quality, cost-effectiveness and a versatile range of services. Another competitive asset is skilled personnel with the right service attitude. L&T's competence translates into excellent customer property and facility conditions, easily controllable repair needs, and energy economy.

To differentiate itself from competitors, L&T provides service concepts developed for selected customer groups. L&T puts a great deal of effort into its service development. Service concepts have been developed for shopping centres, for the food industry that requires first-class hygiene standards, for service station chains and for residential properties, for example.

Particular attention is paid to efficient production planning and control, and to the efficient use of electronic tools. Browser-based production control systems enable real-time communication with customers and produce versatile reports.

In addition to Finland, Property and Office Support Services has operations in Sweden, Moscow, Russia, and Latvia. In Moscow and Latvia, L&T provides cleaning and office support services as well as the maintenance of outdoor areas, and in Sweden cleaning and office support services.

Percentage of net sales



With an approximate market share of 14%, L&T is Finland's second-biggest operator in both cleaning services and property maintenance. Furthermore, L&T is a remarkable medium-sized cleaning services provider in Sweden and the leading operator in Latvia's cleaning sector.

### Year 2008

Net sales for Property and Office Support Services increased by 11.5% to EUR 227.6 million (EUR 204.1 million). Operating profit was EUR 5.5 million (EUR 11.0 million), and operating profit excluding non-recurring and imputed items totalled EUR 9.7 million (EUR 11.4 million).

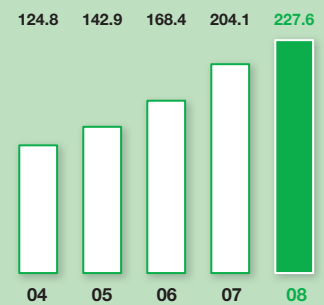
Contract revenue increased, and sales of additional services in both product lines were successful. Organic growth was strong, particularly in property maintenance, while production costs rose and price competition remained intense.

New service products were introduced to the market. Such new products in cleaning services included the L&T® EcoCleaning concept, the first product in the industry in Finland to receive the Nordic environmental label, also known as the Swan label. This concept provides customers with the opportunity to carry out concrete environment-friendly actions. Property maintenance services were supplemented with a newly launched concept for churches as well as a civil defence shelter service, which includes the inspection of civil defence shelters and renovation to a level that meets official requirements. In the autumn, a project was initiated to improve energy efficiency in the properties maintained by L&T.

The holding in Blue Service Partners was sold to L&T's joint venture partner at the beginning of February. Moreover, the Huomenta Toimitilapalvelut franchising chain expanded as targeted in the Helsinki region in Finland, and operations were also launched in Lahti and Tampere, Finland.

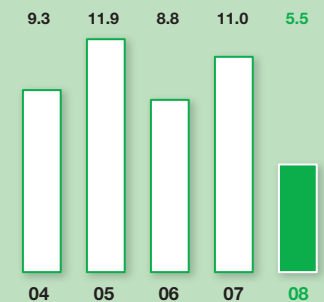
Loss from international operations declined. Operations in Russia and Latvia developed as planned while the Swedish operations fell markedly short of their targets. Action programme is underway in Sweden to improve profitability.

#### Net sales, EUR million

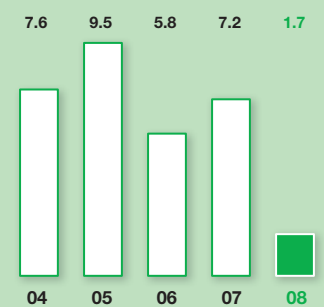


#### Operating profit, EUR million

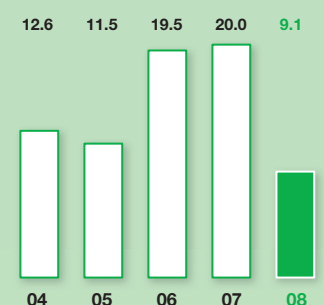
2004 excluding revenue recognition of pension liability



#### EVA, EUR million



#### Capital expenditure, EUR million





# Industrial Services



## Services

Industrial Services specialises in heavy-duty environmental management and maintenance services that require special expertise. L&T's services are designed to ensure and optimise the production efficiency and usability of industrial processes and infrastructure, and to promote customers' material and energy efficiency.

Hazardous waste services include hazardous waste collection and recovery solutions customised for businesses and organisations. Hazardous waste is collected into regional terminals where it is pre-processed and sorted for recovery. From these terminals, the hazardous waste is taken to L&T's and its partners' production plants, where it is processed into secondary raw materials or recovered fuel for industry. Operations are focused on hazardous waste recovery solutions aiming at the highest possible degree of processing.

Industrial solutions produces cleaning and environmental management solutions for industry. Industrial cleaning services primarily involve in the cleaning and servicing of process industry equipment. High-pressure cleaning is used for removing coatings and for cleaning demanding surfaces such as tanks, heat exchangers, pipelines and facades. Suction equipment is used for the transport of dry and wet materials and the cleaning of areas such as outdoor areas and traffic routes at industrial facilities. Industrial environmental management services cover the development and production of internal solutions for environmental management and material efficiency at industrial plants, for example for the processing and recovery of industrial by-products.

In addition to the services it produces, the industrial solutions unit delivers comprehensive environmental management and maintenance solutions for industry that emphasise L&T's responsibility for

development and long-term commitment based on the partnership principle.

Damage repair services specialises in minimising property damage due to various accidents such as fires, water damage and other mishaps. L&T's services cover the prevention of subsequent damage, in other words the protection, cleaning and drying of property and structures and restoration to the pre-damage state. If necessary, L&T assumes responsibility for the management of the entire damage repair site.

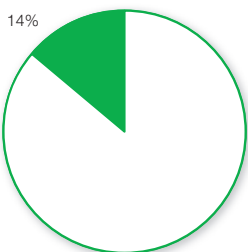
Wastewater services focus on services related to the maintenance of the sewer networks. Services are offered to a wide range of customers, from individual properties to wastewater treatment facilities. L&T maintains wells, engages in the imaging and cleaning of sewer networks, as well as the maintenance and operation of wastewater systems. Sewer imaging is used to investigate the functionality and structural condition of sewers and pipeline systems.

## Involved in customer processes

Industrial Services is Finland's leading operator in its line of business. In tougher market conditions, as the market leader L&T will be able to use its economies of scale more efficiently than its competitors. L&T invests in developing and improving its services for strategic customers with the objective of securing a steady workload when other demand weakens.

The markets for hazardous waste services in Finland are fairly stable. There is very little growth in the quantity of hazardous waste, and the collection rate is high. Where conventional hazardous waste is concerned, L&T has shifted the focus of its operations and development from collection and transport to advanced recovery and processing solutions. In the future, hazardous waste will be fully recovered in the form of either material or energy.

Percentage of net sales



L&T is the clear market leader in industrial solutions services. The markets for industrial process cleaning are quite stable while the markets for environmental management solutions for industry are expected to grow in the next few years. At present, industry generally takes care of the processing and recovery of by-products internally but the market is opening up. Industrial plants and communities are seeking joint material efficiency solutions for managing by-products and raw materials, and L&T wants to be involved in the development and implementation of these solutions.

L&T's market share has clearly grown in the damage repair services markets, with its service network growing by a few business locations annually. The drying service market will continue growing for years, because only some 30 per cent of buildings in Finland have been built in compliance with current moisture standards. Global warming is causing irregular weather conditions, increasing demand for damage repair services. In this respect, L&T has expanded its operations to environmental damage and the cleaning of property contaminated by animal diseases, and demand for related services is expected to grow.

The short-term growth prospects for wastewater services are good. Finland will experience a growing need for the maintenance and renovation of its ageing sewer networks and the markets for property sewers as well as municipal trunk sewer systems will continue to grow in the next few decades. What is more, stricter environmental regulations in sparsely populated areas will increase the need for traditional well management and for the maintenance of modern property-specific wastewater systems.

## Year 2008

Industrial Services' net sales totalled EUR 84.6 million (EUR 75.5 million); an increase of 12.1%. The operating profit was EUR 5.6 million (EUR 4.8 million), and the operating profit excluding non-recurring and imputed items was EUR 5.2 million (EUR 8.6 million).

Sales were successful despite the growing financial uncertainty towards the year-end. Net sales increased in all product lines, growth being primarily organic. Indeed, the division was also able to strengthen its market position.

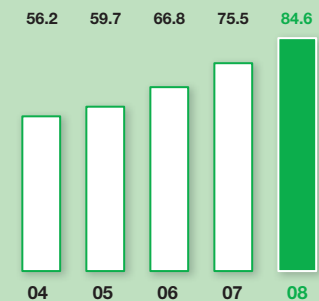
Demand fluctuated rapidly throughout the year, and it was difficult to adjust production to these fluctuations. In the first half of the year, performance was also burdened by difficulties in delivering recycled fuels and the rise in hazardous waste disposal costs in the second half. As a result of the fire at the Tuusula plant in June, acceptance criteria for waste were revised.

New partner agreements were forged in damage repair services, and the service network was expanded. The number of major damage repair assignments was exceptionally small last year. At the beginning of 2009, damage repair services were included in the Property and Office Support Services division.

L&T Recoil's re-refinery is estimated to be completed in spring 2009. This year's objective for this joint venture is to produce one-third of the plant's 60,000-ton annual capacity. L&T Recoil's raw material procurement was successful but higher storage costs and operational start-up costs eroded the division's profitability.

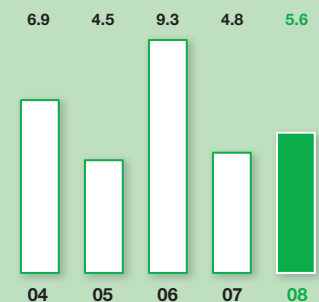
A total of EUR 3.0 million worth of imputed changes and sales gains from L&T Recoil's oil derivatives were recorded.

### Net sales, EUR million

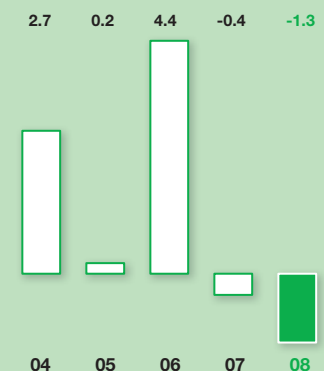


### Operating profit, EUR million

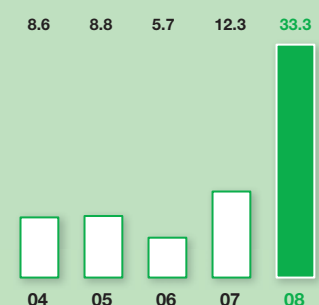
2004 excluding revenue recognition of pension liability



### EVA, EUR million



### Capital expenditure, EUR million



# Closer to the customer



## Everything starts from knowing the customer

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L&T develops its services based on the specific needs of various customers and customer groups. In 2008, priority was given to L&T's ability to differentiate itself from competitors in a situation where changes in the business environment require the re-assessment of support service arrangements. In addition to an extensive service selection, L&T offers expert assistance in change assessment, and works with the customer to plan a new service solution that takes new circumstances into consideration.

During the year, several new service concepts that address the special features of a specific customer group were launched, such as the L&T® Services for churches and the Environmental Academy training service that draws on L&T's expertise in environmental matters. Another service concept representing in-depth understanding of the target group is the L&T® Harbours, which has gained a strong position in the new Vuosaari harbour area in Helsinki.



## Great performance through sales efficiency and expertise

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New sales continued to be strong in 2008. Thanks to efficient sales organisations, the right investments, and successful sales of large comprehensive solutions packages, performance targets were exceeded.

Sales efforts in the environmental management business focused on expertise and solutions. In this way, L&T's environmental management service solutions can be developed to better support customer business and enhance their competitive strength. In addition, the customer process focus was shifted to existing customer relationship management and development work carried out together with customers.



Special attention was paid to sales personnel skills in the Property and Office Support Services division. The cleaning service sales function carried out a recruitment campaign and launched a related long-term coaching programme, which will continue in 2009. More attention was paid to customer care and the procedures to be applied therein.

A solutions development team was set up in conjunction with product and process development. Its task is to identify innovative ways of producing support services for key customers that are about to take operational adjustment measures.

The teleoperations unit significantly enhanced its own sales alongside operations related to sales support, customer care and surveys. The unit's expertise covers almost all of L&T's services and customer segments, enabling it to take on increasingly demanding projects.

The development of L&T's multi-channel customer service, the Contact Centre, continued. Operating models were revised and special attention in process specification was paid to ways of delivering a high-quality customer experience. All indicators measuring the Contact Centre's service level showed favourable development.

The building of local sales organisations continued in operating areas outside Finland. Furthermore, the sales process forms part of L&T's management system.

# Corporate responsibility

## Corporate responsibility in L&T's goals and operating policy

Lassila & Tikanoja aims to be a profitable and competitive investment, a challenging and secure place to work, a reliable partner, and a good corporate citizen. We observe the legislation and regulations that are binding on us and operate in accordance with good business practices. L&T intends to maintain profitability and competitiveness through improved efficiency and differentiation, eg. through product development. We are also committed to continuous improvement of our operations.

L&T's goals in regard to customers, personnel, society and environment are determined in more detail in the operating policy.

## L&T's operating principles

- I improve continuously.
- I ensure that employees and colleagues succeed.
- I do it right the first time.
- I value and listen to the customer.
- I serve as an example in environmental matters.
- I realise mutual benefits.

L&T's operating principles are the common rules through which the goals defined in the operating policy are achieved. These operating principles are put into

effect through the actions of every employee. Their implementation is evaluated with the help of appraisal discussions, job satisfaction surveys, internal assessment and customer satisfaction surveys.

## L&T Integrated Management System

L&T Integrated Management System (IMS) is a tool for planning, guiding and developing operations in a unified way. The management system includes jointly defined operating procedures and provides tools for the implementation of the strategy and goals.

Risk management forms an integrated part of L&T's management, monitoring and reporting systems. L&T's risk management policy is approved by the company's Board of Directors. The Board of Directors has also approved the financing, insurance and disclosure policies.

## Management of environmental, occupational health and safety issues

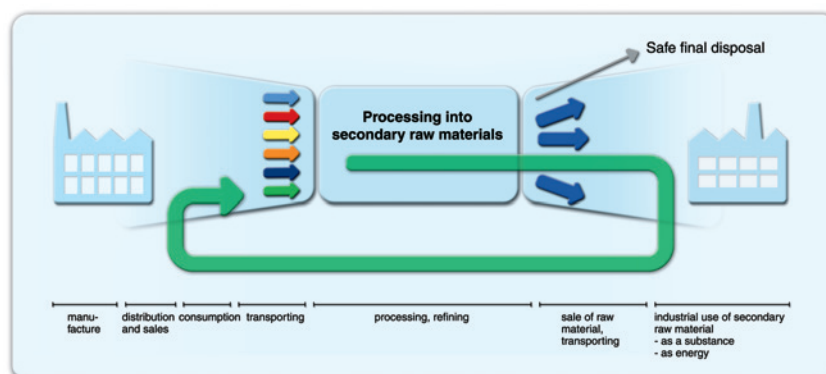
Management of environmental, occupational health and safety issues as well as quality management is an essential part of L&T Integrated Management System. L&T's three-year environmental, health and safety (EHS) programme is based on EHS aspects, the company's strategy, as well as assessments of risks and dan-

gers. The EHS objectives for 2007–2009 are the maintenance and improvement of working capacity, building a sound occupational safety culture and reducing energy consumption and emissions. EHS targets are derived from the EHS objectives, and each unit includes its EHS targets in the operating plans. EHS groups within the unit make decisions and take concrete action to develop the work community.

## Certified operations

In its operations, L&T observes the principles of the ISO 9001 quality management standard, the ISO 14001 environmental management standard and the OHSAS 18001 occupational health and safety management standard. L&T's management system and a substantial part of L&T's services have been certified in accordance with these standards. Furthermore, L&T's service production has been awarded a food safety management system certificate according to ISO 22000.

During 2008, the waste management and recycling services management system was harmonised as part of L&T's operational development effort. As a result, all Finnish waste management and recycling services units were awarded certificates for quality, environmental management, occupational health and safety.



L&T stands for sustainable development. Recyclable materials and by-products are processed into secondary raw materials and recovered fuel at L&T's recycling plants. The reject is transported to safe final disposal.

# Personnel



At the end of 2008, the total number of L&T employees working full-time and part-time was 9,490 (2007: 9,387). Of them 2,221 (2,401) worked outside Finland. The average number of personnel, converted to full-time equivalents, was 8,363 (7,819).

L&T's business operations and competitive advantage are based on its highly skilled and motivated personnel. Crucial HR management objectives include securing the availability of personnel (quantity, quality, permanence), creating uniform and efficient HR processes, and minimising costs arising from disability.

## Recruitment and orientation

The development of recruitment processes and the deployment of the centralised operating model continued in 2008. Moreover, new and innovative approaches were used successfully in recruitment, while major efforts were made to strengthen L&T's employer image.

A recruitment information system developed last year was introduced at all business locations in Finland, and all recruiting supervisors were trained in its use. This system enables the full coordination and management of all recruitment activities, thereby improving cost-efficiency and accelerating the processing of applications and communication with applicants.

In April, a centralised Career and Recruitment Centre was opened in Turku, Finland. Similar centres have already been set up in Helsinki and Tampere, Finland. Those of L&T's recruiters who work at these centres are in charge of recruitment, evaluating aptitude and selecting the right people, as well as supporting the transition to the new position.

In 2008, orientation development measures continued with the objective of establishing systematic procedures, from initial orientation to continued competence assessment and feedback. At the end of 2008, L&T joined a project that aims to make working communities better equipped to address the requirements of multicultural personnel and to better exploit cultural awareness and competence in recruitment, orientation and competence development.

## Competence management

Competence management was more closely incorporated into the strategy, with the objective of securing L&T's growth targets through competent personnel. The concept of competence management was specified and the process described during 2007. In 2008, strategic competence areas were specified, and actions derived from these were launched. In addition, a competence management partner network was created in support of systematic competence development. This partnership was launched jointly with the Amiedu vocational adult education centre, whose own network offers L&T access to nationwide service offerings for competence development.

In 2008, training efforts primarily focused on ensuring and developing the skills of personnel and supervisors working directly with customers through degree-oriented programmes and short-term courses. Supervisors' professional skills and competence were strengthened by including an in-house coaching programme for new supervisors in training offerings. In addition, coaching was provided to develop personnel's communication and appraisal discussion skills. To broaden the range of competence development measures, work community training and coaching processes were arranged.

## Management of working capacity

L&T wants to ensure that as many employees as possible maintain their working capacity until retirement age. To support this objective, a working capacity management programme, Sirius, was launched in 2006 with the objective of reducing sickness-related absence and disability pensions. The starting point for Sirius is that issues related to working capacity form an important part of everyday management. Uniform operating procedures have been developed for addressing problems related to working capacity, and supervisors have been trained to identify such problems as early as possible. What is more, the active relocation of employees with partial working capacity constitutes a substantial part of the Sirius programme.

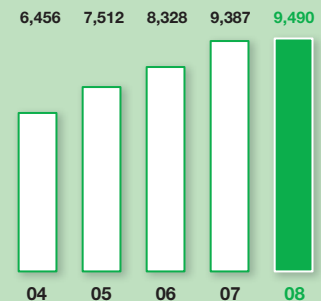
In order to ensure efficient occupational health care and to unify operating methods and supervision, occupational health care in Finland was centralised with a single partner. Setting and monitoring shared targets and indicators, commitment to results and the promotion of effective occupational health care practices, form a substantial part of such co-operation.

The Sirius programme has already translated into results: the percentage of absences in L&T's Finnish operations, excluding absences due to a child's illness, decreased from 7.5 per cent in 2005 to 5.6 per cent in 2008. Disability pension costs affecting the future TyEL (Employees Pensions Act) payment category decreased by 73 per cent during the same period.

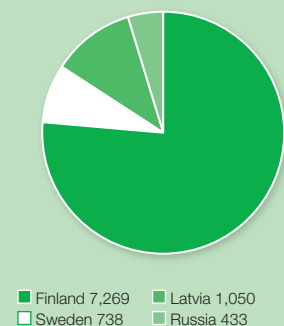
The Sirius sickness fund was established to supplement occupational health care, and began operating in early 2008. This fund operates as an employees' fund that pays its members the full range of daily allowances and other compensation under the Sickness Insurance Act. The fund also provides additional benefits such as compensation for examinations, treatment and medications prescribed by a doctor outside the scope of occupational health care. All new full-time L&T employees will join the sickness fund automatically.

L&T supports sports and other recreational activities through active staff clubs. There were 35 staff clubs operating in Finland in 2008.

**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**



### Key figures on personnel

|   | 2008  | 2007  |
|---|-------|-------|
| Total number of full-time and part-time employees at year end | 9 490 | 9 387 |
| Average number of employees converted to full-time            | 8 363 | 7 819 |
| Personnel in Finland  |       |       |
| Personnel by gender   |       |       |
| female %  | 53    | 55    |
| male %  | 47    | 45    |
| Average retirement age  | 62    | 60    |
| Disability retirement rate, %*                                | 0.3   | 0.6   |
| Sickness absences, %  | 5.6   | 5.8   |
| Sickness absence days per person                              | 12    | 11    |
| Accident frequency**  | 31    | 36    |

\* Number of work disability retirements / number of employees

\*\* Injuries leading to at least four days' leave

## Occupational safety

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One of the starting points for L&T's operations is ensuring a safe working environment for its personnel. This is sought by identifying the risks and hazards involved in various jobs in advance, and by reducing and eliminating them proactively. The management of occupational safety risks forms part of everyday management and is an essential element in L&T's management system. The system combines the management of occupational safety issues with occupational health and environmental ones (EHS). L&T's EHS objectives for 2007–2009 include building a sound occupational safety culture.

Systematic improvement of the safety culture continued in 2008, with the objective of cutting accident frequency in half within three years. The accident frequency in Finland in 2008 was 31, compared to 36 in 2007. Indeed, the safety culture's development was most evident in the Industrial Services division, in which the number of accidents declined by 33 per cent on the previous year.

Employees are encouraged to report dangerous situations and a new information system was introduced for reporting them. The system will be used to report near-miss situations and environmental and occupational safety non-compliances, and to monitor the

resulting measures. 3,647 (2007: 2,342) near-miss situations were reported. This system is highly open and transparent, and the reports serve as the foundation for proactive occupational safety work.

L&T's management system and centralised functions have received occupational safety certification in accordance with OHSAS 18001. In addition, L&T's services have been awarded several occupational safety certifications.

Hazard assessments and the analysis of accidents were improved within units and work sites. The training of occupational safety personnel was intensified, and employees are being actively trained through courses culminating in the award of an occupational safety card, for example.

## Uniform L&T

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The L&T Integrated Management System was deployed throughout L&T's operating countries, in order to promote an international and uniform L&T. In terms of human resources affairs, the system specified the necessary documents required for employment as well as the minimum requirements for recruitment, orientation, and terms of the employment contract. Language training courses were also provided in support of internationalisation.

# Environment

## Environmental responsibility in L&T's operating policy

L&T is the biggest company in the environmental management sector in Finland, so it carries a particularly heavy responsibility in terms of environmental issues. Environmental considerations are firmly linked with everyday activities, which are based on a high degree of environmental awareness. L&T makes its environmental expertise available to its customers and develops its operations so as to place its customers in the best possible position to meet their environmental targets. L&T also endeavours to predict changes in environmental standards and values and to influence their formation by developing procedures and technology.

## L&T stands for sustainable development

L&T directs waste materials for reuse, promotes recycling, collects and processes hazardous waste appropriately, and is a significant supplier of wood-based biofuels. Recyclable materials and by-products are processed into secondary raw materials and recovered fuels at L&T's recycling plants. The reject is transported to safe final disposal. The recycling of waste materials saves virgin raw materials.

The most significant adverse environmental impacts of L&T's operations include the emissions and noise of vehicles used for collection and transport services, as well as the environmental risk associated with the handling of hazardous waste.

## Recovered fuels replace fossil fuels

Biofuels and recovered fuels supplied by L&T replace fossil fuels in energy production. The wood-based biofuels supplied by L&T Biowatti are manufactured mostly from the by-products of the forest industry and forestry. The recovered fuel produced by Environmental Services is a 60 to 80 per cent renewable source of energy manufactured from waste originating in commerce, industry and households that is not suitable for recycling as material.

## L&T's CO<sub>2</sub> balance

Biofuels, recovered fuels and waste material recycling services provided by L&T reduced carbon dioxide emissions in Finland by some two million ton in 2007. This figure is almost equivalent to the total emissions caused by road traffic in Uusimaa, Finland's most heavily trafficked province. Climatic impacts were calculated using a model created by VTT, the Technical Research Center of Finland.

Emissions caused by L&T's own operations were reduced in 2007 as compared to the previous year. In spite of an increased volume of operations, the reduction amounted to some 75,000 ton, i.e. three percent less than in the previous year. Emissions have been reduced by way of focusing on low-emission transport equipment and by improving the efficiency of transports. In L&T's operations, the greatest emissions originate in transports and machinery.

## Environmental management

Environmental management is included in L&T's management system combined with the management of health and occupational safety issues. The EHS environmental objectives for 2007–2009 are reducing energy consumption and emissions.

L&T's management system and centralised functions are certified in accordance with the ISO 14001 environmental standard. Furthermore, L&T's services were granted environmental certifications in Finland, Sweden and Latvia.

L&T has 80 environmental permits related to the handling and storage of waste. 17 environmental permits were granted and 8 new ones applied for in 2008.

## Actions in 2008

Some 86% of L&T's lorry engines comply with the Euro2–Euro5 standards for reducing environmental impacts. The company also operates five waste lorries running on natural gas.

An electronic route system has been installed in waste lorries to improve routing efficiency. In addition, a driver's guidance system is in use that allows the

monitoring of fuel consumption per driver and per route. Development work aimed at reducing emissions continues.

A training programme for lorry drivers was launched to address the competence requirements specified in the EU Directive on the initial qualification and periodic training of drivers of certain road vehicles for the carriage of goods or passengers. The training programme also includes a course, to be completed by all L&T drivers, on a proactive driving style. In 2008, more than 400 drivers completed a proactive driving course.

L&T launched a cleaning services concept that emphasises environmental awareness. This service was designed with the criteria specified for the Nordic ecolabel, also known as the Swan label, in mind, and the label was indeed awarded for the service concept. L&T® EcoCleaning is the first cleaning service in Finland to receive the environmental label.

An extensive training programme was launched to enhance the environmental awareness of cleaning personnel. This programme was completed by 400 cleaners and supervisors, with the objective of making cleaning personnel better equipped to promote pro-environmental efforts in customer properties.

A total of 23 internal assessments and safety audits by insurance companies were completed during the year with regard to environmental and occupational safety.

L&T Recoil Oy received an environmental permit for its waste oil re-refinery in Hamina. Similarly, an environmental permit was granted to the Joutseno recycling plant, to be located on a site owned by Etelä-Karjalan Jätehuolto Oy.

## Awards

The Association of Environmental Enterprises and the Uusioutiset magazine granted L&T the Best Recovery Deed of the Year award. L&T was awarded for the manufacture of recovered fuel from mixed household waste.

The City of Kerava gave its Environmental Award 2008 to L&T's Kerava recycling plant. It is the largest and most versatile recycling plant in the Nordic countries and a model plant in its sector.



# Corporate Governance

Lassila & Tikanoja plc complies with those sections of the Finnish Corporate Governance Code that entered into force on 1 January 2009. The Code was issued by the Securities Market Association on 20 October 2008 and it is available on the website [www.cgfinland.fi](http://www.cgfinland.fi).

## Business organisation

The business is divided into three divisions: Environmental Services, Property and Office Support Services and Industrial Services. Vice Presidents in charge of each division report to the President and CEO.

The business units of Environmental Services and Industrial Services report to Product Line Directors. Property and Office Support Services has an area organisation with four areas in Finland. Country Managing Directors are responsible for operations in each country outside Finland. Administration, marketing, product development and the management of group-level processes are centralised.

## General Meetings

The Annual General Meeting is the supreme decision-making body of Lassila & Tikanoja plc. The Annual General Meeting decides on the matters stipulated in the Companies Act, such as the acceptance of the financial statements and proposed dividend, the release from liability of members of the Board of Directors and the President and CEO, the election of the members of the Board of Directors and the Auditors, and the compensation paid to them. The Annual General Meeting is held by the end of April. When considered necessary, an Extraordinary General Meeting is convened to handle a specific proposal made to a General Meeting. General Meetings are convened by the Board of Directors.

Each share of Lassila & Tikanoja plc entitles to one vote. According to the Articles of Association, at a General Meeting of shareholders no shareholder may cast more than one fifth of the total number of votes represented at the meeting.

## Advance information

Shareholders are convened to a General Meeting by a notice published in one newspaper in the company's domicile. The Board of Directors' proposals and the notice of the meeting are also disclosed in a stock exchange release. The prospective director candidates as well as the proposal for Auditors are disclosed in the notice or in a separate stock exchange release before the General Meeting.

The notice of the General Meeting and the related documents will be available on the company website at least 21 days before the General Meeting.

## Attendance of the Board members, President and CEO, auditor and prospective Board members at a General Meeting

The members of the Board of Directors, President and CEO, principal auditor and prospective directors attend a General Meeting, unless there are well founded reasons for the absence.

## Minutes of General Meeting

The minutes of the General Meeting including the appendices will be available on the company website within two weeks of the General Meeting.

## Board of Directors

### Composition and term

In accordance with the Articles of Association, the Board of Directors comprises a minimum of three members and a maximum of seven. The members of the Board of Directors are elected by the Annual General Meeting. The term of the members of the Board of Directors expires at the end of the next Annual General Meeting of Shareholders following his/her election. A person who has attained the age of 70 cannot be elected to the Board of Directors. The Board elects a Chairman and a Vice Chairman from among its members.

The Board of Directors comprises the following persons: Mr Juhani Majjala, Chairman, Mr Juhani Lassila, Vice Chairman, Mr Heikki Bergholm, Mr Eero Hautaniemi, Mr Matti Kavetvuo and Mr Lasse Kurkilahti.

Biographical details of the Directors are given on page 28, and information on their holdings in the company and changes in the holdings during the year are set out on page 26.

The biographical details of the director candidates will be available on the company website before the General Meeting.

The President and CEO is not a member of the Board of Directors but is present at Board meetings.

## Duties

The Board of Directors is responsible for the management of the company and for the proper arrangement of the company's operations as well as for the proper arrangement and supervision of the company's accounting and financial management. The Board of Directors decides upon matters, which, considering the scope and size of the operations of the company, are of major importance.

The duties of the Board are defined in a written charter adopted by the Board in 2004, which the Board complies in addition to the Articles of Association and the Finnish laws and regulations.

According to the charter, the matters handled by the Board of Directors include:

- confirming the company's goals
- deciding on the corporate strategy and to confirm divisional strategies
- establishing a dividend policy and to be responsible for the development of the shareholder value
- deciding on group structure and organisation
- ensuring the operation of the management system
- handling and adopting interim report, consolidated financial statements and annual report
- confirming the company's operating plan, budget and investment plan

- deciding on strategically or financially significant investments, corporate acquisitions, disposals or other arrangements as well as financing arrangements and contingent liabilities
- confirming risk management and reporting practice as well as financing, disclosure and insurance policies
- nominating and dismissing the President and CEO and monitoring and evaluating his work
- adopting the nominations of the President and CEO's immediate subordinates
- deciding on the salary, bonuses and other benefits of the President and CEO and his immediate subordinates as well as other terms of their employment
- monitoring the reporting process of financial statements
- supervising the financial reporting process
- monitoring the efficiency of the company's internal control, internal audit, if applicable, and risk management system
- reviewing the description of the main features of internal control and risk management systems pertaining to the financial reporting process, which is included in the company's corporate governance statement
- monitoring the statutory audit of financial statements and consolidated financial statements
- evaluating the independence of the statutory Auditor and the auditing company, particularly the provision of related services to the company to be audited
- preparing the proposal for the Auditor.

#### Meeting practice

The Board of Directors meets about 12 times a year. If necessary, the Board holds meetings over the telephone. The Chairman is responsible for convening the Board meetings and for the meeting practice. At the meetings, matters are presented by the President and CEO, who is responsible for ensuring that the

Board is provided with sufficient information to assess the operation and financial situation of the company. He also supervises and reports to the Board on the implementation of the Board's decisions.

The Board of Directors met 14 times during 2008. The average attendance per cent of the members at the meetings was 91.4.

#### Performance evaluation

The evaluation of the performance and working methods of the Board is conducted annually as an internal self-evaluation.

#### Evaluation of independence

The Board has evaluated the independence of its members in accordance with item 15 of the Corporate Governance Code. The evaluation showed that all the members of the Board are independent of the company and of a significant shareholder.

#### Committees

The Board has established no committees. The entire Board handles all the matters pertaining to it. The audit committees' duties are included in the written charter of the Board.

#### Managing Director

Lassila & Tikanoja plc's Managing Director, known as the President and CEO, is appointed by the Board of Directors. The President and CEO is responsible for day-to-day operations in keeping with the instructions of the Board of Directors. He is also responsible for the strategy process. The present President and CEO is Jari Sarjo.

#### Other Management

The Group Executives assist the President and CEO in the management of the company. The Group Executives and their areas of responsibility are presented on page 29 and their holdings in the company shares and options on page 26.

The Management Team considers L&T's performance, strategy, major development projects and goals for the following year. The Management Team comprises the management and four employee representatives.

#### Compensation

##### Board of Directors

The General Meeting determines the emoluments payable to the members of the Board of Directors in advance, for one year at a time. In 2008, the following annual fees were paid: Chairman EUR 46,250, Vice Chairman EUR 30,500 and each member EUR 25,750. The fees were paid so that each member purchased company shares worth of the net amount of the fee (40%) in public trading on NASDAQ OMX Helsinki.

The members of the Board are not included in the share option schemes and they do not have any pension contracts with the company.

##### President and CEO and other management

The Board of Directors determines the salary, bonuses and other benefits of the President and CEO and the direct subordinates of the President and CEO. The President and CEO and the Group Executives are included in the share option schemes directed to the key personnel of the company. The share option schemes are approved by the General Meeting. The company has provided an EVA-based compensation scheme, the criteria of which are determined annually in advance by the Board of Directors. Separate emoluments are not paid to the Group Executives for the memberships of Boards of Directors of the subsidiaries.

In 2008, the salaries paid to the President and CEO totalled EUR 335,350, including salaries and benefits only. The salaries of the other Group Executives totalled EUR 734,608, which included salaries and benefits EUR 703,930, bonuses EUR 25,340 and benefits from exercising share option rights

EUR 5,338. The figures include salaries for the period during which the persons in question held an executive position.

A written service contract has been drawn up for the President and CEO. According to the contract, the period of notice is 12 months if the company terminates his employment, and 6 months if the President and CEO terminates the employment. The President and CEO may choose to retire at the age of sixty. The amount of pension is agreed in advance, and an index increase is made to the sum annually. The amount is less than the full amount of pension under the Employees' Pensions Act. The pension is recognised as a defined benefit liability in the financial statements. In 2008, EUR 30 thousand arising from this agreement was recognised in the income statement.

## Internal control, risk management and internal audit

### Internal control

The financial development of the company is monitored monthly by an operative reporting system covering the whole group. In addition to actual data, the system provides budgets, forecasts and investment reports.

There are business controllers in every division and two financial controllers of international business in the finance department. The duties of the controllers include the accuracy control of financial reports and the analysing of the financial performance.

The company has financing, risk management, disclosure and insurance policies confirmed by the Board of Directors.

### Organising the risk management

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.

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.

Risk management forms an integrated part of L&T's management, monitoring and reporting system. Regular monitoring and reporting of risks take place at the

## Shares held by the management

### Shares held by the members of the Board of Directors

|                                  | 31 December<br>2008 | Percentage of<br>shares and of<br>voting power | 1 January<br>2008 |
|----------------------------------|---------------------|--|-------------------|
| Heikki Bergholm                  | 774 807             | 2.00   | 764 961           |
| Eero Hautaniemi                  | 1 650               |  | 410               |
| Matti Kavetvuo                   | 114 000             | 0.29   | 111 000           |
| Lasse Kurkilahti                 | 5 227               | 0.01   | 4 557             |
| Juhani Lassila                   | 18 398              | 0.05   | 17 628            |
| Evald and Hilda Nissi Foundation | 2 413 584           | 6.22   | 2 413 584         |
| Juhani Majjala                   | 1 527 994           | 3.94   | 1 526 494         |
| Total                            | 4 855 660           | 12.51  | 4 838 634         |

### Shares and share options held by the Group Executives

|                       | Shares              |                   | 2005A<br>options    | 2005B<br>options    | 2005C<br>options    | 2008<br>options     |
|-----------------------|---------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
|                       | 31 December<br>2008 | 1 January<br>2008 | 31 December<br>2008 | 31 December<br>2008 | 31 December<br>2008 | 31 December<br>2008 |
| Laura Aarnio          | 240                 | 240               |                     | 3 000               | 3 000               | 5 000               |
| Anna-Maija Apajalahti | 2 920               | 2 920             | 13 000              | 13 000              | 15 000              |                     |
| Kimmo Huhtimo         |                     |                   |                     | 2 000               | 2 000               | 3 000               |
| Jorma Mikkonen        | 720                 | 720               | 10 000              | 10 000              | 15 000              | 15 000              |
| Arto Nivalainen       | 4 800               | 4 800             | 13 000              | 13 000              | 15 000              | 15 000              |
| Inkeri Puputti        |                     |                   |                     |                     | 2 000               | 3 000               |
| Jari Sarjo            | 17 000              | 16 000            | 26 000              | 26 000              | 30 000              | 30 000              |
| Sirkka Tuomola        | 40 000              | 40 000            | 10 000              | 10 000              |                     |                     |

There were no changes in the holdings of 2005 options during 2008.

group, division and product line levels, in units outside Finland as well as within centralised functions defined as being critical, as part of the annual strategy process.

#### Internal audit

The company has no internal audit organisation of its own, which is taken into account when determining the extent and content of the audit.

Regular auditing the financial statements of international units is the duty of two financial controllers of international business who work in the finance department. External auditor participates in some of the audits. Auditing activity is also included in the duties of business controllers as needed.

#### Insider guidelines

The Board of Directors has taken a decision that the Group observes the guidelines for insiders issued by the OMX Nordic Exchange (currently NASDAQ OMX Helsinki). Additionally, it has given a complementary guideline which is in some respects more stringent.

The insider register is maintained in the SIRE service of Euroclear Finland Ltd (former Finnish Central Securities Depository Ltd). Persons subject to the declaration requirement are recorded in the public insider register. They comprise the members of the Board of Directors, President and CEO, the Group Executives and the principal auditor. The persons recorded in the company-specific permanent insider register are, due to their positions, the Management Team, legal counsels, executive assistants and persons participating in group accounting, as well as persons preparing stock exchange releases. Separate project-specific sub-registers are kept for extensive or otherwise significant projects. The Chief Financial Officer is the person responsible for insider issues (from 1 March to 31 December 2009 Finance Director).

Lassila & Tikanoja's insiders are not permitted to engage in trading with company shares during the period between the end of the financial period and the disclosure of the result. Insiders must consult the person responsible for insider issues concerning the conformity of any planned trading with the relevant legislation and guidelines.

The shareholdings and option holdings of the public insiders are listed on the company website.

#### Auditing

The statutory audit of the financial statements is carried out by PricewaterhouseCoopers Oy, Authorised Public Accountants.

The auditors and the Board agree on the audit plan annually and discuss the audit's findings. The principal auditor and the auditor manager attend at least one meeting of the Board of Directors annually.

In 2008, the fees paid for statutory auditing to PricewaterhouseCoopers group totalled EUR 176,214. The fees paid to the auditing company and companies belonging to the same chain for non-audit services such as tax, IFRS and due diligence services, totalled EUR 65,455.

# Administrative organs

## Lassila & Tikanoja plc Board of Directors

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### Juhani Majjala, born 1939

B.Sc. (Econ.), Master of Laws

Chairman of the Board since 2001, full-time 2001–2005, Member of the Board of the former Lassila & Tikanoja plc since 1983, Chairman 1998–2001

President and CEO of the former Lassila & Tikanoja plc 1983–1998, President of Säk-kiväline Group 1993–1996, President of Tiklas within Lassila & Tikanoja Group 1980–1983, CFO of Lassila & Tikanoja Ltd 1977–1980, Vice President of Palomex Oy 1975–1977

Holds 1,527,994 Lassila & Tikanoja plc shares

### Juhani Lassila, born 1962

M.Sc. (Econ.), Managing Director of Agros Oy 2005–

Vice Chairman of the Board since 2007, Member of the Board since 2001, Member of the Board of the former Lassila & Tikanoja plc 1998–2001

Finance integration leader for Instrumentarium Corporation and GEMS/IT, GE Healthcare 2003–2004, Director of Group Finance and Group Treasury 1999–2004 and Group Treasurer 1996–1999 in Instrumentarium Corporation, Financial Analyst of Postipankki Oy 1988–1996, Investment Analyst of Instrumentarium Corporation 1987–1988

Member of the Board of Comptel Corporation 2006– and Suominen Corporation 2005–, Chairman of the Board of Evald and Hilda Nissi Foundation 2003–

Holds 18,398 Lassila & Tikanoja plc shares and exercises the controlling power in the Evald and Hilda Nissi Foundation, which holds 2,413,584 shares

### Heikki Bergholm, born 1956

M.Sc. (Eng.)

Member of the Board since 2008

President and CEO of Suominen Corporation 2002–2006, President and CEO 1998–2001 and Vice President 1997–1998 of the former Lassila & Tikanoja plc, President of business units in the former Lassila & Tikanoja Group 1986–1997, CFO 1985–1986 of Lassila & Tikanoja Ltd, Researcher and Development Manager of Industrialisation Fund of Finland Ltd 1980–1985

Member of the Board of Forchem Oy 2007–, Member of the Board of Componenta Corporation 2002– and Chairman of the Board 2003–, Member of the Board of MB Funds Oy 2002– and Suominen Corporation 2001–, Member of the Board of Lakan Betoni Oy 1986– and Chairman of the Board 1998–

Member of the Board of Kemira Group 2004–2007, Pohjola Group plc 2003–2005 and Sponda Plc 1998–2004

Holds 774,807 Lassila & Tikanoja plc shares

### Eero Hautaniemi, born 1965

M.Sc. (Econ.), Managing Director of Oriola-KD Corporation 2006–

Member of the Board since 2007

President of GE Healthcare Finland Oy 2004–2005, General Manager of the Oximetry, Supplies and Accessories business area of GE Healthcare IT 2003–2004, positions in financial and business management in Instrumentarium Corporation 1990–2003

Holds 1,650 Lassila & Tikanoja plc shares

### Matti Kavetvuo, born 1944

M.Sc. (Eng.), B.Sc. (Econ.)

Member of the Board since 2008, Member of the Board of the former Lassila & Tikanoja plc 1984–1988 and 1998–2001

President and CEO of Pohjola Insurance Group 2000–2001, President and CEO of Valio Ltd 1992–1999, President and CEO of Orion Corporation 1985–1991, President of Instrumentarium Corporation 1979–1984 and other positions in Instrumentarium Corporation 1971–1979

Member and Chairman of the Board of Metso Corporation 2003– and Orion Corporation 2004–, Member of the Board of Konecranes Plc 2001–, Member of the Board of Alma Media Corporation 2000– and Vice Chairman 2005–

Member of the Board of Marimekko Corporation 1997–2008 and Chairman of the Board 2007–2008, Member and Vice Chairman of the Board of Kesko Group 2003–2006, Member of the Board of Perlos Corporation 2003–2006, Member of the Board of Lännen Tehtaat plc 2003–2004, Member of the Board of Suominen Corporation 2001–2006 and Chairman of the Board 2002–2006, Member of the Board of Finnlines Plc 2000–2002, Member of the Board of UPM-Kymmene Corporation 2000–2001

Holds 114,000 Lassila & Tikanoja plc shares

### Lasse Kurkilahti, born 1948

B.Sc. (Econ.)

Member of the Board since 2001

President and CEO of Kemira Group 2004–2007, President and CEO of Elcoteq Network Corporation 2001–2004, CEO of Raisio Group 2000–2001, President and CEO of Nokian Tyres plc 1988–2000

Member and Vice Chairman of the Board of SRV Group Plc 2007–

Member of the Board of Elisa Corporation 2005–2008 and Fortum Corporation 2002–2006

Holds 5,227 Lassila & Tikanoja plc shares

## President and CEO

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### Jari Sarjo, born 1957

Master of Laws, President and CEO of Lassila & Tikanoja Group since 2001

President of Säk-kiväline Group 1997–2001, Divisional Director of Säk-kiväline Oy 1994–1997, Administrative Director 1987–1994 and Administrative Manager 1984–1987

Holds 17,000 Lassila & Tikanoja plc shares and 26,000 2005A options, 26,000 2005B options, 30,000 2005C options and 30,000 2008 options.

The changes in the holdings of the members of the Board and the President and CEO during 2008 are listed on page 26.

## Auditor

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### PricewaterhouseCoopers Oy Authorised Public Accountants

Principal auditor Heikki Lassila, APA

# Lassila & Tikanoja management



**Jari Sarjo**, born 1957  
President and CEO of Lassila & Tikanoja Group since 2001  
Master of Laws  
President of Säkkiväline Group 1997–2001, Divisional Director of Säkkiväline Oy 1994–1997, Administrative Director 1987–1994 and Administrative Manager 1984–1987



**Kimmo Huhtimo**, born 1970  
Director responsible for product and process development, marketing communications and Contact Centre since 2008  
M.Sc. (Eng.)  
Group Executive since 2008, Director, Product Development and Sales 2006–2008, Product Development Manager 2005–2006, business and service concept planning and development positions in Elisa Corporation 2000–2005, ADP Designer of TietoEnator Corporation 1998–2000



**Arto Nivalainen**, born 1950  
Vice President, Environmental Services since 2000  
M.Sc.  
Production Director of WM Ympäristöpalvelut Oy 1996–2000, Regional Director 1995–1996, Sales Director 1993–1995, information management duties and Sales and District Director in Oy Huber Ab Group 1982–1993



**Inkeri Puputti**, born 1964  
HR Director since 2008  
M.Pol.Sc.  
Group Executive since 2008, HRD Director 2006–2008, HRD Manager of Rautakirja Oy 2002–2006 and HR Services Manager 1998–2002, HR Supervisor of Oy Sinebrychoff Ab 1996–1998 and HPY (currently Elisa Corporation) 1995–1996



**Anna-Maija Apajalahti**, born 1948  
Vice President, Property and Office Support Services since 2000  
M.Pol.Sc.  
Director in charge of Säkkiväline Oy's cleaning services and group marketing 1997–2000, Divisional Director for cleaning services 1983–1997, also in charge of group marketing, information and marketing duties 1971–1983



**Sirkka Tuomola**, born 1947  
Vice President and CFO since 2001 until 28 February 2009  
M.Sc. (Econ.)  
Vice President and CFO of the former Lassila & Tikanoja plc 1992–2001, Bookkeeping Manager at Metsä-Serla Group 1989–1992, Administrative Director of Tiklas within Lassila & Tikanoja Group 1985–1989, Financial Manager 1983–1985 and Accounting Manager 1981–1983, Accounting Analyst and Accounting Manager of Huhtamäki Group 1974–1981



**Jorma Mikkonen**, born 1963  
Vice President, Industrial Services since 2000  
Master of Laws  
Säkkiväline Oy's Administrative Director 1999–2000, Legal Counsel 1992–1999, Legal Counsel of Helsinki Finnish Savings Bank 1991–1992



**Ville Rantala**, born 1971  
CFO since 1 March 2009  
M.Sc. (Econ.)  
Group Executive since 2009, Director, Finance and Business Development of Suunto Oy 2007–2009, in UPM-Kymmene Corporation Finance Director of Fine and Speciality Papers Division 2006–2007, Business Controller 2002–2006 and Controller 2000–2002, Finance Manager of Salomon Sport Finland Oy 1999–2000



**Laura Aarnio**, born 1975  
Accounting Director since 2005  
M.Sc. (Econ.)  
Group Executive since 2008, Manager, Group Accounting 2001–2005, Group Accounting Analyst of the former Lassila & Tikanoja plc 1999–2001

Säkkiväline was a group company of Lassila & Tikanoja Group between 1989 and 2001, and Säkkiväline acquired WM Ympäristöpalvelut Oy in 2000. The parent company Lassila & Tikanoja demerged in 2001 into two new companies, Lassila & Tikanoja plc and Suominen Group plc.

The holdings of Group Executives in the company as well as changes in the holdings in 2008 are listed on page 26.

# Report of the Board of Directors

## Net sales and financial performance

Lassila & Tikanoja's net sales increased by 9.3% to EUR 606.0 million (EUR 554.6 million; EUR 436.0 million), with corporate acquisitions accounting for 1.5 percentage points of this growth. Operating profit amounted to EUR 55.5 million (EUR 48.8 million; EUR 50.2 million), representing 9.2% (8.8%; 11.5%) of net sales. Earnings per share were EUR 1.03 (EUR 0.83; EUR 0.90).

Organic growth outperformed market growth, and the company's market position strengthened. New service products were introduced to the market. The first half of the year was affected by the sharp rise in general cost level while the second half was overshadowed by growing financial uncertainty.

Operating profit excluding non-recurring and imputed items fell due to rocketing production costs and higher traffic fuel prices in the first half of the year. The market prices of secondary raw materials sank and demand fell rapidly, which burdened profitability towards the year-end.

Meanwhile, a capital gain of EUR 14.3 million from the sale of Ekokem shares in January and the EUR 3.0 million profits from oil derivatives raised the operating profit. On the other hand, operating profit was adversely affected by the goodwill impairment in Swedish operations and a loss from the divestment of the Norwegian business, totalling

EUR -4.2 million, and a loss of EUR -2.6 million due to the discontinuance of the loss-making soil washing services. A year earlier, non-recurring items totalled EUR -5.5 million. The operating profit excluding non-recurring and imputed items was EUR 45.0 million (EUR 54.3 million; EUR 47.3 million).

## Environmental Services

The net sales of Environmental Services totalled EUR 300.1 million (EUR 279.8 million; EUR 204.8 million); an increase of 7.2%. Operating profit was EUR 32.3 million (EUR 35.0 million; EUR 32.8 million), while operating profit excluding non-recurring and imputed items totalled EUR 32.3 million (EUR 36.3 million; EUR 32.8 million).

Organic growth and customer loyalty remained good, although prices were revised following the steep rise in general cost level and transport fuel prices. The growing financial uncertainty and, in particular, the slowdown in construction lowered intake volumes at recycling plants. Furthermore, the market prices of secondary raw materials and demand for them sank in the second half.

Construction of substantial added capacity began at the Kerava recycling plant. It is estimated that the first stage (wood shredding line) will be taken into use during the second quarter of 2009. Construction of the second stage (construction and demolition waste treatment plant; commercial and industrial waste

treatment plant) is about to begin, and the plant is expected to be completed in about a year. This expansion will significantly increase the recovery rate of the waste processed at the plant.

The costs of the disposal of plant reject rose due to reduced landfill capacity at the Kerava plant, which was in turn due to technical reasons. A new industrial landfill site was opened in Kotka, Finland, at the end of the year.

Demand for L&T Biowatti's biofuels fell clearly short of the expected level due to the exceptionally mild winter, which also hampered the collection of forest processed chips and raised procurement costs. To compensate for the impacts of production restrictions in the forest industry, the organisation was revised and the service offering was expanded. In addition, investments were made in the company's own collecting, processing and transport equipment for forest processed chips. These measures help increase the company's own energy wood procurement considerably. The production of wood pellets was launched in Luumäki at the beginning of the final quarter.

Business in Russia and Latvia developed as planned. The uncertainty of the Latvian economy has posed challenges for business development while it has translated into high availability of labour and lower labour costs. L&T has waste management operations at two locations in Russia, Dubna and Sergiev Posad. At the year-end, a waste management

## Net sales by division

| EUR 1000                             | 2008    | 2007    | Change % | 2006    |
|--------------------------------------|---------|---------|----------|---------|
| Environmental Services               | 300 070 | 279 845 | 7.2      | 204 825 |
| Property and Office Support Services | 227 619 | 204 141 | 11.5     | 168 403 |
| Industrial Services                  | 84 634  | 75 479  | 12.1     | 66 843  |
| Group administration and other       |         | 10      |          | 118     |
| Inter-division net sales             | -6 327  | -4 862  |          | -4 185  |
| Total                                | 605 996 | 554 613 | 9.3      | 436 004 |

## Operating profit by division

| EUR 1000                             | 2008   | %    | 2007   | %    | Change % | 2006   | %    |
|--------------------------------------|--------|------|--------|------|----------|--------|------|
| Environmental Services               | 32 255 | 10.7 | 34 977 | 12.5 | -7.8     | 32 762 | 16.0 |
| Property and Office Support Services | 5 525  | 2.4  | 11 005 | 5.4  | -49.8    | 8 758  | 5.2  |
| Industrial Services                  | 5 621  | 6.6  | 4 769  | 6.3  | 17.9     | 9 337  | 14.0 |
| Group administration and other       | 12 097 |      | -1 976 |      |          | -672   |      |
| Total                                | 55 498 | 9.2  | 48 775 | 8.8  | 13.8     | 50 185 | 11.5 |

agreement was signed with the City of Noginsk near Moscow, where operations will begin in the first half of the year.

All units of Lassila & Tikanoja plc's Environmental Services received certificates for quality, environmental management, occupational health and safety.

Net sales for environmental products increased and performance development was positive. Based on new customers, the Bajamaja rental operations became a year-round service, which clearly boosted net sales.

### Property and Office Support Services

Net sales for Property and Office Support Services increased by 11.5% to EUR 227.6 million (EUR 204.1 million; EUR 168.4 million). Operating profit was EUR 5.5 million (EUR 11.0 million; EUR 8.8 million), and operating profit excluding non-recurring and imputed items totalled EUR 9.7 million (EUR 11.4 million; EUR 8.8 million).

Contract revenue increased, and sales of additional services in both product lines were successful. Organic growth was strong, particularly in property maintenance, while production costs rose and price competition remained intense.

New service products were introduced to the market. Such new products in cleaning services included the L&T® EcoCleaning concept, the first product in the industry in Finland to receive the Nordic environmental label, also known as the Swan label. This concept provides customers with the opportunity to carry out concrete environment-friendly actions.

The holding in Blue Service Partners was sold to L&T's joint venture partner at the beginning of February. Moreover, the Huomenta Toimitilapalvelut franchis-

ing chain expanded as targeted in the Helsinki region in Finland, and operations were also launched in Lahti and Tampere, Finland.

Loss from international operations declined. Operations in Russia and Latvia developed as planned while the Swedish operations fell markedly short of their targets. Action programme is underway in Sweden to improve profitability.

### Industrial Services

Industrial Services' net sales totalled EUR 84.6 million (EUR 75.5 million; EUR 66.8 million); an increase of 12.1%. The operating profit was EUR 5.6 million (EUR 4.8 million; EUR 9.3 million), and the operating profit excluding non-recurring and imputed items was EUR 5.2 million (EUR 8.6 million; EUR 8.6 million).

Sales were successful despite the growing financial uncertainty towards the year-end. Net sales increased in all product lines, growth being primarily organic. Indeed, the division was also able to strengthen its market position.

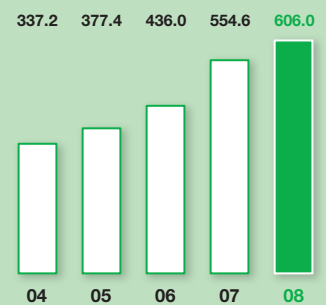
Demand fluctuated rapidly throughout the year, and it was difficult to adjust production to these fluctuations. In the first half of the year, performance was also burdened by difficulties in delivering recovered fuels and the rise in hazardous waste disposal costs in the second half. As a result of the fire at the Tuusula plant in June, acceptance criteria for waste were revised.

New partner agreements were forged in damage repair services, and the service network was expanded. The number of major damage repair assignments was exceptionally small last year. At the beginning of 2009, damage repair services were included in the Property and Office Support Services division.

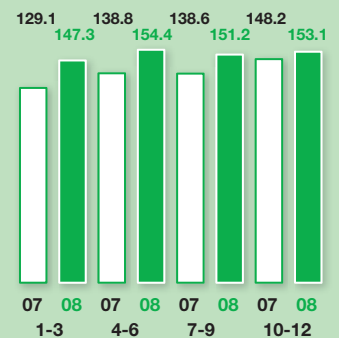
#### Net sales of operations abroad by country

| EUR 1000 | 2008   | 2007   | 2006   |
|----------|--------|--------|--------|
| Sweden   | 25 302 | 26 525 | 13 299 |
| Latvia   | 24 418 | 19 002 | 14 128 |
| Russia   | 8 347  | 5 600  | 2 769  |
| Norway   | 1 165  | 2 507  |        |

Net sales, EUR million

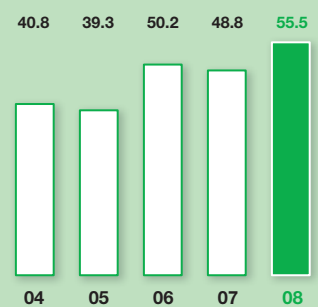


Net sales quarterly, EUR million

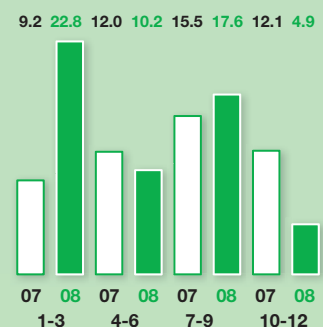


Operating profit, EUR million

2004 excluding revenue recognition of pension liability



Operating profit quarterly, EUR million





L&T Recoil's re-refinery is estimated to be completed in spring 2009. This year's objective for this joint venture is to produce one-third of the plant's 60,000-ton annual capacity. L&T Recoil's

raw material procurement was successful but higher storage costs and operational start-up costs eroded the division's profitability.

A total of EUR 3.0 million worth of imputed changes and sales gains from L&T Recoil's oil derivatives were recorded.

## Income statement by quarter

| EUR 1000                             | 10-12/2008   | 7-9/2008      | 4-6/2008     | 1-3/2008      | 10-12/2007    | 7-9/2007      | 4-6/2007      | 1-3/2007     |
|--------------------------------------|--------------|---------------|--------------|---------------|---------------|---------------|---------------|--------------|
| <b>Net sales</b>                     |              |               |              |               |               |               |               |              |
| Environmental Services               | 74 211       | 73 740        | 76 639       | 75 480        | 74 788        | 67 915        | 71 744        | 65 398       |
| Property and Office Support Services | 58 622       | 56 309        | 57 114       | 55 574        | 54 798        | 51 963        | 48 660        | 48 720       |
| Industrial Services                  | 22 301       | 22 906        | 22 052       | 17 375        | 19 867        | 19 890        | 19 572        | 16 150       |
| Group administration and other       |              |               |              |               | 1             | 3             | 3             | 3            |
| Inter-division net sales             | -2 076       | -1 712        | -1 441       | -1 098        | -1 282        | -1 202        | -1 220        | -1 158       |
| Lassila & Tikanoja                   | 153 058      | 151 243       | 154 364      | 147 331       | 148 172       | 138 569       | 138 759       | 129 113      |
| <b>Operating profit</b>              |              |               |              |               |               |               |               |              |
| Environmental Services               | 5 957        | 9 723         | 8 151        | 8 423         | 8 372         | 9 730         | 8 104         | 8 771        |
| Property and Office Support Services | -2 046       | 4 806         | 1 156        | 1 609         | 4 015         | 4 213         | 1 690         | 1 087        |
| Industrial Services                  | 1 630        | 3 707         | 1 162        | -878          | 180           | 2 133         | 2 595         | -139         |
| Group administration and other       | -660         | -653          | -271         | 13 681        | -468          | -601          | -349          | -558         |
| Lassila & Tikanoja                   | 4 881        | 17 583        | 10 198       | 22 835        | 12 099        | 15 475        | 12 040        | 9 161        |
| <b>Operating margin</b>              |              |               |              |               |               |               |               |              |
| Environmental Services               | 8.0          | 13.2          | 10.6         | 11.2          | 11.2          | 14.3          | 11.3          | 13.4         |
| Property and Office Support Services | -3.5         | 8.5           | 2.0          | 2.9           | 7.3           | 8.1           | 3.5           | 2.2          |
| Industrial Services                  | 7.3          | 16.2          | 5.3          | -5.1          | 0.9           | 10.7          | 13.3          | -0.9         |
| Lassila & Tikanoja                   | 3.2          | 11.6          | 6.6          | 15.5          | 8.2           | 11.2          | 8.7           | 7.1          |
| Finance costs, net                   | -1 370       | -1 346        | -990         | -1 100        | -1 247        | -1 294        | -924          | -852         |
| <b>Profit before tax</b>             | <b>3 511</b> | <b>16 237</b> | <b>9 208</b> | <b>21 735</b> | <b>10 852</b> | <b>14 181</b> | <b>11 116</b> | <b>8 309</b> |

## Invested capital

Invested capital amounted to EUR 32.6 million more than a year ago mainly because capital expenditure exceeded depreciation and amortisation. L&T Recoil accumulated its raw materials stock and L&T Biowatti increased its stock volumes as well. Liquid assets were increased by taking out a long-term loan from an insurance institution. At the end of the previous year the invested capital contained the Ekokem shares totalling EUR 16.8 million, which were sold in January 2008. Deferred tax liabilities increased as the tax receivables related to business combinations in 2007 were realised.

The rate of circulation for invested capital was 1.7 (1.7; 1.7).

| EUR 1000                                 | 31<br>December<br>2008 | 31<br>December<br>2007 | 31<br>December<br>2006 |
|--|------------------------|------------------------|------------------------|
| Non-current assets                       | 356 609                | 319 380                | 265 230                |
| Inventories and receivables              | 94 559                 | 88 137                 | 62 564                 |
| Available-for-sale investments in shares |                        | 16 800                 |                        |
| Liquid assets                            | 26 517                 | 14 008                 | 24 790                 |
| Deferred tax liability                   | -32 898                | -29 842                | -22 350                |
| Trade and other payables                 | -88 298                | -85 183                | -73 174                |
| Provisions                               | -1 755                 | -1 055                 | -1 208                 |
| Other non-interest-bearing liabilities   | -2 640                 | -2 733                 | -1 721                 |
| Invested capital                         | 352 094                | 319 512                | 254 131                |

## Financing

At the end of the period, interest-bearing liabilities amounted to EUR 29.9 million more than a year earlier. Net interest-bearing liabilities, totalling EUR 120.5 million, increased by EUR 34.2 million. The net finance costs increased as a result of the growth in the interest-bearing liabilities and exceeded those for the comparison period by EUR 0.5 million.

An expense of EUR 0.3 million arising from the change in the fair value of interest rate swaps (EUR 0.3 million; finance income EUR 0.5 million) was recognised in the income statement. Net finance costs were 0.8% of net sales and 8.7% of operating profit.

### Key figures for financing

|   | 2008  | 2007  | 2006 |
|---|-------|-------|------|
| Interest-bearing liabilities, EUR million                         | 147.1 | 117.2 | 77.3 |
| Net interest-bearing liabilities, EUR million                     | 120.5 | 86.4  | 52.5 |
| Interest expenses, EUR million                                    | 6.1   | 5.3   | 3.0  |
| Net finance costs, EUR million                                    | 4.8   | 4.3   | 1.7  |
| Net finance costs, % of net sales                                 | 0.8   | 0.8   | 0.4  |
| Net finance costs, % of operating profit                          | 8.7   | 8.9   | 3.4  |
| Equity ratio, %   | 43.2  | 46.6  | 50.4 |
| Gearing, %  | 58.8  | 42.7  | 29.7 |
| Cash flows from operating activities, EUR million                 | 70.4  | 55.4  | 69.9 |
| Change in working capital in the cash flow statement, EUR million | 2.2   | -13.2 | 2.5  |

Financial risks and financial risk management are presented in the Note 38 Financial risk management.

A total of EUR 1.0 million arising from the interest rate swaps to which hedge accounting under IAS 39 is applied, was recognised as a decrease in equity (EUR 0.1 million increase; EUR 0.4 million increase).

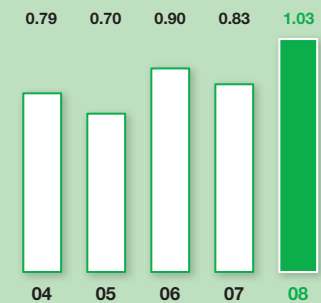
The equity ratio was 43.2% and the gearing rate 58.8. Cash flows from operating activities amounted to EUR 70.4 million, and EUR 2.2 million were released from the working capital.

Liquidity remained at a good level throughout the year.

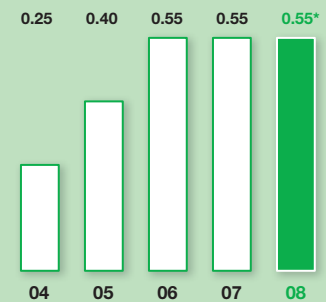
At the end of the year, liquid assets amounted to EUR 26.5 million and binding loan offers EUR 24 million. Thereby, financing for 2009 is secured.

### Earnings per share, EUR

2004 excluding revenue recognition of pension liability

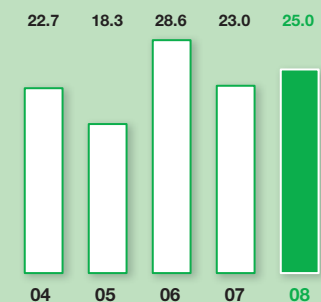


### Dividend per share, EUR



\* Proposal by the Board of Directors

### EVA, EUR million



## Capital expenditure

Capital expenditure totalled EUR 84.2 million (EUR 93.2 million; EUR 47.2 million). Production plants were built and machinery and equipment were purchased. The largest construction projects were L&T Recoil re-refinery, extension of Kerava recycling plant and Kotka landfill. In addition, information systems were replaced.

Business acquisitions amounted to EUR 5.1 million. The combined annual net sales of the acquired businesses totalled EUR 6.5 million.

In October Jätehuolto Savolainen Oy, a company specialising in waste management and recycling services, was acquired into Environmental Services. Oulun TOP-Huolto Oy, a company specialising in property management, was acquired into Property and Office Support Services in November. In December Kuljetusliike Eskolin Oy, a sewer maintenance service provider, was acquired into Industrial Services.

The cleaning services business of Siivouspalvelu Siivoset Oy, the cleaning services business of Siivousliike Lainio Oy and the property maintenance services business of Rantakylän Talonhuolto Oy were acquired into Property and Office Support Services. The business of Obawater Oy was acquired into Industrial Services.

In February the 50% holding in Blue Service Partners Oy was sold to the joint venture partner. Food hygiene business operations in Norway were disposed of at the end of December.

## Changes in the Group structure

The entire stocks of Jätehuolto Savolainen Oy, Oulun TOP-Huolto Oy and Kuljetusliike Eskolin Oy were acquired. The 50% holding in Blue Service Partners Oy was sold to the joint venture partner. Kiinteistöhuolto Aarappu Oy was dissolved.

### Capital expenditure by balance sheet item

| EUR million   | 2008 | 2007 | 2006 |
|---|------|------|------|
| Real estates  | 25.5 | 9.1  | 5.3  |
| Machinery and equipment and other property, plant and equipment   | 51.7 | 36.6 | 28.7 |
| Goodwill and intangible rights arising from business acquisitions | 3.1  | 41.4 | 10.1 |
| Other intangible assets   | 3.8  | 5.9  | 3.1  |
| Other non-current assets  | 0.1  | 0.2  |      |
| Total   | 84.2 | 93.2 | 47.2 |

### Capital expenditure by division

| EUR million                          | 2008 | 2007 | 2006 |
|--------------------------------------|------|------|------|
| Environmental Services               | 41.8 | 60.7 | 22.0 |
| Property and Office Support Services | 9.1  | 20.0 | 19.5 |
| Industrial Services                  | 33.3 | 12.3 | 5.7  |
| Group administration and other       |      | 0.2  |      |
| Total                                | 84.2 | 93.2 | 47.2 |

## Personnel

In 2008, the average number of employees converted into full-time equivalents was 8,363 (7,819; 6,775). At the end of the year, the total number of full-time and part-time employees was 9,490 (9,387; 8,328). Of them 7,269 (6,986; 6,506) people worked in Finland and 2,221 (2,401; 1,822) people in other countries.

The wages and salaries paid in 2008 totalled EUR 192.0 million (EUR 170.2 million; EUR 144.8 million).

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

|         | 2008  | 2007  | 2006  |
|---------|-------|-------|-------|
| Finland | 7 269 | 6 986 | 6 506 |
| Sweden  | 738   | 649   | 542   |
| Latvia  | 1 050 | 1 028 | 894   |
| Russia  | 433   | 528   | 386   |
| Norway  |       | 196   |       |
| Total   | 9 490 | 9 387 | 8 328 |

## Product development

The goal of product development is to ensure the competitiveness of L&T's service products and thereby to help the company achieve its growth targets. Duties of the centralised product development function include planning product development operations, steering the product development process and implementing specified development projects.

In 2008, product development operations were strengthened with what is called a Product Incubator function, with the objective of enhancing new service product utilisation. Another objective is to minimise the time between product launch and commercial success.

During the year, existing services were renewed and new services were launched. The most significant new service product in 2008 was the L&T® Eco-Cleaning concept that was introduced in April. This concept takes environmental matters into account from both the production and customer perspectives. L&T® EcoCleaning is the first cleaning service in Finland to receive the Swan label, the Nordic ecolabel. To receive the Swan label, a cleaning service concept must fulfil extremely strict criteria, such as minimal chemical consumption, environmentally sound transport equipment used for cleaning purposes, and stringent environmental and quality control.

The L&T® Services for hypermarkets concept was revised to offer hypermarket customers a reliable cleaning service, as well as recycled bottle facility and shopping cart services. Furthermore, the L&T® Services for churches concept was launched. This concept includes indoor and outdoor services for congregations, expert and specialist services, and cemetery support services.

To enhance its profile as an environmental expert, L&T introduced the Environmental Academy, which is a seminar-type training session intended for SMEs in the industrial and trade sectors as well as building superintendents. The purpose is to provide tangible benefits and more efficiency for the waste management operations of companies, and to accentuate L&T's role as an expert and

forerunner. Training is provided by L&T's environmental management experts.

The first Environmental Academy was arranged in Oulu, Finland, in October, and sessions will be arranged monthly in various locations across Finland, starting in January 2009.

Systematic long-term product development efforts will continue in 2009, in line with L&T's growth and differentiation objectives. Customers continue to be faced with increasingly fierce competition in their own markets, which is why the key feature of support services is the added value they can generate. This view is consistent with L&T's product development strategy aimed at promoting the competitive ability of customer enterprises and differentiation in the customer's mind. In addition to service launches, a key priority area in product development in 2009 is the systematic introduction of already launched concept products with the support of the Product Incubator.

## Research and development expenses

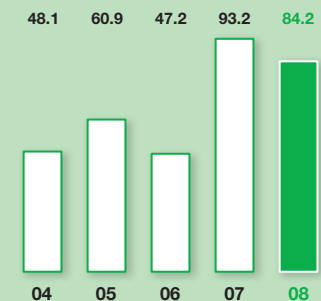
An expense of EUR 3.0 million (EUR 2.4 million; EUR 2.0 million) of centrally managed product development projects was recognised in the income statement and it was 0.5% of net sales (0.4%; 0.5%). Computer software development costs of EUR 2.0 million (EUR 1.0 million; EUR 2.2 million) were recognised 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.

## Risk management

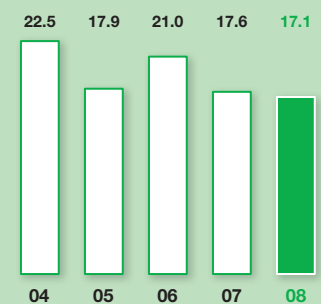
### Objective

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.

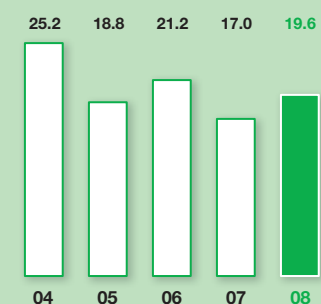
### Capital expenditure, EUR million



### ROI, %



### ROE, %



## 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

Risk management forms an integrated part of L&T's management, monitoring and reporting system. Regular monitoring and reporting of risks take place at the group, division and product line levels, in units outside Finland as well as within centralised functions defined as being critical, as part of the annual strategy process.

The management of each of the divisions and centralised functions identifies and assesses the most significant risks for its own area of responsibility, prepares contingency plans and determines responsibilities for risk management measures within its organisation. Risk identification and planning primarily take place within divisions, product lines and units responsible for business operations. Any risks identified and preparations for them are regularly reported to the President and CEO.

The risk management process is defined in the L&T Integrated Management System (IMS).

A risk assessment in all divisions, product lines, foreign units as well as centralised functions defined as being critical, is carried out annually to assess strategic, financial, damage-related and operational risk factors. The significance of risks is assessed using a risk matrix, and contingency plans for significant risks are prepared on this basis.

## 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 38 Financial risk management.

## Strategic and operational risks

**Risks relating to information and communications systems:** If realised, risks associated with the use of information systems can cause interruptions in L&T's operations. Information systems can also hamper the company's functional efficiency as they become obsolete, while disturbances in data communications connections can have a negative effect on centralised customer services and on the use of data systems for mobile work.

In 2008, special attention was paid to reducing the risks associated with the reliability of information systems as part of the introduction of the management system in all business areas. Meanwhile, risk assessments were conducted in all ICT operations. The functionality of system recovery procedures was tested in Finland and Latvia: Back-up systems for data communications connections and centralised customer services were updated and regularly tested for functionality. In addition, new information systems were introduced during the year.

**Market-related risks:** The economic recession, entry of new competitors into the market, legislative changes or the transfer of waste management to municipal ownership could change the market situation. From the perspective of L&T's business operations, major changes to the market can lead to a weakening of L&T's market position or profitability. Being independent of single large customers and the provision of a variety of services reduce risks. To an ever-increasing extent, L&T is developing service products for each customer segment as a means of standing out from its competitors and creating other added value factors in addition to price. The development of market prices for emission rights, secondary raw materials or oil products may affect the profitability of the company's business operations. The current restructuring of the forest industry may permanently reduce the amount of wood-based bioenergy raw material

available on the markets. To reduce the resulting risks, measures are being taken to invest in L&T's own acquisitions organisation and to expand the bioenergy raw material source base to first thinning forests, for example. Industrial production restrictions are also weakening demand for wood-based fuels.

**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 realisation of a deal.

**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 minimise these risks by focusing on the international market situation and becoming familiar with 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. As a consequence of increased demand for services and an ageing population, competition for skilled labour in the service sector will continuously become more intense. The availability of cleaning personnel represents a challenge, even during an economic recession, because the labour force on the market does not seek jobs in the cleaning industry and such workers are often overqualified. In L&T there are several programmes in progress for human resource management aimed at efficient recruitment and the improvement of well-being at work

through efforts focusing on continuous training, job rotation and occupational safety, among other things. L&T endeavours to maintain a good image as an employer and 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 minimise 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:** The Industrial Services 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 and/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:**

Increased disability pension costs could have a fundamental impact on L&T's competitiveness and profitability in the

future, particularly in Property and Office Support Services. 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. The Sirius sickness fund which supports the management and maintenance of working capacity started in the beginning of 2008.

**Environmental factors**

**Environmental aspects of L&T's operations**

The most important environmental aspects of L&T's operations are tightly linked to the company's business operations. L&T directs waste materials for reuse, promotes recycling, collects and processes hazardous waste appropriately, and is a significant supplier of wood-based biofuels.

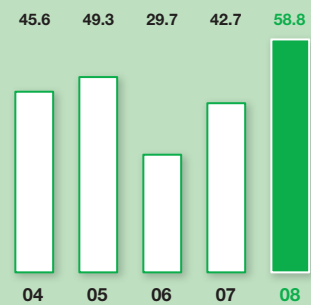
The most significant adverse environmental impacts of L&T's operations include the emissions and noise of vehicles used for collection and transport services, as well as the environmental risk associated with the handling of hazardous waste.

Recyclable materials and by-products are processed into secondary raw materials and recovered fuels at L&T's recycling plants. The reject is transported to safe final disposal. The recycling of waste materials saves virgin raw materials.

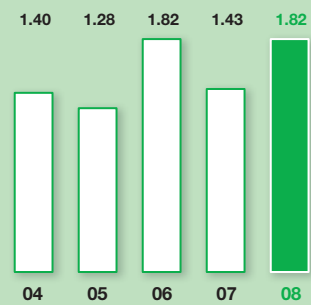
Biofuels and recovered fuels supplied by L&T replace fossil fuels in energy production. The wood-based biofuels supplied by L&T Biowatti are manufactured mostly from the by-products of the forest industry and forestry. The recovered fuel produced by Environmental Services is a 60 to 80 per cent renewable source of energy manufactured from waste originating in commerce, industry and households that is not suitable for recycling as material.

Biofuels, recovered fuels and waste material recycling services provided by L&T reduced carbon dioxide emissions in Finland by some two million ton in 2007.

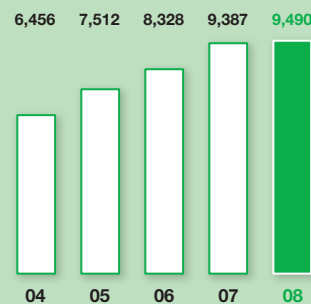
**Gearing, %**



**Cash flows from operating activities/share, EUR**



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



Emissions caused by L&T's own operations were reduced in 2007 as compared to the previous year. In spite of an increased volume of operations, the reduction amounted to some 75,000 ton, i.e. three percent less than in the previous year. Climatic impacts were calculated using a model created by VTT, the Technical Research Center of Finland.

The consolidated financial statements include provisions for environmental obligations that cover the site restoration costs for the Kerava and Kotka landfill sites, and processing and final disposal site for contaminated soil in Varkaus (Note 27 Provisions).

### Environmental management

Environmental management is included in L&T's management system combined with the management of health and occupational safety issues. L&T's three-year environmental, health and safety (EHS) programme is based on EHS aspects, the company's strategy, as well as assessments of risks and dangers. The EHS objectives for 2007–2009 are the maintenance and improvement of working capacity, building a sound occupational safety culture and reducing energy consumption and emissions. EHS targets are derived from the EHS objectives, and each unit includes its EHS targets in the operating plans. EHS groups within the unit make decisions and take concrete action to develop the work community.

L&T's management system and centralised functions are certified in accordance with the ISO 14001 environmental standard. Furthermore, L&T's services have been granted environmental certifications in Finland, Sweden and Latvia.

L&T has 80 environmental permits related to the handling and storage of waste. 17 environmental permits were received and 8 new ones applied for in 2008.

### Actions in 2008

Some 86% of L&T's lorry engines comply with the Euro2–Euro5 standards for reducing environmental impacts. The company also operates five waste lorries running on natural gas.

An electronic route system has been installed in waste lorries to improve routing efficiency. In addition, a driver's guidance system is in use that allows the monitoring of fuel consumption per driver and per route. Development work aimed at reducing emissions continues.

A training programme for lorry drivers was launched to address the competence requirements specified in the EU Directive on the initial qualification and periodic training of drivers of certain road vehicles for the carriage of goods or passengers. The training programme also includes a course, to be completed by all L&T drivers, on a proactive driving style. In 2008, more than 400 drivers completed a proactive driving course.

L&T launched a cleaning services concept that emphasises environmental awareness. This service was designed with the criteria specified for the Nordic ecolabel, also known as the Swan label, in mind, and the label was indeed awarded for the service concept. L&T® EcoCleaning is the first cleaning service in Finland to receive the environmental label.

An extensive training programme was launched to enhance the environmental awareness of cleaning personnel. This programme was completed by 400 cleaners and supervisors, with the objective of making cleaning personnel better equipped to promote pro-environmental efforts in customer properties.

A total of 23 internal assessments and safety audits by insurance companies were completed during the year with regard to environmental and occupational safety.

L&T Recoil Oy received an environmental permit for its waste oil re-refinery in Hamina. Similarly, an environmental permit was granted to the Joutseno recycling plant, to be located on a site owned by Etelä-Karjalan Jätehuolto Oy.

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

Related-party transactions are accounted for in Note 35 Related-party transactions.

### 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 of Shareholders 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 of Shareholders held on 1 April 2008 confirmed the membership of the Board of Directors as six. The following Board members were re-elected to the Board until the end of the following AGM: Eero Hautaniemi, Lasse Kurkilahti, Juhani Lassila and Juhani Majjala. Heikki Bergholm and Matti Kavetvuo were elected as new members for the same term. At its organising meeting after the Annual General Meeting, the Board re-elected Juhani Majjala Chairman and Juhani Lassila Vice Chairman. PricewaterhouseCoopers Oy, Authorised Public Accountants, was elected auditor. The principal auditor is Heikki Lassila, Authorised Public Accountant.

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

## Group Executives

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Lassila & Tikanoja plc's Board of Directors has appointed Laura Aarnio, Accounting Director, Kimmo Huhtimo, Director responsible for product and process development, marketing communications and Contact Centre and Inkeri Puputti, HR Director, as new Group Executives as of 3 November 2008.

Anna-Maija Apajalahti, Vice President, Property and Office Support Services, Jorma Mikkonen, Vice President, Industrial Services, and Arto Nivalainen, Vice President, Environmental Services still continue as Group Executives as well as Sirkka Tuomola, Vice President and CFO, until 28 February 2009. The Board of Directors has appointed Ville Rantala as CFO as of 1 March 2009, as the current Vice President and CFO Sirkka Tuomola is retiring. Former Group Executive Kari Korpelainen, Vice President, Sales and Marketing, has resigned from his position with L&T.

## Distribution of profit

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The Group's earnings per share amounted to EUR 1.03 (EUR 0.83; EUR 0.90) and cash flow from operating activities per share EUR 1.82 (EUR 1.43; 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 24 March 2009. The amount of the dividend to be paid is EUR 21,339,380.70. The proposed dividend is 53.4% of the earnings per share (66.7%; 61.1%).

## Market cyclicity

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Although the markets in which L&T primarily operates can be considered low-cyclical, the company is not immune to changes in the economy. About three quarters of L&T's net sales are generated in markets that could be considered

low-cyclical. Furthermore, almost all of the products and services the company offers are still required and ordered, even in weak general economic conditions.

The majority of the net sales of waste management, cleaning services, property management and wastewater services are based on long-term service contracts. Although the slowdown in trade, industry and particularly in construction will reduce waste volumes and the number of individual orders, the services provided by these product lines are necessary in order to comply with environmental legislation and hygiene requirements.

L&T Biowatti offers power plants a CO<sub>2</sub> emission-free alternative to fossil fuels. Demand for wood-based fuels is strong, and is expected to increase considerably in the future. However, forest industry production restrictions and tightening competition in procurement of fuelwood may hamper the procurement of raw material.

The oil re-refinery of the joint venture L&T Recoil, which is currently under construction, will produce high-quality base oil for the lubricant industry. There is steady demand for base oil but the market price instability of the final product renders the preparation of business forecasts difficult.

Recycling services depend on the volumes and market prices of recyclable waste materials (such as plastic, fibres and metals). To a certain extent, hazardous waste and cleaning services offered to heavy industry depend on the industrial utilisation rate, although changes in this rate affect demand for these services only after a certain delay.

## Near-term uncertainties

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Escalating and continuing financial uncertainty may reduce transport and recycling volumes of waste materials and the number of commissioned assignments.

Indeed, the slowdown in the construction business has already translated into lower construction waste volumes. If the market price instability of secondary raw materials persists and demand remains low, this may have a negative effect on the profitability of recycling services. Planning and implementation work is more difficult due to the rapid fluctuation in demand for industrial services.

The potential additional delay in the start-up of L&T Recoil's operations would affect the operating profit of Industrial Services. The base oil price level follows the crude oil price development with a delay causing a negative effect should the crude oil price remain at the current low level. Demand for the fuels supplied by L&T Biowatti is strong. The forest industry production restrictions will hamper L&T Biowatti's procurement of by-products as raw materials. The uncertainty of the Latvian economy and more intense competition may prove detrimental to the profitability of Riga's waste management business.

## Prospects for the year 2009

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A recession is expected in the national economies of all countries in which L&T operates. The company primarily operates in low-cyclical markets.

In 2009, L&T will focus on improving profitability. In addition to the launched measures, a productivity enhancement programme is being planned to adapt operations and cost development to the market conditions. Investments will be much lower than last year.

Full-year net sales and operating profit excluding non-recurring items are expected to reach the previous year's level. This requires success in the adaptation of operations and costs.



## 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. 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.

The company's shares are included in the book-entry system of securities maintained by Euroclear Finland Ltd (former Finnish Central Securities Depository Ltd). Euroclear Finland maintains the company's official list of shareholders.

### Trading in shares and share options in 2008

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 2008 was 17,452,448, which is 45.0% (51.2%; 33.3%) of the average number of shares. The value of trading was EUR 287.9 million (EUR 467.2 million; EUR 217.6 million). The trading price varied between EUR 10.26 and EUR 23.00. The closing price was EUR 11.00. Market

capitalisation was EUR 426.8 million (EUR 880.4 million; EUR 834.5 million) at the end of the year.

Lassila & Tikanoja's 2005A share options have been listed on the NASDAQ OMX Helsinki since 2 November 2007 (trading code LAT1VEW105) and 2005B share options since 2 January 2009 (trading code LAT1VEW205).

### 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.

### Changes in share capital and number of shares between 30 September 2001 and 31 December 2008

| 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> |

\* Subscription ratio before the bonus issue

The changes in share capital and the number of the shares in 2008 and 2007 are listed in more detail in Note 24 Equity.

### Authorisation for the Board of Directors

The Board of Directors is not authorised to effect any share issues or issue a convertible bond or a bond with warrants. Neither is the Board authorised to decide on the repurchase or disposal of the company's own shares.

### 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 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 of Shareholders 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 option scheme 2008

The Annual General Meeting of the year 2008 resolved to issue a maximum of 230,000 share options. 41 key persons hold 220,500 options. L&T Advance Oy, a wholly-owned subsidiary of Lassila & Tikanoja plc, holds 9,500 options. The exercise price of the 2008 share options is the trading volume weighted average price of the company's share on the NASDAQ OMX Helsinki in May 2008, rounded off to the nearest cent (EUR 16.27). The exercise price of the share options shall, 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. However, only such dividends whose distribution has been agreed upon after the option pricing period and which have been distributed prior to the share subscription are deducted from the subscription price. The exercise price shall, however, always amount to at least EUR 0.01. The exercise price shall be recognised in the invested non-restricted equity fund. The exercise period is from 1 November 2010 to 31 May 2012.

As a result of the exercise of the 2008 share options, the number of shares issued by Lassila & Tikanoja plc may increase by a maximum of 230,000 new shares which is 0.6% of the current number of shares.

### Terms and conditions of share subscriptions based on the share option scheme 2005

The exercise price for 2005A options is EUR 14.22, for 2005B options EUR 16.98 and for 2005C options EUR 26.87. 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 2005A options is 2 November 2007 to 29 May 2009, for 2005B options 3 November 2008 to 31 May 2010, and for 2005C options 2 November 2009 to 31 May 2011.

As a result of the exercise of outstanding 2005 share options a maximum of 545,000 may be subscribed for, which is 1.4% of the current number of shares.

More details of share option schemes are given in Note 25 Share-based payment. The complete terms and conditions of the share option plans are available on the company website.

### Summary of share option schemes at 31 December 2008

|   | 2005A                           | 2005B                           | 2005C                           | 2008                            |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Maximum number of options                                   | 170 000                         | 200 000                         | 230 000                         | 230 000                         |
| Granted to  | 25 key employees                | 32 key employees                | 40 key employees                | 41 key employees                |
| Held by L&T Advance Oy                                      | 8 000                           | 24 000                          | 8 500                           | 9 500                           |
| Outstanding options   | 147 500                         | 176 000                         | 221 500                         | 220 500                         |
| Listed since  | 2 November 2007                 | 2 January 2009                  |                                 |                                 |
| Exercise period   | 2 November 2007–<br>29 May 2009 | 3 November 2008–<br>31 May 2010 | 2 November 2009–<br>31 May 2011 | 1 November 2010–<br>31 May 2012 |
| Exercise price, EUR   | 14.22                           | 16.98                           | 26.87                           | 16.27                           |
| Number of shares to which each share option entitles holder | 1                               | 1                               | 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 is registered in the Trade Register.

### Shareholders

Lassila & Tikanoja plc had 6,135 registered shareholders at the end of 2008 (4,985; 4,535). Nominee-registered shares and shares in direct foreign ownership accounted for 10.3% of the stock (14.3%; 10.9%).

### Notifications on major holdings

On 26 March 2008, Varma Mutual Pension Insurance Company announced that its holding of the shares and votes in Lassila & Tikanoja plc had fallen to 4.52%. On 20 May 2008, Ilmarinen Mutual Pension Insurance Company announced that its holding of the shares and votes in Lassila & Tikanoja plc had exceeded the threshold of 10%.

### 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 4,872,660 shares in the company on 31 December 2008. They represent 12.6% of the number of shares and votes. Share options held by the President and CEO on 31 December 2008 entitle to the subscription of 112,000 shares.

### 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  | 4 896                  | 79.9       | 1 432 796        | 3.7                            |
| 1 001-5 000  | 849                    | 13.8       | 1 906 667        | 4.9                            |
| 5 001-10 000   | 160                    | 2.6        | 1 197 637        | 3.1                            |
| 10 001-100 000   | 192                    | 3.1        | 5 439 924        | 14.0                           |
| 100 001-500 000  | 25                     | 0.4        | 4 846 933        | 12.5                           |
| over 500 000   | 13                     | 0.2        | 20 102 657       | 51.8                           |
|  | 6 135                  | 100.0      | 34 926 614       | 90.0                           |
| Shares registered in a nominee's name                      |                        |            | 3 831 724        | 9.9                            |
| Shares not transferred to the book-entry securities system |                        |            | 40 536           | 0.1                            |
| Total  |                        |            | 38 798 874       | 100.0                          |

### Breakdown of shareholding by category at year end

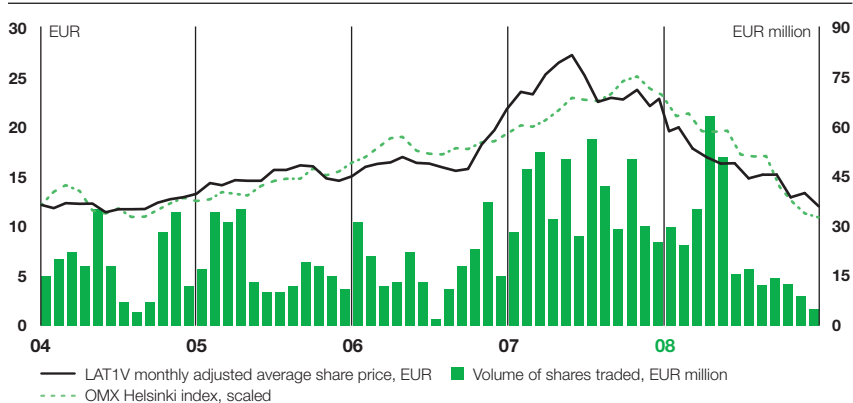
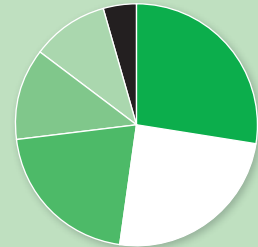
|  | Number of shareholders | Percentage | Number of shares | Percentage of shares and votes |
|--|------------------------|------------|------------------|--------------------------------|
| Non-financial corporations and housing corporations        | 422                    | 6.9        | 1 621 974        | 4.2                            |
| Financial and insurance corporations                       | 47                     | 0.8        | 8 073 307        | 20.8                           |
| General Government   | 36                     | 0.6        | 9 502 531        | 24.5                           |
| Non-profit institutions serving households                 | 181                    | 2.9        | 4 797 895        | 12.4                           |
| Households   | 5 404                  | 88.1       | 10 761 497       | 27.7                           |
| Foreign shareholders                                       | 45                     | 0.7        | 169 410          | 0.4                            |
|  | 6 135                  | 100.0      | 34 926 614       | 90.0                           |
| Shares registered in a nominee's name                      |                        |            | 3 831 724        | 9.9                            |
| Shares not transferred to the book-entry securities system |                        |            | 40 536           | 0.1                            |
| Total  |                        |            | 38 798 874       | 100.0                          |

**Major shareholders at year end**

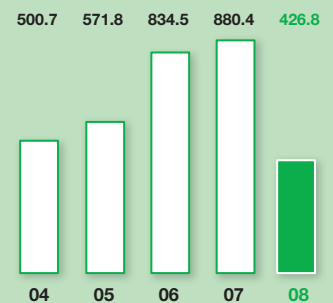
| Shareholder                                   | Number of shares | Percentage of shares and votes |
|---|------------------|--------------------------------|
| 1. Ilmarinen Mutual Pension Insurance Company | 4 104 858        | 10.6                           |
| 2. Evald and Hilda Nissi Foundation           | 2 413 584        | 6.2                            |
| 3. Mandatum Life Insurance Company Limited    | 2 231 238        | 5.8                            |
| 4. Tapiola Mutual Pension Insurance Company   | 1 974 240        | 5.1                            |
| 5. Juhani Majjala                             | 1 527 994        | 3.9                            |
| 6. OP investment funds                        | 1 446 675        | 3.7                            |
| 7. Varma Mutual Pension Insurance Company     | 1 265 690        | 3.3                            |
| 8. Tapiola Group                              | 1 134 801        | 2.9                            |
| Tapiola General Mutual Insurance Company      | 674 534          | 1.7                            |
| Tapiola Mutual Life Assurance Company         | 310 161          | 0.8                            |
| Tapiola Corporate Life Insurance Company      | 150 106          | 0.4                            |
| 9. Nordea investment funds                    | 1 028 328        | 2.7                            |
| 10. The State Pension Fund                    | 927 000          | 2.4                            |
| 11. Heikki Bergholm                           | 774 807          | 2.0                            |
| 12. Mikko Majjala                             | 687 600          | 1.8                            |
| 13. Kristiina Turjanmaa                       | 585 842          | 1.5                            |
| 14. Sampo investment funds                    | 419 952          | 1.1                            |
| 15. Fondita investment funds                  | 379 039          | 1.0                            |
| 16. Aktia investment funds                    | 315 878          | 0.8                            |
| 17. Eeva Majjala                              | 312 500          | 0.8                            |
| 18. Veritas Pension Insurance Company Ltd.    | 274 576          | 0.7                            |
| 19. Evli investment funds                     | 242 472          | 0.6                            |
| 20. Foundation for Economic Education         | 220 000          | 0.6                            |
| Total   | 22 267 074       | 57.4                           |

All information concerning the company's shareholders is based on the list of shareholders maintained by Euroclear Finland Ltd as on 31 December 2008.

Current information on shares and shareholders is available on the company website and is updated monthly.

**Adjusted share price development and volume of shares traded**

**Breakdown of shareholding, % of shares and votes**


- Households
- General Government
- Financial and insurance corporations
- Non-profit organisations serving households
- Foreign shareholders including shares registered in a nominee's name
- Non-financial corporations and housing corporations

**Market capitalisation at year end, EUR million**


## Key figures on shares

|   | 2008       | 2007       | 2006       | 2005       | 2004**     | 2004       |
|---|------------|------------|------------|------------|------------|------------|
| Earnings per share (EPS), EUR                               | 1.03       | 0.83       | 0.90       | 0.70       | 0.79       | 1.01       |
| Earnings per share (EPS), diluted, EUR                      | 1.03       | 0.82       | 0.90       | 0.70       | 0.78       | 1.01       |
| Equity per share, EUR                                       | 5.28       | 5.21       | 4.52       | 3.98       | 3.49       | 3.49       |
| Dividend per share, EUR                                     | 0.55*      | 0.55       | 0.55       | 0.40       | 0.25       | 0.25       |
| Dividend/earnings ratio, %                                  | 53.4*      | 66.7       | 61.1       | 57.0       | 31.7       | 24.7       |
| Effective dividend yield, %                                 | 5.0*       | 2.4        | 2.5        | 2.7        | 1.9        | 1.9        |
| Price/earnings ratio  | 10.7       | 27.5       | 24.1       | 21.2       | 16.6       | 13.0       |
| Cash flows from operating activities/share, EUR             | 1.82       | 1.43       | 1.82       | 1.28       | 1.40       | 1.40       |
| Share price adjusted for issues:                            |            |            |            |            |            |            |
| lowest, EUR   | 10.26      | 20.03      | 14.75      | 13.10      | 11.48      | 11.48      |
| highest, EUR  | 23.00      | 27.96      | 22.46      | 16.67      | 14.09      | 14.09      |
| average, EUR  | 16.50      | 23.59      | 16.99      | 14.68      | 12.72      | 12.72      |
| closing, EUR  | 11.00      | 22.70      | 21.66      | 14.90      | 13.13      | 13.13      |
| Market capitalisation of shares at 31 December, EUR million | 426.8      | 880.4      | 834.5      | 571.8      | 500.7      | 500.7      |
| Number of shares adjusted for issues                        |            |            |            |            |            |            |
| average during the year                                     | 38 796 135 | 38 670 047 | 38 444 950 | 38 193 024 | 34 650 239 | 34 650 239 |
| at the balance sheet date                                   | 38 798 874 | 38 784 374 | 38 528 174 | 38 377 774 | 38 136 234 | 38 136 234 |
| average during the year, diluted                            | 38 816 873 | 38 843 151 | 38 600 805 | 38 420 755 | 34 870 587 | 34 870 587 |
| Adjusted number of shares traded during the year            | 17 452 448 | 19 802 194 | 12 807 684 | 15 263 446 | 17 264 627 | 17 264 627 |
| as a percentage of the average                              | 45.0       | 51.2       | 33.3       | 40.0       | 49.8       | 49.8       |
| Volume of shares traded, EUR 1 000                          | 287 928    | 467 215    | 217 562    | 224 128    | 219 558    | 219 558    |

\* Proposal by the Board of Directors

\*\* Profit excluding revenue recognition of pension liability

### 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 =                           | $\frac{\text{equity attributable to equity holders of the parent company}}{\text{adjusted basic number of shares at the balance sheet date}}$              |
| Cash flows from operating activities/share = | $\frac{\text{cash flow from operating activities as in the cash flow statement}}{\text{adjusted average basic number of shares}}$                          |
| 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 =                       | $\frac{\text{closing price of the financial period}}{\text{earnings per share}}$   |
| Market capitalisation of shares =            | basic number of shares at the balance sheet date x closing price of the financial period   |
| Adjustment factor for the 2004 issue =       | 2.178462   |

## Key figures on financial performance

|  | 2008         | 2007  | 2006  | 2005  | 2004* | 2004  |
|--|--------------|-------|-------|-------|-------|-------|
| Net sales, EUR million   | <b>606.0</b> | 554.6 | 436.0 | 377.4 | 337.2 | 337.2 |
| Operating profit, EUR million  | <b>55.5</b>  | 48.8  | 50.2  | 39.3  | 40.8  | 51.3  |
| as % of net sales  | <b>9.2</b>   | 8.8   | 11.5  | 10.4  | 12.1  | 15.2  |
| Profit before tax, EUR million   | <b>50.7</b>  | 44.5  | 48.5  | 37.5  | 37.9  | 48.4  |
| as % of net sales  | <b>8.4</b>   | 8.0   | 11.1  | 9.9   | 11.2  | 14.4  |
| Profit for the period, EUR million   | <b>40.0</b>  | 32.2  | 35.3  | 27.2  | 27.7  | 35.5  |
| as % of net sales  | <b>6.6</b>   | 5.8   | 8.1   | 7.2   | 8.2   | 10.5  |
| Profit for the period attributable to parent company shareholders, EUR million | <b>40.0</b>  | 31.9  | 34.6  | 26.8  | 27.3  | 35.1  |
| as % of net sales  | <b>6.6</b>   | 5.8   | 7.9   | 7.1   | 8.1   | 10.4  |
| EVA, EUR million   | <b>25.0</b>  | 23.0  | 28.6  | 18.3  | 22.7  |       |
| Cash flows from operating activities, EUR million                              | <b>70.4</b>  | 55.4  | 69.9  | 48.9  | 48.4  | 48.4  |
| Balance sheet total, EUR million   | <b>477.7</b> | 438.3 | 352.6 | 314.8 | 283.0 | 283.0 |
| Return on equity, % (ROE)  | <b>19.6</b>  | 17.0  | 21.2  | 18.8  | 25.2  | 32.3  |
| Return on invested capital, % (ROI)  | <b>17.1</b>  | 17.6  | 21.0  | 17.9  | 22.5  | 27.1  |
| Equity ratio, %  | <b>43.2</b>  | 46.6  | 50.4  | 49.5  | 48.1  | 48.1  |
| Gearing, %   | <b>58.8</b>  | 42.7  | 29.7  | 49.3  | 45.6  | 45.6  |
| Net interest-bearing liabilities, EUR million                                  | <b>120.5</b> | 86.4  | 52.5  | 76.5  | 61.4  | 61.4  |
| Capital expenditure, EUR million   | <b>84.2</b>  | 93.2  | 47.2  | 60.9  | 48.1  | 48.1  |
| as % of net sales  | <b>13.9</b>  | 16.8  | 10.8  | 16.1  | 14.3  | 14.3  |
| Depreciation, amortisation and impairment, EUR million                         | <b>41.0</b>  | 33.4  | 28.2  | 24.8  | 21.4  | 21.4  |
| Average number of employees in full-time equivalents                           | <b>8 363</b> | 7 819 | 6 775 | 5 918 | 5 409 | 5 409 |
| Total number of full-time and part-time employees at year end                  | <b>9 490</b> | 9 387 | 8 328 | 7 512 | 6 456 | 6 456 |

\* Profit excluding revenue recognition of pension liability

## Calculation of the key figures

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, % =  $\frac{\text{equity}}{(\text{balance sheet total} - \text{advances received})} \times 100$

Net interest-bearing liabilities = interest-bearing liabilities - liquid assets

Gearing, % =  $\frac{\text{net interest-bearing liabilities}}{\text{equity}} \times 100$

EVA = operating profit - cost calculated on invested capital (average of four quarters) before taxes  
WACC 2008: 9.30%  
WACC 2006–2007: 8.75%  
WACC 2004–2005: 9.00%

# Lassila & Tikanoja plc's financial statements for the year 2008

|  |           |
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All figures in the annual report have been rounded and, consequently, the sum of individual figures may deviate from the sum total presented.

# Consolidated income statement

| 1 January–31 December  | EUR 1000       |              | 2008 | % | 2007     | %     | Note |
|--|----------------|--------------|------|---|----------|-------|------|
| <b>Net sales</b>   | <b>605 996</b> | <b>100.0</b> |      |   | 554 613  | 100.0 | 1    |
| Cost of sales  | -533 681       | -88.1        |      |   | -478 151 | -86.2 |      |
| <b>Gross profit</b>  | <b>72 315</b>  | <b>11.9</b>  |      |   | 76 462   | 13.8  |      |
| Other operating income   | 21 708         | 3.6          |      |   | 3 834    | 0.7   | 6    |
| Selling and marketing costs  | -16 228        | -2.7         |      |   | -14 616  | -2.6  |      |
| Administrative expenses  | -12 105        | -2.0         |      |   | -11 614  | -2.1  |      |
| Other operating expenses   | -7 102         | -1.2         |      |   | -5 291   | -1.0  | 6    |
| Goodwill impairment  | -3 090         | -0.5         |      |   |          |       | 13   |
| <b>Operating profit</b>  | <b>55 498</b>  | <b>9.2</b>   |      |   | 48 775   | 8.8   | 3, 5 |
| Finance income   | 1 931          | 0.3          |      |   | 1 661    | 0.3   | 8    |
| Finance costs  | -6 737         | -1.1         |      |   | -5 978   | -1.1  | 8    |
| <b>Profit before income tax</b>  | <b>50 692</b>  | <b>8.4</b>   |      |   | 44 458   | 8.0   |      |
| Income tax expense   | -10 724        | -1.8         |      |   | -12 291  | -2.2  | 9    |
| <b>Profit for the period</b>   | <b>39 968</b>  | <b>6.6</b>   |      |   | 32 167   | 5.8   |      |
| <b>Attributable to:</b>  |                |              |      |   |          |       |      |
| Equity holders of the parent company   | 39 969         |              |      |   | 31 909   |       |      |
| Minority interest  | -1             |              |      |   | 258      |       |      |
| <b>Earnings per share for profit attributable to the equity holders of the parent company:</b> |                |              |      |   |          |       |      |
| Earnings per share, EUR  | 1.03           |              |      |   | 0.83     |       | 10   |
| Earnings per share, EUR - diluted  | 1.03           |              |      |   | 0.82     |       |      |

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



# Consolidated balance sheet

| 31 December                                 | EUR 1000       | 2008         | % | 2007    | %     | Note   |
|---|----------------|--------------|---|---------|-------|--------|
| <b>ASSETS</b>                               |                |              |   |         |       |        |
| <b>Non-current assets</b>                   |                |              |   |         |       |        |
| Intangible assets                           |                |              |   |         |       | 12     |
| Goodwill                                    | 115 451        |              |   | 119 946 |       |        |
| Intangible assets arising from acquisitions | 25 774         |              |   | 30 600  |       |        |
| Other intangible assets                     | 11 402         |              |   | 11 571  |       |        |
|   | <b>152 627</b> | <b>32.0</b>  |   | 162 117 | 37.0  |        |
| Property, plant and equipment               |                |              |   |         |       | 14     |
| Land  | 3 832          |              |   | 3 532   |       |        |
| Buildings and constructions                 | 43 958         |              |   | 39 594  |       |        |
| Machinery and equipment                     | 113 851        |              |   | 103 832 |       |        |
| Other                                       | 78             |              |   | 82      |       |        |
| Prepayments and construction in progress    | 35 433         |              |   | 4 830   |       |        |
|   | <b>197 152</b> | <b>41.3</b>  |   | 151 870 | 34.6  |        |
| Other non-current assets                    |                |              |   |         |       |        |
| Investments in associates                   |                |              |   |         |       | 16     |
| Available-for-sale investments              | 502            |              |   | 410     |       | 18, 31 |
| Finance lease receivables                   | 4 694          |              |   | 3 823   |       | 19, 31 |
| Deferred income tax assets                  | 945            |              |   | 924     |       | 9      |
| Other receivables                           | 689            |              |   | 236     |       | 31     |
|   | <b>6 830</b>   | <b>1.4</b>   |   | 5 393   | 1.2   |        |
| <b>Total non-current assets</b>             | <b>356 609</b> | <b>74.6</b>  |   | 319 380 | 72.8  |        |
| <b>Current assets</b>                       |                |              |   |         |       |        |
| Inventories                                 | 18 827         |              |   | 14 350  |       | 20     |
| Trade and other receivables                 | 74 634         |              |   | 71 824  |       | 21, 31 |
| Derivative receivables                      | 112            |              |   | 1 189   |       | 31, 32 |
| Prepayments                                 | 986            |              |   | 774     |       | 31     |
| Available-for-sale investments              | 20 368         |              |   | 21 287  |       | 22, 31 |
| Cash and cash equivalents                   | 6 149          |              |   | 9 521   |       | 23, 31 |
| <b>Total current assets</b>                 | <b>121 076</b> | <b>25.4</b>  |   | 118 945 | 27.2  |        |
| <b>Total assets</b>                         | <b>477 685</b> | <b>100.0</b> |   | 438 325 | 100.0 |        |

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

| 31 December   | EUR 1000 | 2008           | %            | 2007    | %     | Note   |
|---|----------|----------------|--------------|---------|-------|--------|
| <b>EQUITY AND LIABILITIES</b>                               |          |                |              |         |       |        |
| <b>Equity</b>   |          |                |              |         |       |        |
| Equity attributable to equity holders of the parent company |          |                |              |         |       |        |
| Share capital   |          | 19 399         |              | 19 392  |       | 24     |
| Share premium reserve                                       |          | 50 673         |              | 50 474  |       |        |
| Other reserves  |          | -2 964         |              | 14 055  |       |        |
| Retained earnings   |          | 97 799         |              | 86 327  |       |        |
| Profit for the period                                       |          | 39 969         |              | 31 909  |       |        |
|   |          | 204 876        |              | 202 157 |       |        |
| Minority interest   |          | 162            |              | 187     |       |        |
| <b>Total equity</b>   |          | <b>205 038</b> | <b>42.9</b>  | 202 344 | 46.2  |        |
| <b>Liabilities</b>  |          |                |              |         |       |        |
| Non-current liabilities                                     |          |                |              |         |       |        |
| Deferred income tax liabilities                             |          | 32 898         |              | 29 842  |       | 9      |
| Retirement benefit obligations                              |          | 674            |              | 542     |       | 26     |
| Provisions  |          | 1 741          |              | 953     |       | 27     |
| Borrowings  |          | 102 487        |              | 81 411  |       | 28, 31 |
| Other liabilities   |          | 1 083          |              | 500     |       | 29, 31 |
|   |          | 138 883        | 29.1         | 113 248 | 25.8  |        |
| Current liabilities   |          |                |              |         |       |        |
| Borrowings  |          | 44 569         |              | 35 757  |       | 28, 31 |
| Trade and other payables                                    |          | 88 298         |              | 85 183  |       | 30, 31 |
| Derivative liabilities                                      |          | 610            |              | 897     |       | 31, 32 |
| Tax liabilities   |          | 273            |              | 794     |       |        |
| Provisions  |          | 14             |              | 102     |       | 27     |
|   |          | 133 764        | 28.0         | 122 733 | 28.0  |        |
| <b>Total liabilities</b>                                    |          | <b>272 647</b> | <b>57.1</b>  | 235 981 | 53.8  |        |
| <b>Total equity and liabilities</b>                         |          | <b>477 685</b> | <b>100.0</b> | 438 325 | 100.0 |        |

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

# Consolidated cash flow statement

| EUR 1000  | 2008           | 2007           | Note      |
|---|----------------|----------------|-----------|
| <b>Cash flows from operating activities</b>                                   |                |                |           |
| Profit for the period   | 39 968         | 32 167         |           |
| Adjustments   | 43 096         | 52 128         | 34        |
| Net cash generated from operating activities before change in working capital | 83 064         | 84 295         |           |
| Change in working capital   |                |                |           |
| Change in trade and other receivables   | 3 502          | -4 903         |           |
| Change in inventories   | -4 492         | -6 824         |           |
| Change in trade and other payables  | 3 152          | -1 450         |           |
| Change in working capital   | 2 162          | -13 177        |           |
| Interest paid   | -5 953         | -5 104         |           |
| Interest received   | 1 867          | 1 460          |           |
| Income tax paid   | -10 716        | -12 041        |           |
| <b>Net cash generated from operating activities</b>                           | <b>70 424</b>  | <b>55 433</b>  |           |
| <b>Cash flows from investing activities</b>                                   |                |                |           |
| Acquisitions of subsidiaries and businesses, net of cash acquired             | -4 298         | -37 050        | 2         |
| Proceeds from subsidiaries and businesses, net of sold cash                   | 23             | 1 878          | 34        |
| Purchases of property, plant and equipment and intangible assets              | -77 542        | -49 109        |           |
| Proceeds from sale of property, plant and equipment and intangible assets     | 789            | 2 261          |           |
| Acquisition of available-for-sale investments                                 | -200           | -147           |           |
| Change in other non-current receivables                                       | -11            | 1              |           |
| Proceeds from sale of available-for-sale investments                          | 16 867         | 1 098          |           |
| Dividends received from investments   | 4              | 4              |           |
| <b>Net cash used in investing activities</b>                                  | <b>-64 368</b> | <b>-81 064</b> |           |
| <b>Cash flows from financing activities</b>                                   |                |                |           |
| Proceeds from share issue   | 206            | 2 936          | 24        |
| Changes in short-term borrowings  | -4 593         | 23 011         |           |
| Proceeds from long-term borrowings  | 47 000         | 50 302         |           |
| Repayments of long-term borrowings  | -14 546        | -39 909        |           |
| Dividends paid  | -21 315        | -21 360        |           |
| <b>Net cash generated from financing activities</b>                           | <b>6 752</b>   | <b>14 980</b>  |           |
| <b>Net change in liquid assets</b>  | <b>12 808</b>  | <b>-10 651</b> |           |
| Liquid assets at beginning of period  | 14 008         | 24 790         |           |
| Effect of changes in foreign exchange rates                                   | -339           | -131           |           |
| Change in fair value of current available-for-sale investments                | 40             |                |           |
| <b>Liquid assets at end of period</b>   | <b>26 517</b>  | <b>14 008</b>  | <b>23</b> |

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

# Consolidated statement of changes in equity

| EUR 1000   | Share capital | Share premium reserve | Translation difference reserve | Revaluation reserves | Retained earnings | Equity attributable to equity holders of the company | Minority interest | Total equity   | Note   |
|--|---------------|-----------------------|--------------------------------|----------------------|-------------------|--|-------------------|----------------|--------|
| <b>Equity at 1 January 2007</b>                              | <b>19 264</b> | <b>47 666</b>         | <b>-69</b>                     | <b>395</b>           | <b>106 904</b>    | <b>174 160</b>                                       | <b>2 709</b>      | <b>176 869</b> |        |
| Hedging reserve, change in fair value                        |               |                       |                                | 136                  |                   | 136  |                   | 136            |        |
| Current available-for-sale investments, change in fair value |               |                       |                                | 14 230               |                   | 14 230   |                   | 14 230         | 22     |
| Translation differences                                      |               |                       | -637                           |                      |                   | -637   | -1                | -638           |        |
| Items recognised directly in equity                          |               |                       | -637                           | 14 366               |                   | 13 729   | -1                | 13 728         |        |
| Profit for the period  |               |                       |                                |                      | 31 909            | 31 909   | 258               | 32 167         |        |
| <b>Total recognised income and expenses</b>                  |               |                       | <b>-637</b>                    | <b>14 366</b>        | <b>31 909</b>     | <b>45 638</b>  | <b>257</b>        | <b>45 895</b>  |        |
| Share option remuneration                                    |               |                       |                                |                      |                   |  |                   |                |        |
| Subscriptions pursuant to 2002 options                       | 128           | 2 808                 |                                |                      |                   | 2 936  |                   | 2 936          | 24, 25 |
| Remuneration expense of share options                        |               |                       |                                |                      | 613               | 613  |                   | 613            | 25     |
| Dividends paid   |               |                       |                                |                      | -21 190           | -21 190  | -180              | -21 370        | 11     |
| Investment in minority                                       |               |                       |                                |                      |                   |  | -2 599            | -2 599         |        |
| <b>Equity at 31 December 2007</b>                            | <b>19 392</b> | <b>50 474</b>         | <b>-706</b>                    | <b>14 761</b>        | <b>118 236</b>    | <b>202 157</b>                                       | <b>187</b>        | <b>202 344</b> |        |
| <b>Equity at 1 January 2008</b>                              | <b>19 392</b> | <b>50 474</b>         | <b>-706</b>                    | <b>14 761</b>        | <b>118 236</b>    | <b>202 157</b>                                       | <b>187</b>        | <b>202 344</b> |        |
| Hedging reserve, change in fair value                        |               |                       |                                | -972                 |                   | -972   |                   | -972           |        |
| Current available-for-sale investments, change in fair value |               |                       |                                | -14 209              |                   | -14 209  |                   | -14 209        | 22, 18 |
| Translation differences                                      |               |                       | -1 838                         |                      |                   | -1 838   | -24               | -1 862         |        |
| Items recognised directly in equity                          |               |                       | -1 838                         | -15 181              |                   | -17 019  | -24               | -17 043        |        |
| Profit for the period  |               |                       |                                |                      | 39 969            | 39 969   | -1                | 39 968         |        |
| <b>Total recognised income and expenses</b>                  |               |                       | <b>-1 838</b>                  | <b>-15 181</b>       | <b>39 969</b>     | <b>22 950</b>  | <b>-25</b>        | <b>22 925</b>  |        |
| Share option remuneration                                    |               |                       |                                |                      |                   |  |                   |                |        |
| Subscriptions pursuant to 2005 options                       | 7             | 199                   |                                |                      |                   | 206  |                   | 206            | 24, 25 |
| Remuneration expense of share options                        |               |                       |                                |                      | 886               | 886  |                   | 886            | 25     |
| Dividends paid   |               |                       |                                |                      | -21 323           | -21 323  |                   | -21 323        | 11     |
| <b>Equity at 31 December 2008</b>                            | <b>19 399</b> | <b>50 673</b>         | <b>-2 544</b>                  | <b>-420</b>          | <b>137 768</b>    | <b>204 876</b>                                       | <b>162</b>        | <b>205 038</b> |        |

More information on equity is shown in Note 24 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 (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-tikanoja.com](http://www.lassila-tikanoja.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 9 February 2009. Under the Finnish Companies Act, the shareholders may accept or reject the financial statements at the shareholder's meeting held after they are published. The shareholders' 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 2008. 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 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 company and the minority is presented in connection with the income statement, and the share of equity belonging to the minority is presented as a separate item in the consolidated balance sheet under equity. The minority 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 balance sheets 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 balance sheet 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 also are 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 balance sheet 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 balance sheet 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 balance sheet at original cost less any impairment losses.

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 own 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 are capitalised as part of the cost of the asset and are depreciated over the expected useful life of the asset. 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. L&T Recoil will not generate any net sales before the plant is completed.

In business combinations, property, plant and equipment are measured at fair value at the acquisition date. In the balance sheet, 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 depreciation 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 | 5–25 years |
| Vehicles                 | 6–15 years |
| Machinery and equipment  | 4–15 years |

In 2008 the Group started to apply the units of production method to new landfills. 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. As the Kerava landfill is about to be filled up, it will be fully depreciated using the straight-line method.

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 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 deducting 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 currently under construction. 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.

Loans 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 balance sheet 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 group 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 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.

Borrowings are recognised in the balance sheet 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 balance sheet at cost. Their fair value is considered to equal to or approximate the cost.

### Derivative financial instruments and hedge accounting

L&T's derivative financial instruments included interest rate swaps to hedge the cash flow of variable-rate borrowings against interest rate risk, forward contracts to hedge the loans granted to foreign subsidiaries against currency risk as well as crude oil put options and future contracts purchased to hedge the sales price risk associated with the upcoming base oil production of a re-refinery under construction for the joint venture L&T Recoil. The forward contracts were terminated and L&T Recoil's crude oil put options were sold in late 2008.

Derivatives are recognised initially in the balance sheet 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, forward contracts and crude oil options are based on that day's market prices. The fair values of the options at balance sheet date are determined by using option pricing models. 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 and currency hedges meet the criteria set for efficient hedging in the Group's risk management policy. Hedge accounting in accordance with IAS 39 is not applied to some interest rate swaps for the time being, and was not applied to the terminated foreign currency forward contracts, but changes in the fair values of these items are recognised in the income statement as finance income or costs. Neither did L&T apply hedge accounting to the oil hedges made in the name of the joint venture, and any changes in the fair values were recognised in full as other operating income or expenses in the income statement.

Derivatives for which hedge accounting is not applied are classified as financial assets and liabilities held for trading. Positive fair values of all derivatives are recognised in derivative receivables in the balance sheet. Any negative fair values of derivatives are recognised correspondingly in derivative liabilities. All fair values of derivatives are included in current assets or liabilities.

Hedge accounting is applied to cash flow hedges only. With regard to interest rate swaps for which L&T applies hedge accounting, the relationship between the hedged liability and the interest rate swap is documented together with the risk management objectives. At the commencement of a hedge and in connection with each closing of the accounts, L&T assesses the hedging instrument's ability to offset any changes in cash flows. To the extent that cash flow hedging is efficient, changes in fair value 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 ineffective portion 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.

### 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.

### 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 Biowatti 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 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 balance sheet.

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 share option plans that have been granted after 7 November 2002 and had not become vested before 1 January 2005. 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 2002 and 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 non-restricted equity fund. Such are options issued in 2008.

### 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 balance sheet are the site restoration provisions for landfills and the contaminated soil processing site, and a provision for onerous lease agreements.

### Borrowing costs

Borrowing costs are in general recognised as expenses in the period in which they arise, excluding transaction costs directly attributable to the issue of a financial liability. They are included in the historical cost of the liability and are recognised as interest expense during the expected life of the liability applying the effective interest method. Furthermore, finance costs attributable to the construction of the joint venture L&T Recoil's re-refinery are capitalised as a portion of the acquisition cost and depreciated over the useful life of the asset. As L&T Recoil's borrowings have been taken out for the construction of the re-refinery, the actual borrow-

ing costs have been capitalised in the acquisition cost. L&T Recoil will not generate any net sales before the re-refinery is completed.

### 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

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 of property, plant and equipment; 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 disclosure. 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. Judgements are also made in applying the accounting policies. 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 management's judgment, the estimated cash flows may differ fundamentally from those realised in the future (Note 13 Goodwill impairment tests).

#### Distribution of dividend

Dividend is recognised as a liability in the balance sheet after the resolution of the Annual General Meeting.

#### Application of new or amended IFRS standards

Amendments to standards effective from the beginning of 2008:

- IFRIC 11, IFRS 2 Group and Treasury Share Transactions. The interpretation clarifies the application of the standard IFRS 2 Share-based Payment when an arrangement concerns an entity's own equity instruments or the instruments of its parent entity and the entity purchases the instruments. Furthermore, the interpretation provides guidelines for the application of the standard to the individual financial statements of a subsidiary. The interpretation does not have any impact on the processing of L&T's current option plan in financial statements.
- IFRIC 12 Service Concession Arrangements (EU approval pending). The Group had no agreements with public sector to which this interpretation should be applied, neither during the financial period under review nor in previous financial periods.
- IFRIC 14, IAS19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The interpretation applies to post-employment defined benefit plans according to IAS 19 and other long-term defined benefit plans for employees when the plan associates a minimum funding requirement. The interpretation clarifies also the recognition criteria for an asset to be recognised in the balance sheet should there be any future returns or deductions. The interpretation will not have any impact on the consolidated financial statements.
- IAS 39 (Amendment) Financial instruments: Recognition and measurement and IFRS 7 (Amendment) Financial Instruments: Disclosure – Reclassification of financial assets (effective from 1 July 2008). The amendments were issued in October 2008 in consequence of the international financial crisis and they concern reclassification of certain financial assets. (In November an additional amendment was issued to clarify the effective date and transition). These amendments do not have any impact on the financial statements, because the Group has no financial assets to be reclassified.

The IASB has published the following new or revised standards and interpretations that are not yet effective and have not been early applied by the Group. The Group will adopt them as of their effective date or the beginning of the financial period following the effective date when the effective date is other than the beginning date of the financial period.

- IFRS 8 Operating Segments (effective from 1 January 2009). The standard will replace the current Segment Reporting standard (IAS 14) and requires that reporting be done from the management's viewpoint. Segment information shall be presented on the same basis as that used for internal reporting provided to the management and on the accounting policies

applied in that reporting. The adoption of IFRS 8 does not impose any significant changes on the Group's segment reporting as the current segment reporting is based on the internal reporting structure. The internal reporting is consistent with the IFRS-standards. The reportable segments remain unchanged, but a change will be made between Property and Office Support Services and Industrial Services, because damage repair services have been transferred to Property and Office Support Services during 2008. The adoption of the standard will result in changes in the notes to the financial statements.

- IAS 23 (Amendment) Borrowing Costs (effective from 1 January 2009). The standard requires that the acquisition cost of an asset fulfilling certain preconditions, such as a production facility, shall include borrowing costs immediately attributable to the acquisition, construction or manufacture of the asset. The Group has previously recognised borrowing costs as expenses in the financial period during which they have been incurred. Finance costs associated with the construction of the L&T Recoil re-refinery were an exception, and they were capitalised as a portion of the acquisition cost. After the adoption of the standard, the Group's finance costs during the construction of recycling plants, for example, will be reduced, and depreciation after the completion will increase.
- IAS 1 (Amendment) Presentation of Financial Statements (effective from 1 January 2009). The revised standard will change the presentation of the income statement and the statement of changes in equity. The terminology used in other standards and the headings of some financial statements will change as well.
- IFRIC 13 Customer Loyalty Programmes (effective from 1 July 2008, EU approval pending) clarifies the accounting practices for customer loyalty programmes. The adoption of the standard does not affect the Group's accounting policies because the Group does not operate any customer loyalty programmes.
- IFRS 3 (Amendment) Business combinations (effective from 1 July 2009, EU approval pending). The standard contains several significant changes to the treatment of business combinations effected after the adoption of the amended standard and they have a material impact on the Group's financial statements. The amendments affect the amount of goodwill to be recognised from acquisitions and items recognised in the income statement both in the period of the acquisition and in the periods where additional payments or additional acquisitions are made. For example, a contingent consideration is recognised at acquisition-date fair value and revaluations, if any, are recognised through profit or loss. Transaction costs such as attorney's and consultant's fees are no longer included in the acquisition cost but they are recognised in profit or loss. A minority interest may be measured either at fair value or at the minority interest's proportionate share of the acquiree's net assets. According to the transitional provisions, business combinations that were effected before the adoption of the standard will not be restated.
- IAS 27 (Amendment) Consolidated and separate financial statements (effective from 1 July 2009, EU approval pending). The revised standard requires that the effects of changes in interest in a subsidiary are recognised in equity, when there is no change in control. When control in a subsidiary is lost, any remaining interest is measured at fair value through profit or loss. A similar accounting treatment will be applied to investments in associates (IAS 28) and interests in joint ventures (IAS 31). As a consequence of the amendment, losses of a subsidiary may be attributed to minority interests also when they exceed the minority interest.
- IFRS 2 (Amendment) Share-based Payment (effective from 1 January 2009). The amendment considers vesting conditions and reversals but it will not have any impact on the processing of L&T's current option schemes in the financial statements.

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- IAS 1 (Amendment) Presentation of Financial Statements and IAS 32 (Amendment) Financial Instruments: Disclosure and Presentation – Puttable Financial Instruments and Obligations Arising on Liquidation (effective from 1 January 2009, EU approval pending). The amended standards require the entities to classify puttable financial instruments as equity, while they have previously been classified as debt. The interpretation will not have any impact on the consolidated financial statements.
- Improvements to IFRSs (Annual Improvements 2007, effective from 1 July 2009, EU approval pending). With the Annual improvements method, necessary, but non-urgent, amendments to IFRSs are collected to a set and dealt with once a year. A total of 34 standards are affected by these amendments, and the impacts of the changes vary by standard. They are not expected to have a material impact on the Group's financial statements.
- IFRS 1 (Amendment) First-time Adoption of IFRS and IAS 27 (Amendment) Consolidated and separate financial statements (effective from 1 July 2009) – Cost of and investment in a subsidiary, jointly controlled entity or associate. The amendments will not have any impact on the financial statements, because they are applied to first-time adopters of IFRS.
- IFRS 1 (Amendment) First-time Adoption of IFRS (effective from 1 July 2009, EU approval pending). A revised standard version was issued in November 2008, where the structure of the standard has been clarified but which includes no changes to the content. The amendment will not have any impact on the financial statements, because they are applied to first-time adopters of IFRS.
- IFRIC 15 Agreements for construction of real estates (effective from 1 January 2009, EU approval pending). The interpretation clarifies which standards should be applied to the recognition of revenues from construction of real estates, and when the revenues may be recognised. The interpretation will not have any impact on the financial statements, because the Group is not engaged in the construction business.
- IFRIC 16 Hedges of a net investment in a foreign operation (effective from 1 October 2008, EU approval pending). The interpretation clarifies the accounting treatment of the hedging of a net investment in a foreign entity in consolidated financial statements. It will not have any material impact on the financial statements. For the time being, the Group's net investments are not hedged.
- IAS 39 (Amendment) Financial instruments: Recognition and measurement (effective from 1 July 2009, EU approval pending). Amendments relate to hedge accounting. They clarify the guidance by IAS 39 concerning one-sided hedging of a hedged item and hedging against inflation risk, if the hedged item is a financial asset or financial liability. The amendment will not have any impact on the financial statements.
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective from 1 July 2009, EU approval pending). The interpretation gives guidance on the recognition and measurement of distributions of non-cash assets to owners. The dividend payable shall be measured at the fair value and the difference between the dividend paid and the carrying amount of the net assets distributed recognised in profit or loss. The interpretation will not have any impact on the financial statements because it is improbable that the Group should distribute non-cash assets to owners.
- IFRIC 17 Transfer of Assets from Customers (effective from 1 July 2009, EU approval pending). The interpretation issued in January 2009 concerns mainly the utilities sector, and it will not have any impact on the financial statements as the Group does not make such arrangements.

## 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, derivative receivables from oil derivatives and trade receivables 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, trade price liabilities, and such current liabilities as derivative liabilities from oil derivatives, trade liabilities and other liabilities excluding accrued liabilities related to interests and tax liabilities.

### The Group is organised into the following business segments:

**Environmental Services** covers the collection, transport and treatment of waste and reusable materials and the supply of processed recycled materials for reuse. L&T Biowatti specialises in the procurement, processing and supply of wood-based fuels. The segment is also engaged in wholesale trade in environmental management products.

**Property and Office Support Services** offers cleaning and office support services and property maintenance services.

**Industrial Services** specialises in heavy-duty environmental management and maintenance services that require special expertise.

Group administration and other consist of external income from leasing out properties, 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.

Non-allocated assets consist of liquid assets, receivables of interest rate and foreign currency derivatives and accrued interest receivables, accrued other finance income and tax receivables. In 2008, tax receivables amounted to EUR 3,682 thousand (EUR 1,004 thousand). Non-allocated liabilities consist of interest-bearing debt, liabilities of interest rate and foreign currency derivatives and accrued interest and other financing liabilities and tax liabilities. In 2008, tax liabilities amounted to EUR 33,170 thousand (EUR 30,635 thousand).

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

| 2008  |                                |   |                        |   |              |         |
|---|--------------------------------|---|------------------------|---|--------------|---------|
| EUR 1000                                      | Environ-<br>mental<br>Services | Property<br>and Office<br>Support<br>Services | Industrial<br>Services | Group<br>administra-<br>tion and<br>other | Eliminations | Group   |
| <b>Net sales</b>                              |                                |   |                        |   |              |         |
| External net sales                            | 298 260                        | 225 076                                       | 82 660                 |   |              | 605 996 |
| Inter-division net sales                      | 1 810                          | 2 543   | 1 974                  |   | -6 327       | 0       |
| Total net sales                               | 300 070                        | 227 619                                       | 84 634                 |   | -6 327       | 605 996 |
| Operating profit                              | 32 255                         | 5 525   | 5 621                  | 12 097                                    |              | 55 498  |
| Operating margin, %                           | 10.7                           | 2.4   | 6.6                    |   |              | 9.2     |
| Finance income and costs (Note 8)             |                                |   |                        |   |              | -4 806  |
| Profit before tax                             |                                |   |                        |   |              | 50 692  |
| Income tax expense (Note 9.1)                 |                                |   |                        |   |              | -10 724 |
| Profit for the period                         |                                |   |                        |   |              | 39 968  |
| <b>Assets</b>                                 |                                |   |                        |   |              |         |
| Assets of the division                        | 273 722                        | 68 385  | 104 084                | 458                                       |              | 446 649 |
| Non-allocated assets                          |                                |   |                        |   |              | 31 036  |
| Total assets                                  |                                |   |                        |   |              | 477 685 |
| <b>Liabilities</b>                            |                                |   |                        |   |              |         |
| Liabilities of the division                   | 38 207                         | 33 493  | 17 471                 | 1 071                                     |              | 90 242  |
| Non-allocated liabilities                     |                                |   |                        |   |              | 182 405 |
| Total liabilities                             |                                |   |                        |   |              | 272 647 |
| <b>Capital expenditure</b> (Notes 12 and 14)  | 41 823                         | 9 062   | 33 274                 | 90  |              | 84 249  |
| <b>Depreciation and amortisation</b> (Note 5) | 23 122                         | 8 529   | 6 241                  | 3   |              | 37 895  |
| <b>Impairment</b>                             |                                | 3 090   |                        |   |              | 3 090   |
| <b>Other expenses of no-cash transactions</b> |                                |   |                        |   |              |         |
| Share option remuneration                     |                                |   |                        | 886                                       |              | 886     |
| Retirement benefit obligations                | 133                            | 27  |                        | 5   |              | 165     |
| Provisions                                    | 225                            |   | 7                      |   |              | 232     |
| Total   | 358                            | 27  | 7                      | 891                                       |              | 1 283   |

# Group

| 2007  | Environmental Services | Property and Office Support Services | Industrial Services | Group administration and other | Eliminations | Group   |
|---|------------------------|--------------------------------------|---------------------|--------------------------------|--------------|---------|
| <b>EUR 1000</b>                               |                        |                                      |                     |                                |              |         |
| <b>Net sales</b>                              |                        |                                      |                     |                                |              |         |
| External net sales                            | 278 115                | 201 762                              | 74 726              | 10                             |              | 554 613 |
| Inter-division net sales                      | 1 730                  | 2 379                                | 753                 |                                | -4 862       | 0       |
| Total net sales                               | 279 845                | 204 141                              | 75 479              | 10                             | -4 862       | 554 613 |
| Operating profit                              | 34 977                 | 11 005                               | 4 769               | -1 976                         |              | 48 775  |
| Operating margin, %                           | 12.5                   | 5.4                                  | 6.3                 |                                |              | 8.8     |
| Finance income and costs (Note 8)             |                        |                                      |                     |                                |              | -4 317  |
| Profit before tax                             |                        |                                      |                     |                                |              | 44 458  |
| Income tax expense (Note 9.1)                 |                        |                                      |                     |                                |              | -12 291 |
| Profit for the period                         |                        |                                      |                     |                                |              | 32 167  |
| <b>Assets</b>                                 |                        |                                      |                     |                                |              |         |
| Assets of the division                        | 250 980                | 75 508                               | 78 311              | 2 814                          |              | 407 613 |
| Non-allocated assets                          |                        |                                      |                     |                                |              | 30 712  |
| Total assets                                  |                        |                                      |                     |                                |              | 438 325 |
| <b>Liabilities</b>                            |                        |                                      |                     |                                |              |         |
| Liabilities of the division                   | 36 935                 | 32 447                               | 17 046              | 667                            |              | 87 095  |
| Non-allocated liabilities                     |                        |                                      |                     |                                |              | 148 886 |
| Total liabilities                             |                        |                                      |                     |                                |              | 235 981 |
| <b>Capital expenditure</b> (Notes 12 and 14)  | 60 704                 | 20 040                               | 12 267              | 176                            |              | 93 187  |
| <b>Depreciation and amortisation</b> (Note 5) | 20 330                 | 7 782                                | 5 315               | 5                              |              | 33 432  |
| <b>Other expenses of no-cash transactions</b> |                        |                                      |                     |                                |              |         |
| Share option remuneration                     |                        |                                      |                     | 613                            |              | 613     |
| Retirement benefit obligations                | 133                    | 20                                   |                     | 74                             |              | 227     |
| Provisions                                    | 44                     |                                      | 97                  |                                |              | 141     |
| Total   | 177                    | 20                                   | 97                  | 687                            |              | 981     |

## 1.2. Geographical segments

| EUR 1000                   | 2008    | 2007    |
|----------------------------|---------|---------|
| <b>Net sales</b>           |         |         |
| Finland                    | 541 165 | 493 464 |
| Other countries            | 64 831  | 61 149  |
| Total                      | 605 996 | 554 613 |
| <b>Assets</b>              |         |         |
| Finland                    | 411 963 | 366 367 |
| Other countries            | 34 686  | 41 246  |
| Non-allocated assets       | 31 036  | 30 712  |
| Total                      | 477 685 | 438 325 |
| <b>Capital expenditure</b> |         |         |
| Finland                    | 78 889  | 81 004  |
| Other countries            | 5 360   | 12 183  |
| Total                      | 84 249  | 93 187  |

## 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 the fair value of the asset can be determined reliably. 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 that cannot be identified separately in accordance with IAS 38. 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. These items do not fulfil the IAS 38 identification criteria in any way. The items cannot be separated from each other, they are not based on any agreement or legal right and their value cannot be determined reliably. 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). Acquisition price adjustments, including also attorney's and consultants' fees attributable to a business combination, are recognised in goodwill within 12 months from the acquisition date. Such adjustments related to the businesses acquired in 2008 will probably still be made.

The consolidated net sales for the year 2008 would have been EUR 655 million and the consolidated profit for the period EUR 56 million if all the acquisitions had been made on 1 January. 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 6.5 million in 2008.

## 2008

### Business acquisitions in aggregate

|  | Fair values<br>used in<br>consolidation | Carrying<br>amounts<br>before<br>consolidation |
|--|---|--|
| <b>EUR 1000</b>                                  |   |  |
| Property, plant and equipment                    | 2 050                                   | 1 313  |
| Customer contracts                               | 1 561                                   |  |
| Agreements on prohibition<br>of competition      | 488                                     |  |
| Other intangible assets                          | 7                                       | 7  |
| Other non-current assets                         | 31                                      | 12   |
| Inventories                                      | 17                                      | 17   |
| Trade and other receivables                      | 810                                     | 810  |
| Cash and cash equivalents                        | 526                                     | 526  |
| Total assets                                     | 5 490                                   | 2 685  |
| Deferred tax liabilities                         | -667                                    |  |
| Long-term borrowings                             | -189                                    | -189   |
| Trade and other payables                         | -812                                    | -812   |
| Total liabilities                                | -1 668                                  | -1 001   |
| Net assets                                       | 3 822                                   | 1 684  |
| Goodwill arising from acquisitions               | 1 001                                   |  |
| Acquisition cost                                 | 4 823                                   |  |
| Acquisition cost                                 | 4 823                                   |  |
| Cash and cash equivalents<br>at acquisition date | -525                                    |  |
| Cash flow effect of acquisitions                 | 4 298                                   |  |

The business operations of Siivospalvelu Siivoset Oy were acquired into cleaning services within Property and Office Support Services on 1 January and the business operations of Siivousliike Lainio Oy on 1 March. The business operations of Rantakylän Talonhuolto Oy were acquired for property management on 1 April and Oulun TOP-Huolto Oy on 1 November.

The business operations of Obawater Oy were acquired for waste water services within Industrial Services on 15 February and Kuljetusliike Eskolin Oy on 1 December.

Jätehuolto Savolainen Oy group specialising in waste management and recycling services was acquired on 1 October. The company also provides waste water, hazardous waste management and industrial cleaning services.

The figures for these acquired businesses are stated in aggregate, because none of them is of material importance. 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. All share acquisitions have resulted in a holding of 100% of voting power.

The largest acquired companies by annual net sales were Savolainen group (EUR 2.8 million), Oulun TOP-Huolto (EUR 2.6 million) and Kuljetusliike Eskolin (EUR 0.9 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.

## 2007

### Biowatti Oy

|   | Fair values<br>used in<br>consolidation | Carrying<br>amounts<br>before<br>consolidation |
|---|---|--|
| <b>EUR 1000</b>   |   |  |
| Property, plant and equipment                                 | 1 107                                   | 1 107  |
| Customer contracts  | 72                                      |  |
| Agreements on prohibition<br>of competition                   | 14 593                                  |  |
| Other intangible assets arising<br>from business acquisitions | 8 657                                   |  |
| Other intangible assets                                       | 647                                     | 647  |
| Inventories   | 3 213                                   | 3 213  |
| Trade and other receivables                                   | 9 768                                   | 9 768  |
| Cash and cash equivalents                                     | 5 251                                   | 5 251  |
| Total assets  | 43 308                                  | 19 986   |
| Deferred tax liabilities                                      | -6 442                                  | -40  |
| Long-term borrowings  | -5 806                                  |  |
| Trade and other payables                                      | -7 877                                  | -7 877   |
| Total liabilities   | -20 125                                 | -7 917   |
| Net assets  | 23 183                                  | 12 069   |
| Goodwill arising from acquisitions                            | 7 762                                   |  |
| Acquisition cost  | 30 945                                  |  |
| Acquisition cost  | 30 945                                  |  |
| Cash and cash equivalents<br>at acquisition date              | -5 251                                  |  |
| Cash flow effect of acquisitions                              | 25 694                                  |  |

## Group

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 thirty percent of the shares by the beginning of the year 2012. The acquisition price for the seventy percent portion was EUR 30.9 million, and it was paid in cash. No interest-bearing liabilities were transferred in the acquisition. The acquisition became effective on 1 February 2007 after the approval of the competition authority. L&T Biowatti became a cash-generating unit within the Environmental Services division.

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 purchase price of the remaining 30 percent, discounted to the value at the acquisition date (approximately EUR 5,806 thousand), was recognised as interest-bearing non-current liability. The final price of the 30 percent portion will be determined based on the future earnings of L&T Biowatti. The estimate is assessed annu-

ally as of 31 December, or whenever any indication exists. If the estimate needs to be revised, the cost of the combination will be adjusted accordingly and the amounts of goodwill and interest-bearing liabilities will be changed.

All property, plant and equipment acquired was measured and their values were found to correspond to the fair values based on the market prices of similar assets, taking into account the age of the assets, wear and tear and similar factors. The property, plant and equipment of Biowatti were already recognised at fair value due to a former company arrangement.

The value of supply contracts recognised in Other intangible assets was determined on the basis of estimated duration of supplier relationships and discounted net cash flows arising from current relationships. Intangible assets will be amortised over their useful life according to agreement or the management's estimate.

The net sales of L&T Biowatti for the period 1 February – 31 December 2007 amounted to EUR 62,816 thousand, and profit for the period EUR 2,936 thousand.

### Other business combinations in aggregate

| EUR 1000   | Fair values<br>used in<br>consolidation | Carrying<br>amounts<br>before<br>consolidation |
|--|---|--|
| Property, plant and equipment                              | 4 438                                   | 3 878  |
| Customer contracts   | 2 555                                   |  |
| Agreements on prohibition of competition                   | 1 103                                   |  |
| Other intangible assets arising from business acquisitions | 97                                      |  |
| Other intangible assets                                    | 168                                     | 168  |
| Other non-current assets                                   | 1 098                                   | 945  |
| Inventories  | 395                                     | 395  |
| Trade and other receivables                                | 4 430                                   | 4 430  |
| Cash and cash equivalents                                  | 4 592                                   | 4 592  |
| Total assets   | 18 876                                  | 14 408   |
| Deferred tax liabilities                                   | -647                                    | -402   |
| Long-term liabilities                                      | -104                                    | -104   |
| Trade and other payables                                   | -7 773                                  | -8 070   |
| Provisions   | -40                                     |  |
| Total liabilities  | -8 564                                  | -8 576   |
| Net assets   | 10 312                                  | 5 832  |
| Goodwill arising from acquisitions                         | 6 504                                   |  |
| Revenue recognition of negative goodwill                   | -868                                    |  |
| Acquisition cost   | 15 948                                  |  |
| Acquisition cost   | 15 948                                  |  |
| Cash and cash equivalents at acquisition date              | -4 592                                  |  |
| Cash flow effect of acquisitions                           | 11 356                                  |  |

Acquired business operations denominated in a foreign currency have been converted into euro at the exchange rate valid on the date of acquisition.

The operations of Kuljetus Kummunmäki Oy were acquired for waste management within Environmental Services on 1 July 2007. On 1 September 2007, 50.0% of Salvor Oy, in which L&T already had a holding of 50.0%, were acquired to recycling services within Environmental Services. Acquisitions for Property and Office Support Services included the cleaning services group Skånsk All Service AB on 1 February 2007 and Siivouspalvelu Ta-Bu Oy on 31 May 2007, while Kiinteistöhuolto Pentti Nissinen Oy was acquired for property management on 1 February 2007 and Kiinteistöhuolto Jauhiainen Oy on 31 May 2007.

The figures for these acquired businesses are stated in aggregate, because none of them is of material importance. 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. All share acquisitions have resulted in a holding of 100% of voting power.

Negative goodwill generated by the acquisition of Salvor Oy was recognised as income. Negative goodwill was generated, because deferred tax liabilities related to confirmed losses from prior periods were taken into account in the equity at the time of acquisition.

The largest acquired companies by annual net sales were Skånsk All Service group (EUR 10.8 million), Kiinteistöhuolto Jauhiainen Oy (EUR 6.5 million) and Siivouspalvelu Ta-Bu Oy (EUR 5.3 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.

Furthermore, L&T acquired the remaining 5.5% of Suomen Keräystuote Oy's shares on 31 January, complementing its existing holding of 94.5%. On 1 July 2007, L&T acquired 16.5% of the Muoviportti Group of which it previously held 67%. A share corresponding to 33% was recognised in the consolidated financial statements because L&T has committed to acquiring the remaining shares. An estimate of the purchase price for the remaining 16.5% was recognised as interest-bearing non-current liability. These business combinations are not subject to IFRS 3 because they concern entities under common control.

### 3. Employee benefit expenses

| EUR 1000                               | 2008           | 2007           |
|--|----------------|----------------|
| Wages and salaries                     | 191 984        | 170 204        |
| Pension costs                          |                |                |
| Defined contribution plans             | 30 129         | 24 766         |
| Defined benefit plans                  | 165            | 227            |
| Share-based payment                    | 886            | 613            |
| Other personnel expenses               | 18 808         | 17 667         |
| <b>Total</b>                           | <b>241 972</b> | <b>213 477</b> |
| Defined benefit plan costs by function |                |                |
| Cost of sales                          | 27             | 20             |
| Sales and marketing                    | 133            | 133            |
| Administration                         | 5              | 74             |
| <b>Total</b>                           | <b>165</b>     | <b>227</b>     |

Details on granted share options are shown in Note 25 Share-based payment.

The employee benefits of the top management are presented in Note 35 Related-party transactions.

Details on the balance sheet items of defined benefit pension plans are presented in Note 26 Retirement benefit obligations.

#### Average personnel converted into full-time equivalents

|                    | 2008         | 2007         |
|--------------------|--------------|--------------|
| Clerical personnel | 1 600        | 1 299        |
| Workers            | 6 763        | 6 520        |
| <b>Total</b>       | <b>8 363</b> | <b>7 819</b> |
| Finland            | 6 091        | 5 740        |
| Other countries    | 2 272        | 2 079        |
| <b>Total</b>       | <b>8 363</b> | <b>7 819</b> |

### 4. Construction contracts

| EUR 1000   | 2008 | 2007  |
|--|------|-------|
| The amount of contract revenue recognised as revenue in the period   | 120  | 4 731 |
| The aggregate amount of costs incurred and recognised profits for contracts in progress less recognised losses |      | 100   |
| The gross amount due from customers in accrued liabilities   |      | 120   |

At the end of the financial year 2008, 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 and amortisation

#### Depreciation and amortisation by function

| EUR 1000                                   | Intangible assets | Property, plant and equipment | Total         |
|--|-------------------|-------------------------------|---------------|
| <b>2008</b>                                |                   |                               |               |
| <b>Depreciation and amortisation</b>       |                   |                               |               |
| On cost of sales                           | 8 393             | 28 335                        | 36 728        |
| On sales and marketing                     | 47                | 305                           | 352           |
| On administration                          | 617               | 198                           | 815           |
| <b>Total depreciation and amortisation</b> | <b>9 057</b>      | <b>28 838</b>                 | <b>37 895</b> |
| <b>Impairment</b>                          | <b>3 090</b>      |                               |               |

#### 2007

#### Depreciation and amortisation

|  |              |               |               |
|--|--------------|---------------|---------------|
| On cost of sales                           | 7 350        | 24 950        | 32 300        |
| On sales and marketing                     | 44           | 318           | 362           |
| On administration                          | 527          | 243           | 770           |
| <b>Total depreciation and amortisation</b> | <b>7 921</b> | <b>25 511</b> | <b>33 432</b> |

### 6. Other operating income and expenses

| EUR 1000   | 2008          | 2007         |
|--|---------------|--------------|
| <b>Other operating income</b>                                      |               |              |
| Gains on sales of available-for-sale investments                   | 14 258        |              |
| Gains on sales of property, plant and equipment                    | 527           | 652          |
| Gains on sales of buildings and land                               | 437           | 105          |
| Gains on sale of businesses  |               | 377          |
| Revenue recognition of negative goodwill                           |               | 868          |
| Lease income   | 216           | 134          |
| Reversals of impairment losses on trade receivables                | 140           | 99           |
| Reimbursements and government grants                               | 1 305         | 631          |
| Change in fair value of oil derivatives                            | 2 221         |              |
| Gains on oil derivatives   | 1 931         | 101          |
| Other  | 673           | 867          |
| <b>Total</b>   | <b>21 708</b> | <b>3 834</b> |
| <b>Other operating expenses</b>                                    |               |              |
| Losses on disposals and scrapping of property, plant and equipment | 639           | 212          |
| Impairment losses on trade receivables                             | 1 144         | 531          |
| Losses on oil derivatives  | 1 162         |              |
| Change in fair value of oil derivatives                            |               | 2 947        |
| Losses on sale of businesses                                       | 1 231         | 868          |
| Discontinuation of soil washing services                           | 2 616         |              |
| Other  | 310           | 733          |
| <b>Total</b>   | <b>7 102</b>  | <b>5 291</b> |



## 7. Research and development expenses

EUR 3.0 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 1000   | 2008          | 2007          |
|--|---------------|---------------|
| <b>Finance income</b>  |               |               |
| Dividend income on available-for-sale investments  | 4             | 4             |
| Interest income on available-for-sale investments  | 200           | 234           |
| Interest income on loans and other receivables   | 1 038         | 736           |
| Gains on interest rate swaps hedging cash flow, transferred from equity  | 314           | 255           |
| Gains on non-hedging interest rate swaps   | 375           | 381           |
| Foreign exchange gains   |               | 51            |
| <b>Total finance income</b>  | <b>1 931</b>  | <b>1 661</b>  |
| <b>Finance costs</b>   |               |               |
| Interest expenses on borrowings measured at amortised cost   | -6 149        | -5 265        |
| Changes in fair values of financial assets and liabilities at fair value through profit or loss (excl. interest rate swaps under hedge accounting) | -284          | -332          |
| Losses on sale of available-for-sale investments   | -17           | -3            |
| Other finance expenses   | -206          | -378          |
| Foreign exchange losses  | -81           |               |
| <b>Total finance costs</b>   | <b>-6 737</b> | <b>-5 978</b> |

Exchange rate differences apply to financing. Exchange rate differences arising from sales amounting to EUR 13 thousand (EUR 6 thousand) have been recognised as adjustment items for net sales. Exchange rate differences arising from purchases totalling EUR 15 thousand (EUR 22 thousand) have been recognised as adjustment items for cost of sales.

A gain of EUR 39 thousand (EUR 14,246 thousand) on available-for-sale investments was recognised in the revaluation reserve in the equity.

Interest expenses related to constructing totalling EUR 431 thousand (EUR 28 thousand) were recognised as an asset as a portion of the cost of L&T Recoil's re-refinery investment.

## 9. Income taxes

### 9.1. Income tax in the income statement

| EUR 1000                        | 2008           | 2007           |
|---------------------------------|----------------|----------------|
| Income tax on taxable profit    |                |                |
| Income tax for the period       | -7 554         | -12 247        |
| Income tax for previous periods | 16             | 121            |
| Deferred income tax             | -3 186         | -165           |
| <b>Total</b>                    | <b>-10 724</b> | <b>-12 291</b> |

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:

|  |                |                |
|--|----------------|----------------|
| Income tax at Finnish tax rate on consolidated profit before tax | -13 179        | -11 559        |
| Different tax rates and losses of foreign subsidiaries           | 407            | -620           |
| Expenses not deductible for tax purposes                         | -833           | -334           |
| Goodwill impairment  | -813           |                |
| Tax exempt income  | 3 688          | 94             |
| Income tax for previous periods                                  | 16             | 121            |
| Other items  | -10            | 7              |
| <b>Total</b>   | <b>-10 724</b> | <b>-12 291</b> |

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

| 2008                                       | At 1<br>January<br>2008          | Recognised<br>in income<br>statement          | Recognised<br>in equity         | Exchange<br>differences         | Acquired/sold<br>businesses         | At 31<br>December<br>2008          |
|--|----------------------------------|---|---------------------------------|---------------------------------|-------------------------------------|------------------------------------|
| <b>EUR 1000</b>                            |                                  |   |                                 |                                 |                                     |                                    |
| <b>Deferred tax assets</b>                 |                                  |   |                                 |                                 |                                     |                                    |
| Pension benefits                           | 141                              | 34  |                                 |                                 |                                     | 175                                |
| Provisions                                 | 254                              | 120   |                                 |                                 |                                     | 374                                |
| Fair value adjustments                     | 280                              | -512  | 351                             |                                 |                                     | 119                                |
| Revenue recognition                        | 103                              | 100   |                                 |                                 |                                     | 203                                |
| Deferred depreciation                      | 31                               | -2  |                                 |                                 |                                     | 29                                 |
| Losses of joint ventures                   | 109                              | 401   |                                 |                                 |                                     | 510                                |
| Losses of subsidiaries                     | 1 308                            | -1 800  |                                 |                                 | 945                                 | 453                                |
| Translation differences                    | 159                              |   | 421                             |                                 |                                     | 580                                |
| Other tax deductible temporary differences | 283                              | 94  |                                 |                                 |                                     | 377                                |
| <b>Total</b>                               | <b>2 668</b>                     | <b>-1 565</b>                                 | <b>772</b>                      |                                 | <b>945</b>                          | <b>2 820</b>                       |
| <b>Deferred tax liabilities</b>            |                                  |   |                                 |                                 |                                     |                                    |
| Depreciation differences                   | -31 182                          | -1 250  |                                 | -37                             | -1 528                              | -33 997                            |
| Finance lease agreements                   | -404                             | -122  |                                 |                                 |                                     | -526                               |
| Other current differences                  |                                  | -250  |                                 |                                 |                                     | -250                               |
| <b>Total</b>                               | <b>-31 586</b>                   | <b>-1 622</b>                                 |                                 | <b>-37</b>                      | <b>-1 528</b>                       | <b>-34 773</b>                     |
| <b>Net deferred tax liability</b>          | <b>-28 918</b>                   | <b>-3 187</b>                                 | <b>772</b>                      | <b>-37</b>                      | <b>-583</b>                         | <b>-31 953</b>                     |
| <b>2007</b>                                | <b>At 1<br/>January<br/>2007</b> | <b>Recognised<br/>in income<br/>statement</b> | <b>Recognised<br/>in equity</b> | <b>Exchange<br/>differences</b> | <b>Acquired/sold<br/>businesses</b> | <b>At 31<br/>December<br/>2007</b> |
| <b>EUR 1000</b>                            |                                  |   |                                 |                                 |                                     |                                    |
| <b>Deferred tax assets</b>                 |                                  |   |                                 |                                 |                                     |                                    |
| Pension benefits                           | 95                               | 46  |                                 |                                 |                                     | 141                                |
| Provisions                                 | 216                              | 38  |                                 |                                 |                                     | 254                                |
| Fair value adjustments                     |                                  | 280   |                                 |                                 |                                     | 280                                |
| Revenue recognition                        | 390                              | -287  |                                 |                                 |                                     | 103                                |
| Deferred depreciation                      | 137                              | -106  |                                 |                                 |                                     | 31                                 |
| Losses of joint ventures                   | 426                              | -317  |                                 |                                 |                                     | 109                                |
| Losses of subsidiaries                     |                                  | 1 308   |                                 |                                 |                                     | 1 308                              |
| Translation differences                    | -15                              |   | 174                             |                                 |                                     | 159                                |
| Other tax deductible current differences   | 182                              | 111   | 1                               | -4                              | -7                                  | 283                                |
| <b>Total</b>                               | <b>1 431</b>                     | <b>1 073</b>                                  | <b>175</b>                      | <b>-4</b>                       | <b>-7</b>                           | <b>2 668</b>                       |
| <b>Deferred tax liabilities</b>            |                                  |   |                                 |                                 |                                     |                                    |
| Depreciation differences                   | -22 504                          | -1 750  | 181                             | 12                              | -7 121                              | -31 182                            |
| Fair value adjustments                     | -501                             | 565   | -64                             |                                 |                                     |                                    |
| Finance lease agreements                   | -351                             | -53   |                                 |                                 |                                     | -404                               |
| <b>Total</b>                               | <b>-23 356</b>                   | <b>-1 238</b>                                 | <b>117</b>                      | <b>12</b>                       | <b>-7 121</b>                       | <b>-31 586</b>                     |
| <b>Net deferred tax liability</b>          | <b>-21 925</b>                   | <b>-165</b>                                   | <b>292</b>                      | <b>8</b>                        | <b>-7 128</b>                       | <b>-28 918</b>                     |

## 9.3. Deferred tax in balance sheet

| EUR 1000                     | 2008    | 2007    |
|------------------------------|---------|---------|
| Deferred tax assets          | 945     | 924     |
| Deferred tax liabilities     | -32 898 | -29 842 |
| Net deferred tax liabilities | -31 953 | -28 918 |

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 2008 deferred tax assets amounting to EUR 1,167 thousand (EUR 999 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 510 thousand (EUR 686 thousand) in respect of losses of subsidiaries 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

Earnings per share are calculated by dividing the profit for the period attributable to equity holders of the parent company by the adjusted weighted average number of shares in issue during the period.

| EUR 1000  | 2008   | 2007   |
|---|--------|--------|
| Profit attributable to the equity holders of the parent company   | 39 969 | 31 909 |
| Adjusted average number of shares during the period, 1,000 shares | 38 796 | 38 670 |
| Earnings per share, EUR   | 1.03   | 0.83   |

Diluted earnings per share are calculated by adjusting the average number of shares outstanding to assume conversion of all diluting potential shares. In 2008 earnings per share are diluted by 2005A options and in 2007 also 2002C and 2005B options. The 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 1000  | 2008   | 2007   |
|---|--------|--------|
| Profit attributable to the equity holders of the parent company             | 39 969 | 31 909 |
| Adjusted average number of shares during the period, 1,000 shares           | 38 796 | 38 670 |
| Effect of share options, 1,000 shares                                       | 21     | 173    |
| Adjusted average number of shares during the period, 1,000 shares - diluted | 38 817 | 38 843 |
| Earnings per share, EUR - diluted   | 1.03   | 0.82   |

## 11. Dividend per share

At the Annual General Meeting on 24 March 2009, a dividend of EUR 0.55 is proposed by the Board of Directors, corresponding to total dividends of EUR 21,339,380.70. This dividend payable is not reflected in the financial statements. The dividend per share paid in 2008 was EUR 0.55.

## 12. Intangible assets

| 2008  |          | Intangible<br>assets<br>arising from<br>acquisitions | Internally<br>generated<br>intangible<br>assets | Intangible<br>rights | Other<br>intangible<br>assets | Prepayments | Total   |
|---|----------|--|---|----------------------|-------------------------------|-------------|---------|
| EUR 1000  | Goodwill |  |   |                      |                               |             |         |
| Opening net book amount   | 119 946  | 40 850   | 1 771   | 10 108               | 8 854                         | 810         | 182 339 |
| Additions   |          |  | 374   | 1 176                | 786                           | 1 476       | 3 812   |
| Business acquisitions   | 1 001    | 2 049  |   | 7                    |                               |             | 3 057   |
| Disposals   | -1 258   | -619   |   | -59                  | -1 650                        | -1          | -3 587  |
| Exchange differences  | -1 485   | -408   |   | -3                   | -9                            |             | -1 905  |
| Transfers between items   |          |  |   | 81                   | 190                           | -269        | 2       |
| Closing net book amount   | 118 204  | 41 872   | 2 145   | 11 310               | 8 171                         | 2 016       | 183 718 |
| Accumulated amortisation and<br>impairment at 1 January 2008      |          | -10 250  | -236  | -7 520               | -2 216                        |             | -20 222 |
| Accumulated amortisation on<br>disposals and transfers            |          | 293  |   | 5                    | 527                           |             | 825     |
| Amortisation charge   |          | -6 285   | -347  | -905                 | -1 520                        |             | -9 057  |
| Impairment  | -3 090   |  |   |                      |                               |             | -3 090  |
| Exchange differences  | 337      | 144  |   |                      | -28                           |             | 453     |
| Accumulated amortisation and<br>impairment at<br>31 December 2008 | -2 753   | -16 098  | -583  | -8 420               | -3 237                        |             | -31 091 |
| Net book amount at<br>31 December 2008                            | 115 451  | 25 774   | 1 562   | 2 890                | 4 934                         | 2 016       | 152 627 |

Intangible assets arising from acquisitions include mainly agreements on prohibition of competition and customer relationships.

Contractual commitments related to acquisition of intangible assets totalled EUR 1,021 thousand.

In November a decision was made to discontinue soil washing services included in waste water services within Industrial Services, which had been making a loss. 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.

In December the business operations in Norway included in the Swedish subgroup were 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.

These components of entity do not meet the criteria concerning presentation of discontinued operations specified in IFRS 5.31-32.

The cash generating unit Sweden was tested for impairment as of December 2008. As a consequence, an impairment of EUR 3.1 million was recognised. The test was performed as a result of weakening market outlook. The impairment is presented in more detail in Note 13 Goodwill impairment tests.

# Group

| 2007  |          | Intangible<br>assets<br>arising from<br>acquisitions | Internally<br>generated<br>intangible<br>assets | Intangible<br>rights | Other<br>intangible<br>assets | Prepayments | Total   |
|---|----------|--|---|----------------------|-------------------------------|-------------|---------|
| EUR 1000  | Goodwill |  |   |                      |                               |             |         |
| Opening net book amount                                   | 106 611  | 14 226   | 1 419   | 8 806                | 4 616                         | 1 086       | 136 764 |
| Additions   | 281      |  | 352   | 259                  | 3 397                         | 1 114       | 5 403   |
| Business acquisitions                                     | 14 077   | 27 010   |   | 798                  |                               |             | 41 885  |
| Disposals   | -738     | -228   |   | -75                  | -547                          |             | -1 588  |
| Exchange differences                                      | -285     | -68  |   |                      |                               |             | -353    |
| Transfers between items                                   |          | -90  |   | 320                  | 1 388                         | -1 390      | 228     |
| Closing net book amount                                   | 119 946  | 40 850   | 1 771   | 10 108               | 8 854                         | 810         | 182 339 |
| Accumulated amortisation and impairment at 1 January 2007 |          | -4 333   | -2  | -6 925               | -1 097                        |             | -12 357 |
| Accumulated amortisation on disposals and transfers       |          |  |   | 42                   |                               |             | 42      |
| Amortisation charge                                       |          | -5 931   | -234  | -637                 | -1 119                        |             | -7 921  |
| Exchange differences                                      |          | 14   |   |                      |                               |             | 14      |
| Accumulated amortisation at 31 December 2007              |          | -10 250  | -236  | -7 520               | -2 216                        |             | -20 222 |
| Net book amount at 31 December 2007                       | 119 946  | 30 600   | 1 535   | 2 588                | 6 638                         | 810         | 162 117 |

Intangible assets arising from acquisitions include mainly agreements on prohibition of competition and customer relationships.

Contractual commitments concerning acquisition of intangible assets totalled EUR 70 thousand.

In June 2007, a component of an entity of Salvor Oy, at that time a joint venture, was sold. Goodwill and intangible assets associated with the operation 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. When determining the gain or loss on disposal they were included in the carrying amount of the operation disposed of. Consequently, 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.

Another component of an entity sold in September was treated respectively, and the gain on sale of businesses was recognised in other operating income.

These components of entity do not meet the criteria concerning presentation of discontinued operations specified in IFRS 5.31-32.

No impairment losses on intangible assets were recognised.

## 13. Goodwill impairment tests

### Goodwill allocation

Lassila & Tikanoja's divisions are divided into product lines that form the cash generating units. The Latvian/Baltic and Swedish business operations also form cash generating units. For the purpose of impairment testing, goodwill is allocated to the cash generating units.

Allocation of book values of goodwill

| EUR 1000  | 2008    | 2007    |
|---|---------|---------|
| Waste management  | 44 156  | 43 859  |
| Recycling services  | 18 759  | 18 560  |
| L&T Biowatti  | 7 762   | 7 762   |
| Cleaning services   | 10 487  | 10 443  |
| Hazardous waste services  | 9 652   | 10 007  |
| Sweden  | 6 228   | 11 253  |
| Total   | 97 044  | 101 884 |
| Units for which the amount of goodwill allocated is not significant in proportion to the balance sheet value of the Group | 18 407  | 18 062  |
| Total   | 115 451 | 119 946 |

### Impairment tests

In estimation of the recoverable amounts, both an asset's value in use and its fair value less cost to sell are used, the approaches being equivalent. In the impairment tests performed in Autumn 2008, only the fair value was reviewed, as, in the prevailing insecure market situation, the use of a net sales price would not have given a true picture of the cash generating unit. 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 product line, 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 -5.8% and 41.8% (-2.8% and 29.3%). Beyond that period, upkeep investments and a residual growth rate generally equivalent to the inflation rate have been estimated for the cash flows. The rate is 3%, except in Latvia 5.1%. The residual growth rate for recycling services and for hazardous waste management is 4%. 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 of 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 capital structure. The industry beta, cost of debt and cost structure of the capital 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. Based on these factors, the discount rate used in the impairment tests is pre-tax return on equity (WACC) as follows: waste management 10.5% (10.2%), recycling services 10.0% (9.8%), L&T Biowatti 10.2% (10.0%), cleaning services 12.1% (11.2%), hazardous waste services 9.8% (9.7%) and Sweden 9.6% (10.7%). The interest rate for other cash generating units varies between 9.9% and 15.4% (11.5% and 14.1%). The WACC was determined mainly on the basis of the data as of 30 September 2008, except for Sweden, for which the goodwill impairment tests were performed again on the basis of the data as of December 2008.

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

In January 2009, the goodwill allocated to the cash generating unit Sweden within Property and Office Support Services was tested for impairment as of December 2008, and an impairment of EUR 2.7 million was recognised. Impairment tests shall be performed in the functional currency of the cash generating unit, and, as a result of different exchange rates applicable to the balance sheet and the income statement, an item of EUR 3.1 million equivalent to the impairment was recognised in the income statement as an impairment loss. The test was performed, because market outlook had weakened due to the economic downturn and the targets for new sales for 2008 were not reached.

Impairment testing of goodwill does not give cause to impairment in other cash generating units.

In October a decision was made to discontinue soil washing services, which had been making a loss, included in waste water services within Industrial Services. The goodwill (EUR 0.4 million) 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.

In December the business operations in Norway included in the Swedish subgroup were disposed of. The goodwill (EUR 0.8 million) 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.

#### Sensitivity analysis of impairment testing

| Principal assumptions      | Share of goodwill | Required change | Required change in the most critical CGU |
|----------------------------|-------------------|-----------------|--|
| <b>2008</b>                |                   |                 |  |
| Residual EBITDA percentage | 87%               | ≥ -50%          | -8%                                      |
| WACC (before tax)          | 63%               | ≥ 99%           | 8%                                       |
| <b>2007</b>                |                   |                 |  |
| Residual EBITDA percentage | 77%               | ≥ -50%          | -18%                                     |
| WACC (before tax)          | 75%               | ≥ 99%           | 34%                                      |

In 44% of the cash generating units and 63% of the consolidated goodwill (50% and 75%), the change in the interest 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 87% of the consolidated goodwill (50% and 77%), 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 8% (34%) and the residual EBITDA percentage would have to decrease by 8% (18%) to make the value in use equal to the book value. Recognition of impairment loss would require even greater changes in the critical variables. As a result of the recognised impairment loss, the Swedish business unit is not included in the sensitivity analysis.

## 14. Property, plant and equipment

2008

| EUR 1000  | Land  | Buildings and constructions | Machinery and equipment | Other | Advance payments and construction in progress | Total    |
|---|-------|-----------------------------|-------------------------|-------|---|----------|
| Opening net book amount                             | 3 532 | 59 633                      | 229 698                 | 171   | 4 830   | 297 864  |
| Exchange differences                                | -1    | -154                        | -594                    | -5    | -23   | -777     |
| Additions   | 382   | 6 629                       | 31 811                  |       | 36 361  | 75 183   |
| Business acquisitions                               |       |                             | 2 050                   |       |   | 2 050    |
| Disposals   | -81   | -832                        | -11 417                 |       |   | -12 330  |
| Transfers between items                             |       | 2 978                       | 2 755                   |       | -5 735  | -2       |
| Closing net book amount                             | 3 832 | 68 254                      | 254 303                 | 166   | 35 433  | 361 988  |
| Accumulated depreciation at 1 January 2008          |       | -20 039                     | -125 866                | -89   |   | -145 994 |
| Exchange differences                                |       | 19                          | 195                     |       |   | 214      |
| Accumulated depreciation on disposals and transfers |       | 243                         | 9 539                   |       |   | 9 782    |
| Depreciation charges                                |       | -4 519                      | -24 320                 | 1     |   | -28 838  |
| Accumulated depreciation at 31 December 2008        |       | -24 296                     | -140 452                | -88   |   | -164 836 |
| Net book amount at 31 December 2008                 | 3 832 | 43 958                      | 113 851                 | 78    | 35 433  | 197 152  |

### Assets acquired under finance lease arrangements included in machinery and equipment

| EUR 1000                                     | Buildings and constructions | Machinery and equipment | Advance payments and construction in progress | Total |
|--|-----------------------------|-------------------------|---|-------|
| Opening net book amount                      | 360                         | 1 166                   |   | 1 526 |
| Additions                                    |                             |                         | 3 350   | 3 350 |
| Disposals                                    | -360                        | -17                     |   | -377  |
| Closing net book amount                      | 0                           | 1 149                   | 3 350   | 4 499 |
| Accumulated depreciation at 1 January 2008   | -57                         | -788                    |   | -845  |
| Depreciation charges                         | -18                         | -172                    |   | -190  |
| Accumulated depreciation on disposals        | 75                          | 11                      |   | 86    |
| Accumulated depreciation at 31 December 2008 | 0                           | -949                    |   | -949  |
| Net book amount at 31 December 2008          | 0                           | 200                     | 3 350   | 3 550 |

In 2008, L&T purchased an industrial hall in Merikarvia, Finland, acquired under a lease agreement.

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 currently under construction. 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.

Contractual commitments related to property, plant and equipment totalled EUR 10,868 thousand. No impairment losses on property, plant and equipment were recognised.

## 2007

| EUR 1000  | Land  | Buildings and constructions | Machinery and equipment | Other | Advance payments and construction in progress | Total    |
|---|-------|-----------------------------|-------------------------|-------|---|----------|
| Opening net book amount                             | 3 215 | 55 366                      | 198 055                 | 263   | 2 013   | 258 912  |
| Exchange differences                                |       | -8                          | -61                     |       | 2   | -67      |
| Additions   | 264   | 1 557                       | 29 653                  | 3     | 8 670   | 40 147   |
| Business acquisitions                               | 420   | 1 866                       | 3 288                   |       |   | 5 574    |
| Disposals   | -329  | -1 965                      | -4 180                  |       |   | -6 474   |
| Transfers between items                             | -38   | 2 817                       | 2 943                   | -95   | -5 855  | -228     |
| Closing net book amount                             | 3 532 | 59 633                      | 229 698                 | 171   | 4 830   | 297 864  |
| Accumulated depreciation at 1 January 2007          |       | -17 127                     | -107 658                | -89   |   | -124 874 |
| Exchange differences                                |       | 4                           | 9                       |       |   | 13       |
| Accumulated depreciation on disposals and transfers |       | 628                         | 3 750                   |       |   | 4 378    |
| Depreciation charges                                |       | -3 544                      | -21 967                 |       |   | -25 511  |
| Accumulated depreciation at 31 December 2007        |       | -20 039                     | -125 866                | -89   |   | -145 994 |
| Net book amount at 31 December 2007                 | 3 532 | 39 594                      | 103 832                 | 82    | 4 830   | 151 870  |

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

| EUR 1000                                     | Buildings and constructions | Machinery and equipment | Total |
|--|-----------------------------|-------------------------|-------|
| Opening net book amount                      | 360                         | 1 096                   | 1 456 |
| Additions                                    |                             | 70                      | 70    |
| Closing net book amount                      | 360                         | 1 166                   | 1 526 |
| Accumulated depreciation at 1 January 2007   | -39                         | -563                    | -602  |
| Depreciation charges                         | -18                         | -225                    | -243  |
| Accumulated depreciation at 31 December 2007 | -57                         | -788                    | -845  |
| Net book amount at 31 December 2007          | 303                         | 378                     | 681   |

Contractual commitments related to property, plant and equipment totalled EUR 8,646 thousand.

No impairment losses on property, plant and equipment were recognised.



# Group

## 15. Joint ventures

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

**The assets, liabilities, revenues and expenses of the joint ventures included in the consolidated income statement and the balance sheet**

| EUR 1000                   | 2008    | 2007   |
|----------------------------|---------|--------|
| Non-current assets         | 23 285  | 4 213  |
| Current assets             | 4 250   | 2 192  |
| Non-current liabilities    | -3 228  |        |
| Current liabilities        | -16 912 | -5 485 |
| Net assets                 | 7 395   | 920    |
| Revenues*                  | 4 390   | 4 110  |
| Expenses*                  | -3 798  | -8 171 |
| Profit/Loss for the period | 592     | -4 061 |

\* On 1 September 2007 L&T obtained full ownership of joint venture Salvor Oy and it became a subsidiary. As a consequence, revenues and expenses include 50% of Salvor's items until 31 August 2007.

|                                     | 2008 | 2007 |
|-------------------------------------|------|------|
| Average personnel in joint ventures | 8    | 68   |

More details on joint ventures are shown in Note 35 Related-party transactions.

## 16. Investments in associates

| EUR 1000            | 2008 | 2007 |
|---------------------|------|------|
| Cost at 1 January   |      | 3    |
| Additions           |      |      |
| Disposals           |      | -3   |
| Cost at 31 December |      |      |

Rodnik Ltd was sold in 2007.

## 17. Investments in subsidiaries

**Group holding of shares and votes %**

|   |       |
|---|-------|
| Jätehuolto Savon Sähkö Oy, in voluntary liquidation, Helsinki | 100.0 |
| Kanta-Hämeen Ympäristöyhtiö Oy, Helsinki                      | 100.0 |
| Kiinteistö Oy Vantaan Valimotie 33, Helsinki                  | 100.0 |
| KolinaKuljetus Oy, in voluntary liquidation, 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 Hankinta Ky, Helsinki                                     | 100.0 |
| L&T Hygienutveckling AB, Kävlinge, Sweden                     | 100.0 |
| L&T Improvement Oy, Helsinki                                  | 100.0 |
| L&T Inno LLC, St. Petersburg, Russia                          | 100.0 |
| L&T Kalusto Oy, Helsinki                                      | 100.0 |
| L&T Muoviportti Oy, Merikarvia                                | 83.3  |
| L&T Podmoskovie LLC, Dubna, Russia                            | 100.0 |
| L&T Relations Oy, Helsinki                                    | 100.0 |
| L&T Services LLC, Moscow, Russia                              | 100.0 |
| L&T Toimi Oy, Helsinki  | 100.0 |
| L&T Viwaplast Oy, Valkeakoski                                 | 83.3  |
| Outohuolto Oy, in voluntary liquidation, Helsinki             | 100.0 |
| Salvor Oy, Helsinki   | 100.0 |
| SIA L&T, Riga, Latvia   | 100.0 |
| SuolaSiivo Oy, in voluntary liquidation, Helsinki             | 100.0 |
| Suomen Keräystuote Oy, Helsinki                               | 100.0 |
| Tabletti Kliinerit Oy, in voluntary liquidation, Helsinki     | 100.0 |
| The Russian-Finnish Company Ecosystem LLC, Dubna, Russia      | 74.0  |

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

| EUR 1000                       | 2008 | 2007   |
|--------------------------------|------|--------|
| Carrying amount at 1 January   | 410  | 2 954  |
| Additions                      | 100  | 35     |
| Business acquisitions          |      | 139    |
| Disposals                      | -8   | -179   |
| Transfers between items        |      | -2 539 |
| Carrying amount at 31 December | 502  | 410    |

Non-current available-for-sale investments include unlisted shares. Non-current available-for-sale investments arising from business acquisitions have been sold immediately after the acquisition date.

In the financial statements for the year 2007, the carrying amount, EUR 2,542 thousand, of Ekokem Oy Ab's shares was transferred into current available-for-sale investments.

**19. Finance lease receivables**

| EUR 1000   | 2008  | 2007  |
|--|-------|-------|
| <b>Maturity of minimum lease payments</b>                  |       |       |
| Not later than one year                                    | 2 039 | 1 635 |
| Later than one year and not later than five years          | 5 317 | 4 288 |
| Later than five years                                      | 373   | 304   |
| Gross investment in finance lease agreements               | 7 729 | 6 227 |
| <b>Maturity of present value of minimum lease payments</b> |       |       |
| Not later than one year                                    | 1 952 | 1 564 |
| Later than one year and not later than five years          | 4 442 | 3 615 |
| Later than five years                                      | 252   | 208   |
| Total present value of minimum lease payments              | 6 646 | 5 387 |
| Unearned finance income                                    | 1 083 | 840   |
| Gross investment in finance lease agreements               | 7 729 | 6 227 |

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.

**20. Inventories**

| EUR 1000                      | 2008   | 2007   |
|-------------------------------|--------|--------|
| Raw materials and consumables | 9 698  | 6 017  |
| Finished goods                | 6 544  | 7 228  |
| Other inventories             | 2 585  | 1 105  |
| Total                         | 18 827 | 14 350 |

Cost of inventory recognised as an expense under cost of sales in the income statement, totalled EUR 29,821 thousand (EUR 29,421 thousand).

EUR 0.2 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.

**21. Trade and other receivables**

| EUR 1000                            | 2008   | 2007   |
|-------------------------------------|--------|--------|
| Trade receivables                   | 61 911 | 62 044 |
| Current finance lease receivables   | 1 952  | 1 564  |
| Loan receivables                    | 231    | 135    |
| Accruals                            | 6 501  | 6 660  |
| Tax receivables                     | 2 737  | 80     |
| Other receivables                   | 1 302  | 1 341  |
| Total                               | 74 634 | 71 824 |
| Accruals include the following:     |        |        |
| Interest                            | 252    | 229    |
| Employees' health care compensation | 1 598  | 1 811  |
| Statutory pension insurances        | 495    | 883    |
| Insurances                          | 371    | 412    |
| Indirect tax                        | 2 978  | 1 425  |
| Other                               | 807    | 1 900  |
| Total                               | 6 501  | 6 660  |

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.

**22. Current available-for-sale investments**

| EUR 1000  | 2008   | 2007   |
|---|--------|--------|
| Certificates of deposit                                   | 20 368 | 4 487  |
| Unlisted shares   |        | 16 800 |
| Total   | 20 368 | 21 287 |
| At 1 January  | 21 287 | 13 955 |
| Transfer from non-current available for sales investments |        | 2 542  |
| Additions/disposals                                       | -958   | -9 457 |
| Changes in fair values transferred into equity            | 39     | 14 247 |
| At 31 December  | 20 368 | 21 287 |

Gains of EUR 14,458 thousand (EUR 234 thousand) were transferred from the equity to the income statement in 2008.

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.

In the financial statements for the year 2007, the shares of Ekokem Oy Ab were transferred from non-current available-for-sale investments into current available-for-sale investments. The shares were sold in January 2008 and, consequently, they could be recognised at fair value. As of the beginning of the year 2008, Ekokem's tax status changed and it became an ordinary company paying tax. The trading prices of the shares that were previously available were equivalent to the book values in L&T's accounts.

## 23. Cash and cash equivalents

| EUR 1000                  | 2008  | 2007  |
|---------------------------|-------|-------|
| Cash on hand and in banks | 4 349 | 5 521 |
| Short-term deposits       | 1 800 | 4 000 |
| Total                     | 6 149 | 9 521 |

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

Liquid assets in the consolidated cash flow statement include the following:

| EUR 1000                | 2008   | 2007   |
|-------------------------|--------|--------|
| Cash                    | 6 149  | 9 521  |
| Certificates of deposit | 20 368 | 4 487  |
| Total                   | 26 517 | 14 008 |

## 24. Equity

### Share capital and share premium reserve

| EUR 1000                               | Number of shares<br>in 1,000 shares | Share capital | Share premium<br>reserve | Total  |
|--|-------------------------------------|---------------|--------------------------|--------|
| At 1 January 2008                      | 38 784                              | 19 392        | 50 474                   | 69 866 |
| At 14 February 2008                    |                                     |               |                          |        |
| Subscription pursuant to 2005A options | 13                                  | 6             | 172                      | 178    |
| At 7 August 2008                       |                                     |               |                          |        |
| Subscription pursuant to 2005A options | 2                                   | 1             | 27                       | 28     |
| At 31 December 2008                    | 38 799                              | 19 399        | 50 673                   | 70 072 |
| At 1 January 2007                      | 38 528                              | 19 264        | 47 666                   | 66 930 |
| At 14 February 2007                    |                                     |               |                          |        |
| Subscription pursuant to 2002C options | 21                                  | 11            | 236                      | 247    |
| At 15 May 2007                         |                                     |               |                          |        |
| Subscription pursuant to 2002C options | 166                                 | 83            | 1 823                    | 1 906  |
| At 9 August 2007                       |                                     |               |                          |        |
| Subscription pursuant to 2002C options | 36                                  | 18            | 390                      | 408    |
| At 15 November 2007                    |                                     |               |                          |        |
| Subscription pursuant to 2002C options | 33                                  | 16            | 359                      | 375    |
| At 31 December 2007                    | 38 784                              | 19 392        | 50 474                   | 69 866 |

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 schemes resolved under this act (2002 and 2005) are recognised in equity and in share premium in accordance with the terms and conditions of the schemes.

### 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 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.

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 1000                                 | 2008    | 2007    |
|--|---------|---------|
| Equity in the consolidated balance sheet | 205 038 | 202 344 |
| Balance sheet total                      | 477 685 | 438 325 |
| Current advances received                | -2 823  | -3 632  |
| Non-current advances received            | -166    | -114    |
| Total                                    | 474 696 | 434 579 |
| Equity ratio, %                          | 43.2%   | 46.6%   |

The equity ratio has remained at a high level, but declined slightly, as a result of growth in interest-bearing liabilities. The gross capital expenditure totalled EUR 84.2 million. EUR 2.2. million were released from the working capital. The amount of net cash generated from operating activities improved from the previous year.

Covenants for long-term bank borrowings are shown in Note 28 Borrowings.

## 25. 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 | Exercise period     | Exercise price EUR/share | Number of shares to be subscribed for at 31 Dec. 2008 | Number of shares to be subscribed for at 31 Dec. 2007 | End of vesting period |
|--------|---------------------|--------------------------|---|---|-----------------------|
| 2005A  | 2.11.2007–29.5.2009 | 14.22                    | 147 500   | 162 000   | 2.11.2007             |
| 2005B  | 3.11.2008–31.5.2010 | 16.98                    | 176 000   | 178 000   | 3.11.2008             |
| 2005C  | 2.11.2009–31.5.2011 | 26.87                    | 221 500   | 228 500   | 2.11.2009             |
| 2008   | 1.11.2010–31.5.2012 | 16.27                    | 220 500   |   | 1.11.2010             |
| Total  |                     |                          | 765 500   | 568 500   |                       |

### Amounts and average exercise prices of outstanding option rights

|                                 | 2008                                      |                   | 2007                                      |                   |
|---------------------------------|---|-------------------|---|-------------------|
|                                 | Weighted average exercise price EUR/share | Number of options | Weighted average exercise price EUR/share | Number of options |
| Beginning of year               | 20.17                                     | 568 500           | 13.93                                     | 611 300           |
| New options granted             | 16.27                                     | 226 500           | 26.87                                     | 230 000           |
| Forfeited options               | 21.31                                     | -15 000           | 17.88                                     | -16 500           |
| Exercised options               | 14.22                                     | -14 500*          | 11.46                                     | -256 200*         |
| Expired options                 |   |                   | 11.46                                     | -100              |
| End of year                     | 20.17                                     | 765 500           | 20.17                                     | 568 500           |
| Options exercisable at year end | 15.72                                     | 323 500           | 14.22                                     | 162 000           |

\* In 2008, 2005A options were exercised to subscribe for 14,500 shares.  
In 2007, 2002C options were exercised to subscribe for 256,200 shares.

The weighted average share price of the exercise dates of shares subscribed for pursuant to share options in 2008 was EUR 19.13 (EUR 25.81). The proceeds from the subscriptions totalled EUR 206 thousand, of which EUR 7 thousand was recognised in share capital and EUR 199 thousand in share premium reserve (total EUR 2,936 thousand, of which EUR 128 thousand was recognised in share capital and EUR 2,808 thousand in share premium reserve). Changes in equity are presented in Note 24 Equity.

### 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 has 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 2008, a maximum of 765,500 new shares may be subscribed for, which is 2% of the current number of shares. As a result of these subscriptions, the share capital may increase by a maximum of EUR 382,750.

## Option scheme 2005

The Annual General Meeting of 2005 decided to issue 600,000 share options to key personnel of the Lassila & Tikanoja Group. At the beginning of the exercise period, 25 key persons held 162,000 2005A options. A total of 170,000 2005A options were issued, but 8,000 options are held by L&T Advance Oy, a wholly-owned subsidiary of Lassila & Tikanoja plc, and these options will not be exercised. At the beginning of the exercise period, 32 key persons held 176,000 2005B options and 40 key persons held 221,500 2005C options. L&T Advance Oy holds 24,000 2005B options and 8,500 2005C options.

The share subscription price for 2005A options is EUR 14.22, for 2005B options EUR 16.98 and for the 2005C options EUR 26.87.

As a result of the exercise of the outstanding 2005 share options at 31 December 2008, the share capital of the company may increase by a maximum of EUR 272,500 and the number of shares issued by Lassila & Tikanoja plc may increase by a maximum of 545,000 new shares which is 1.4% of the current number of shares.

2005A options have been listed on NASDAQ OMX Helsinki since 2 November 2007 and 2005B options since 2 January 2009.

## Option scheme 2008

The Annual General Meeting of the year 2008 resolved to issue a maximum of 230,000 share options. 41 key persons hold 220,500 options. L&T Advance Oy, a wholly-owned subsidiary of Lassila & Tikanoja plc, holds 9,500 options to be granted at a later date to the present and future key personnel. The exercise price of the 2008 share options is the trading volume weighted average price of the company's share on the NASDAQ OMX Helsinki in May 2008, rounded off to the nearest cent (EUR 16.27). The exercise price of the share options shall, 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. However, only such dividends whose distribution has been agreed upon after the option pricing period and which have been distributed prior to the share subscription are deducted from the subscription price. The exercise price shall, however, always amount to at least EUR 0.01. The exercise price shall be recognised in the invested non-restricted equity reserve.

As a result of the exercise of the 2008 share options, the number of shares issued by Lassila & Tikanoja plc may increase by a maximum of 230,000 new shares which is 0.6% of the current number of shares.

## 26. 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 1000  | 2008  | 2007 |
|---|-------|------|
| <b>The amounts recognised in the balance sheet:</b>                   |       |      |
| Present value of funded obligations                                   | 516   | 565  |
| Fair value of plan assets   | -436  | -475 |
|   | 80    | 90   |
| Present value of unfunded obligations                                 | 531   | 422  |
| Unrecognised actuarial gain (+) and loss (-)                          | 63    | 30   |
| Closing net liability   | 674   | 542  |
| <b>Changes in present value of obligation</b>                         |       |      |
| Opening defined benefit obligation                                    | 987   | 560  |
| Current service cost  | 158   | 202  |
| Interest cost   | 55    | 31   |
| Actuarial gain (-) and loss (+) on obligation                         | -125  | 209  |
| Benefits paid   | -28   | -15  |
| Closing present value of obligation                                   | 1 047 | 987  |
| <b>Changes in fair value of plan assets</b>                           |       |      |
| Opening fair value of plan assets                                     | 475   | 194  |
| Expected return on plan assets  | 19    | 8    |
| Employee contributions  | 33    | 37   |
| Actuarial gain (+) and loss (-) on plan assets                        | -61   | 251  |
| Benefits paid   | -28   | -15  |
| Closing fair value of plan assets                                     | 438   | 475  |
| <b>Movements in the net liability recognised in the balance sheet</b> |       |      |
| Opening net liability   | 542   | 352  |
| Expense recognised in the income statement                            | 165   | 227  |
| Contributions paid  | -33   | -37  |
| Closing net liability   | 674   | 542  |
| <b>The amounts recognised in the income statement are as follows:</b> |       |      |
| Current service cost  | 158   | 202  |
| Interest cost   | 55    | 31   |
| Expected return on plan assets  | -19   | -8   |
| Actuarial gain (-) and loss (+) recognised                            | -29   | 2    |
| Total   | 165   | 227  |

The return on plan assets was EUR -42 thousand in 2008 (EUR 259 thousand).

Expected contributions to post-employment benefit plans for the year 2009 are EUR 93 thousand.

| EUR 1000  | 2008  | 2007 | 2006 |
|---|-------|------|------|
| <b>The amounts for the period and for two preceding periods are as follows:</b> |       |      |      |
| Present value of obligation   | 1 047 | 987  | 560  |
| Fair value of plan assets   | -436  | -475 | -194 |
| Deficit   | 611   | 512  | 366  |
| Actuarial gain (+) / loss (-) on plan assets due to experience adjustments      |       |      |      |
|   | -61   | 251  | -11  |
| Actuarial gain (+) / loss (-) on obligation due to experience adjustments       |       |      |      |
|   | -15   | -265 | 16   |
| <b>The principal actuarial assumptions used</b>                                 |       |      |      |
| Discount rate   | 6.0%  | 4.9% |      |
| Expected rate of inflation  | 2.0%  | 2.0% |      |
| Expected rate of return on plan assets  | 4.5%  | 4.0% |      |
| Rate of salary increase   | 4.5%  | 4.5% |      |

## 27. Provisions

| EUR 1000                       | Environmental provisions | Other provisions | Total |
|--------------------------------|--------------------------|------------------|-------|
| Provisions at 1 January 2008   | 953                      | 102              | 1 055 |
| Additional provisions          | 767                      |                  | 767   |
| Used during the year           |                          | -88              | -88   |
| Effect of discounting          | 21                       |                  | 21    |
| Provisions at 31 December 2008 | 1 741                    | 14               | 1 755 |

| EUR 1000               | 2008  | 2007  |
|------------------------|-------|-------|
| Non-current provisions | 1 741 | 953   |
| Current provisions     | 14    | 102   |
| Total                  | 1 755 | 1 055 |

The environmental provision covers the following obligations: The Group has leased from the Cities of Kerava and Kotka sites that it uses as landfills. The Group is responsible for site restoration at the expiry of the leases.

In Varkaus the Group uses a site for intermediate storing, processing and final disposal of contaminated soil. In accordance with the agreement on the operation, the Group is responsible for the restoration of the site.

The site restoration provision for the landfill in Kerava has been divided into two parts. 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 part 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 part of the provision is calculated on the basis of the tonnage taken to the landfill.

The site restoration provision for the landfill in Kotka is treated applying the same principle as to the provision for Kerava. The construction expenditure is recognised at present value in the balance sheet as a part of the cost of the site. During 2008, the

Group started to apply the accrual method to the depreciations on new landfills, and the Kotka landfill will be depreciated unlike Kerava on the basis of the volume of the waste taken to the site. A provision for post-closure environmental monitoring including taking samples and their analyses required in the terms and conditions of the environmental permit has been recognised for the Kotka landfill. This provision is treated applying the same principle as to the provision for Kerava and will be depreciated using the straight-line method. Future expenditure is measured at the price level of the time of calculation adjusted by an annual inflation rate of 3%.

The same principle as above has been applied to the restoration provision of the processing and final disposal site of contaminated soil in Varkaus. It is depreciated using the straight-line method.

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.

The Group has a non-cancellable lease related to premises that the Group is unable to utilise in its operations. The Group endeavours to sublease the premises but they remain vacant for the time being. The provision for onerous lease contracts covers the associated losses completely until the expiry of the lease. A discount rate of 3.3% has been used for the determination of its present value.

## 28. Borrowings

| EUR 1000                                      | 2008<br>Carrying amount | 2007<br>Carrying amount |
|---|-------------------------|-------------------------|
| <b>Non-current</b>                            |                         |                         |
| Bank borrowings and pension institution loans | 91 520                  | 73 108                  |
| Finance lease liabilities                     | 3 279                   | 461                     |
| Acquisition price liabilities                 | 7 688                   | 7 842                   |
| Total   | 102 487                 | 81 411                  |
| <b>Current</b>                                |                         |                         |
| Repayments of long-term borrowings            | 28 556                  | 15 554                  |
| Repayments of finance lease liabilities       | 219                     | 224                     |
| Short-term borrowings                         | 15 500                  | 3 700                   |
| Commercial papers                             |                         | 15 927                  |
| Other interest-bearing liabilities            | 294                     | 352                     |
| Total   | 44 569                  | 35 757                  |

Fair values of financial liabilities are presented in Note 31 Financial assets and liabilities by measurement categories.

### Maturity of long-term borrowings

| EUR 1000                                      | 2009   | 2010   | 2011   | 2012   | 2013   | 2014<br>and later | Total   |
|---|--------|--------|--------|--------|--------|-------------------|---------|
| Bank borrowings and pension institution loans | 28 556 | 16 193 | 16 194 | 16 193 | 21 746 | 21 194            | 120 076 |
| Finance lease liabilities                     | 219    | 184    | 137    | 147    | 157    | 2 654             | 3 498   |
| Total   | 28 775 | 16 377 | 16 331 | 16 340 | 21 903 | 23 848            | 123 574 |

The average duration of long-term borrowings at 31 December 2008 was 3.2 years (2.7 years) and the weighted average of effective interest rates 5.11% (5.15%).

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 have not been even close to breaching during 2008 and 2007.

**Finance lease liabilities**

| EUR 1000   | 2008  | 2007 |
|--|-------|------|
| Maturity of minimum lease payments                   |       |      |
| Not later than one year                              | 456   | 233  |
| Later than one year and not later than five years    | 1 477 |      |
| Later than five years                                | 3 896 | 504  |
| Total minimum lease payments                         | 5 829 | 737  |
| Maturity of present values of minimum lease payments |       |      |
| Not later than one year                              | 219   | 224  |
| Later than one year and not later than five years    | 625   |      |
| Later than five years                                | 2 654 | 461  |
| Total present value of minimum lease payments        | 3 498 | 685  |
| Future finance costs                                 | 2 331 | 52   |
| Total finance lease liabilities                      | 5 829 | 737  |

The most significant finance lease agreement is 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 currently under construction. 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.

**29. Other non-current liabilities**

| EUR 1000                             | 2008  | 2007 |
|--------------------------------------|-------|------|
| Accrued expenses and deferred income | 675   | 201  |
| Advances received                    | 166   | 114  |
| Other liabilities                    | 242   | 185  |
| Total                                | 1 083 | 500  |

**30. Trade and other current payables**

| EUR 1000                                    | 2008   | 2007   |
|---|--------|--------|
| Advances received                           | 2 823  | 3 632  |
| Trade payables                              | 21 437 | 23 401 |
| Other liabilities                           | 17 368 | 16 430 |
| Accrued expenses and deferred income        | 46 670 | 41 720 |
| Total                                       | 88 298 | 85 183 |
| <b>Accrued expenses and deferred income</b> |        |        |
| Liabilities related to personnel expenses   | 37 655 | 33 686 |
| Waste charges                               | 3 502  | 3 620  |
| Interest liabilities                        | 1 561  | 1 523  |
| Other accrued expenses                      | 3 952  | 2 891  |
| Total                                       | 46 670 | 41 720 |

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



## 31. Financial assets and liabilities by measurement categories

| 2008                                     | Financial assets/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 |
|--|---|-----------------------------|-------------------------------------|--|------------------------------------|--|-----------------------------------|
| EUR 1000                                 |   |                             |                                     |  |                                    |  |                                   |
| <b>Non-current financial assets</b>      |   |                             |                                     |  |                                    |  |                                   |
| Available-for-sale investments           |   |                             | 502                                 |  |                                    | 502                                    | 502                               |
| Finance lease receivables                |   | 4 694                       |                                     |  |                                    | 4 694                                  | 4 968                             |
| Other receivables                        |   | 689                         |                                     |  |                                    | 689                                    | 689                               |
| <b>Current financial assets</b>          |   |                             |                                     |  |                                    |  |                                   |
| Trade and other receivables              |   | 65 396                      |                                     |  |                                    | 65 396                                 | 65 396                            |
| Derivative receivables                   | 112   |                             |                                     |  |                                    | 112                                    | 112                               |
| Available-for-sale investments           |   |                             | 20 368                              |  |                                    | 20 368                                 | 20 368                            |
| Cash and cash equivalents                |   | 6 149                       |                                     |  |                                    | 6 149                                  | 6 149                             |
| Total financial assets                   | 112   | 76 928                      | 20 870                              |  |                                    | 97 910                                 | 98 184                            |
| <b>Non-current financial liabilities</b> |   |                             |                                     |  |                                    |  |                                   |
| Borrowings                               |   |                             |                                     | 102 487  |                                    | 102 487                                | 102 189                           |
| Other liabilities                        |   |                             |                                     | 917  |                                    | 917                                    | 917                               |
| <b>Current financial liabilities</b>     |   |                             |                                     |  |                                    |  |                                   |
| Borrowings                               |   |                             |                                     | 44 569   |                                    | 44 569                                 | 44 714                            |
| Trade and other payables                 |   |                             |                                     | 47 820   |                                    | 47 820                                 | 47 820                            |
| Derivative liabilities                   |   |                             |                                     |  | 610                                | 610                                    | 610                               |
| Total financial liabilities              |   |                             |                                     | 195 793  | 610                                | 196 403                                | 196 250                           |
| <b>2007</b>                              |   |                             |                                     |  |                                    |  |                                   |
| EUR 1000                                 | Financial assets/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 |
| <b>Non-current financial assets</b>      |   |                             |                                     |  |                                    |  |                                   |
| Available-for-sale investments           |   |                             | 410                                 |  |                                    | 410                                    | 410                               |
| Finance lease receivables                |   | 3 823                       |                                     |  |                                    | 3 823                                  | 3 827                             |
| Other receivables                        |   | 236                         |                                     |  |                                    | 236                                    | 236                               |
| <b>Current financial assets</b>          |   |                             |                                     |  |                                    |  |                                   |
| Trade and other receivables              |   | 65 084                      |                                     |  |                                    | 65 084                                 | 65 084                            |
| Derivative receivables                   | 486   |                             |                                     |  | 703                                | 1 189                                  | 1 189                             |
| Available-for-sale investments           |   |                             | 21 287                              |  |                                    | 21 287                                 | 21 287                            |
| Cash and cash equivalents                |   | 9 521                       |                                     |  |                                    | 9 521                                  | 9 521                             |
| Total financial assets                   | 486   | 78 664                      | 21 697                              |  | 703                                | 101 550                                | 101 554                           |
| <b>Non-current financial liabilities</b> |   |                             |                                     |  |                                    |  |                                   |
| Borrowings                               |   |                             |                                     | 81 411   |                                    | 81 411                                 | 81 380                            |
| Other liabilities                        |   |                             |                                     | 386  |                                    | 386                                    | 386                               |
| <b>Current financial liabilities</b>     |   |                             |                                     |  |                                    |  |                                   |
| Borrowings                               |   |                             |                                     | 35 757   |                                    | 35 757                                 | 35 757                            |
| Trade and other payables                 |   |                             |                                     | 47 865   |                                    | 47 865                                 | 47 865                            |
| Derivative liabilities                   | 897   |                             |                                     |  |                                    | 897                                    | 897                               |
| Total financial liabilities              | 897   |                             |                                     | 165 419  |                                    | 166 316                                | 166 285                           |

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 liabilities related to statutory obligations, 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. The unquoted equity instruments whose fair values are not available due to inactive markets, are measured at acquisition cost. The certificates of deposit 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 foreign currency forward contracts are measured at market prices for contracts of similar maturity at the balance sheet date. 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 of oil futures are based on market prices at the balance sheet date. Fair values of oil put options are determined on the basis of a generally used valuation model. 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.

## 32. Derivative financial instruments

### Interest rate derivatives

| EUR 1000  | 2008          |            | 2007          |            |
|---|---------------|------------|---------------|------------|
|   | Nominal value | Fair value | Nominal value | Fair value |
| <b>Maturity of interest rate swaps held for trading</b> |               |            |               |            |
| Not later than one year                                 | 15 000        |            | 7 500         |            |
| Later than one year and not later than five years       |               |            | 15 000        |            |
| Total   | 15 000        | 112        | 22 500        | 394        |

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 not been applied but the changes in fair values have been recognised in finance income and costs.

| EUR 1000  | Nominal value | Fair value | Nominal value | Fair value |
|---|---------------|------------|---------------|------------|
| <b>Maturity of interest rate swaps under hedge accounting</b> |               |            |               |            |
| Not later than one year                                       | 4 629         |            | 3 029         |            |
| Later than one year and not later than five years             | 20 914        |            | 18 514        |            |
| Later than five years   | 5 000         |            | 12 028        |            |
| Total   | 30 543        | -610       | 33 571        | 703        |

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 to these items, and the hedges have been effective. The changes in their fair values have been fully recognised in the equity hedging reserve (revaluation reserve) and are transferred to the income statement under finance costs and income when the borrowings reach maturity.

The fixed interest rates of the interest rate swaps at 31 December 2008 varied between 2.65% and 4.306% (2.65%–4.306%). The floating interest rate was 6-month Euribor.

### Foreign currency derivatives

| EUR 1000  | Nominal value | Fair value |
|---|---------------|------------|
| <b>Maturity of forward contracts held for trading</b> |               |            |
| Not later than one year                               | 2 184         | 7          |

Loans granted to the foreign subsidiaries in their functional currency were hedged against foreign exchange risk by foreign currency forward contracts.

### Oil derivatives

|  | Volume<br>1000 bbl | Fair value<br>EUR 1000 |
|--|--------------------|------------------------|
| <b>Maturity of crude oil put options held for trading</b>  |                    |                        |
| Not later than one year                                    | 182                |                        |
| Later than one year and not later than five years          | 226                |                        |
| Total  | 408                | 83                     |
| <b>Maturity of sold crude oil futures held for trading</b> |                    |                        |
| Not later than one year                                    | 42                 | -897                   |

Oil derivatives were entered into in order to hedge against the base oil price risk associated with the re-refinery under construction for the joint venture L&T Recoil. Hedge accounting under IAS 39 was not applied but the changes in fair values were recognised in other operating income and expenses. All oil derivatives were sold in late 2008.

The fair values of all derivative contracts, foreign currency forward contracts and crude oil futures are based on market prices at the balance sheet date. The fair values of the crude oil put options were determined on the basis of a generally used valuation model.

**33. Operating leases**

| EUR 1000  | 2008   | 2007   |
|---|--------|--------|
| <b>Maturity of minimum lease payments of non-cancellable operating leases</b> |        |        |
| Not later than one year   | 7 459  | 7 424  |
| Later than one year and not later than five years                             | 16 051 | 15 611 |
| Later than five years   | 7 281  | 3 905  |
| Total minimum lease payments  | 30 791 | 26 940 |

The Group has leased a part of the production and office premises, office equipment and vehicles. The lease terms of non-cancellable premise leases are between three and eight years in general, and usually they include a renewal option. The Group has leased land to be used for storing at production plants. The terms of the lease agreements are in accordance with terms generally used. Lease payments under each lease are based on fixed unit price per square meter and in general they are tied to the consumer price index.

The income statement of 2008 includes lease expenses arising from other leases EUR 13,461 thousand (EUR 11,367 thousand).

**34. Notes to the cash flow statement**

| EUR 1000   | 2008    | 2007   |
|--|---------|--------|
| <b>Adjustments to cash flows from operating activities</b>                                 |         |        |
| Taxes  | 10 724  | 12 291 |
| Depreciation, amortisation and impairment  | 40 985  | 33 432 |
| Finance income and costs   | 4 806   | 4 317  |
| Imputed changes in the fair values of oil derivatives                                      | -2 221  | 2 947  |
| Profit on sale of shares   | -14 258 |        |
| Profit/loss on sales of equipment  | 573     | -525   |
| Discontinued operations  | 2 616   |        |
| Provisions   | 244     | -27    |
| Other  | -373    | -307   |
| Total  | 43 096  | 52 128 |
| <b>Effect of subsidiaries and businesses disposed of on the Group's financial position</b> |         |        |
| Property, plant and equipment  | 35      | 1 053  |
| Goodwill and other intangible assets   | 1 054   | 951    |
| Inventories  | 7       | 391    |
| Trade and other receivables  | 206     |        |
| Trade and other payables   | -48     |        |
| Cash and cash equivalents  | 127     |        |
| Total assets and liabilities   | 1 381   | 2 395  |
| Received in cash   | 150     | 1 878  |
| Cash and cash equivalents in entities disposed of  | -127    |        |
| Net cash flow arising from disposals   | 23      | 1 878  |

The 50 percent holding in the joint venture Blue Service Partners Oy was sold in February 2008. Neither goodwill nor other intangible assets were allocated to the joint venture.

In December the business operations in Norway included in the Swedish subgroup were disposed of. The 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.

These components of entity do not meet the criteria of presenting discontinued operations specified in IFRS 5.31-32.

**35. Related-party transactions**

Lassila & Tikanoja Group has related-party relationships with its joint ventures and top management. The Group had no associates in 2007 and 2008.

**Transactions and balances with joint ventures**

| EUR 1000                | 2008  | 2007  |
|-------------------------|-------|-------|
| Sales                   | 990   | 1 851 |
| Purchases               |       | 247   |
| Interest income         | 202   |       |
| Non-current receivables |       |       |
| Capital loan receivable | 8 396 | 2 646 |
| Current receivables     |       |       |
| Trade receivables       | 62    | 110   |
| Loan receivables        | 202   |       |

Transactions with joint ventures are carried out at fair market price.

The interest rate of the joint venture L&T Recoil Oy's subordinated loans of EUR 1,296 thousand and of EUR 1,350 thousand was 7.421% p.a. at 31 December 2007. Interest on the loans will be paid if the joint venture has any distributable assets in its balance sheet. In 2008, four new subordinated loans were granted to L&T Recoil Oy: EUR 1,000 thousand with an interest rate of 7.169% p.a. at 31 December 2008, EUR 1,750 thousand with an interest rate of 6.262% p.a., EUR 2,250 thousand with an interest rate of 7.156% p.a. and EUR 750 thousand with an interest rate of 6.17% p.a. The first payments of interest on these loans will be made on 30 April 2009, if the amount of the company's unrestricted equity and the subordinated loans exceeds the loss in the balance sheet.

The parent company of the Group is committed to invest in joint venture L&T Recoil Oy as share capital and equity loans 50% of the amount that fulfils the solvency covenant of financial contracts.

The parent company of the Group has provided absolute guarantee for L&T Recoil Oy's credit limits amounting to EUR 40,000 thousand. The guarantee covers 50% of the amount of the credit limits in use.

In 2007 the Group obtained the full ownership of Salvor Oy, which had previously been a joint venture.

The Group's share of investment commitments of the joint ventures was EUR 972 thousand at 31 December 2008 (EUR 5,090 thousand).

## Employee benefits of top management

| EUR 1000  | 2008         | 2007         |
|---|--------------|--------------|
| Salaries and other short-term employee benefits | 1 244        | 1 444        |
| Post-employment benefits                        | 30           | 27           |
| Share-based payment (share options)             | 5            | 1 480        |
| <b>Total</b>                                    | <b>1 279</b> | <b>2 951</b> |

Top management consists of the members of the Board of Directors, President and CEO and Group Executives. An expense of EUR 347 thousand (EUR 271 thousand) was recognised in the income statement as the top managements' share of the share-based payment.

## Salaries and remunerations paid to members of the Board of Directors

| EUR 1000   | 2008 | 2007 |
|--|------|------|
| Juhani Majjala, Chairman                               | 46   | 44   |
| Juhani Lassila, Vice Chairman                          | 31   | 29   |
| Heikki Bergholm  | 26   |      |
| Eero Hautaniemi  | 26   | 25   |
| Matti Kavetvuo   | 26   |      |
| Lasse Kurkilahti                                       | 26   | 25   |
| Soili Suonoja, former member of the Board of Directors |      | 25   |

In 2008, the salaries paid to the President and CEO totalled EUR 335 thousand, including salaries and benefits only (EUR 878 thousand, including salaries and benefits EUR 292 thousand, bonuses EUR 129 thousand and benefits from exercising share option rights EUR 457 thousand).

The salaries of the other Group Executives totalled EUR 734 thousand, which included salaries and benefits EUR 704 thousand, bonuses EUR 25 thousand and benefits from exercising share option rights EUR 5 thousand (EUR 1,900 thousand, including salaries and benefits EUR 628 thousand, bonuses EUR 249 thousand and benefits from exercising share option rights EUR 1,023 thousand). The figures include salaries for the period during which the persons in question held an executive position.

The members of the Board of Directors have no pension contracts with the company. The President and CEO has a defined benefit pension contract, according to which he may choose to retire at the age of sixty. In 2008, an expense of EUR 30 thousand arising from that contract was recognised in the income statement (EUR 27 thousand). The amount of the pension is less than the full amount of pension under the Employeers' Pensions Act.

The members of the Board are not included in the share option plans.

The President and CEO and the Group Executives were granted 73,500 2008 options on 5 June 2008 (88,500 2005C options in 2007). The composition of the Group Executives changed on 3 November 2008. At 31 December 2008, the President and CEO and the present Group Executives held a total of 302,000 options, of which 149,000 were exercisable (at 31 December 2007 247,350 options, of which 76,850 were exercisable).

No loans were granted and no guarantees nor other securities given to persons belonging to the related parties.

## 36. Auditing costs

| EUR 1000  | PWC*       | Other companies | Total      |
|---|------------|-----------------|------------|
| <b>2008</b>   |            |                 |            |
| Auditing  | 176        | 27              | 203        |
| Other assignments in accordance with the auditing act | 9          |                 | 9          |
| Tax consulting services                               | 10         |                 | 10         |
| Other services  | 47         |                 | 47         |
| <b>Total</b>  | <b>242</b> | <b>27</b>       | <b>269</b> |
| <b>2007</b>   |            |                 |            |
| Auditing  | 181        | 20              | 201        |
| Other assignments in accordance with the auditing act | 2          |                 | 2          |
| Tax consulting services                               | 22         |                 | 22         |
| Other services  | 72         |                 | 72         |
| <b>Total</b>  | <b>277</b> | <b>20</b>       | <b>297</b> |

\* PricewaterhouseCoopers chain

## 37. Contingent liabilities

| EUR 1000   | 2008   | 2007   |
|--|--------|--------|
| <b>Collaterals for own commitments</b>             |        |        |
| Real estate mortgages                              | 10 192 | 10 114 |
| Company mortgages                                  | 10 460 | 15 000 |
| Other securities                                   | 200    | 182    |
| Bank guarantees required for environmental permits | 4 126  | 4 309  |

Real estate mortgages are mainly collaterals given to a bank by joint venture L&T Recoil. The object of the mortgages is the refinery plant being under construction.

The Group has given no pledges, mortgages or guarantees on behalf of outsiders.

### 38. 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 hedge against significant financial risks and strive to reduce the effects of the unfavourable fluctuations in the financial market on the Group's result.

Financial risk management is controlled by a financing group consisting of the CEO, CFO and Finance Director. The financing group reviews reports of financial risks monthly and approves the actions required on this basis. The Group's financing is handled centrally at the Group's financial administration managed by the CFO. Transactions related to financial risk management are also carried out by Group's financial administration. Oil derivative contracts in L&T Recoil's name are, however, entered into by the joint venture partner, which engages in international oil trade.

#### Foreign exchange risk

L&T comprises the parent operating in Finland and subsidiaries operating in Finland, Sweden, Latvia, Russia and until the end of 2008 in Norway. The functional and reporting currency of the parent company and Finnish subsidiaries is the euro, while the subsidiaries use the currency of each country of location. Therefore exchange rate fluctuations have an impact on consolidated earnings and equity but this is not material.

#### 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. Until late 2008, loans other than those included in the net investment were hedged by forward exchange contracts. At 31 December 2008, such loans totalled EUR 120 thousand only. 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 (around EUR 1 million in 2008 and around EUR 0.6 million in 2007). Loans taken out by L&T are denominated in euros, apart from three minor loans taken out by the Latvian subsidiary in Latvian lats.

#### Translation risk

L&T's exposure to translation risk consists of net investments in foreign subsidiaries, which include equity and loans for which settlement is neither planned nor likely in the foreseeable future. The translation exposure is not hedged. Changes in exchange rates in 2008 resulted in translation differences of EUR -2,259 thousand (EUR -812 thousand) in equity. Net investments by currency are presented in the table below.

#### Translation exposure of net investments

| EUR 1000 | 2008   | 2007   |
|----------|--------|--------|
| SEK      | 14 019 | 26 798 |
| LVL      | 8 241  | 5 049  |
| RUB      | 5 284  | 5 433  |
| Total    | 27 544 | 37 280 |

#### 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 profitability of the Environmental Services division is affected by the world market price of crude oil. Its fluctuations 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 prices of the services with a delay. A rise of EUR 0.10 in the price per litre of diesel fuel increases L&T's annual costs by approximately EUR 1.4 million. No derivatives have been used to hedge against this raw material price risk. 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.

The joint venture L&T Recoil is building a re-refinery due to start in 2009. Once completed, the plant will produce base oil. The price risk associated with base oil was hedged with crude oil put options and futures until the end of the year 2008, when all remaining derivative contracts were sold. The Group decided to discontinue crude oil based hedging for the time being, because the correlation between base oil price development and crude oil price development turned out to be weaker than previously during the year 2008, which weakened the hedge effectiveness. The estimated future correlation was not strong enough to qualify for hedge accounting, not even at the time when the crude oil derivative contracts were entered into. Base oil based derivative financial instruments are not available, but at the Group level, L&T's diesel purchases form a partial hedge against base oil price risk.

#### 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.

Towards the end of the year 2008, L&T took out two pension institution loans with fixed interest rates. At 31 December 2008 54% (53%) of the company's borrowings were either fixed interest rate borrowings or hedged with interest rate swaps. Variable-rate borrowings accounted for 46% (47%). Moreover, 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, but L&T has not applied hedge accounting under IAS 39 to interest rate swaps made before transition to IFRS.

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. Interest-rate investments grew in 2008 and the investment period was longer, leading to an increase in the fair-value interest rate risk. However, 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.

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

| EUR 1000                                      | 2009    | 2010–2013 | 2014 and later | Total   |
|---|---------|-----------|----------------|---------|
| <b>31 December 2008</b>                       |         |           |                |         |
| Bank borrowings and pension institution loans | 95 077  | 11 112    | 13 887         | 120 076 |
| Finance lease liabilities                     | 219     | 625       | 2 654          | 3 498   |
| Total   | 95 296  | 11 737    | 16 541         | 123 574 |
| Effect of interest rate swaps                 | -25 915 | 20 915    | 5 000          |         |
|   | 69 381  | 32 652    | 21 541         | 123 574 |
| EUR 1000                                      | 2008    | 2009–2012 | 2013 and later | Total   |
| <b>31 December 2007</b>                       |         |           |                |         |
| Bank borrowings                               | 88 662  |           |                | 88 662  |
| Finance lease liabilities                     | 224     | 461       |                | 685     |
| Total   | 88 886  | 461       |                | 89 347  |
| Effect of interest rate swaps                 | -45 542 | 33 514    | 12 028         |         |
|   | 43 344  | 33 975    | 12 028         | 89 347  |

## 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. As a consequence of the financial crisis, the Group had no investments in commercial papers at the end of the year 2008, and it will not make any such investments for the time being. 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, institutional 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.

Due to the general financial uncertainty, L&T tightened its credit policy at the end of 2008 by introducing more stringent collection practices regarding corporate customers' overdue invoices and by cancelling the right of salespeople to offer terms of payment which differ from standard practices, without the credit control manager's approval. With regard to Finnish trade receivables, collection operations are managed centrally by the financial management function. The foreign subsidiaries manage the collection of their accounts receivable locally. 89% of net sales originated from Finland in 2008.

The amount of impairment on the accounts receivable grew in euros, but the net amount in proportion to the net sales was still at the same level as in the last few years, corresponding to less than 0.2 percent of the net sales. The total of carrying amounts of financial assets at 31 December 2008 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 1000                                | 2008   | 2007   |
|---|--------|--------|
| Trade receivables not past due          | 54 308 | 52 611 |
| Trade receivables past due 1–90 days    | 6 822  | 7 914  |
| Trade receivables past due 91–180 days  | 438    | 992    |
| Trade receivables past due 181–365 days | 343    | 527    |
| Total                                   | 61 911 | 62 044 |

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 income and expenses.

## Credit risk related to financial assets

| EUR 1000                                   | 2008 Carrying amount | 2007 Carrying amount |
|--|----------------------|----------------------|
| Non-current available-for-sale investments | 502                  | 410                  |
| Non-current finance lease receivables      | 4 694                | 3 823                |
| Other non-current receivables              | 689                  | 236                  |
| Trade and other current receivables        | 65 396               | 65 084               |
| Derivative receivables                     | 112                  | 1 189                |
| Current available-for-sale investments     | 20 368               | 21 287               |
| Cash and cash equivalents                  | 6 149                | 9 521                |
| Total                                      | 97 910               | 101 550              |

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 at least 2.5 years.

L&T seeks to keep its cash assets fairly small, while ensuring sufficient credit limits for liquidity management purposes. Following the global financial crisis, the commercial paper market, which has been one of the company's key financing sources, has suffered from lack of liquidity since the beginning of October, being practically non-operational at the year-end. Consequently, liquid assets were increased, and in December the company took out a long-term pension institution loan.

To meet any temporary need for cash arising from cash flow fluctuations, L&T has credit limits for short-term loans (totalling EUR 42.0 million), current accounts with overdraft facilities (totalling EUR 2.2 million) and a commercial paper programme (EUR 50 million). At 31 December 2008, the Group's liquid assets and investments amounted to EUR 26.5 million (EUR 30.8 million). At 31 December 2008, EUR 15.7 million (EUR 4.0 million) of the short-term credit limits were in use, and no commercial papers (EUR 15.9 million). In addition, at the year-end L&T had binding loan offers for new long-term loans totalling EUR 24 million, which are to be taken out in the first quarter of 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 collateral to other financiers and discontinuance or disposal of present business. Breaching of these terms will entitle the borrowers to call in the loans immediately, which would lead to earlier realisation of the cash flows related to the borrowings.

**Maturity of financial liabilities**

| EUR 1000 | Carrying amount | Contractual cash flows | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 and later |
|----------|-----------------|------------------------|------|------|------|------|------|----------------|
|----------|-----------------|------------------------|------|------|------|------|------|----------------|

**31 December 2008**

|   |                |                |               |               |               |               |               |               |
|---|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Bank borrowings and pension institution loans | 135 576        | 153 779        | 49 979        | 20 456        | 19 626        | 18 239        | 22 919        | 22 560        |
| Finance lease liabilities                     | 3 498          | 5 829          | 456           | 415           | 354           | 354           | 354           | 3 896         |
| Business acquisition price liabilities        | 7 930          | 8 777          |               | 2 093         | 6 684         |               |               |               |
| Other financial liabilities                   | 969            | 970            | 295           | 338           | 337           |               |               |               |
| Derivative liabilities                        | 610            | 610            | 610           |               |               |               |               |               |
| Trade and other payables                      | 47 820         | 47 820         | 47 820        |               |               |               |               |               |
| <b>Total</b>                                  | <b>196 403</b> | <b>217 785</b> | <b>99 160</b> | <b>23 302</b> | <b>27 001</b> | <b>18 593</b> | <b>23 273</b> | <b>26 456</b> |

| EUR 1000 | Carrying amount | Contractual cash flows | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 and later |
|----------|-----------------|------------------------|------|------|------|------|------|----------------|
|----------|-----------------|------------------------|------|------|------|------|------|----------------|

**31 December 2007**

|  |                |                |               |               |               |               |               |               |
|--|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Bank borrowings                        | 92 362         | 106 107        | 23 581        | 27 872        | 12 057        | 11 558        | 11 061        | 19 977        |
| Finance lease liabilities              | 685            | 737            | 230           | 446           | 61            |               |               |               |
| Business acquisition price liabilities | 8 027          | 9 309          |               |               | 2 201         | 7 108         |               |               |
| Other financial liabilities            | 553            | 553            | 352           | 101           | 100           |               |               |               |
| Commercial papers                      | 15 927         | 16 000         | 16 000        |               |               |               |               |               |
| Derivative liabilities                 | 897            | 897            | 897           |               |               |               |               |               |
| Trade and other payables               | 47 865         | 47 865         | 47 865        |               |               |               |               |               |
| <b>Total</b>                           | <b>166 316</b> | <b>181 468</b> | <b>88 925</b> | <b>28 419</b> | <b>14 419</b> | <b>18 666</b> | <b>11 061</b> | <b>19 977</b> |

**Breakdown of borrowings**

| EUR 1000 | In use at 31 December 2008 | Undrawn at 31 December 2008 | Total | In use at 31 December 2007 | Undrawn at 31 December 2007 | Total |
|----------|----------------------------|-----------------------------|-------|----------------------------|-----------------------------|-------|
|----------|----------------------------|-----------------------------|-------|----------------------------|-----------------------------|-------|

|   |                |               |                |                |               |                |
|---|----------------|---------------|----------------|----------------|---------------|----------------|
| Bank borrowings and pension institution loans   | 120 076        |               | 120 076        | 88 662         |               | 88 662         |
| Finance lease liabilities                       | 3 498          |               | 3 498          | 685            |               | 685            |
| Committed credit facility with maturity in 2010 |                | 15 000        | 15 000         |                | 10 000        | 10 000         |
| Non-committed credit facilities                 | 15 500         | 11 500        | 27 000         | 3 700          | 15 550        | 19 250         |
| Commercial paper programme                      |                | 50 000        | 50 000         | 15 927         | 34 073        | 50 000         |
| Overdraft facilities                            | 203            | 1 963         | 2 166          | 347            | 4 371         | 4 718          |
| Other   | 7 688          |               | 7 688          | 7 847          |               | 7 847          |
| <b>Total</b>                                    | <b>146 965</b> | <b>78 463</b> | <b>225 428</b> | <b>117 168</b> | <b>63 994</b> | <b>181 162</b> |



# Group

## 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 interest rate and oil price levels with regard to financial instruments in the balance sheet 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 +/- one percentage point.
- The exposure underlying the calculation includes interest-bearing financial liabilities and receivables, as well as interest rate swaps.

The following assumptions have been used in calculating sensitivity to changes in the price of oil:

- The change in the price of crude oil is assumed to be +/- 10%.
- The calculation accounts for the sensitivity associated with derivative contracts.

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

| EUR million                         | 2008             |        | 2007             |        |
|-------------------------------------|------------------|--------|------------------|--------|
|                                     | Profit after tax | Equity | Profit after tax | Equity |
| +1% change in market interest rate* | 0.1              | 0.6    |                  | 0.7    |
| -1% change in market interest rate  | 0.2              | -0.6   | 0.1              | -0.8   |
| +10% change in oil price            |                  |        | -0.3             |        |
| -10% change in oil price            |                  |        | 0.4              |        |

\* The positive effect on the profit results from the fact that due to interest rate swaps and interest rate caps included in two borrowing agreements, interest costs on borrowings would have increased only slightly. Additionally, interest income from the exceptionally large amount of interest investments at year-end would have increased.

The Group had no open oil derivative contracts at 31 December 2008.

## 39. Disputes and litigation

Lahti Energia Oy has summoned Lassila & Tikanoja plc for claim for damages and the trial is still pending. The partial verdict is still dealt with the Court of Appeal of Kouvola. The amount of the claim is EUR 2,514,985.46. The company opposes both the cause and the amount of the action. The company has adequate insurance coverage for any liability for damages.

Lassila & Tikanoja is involved in one minor dispute incidental to the Group's business operations. The outcome of this dispute will not have material effect on the Group's financial position.

Kiinteistö Oy Roihupelto, a real estate corporation, has directed a claim for damages towards Lassila & Tikanoja plc. The summons has not been issued and the company has adequate insurance coverage for any liability for damages.

## 40. 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.

# Financial statements of the parent company, FAS

## Income statement

| EUR 1000   | 2008          | 2007     | Note |
|--|---------------|----------|------|
| Net sales  | 439 918       | 388 153  | 1    |
| Cost of goods sold                                   | -383 484      | -327 013 |      |
| <b>Gross profit</b>                                  | <b>56 434</b> | 61 140   |      |
| Sales and marketing expenses                         | -13 682       | -12 521  |      |
| Administration expenses                              | -7 463        | -7 250   | 3    |
| Other operating income                               | 17 087        | 3 118    | 5    |
| Other operating expenses                             | -1 371        | -550     | 5    |
| <b>Operating profit before goodwill amortisation</b> | <b>51 005</b> | 43 937   | 2, 4 |
| Goodwill amortisation                                | -8 597        | -8 849   |      |
| <b>Operating profit</b>                              | <b>42 408</b> | 35 088   |      |
| Financial income and costs                           | 3 876         | 428      | 6    |
| <b>Profit before extraordinary items</b>             | <b>46 284</b> | 35 516   |      |
| Extraordinary items                                  | -16 150       | -2 632   | 7    |
| <b>Profit before appropriations and income taxes</b> | <b>30 134</b> | 32 884   |      |
| Appropriations                                       |               |          |      |
| Increase/decrease in accumulated depreciation        | 274           | 325      |      |
| Income tax   | -4 337        | -8 606   | 8    |
| <b>Profit for the period</b>                         | <b>26 071</b> | 24 603   |      |

## Statement of changes in financial position

| EUR 1000   | 2008           | 2007    |
|--|----------------|---------|
| <b>Operations</b>  |                |         |
| Operating profit   | 42 408         | 35 088  |
| Adjustments:   |                |         |
| Depreciation and amortisation                                      | 13 275         | 12 535  |
| Gains and losses on sales  | -14 702        | -396    |
| Other adjustments  | 95             | -56     |
| Cash flow before change in working capital                         | 41 076         | 47 171  |
| Change in working capital  |                |         |
| Increase/decrease in current non-interest-bearing receivables      | -3 199         | -5 638  |
| Increase/decrease in inventories                                   | -367           | -472    |
| Increase/decrease in current non-interest-bearing liabilities      | 5 516          | 7 570   |
| Cash flow from operations before financial income/expenses and tax | 43 026         | 48 631  |
| Interest expenses and other financial expenses                     | -11 918        | -8 890  |
| Interest income from operations                                    | 13 855         | 8 939   |
| Direct taxes paid  | -6 682         | -8 091  |
| <b>Cash flow from operations</b>                                   | <b>38 281</b>  | 40 589  |
| <b>Investments</b>   |                |         |
| Investments in Group companies                                     | -1 889         | -32 182 |
| Sale of Group companies  | 0              | 429     |
| Investments in tangible and intangible assets                      | -12 570        | -4 611  |
| Proceeds from sale of tangible and intangible assets               | 876            | 403     |
| Investments in other assets  | -1 710         | -1 397  |
| Proceeds from sale of other assets                                 | 14 201         | 6       |
| Dividends received from investments                                | 2 118          | 665     |
| <b>Cash flow from investing activities</b>                         | <b>1 026</b>   | -36 687 |
| <b>Financing</b>   |                |         |
| Proceeds from share issue  | 206            | 2 936   |
| Group contribution paid  | -4 674         | -3 185  |
| Group contribution received  | 2 042          | 3 258   |
| Proceeds from/repayments of short-term borrowings                  | -15 927        | 15 926  |
| Proceeds from/repayments of current liabilities to Group companies | -18 125        | -25 540 |
| Proceeds from long-term loans                                      | 47 000         | 50 000  |
| Repayments of long-term loans                                      | -15 086        | -36 873 |
| Dividends paid   | -21 316        | -21 180 |
| <b>Cash flow from financing activities</b>                         | <b>-25 880</b> | -14 658 |
| <b>Changes in cash and cash equivalents</b>                        | <b>13 427</b>  | -10 756 |
| Cash and cash equivalents at 1 January                             | 9 732          | 20 488  |
| Cash and cash equivalents at 31 December                           | 23 159         | 9 732   |

The items in the statement of changes in the financial position cannot be derived directly from the balance sheet owing, among other things, to mergers and dissolutions of subsidiaries.

## Balance sheet

| EUR 1000  | 2008           | 2007        | Note        |
|---|----------------|-------------|-------------|
| <b>ASSETS</b>                                     |                |             |             |
| <b>Fixed assets</b>                               |                |             |             |
| Intangible assets                                 |                |             | 9           |
| Intangible rights                                 | 611            | 342         |             |
| Goodwill  | 12 542         | 20 845      |             |
| Other capitalised expenditure                     | 75             | 95          |             |
| Prepayments and construction in progress          | 303            |             |             |
|   | 13 531         | 21 282      |             |
| Tangible assets                                   |                |             | 10          |
| Land  | 2 677          | 2 710       |             |
| Buildings and constructions                       | 31 311         | 28 331      |             |
| Machinery and equipment                           | 4 464          | 5 111       |             |
| Other tangible assets                             | 47             | 47          |             |
| Advance payments and construction in progress     | 5 435          | 646         |             |
|   | 43 934         | 36 845      |             |
| Financial assets                                  |                |             | 11          |
| Shares in Group companies                         | 56 576         | 54 576      |             |
| Shares in joint ventures                          | 4              | 508         |             |
| Capital loan receivables from Group companies     |                | 2 000       |             |
| Capital loan receivables from joint ventures      | 8 396          | 2 646       |             |
| Capital loan receivables from others              | 115            | 115         |             |
| Other shares and holdings                         | 310            | 2 744       |             |
|   | 65 401         | 62 589      |             |
| <b>Total fixed assets</b>                         | <b>122 866</b> | 120 716     |             |
| <b>Current assets</b>                             |                |             |             |
| Inventories                                       |                |             |             |
| Raw materials and consumables                     | 500            | 530         |             |
| Finished products/goods                           | 2 754          | 2 368       |             |
| Other inventories                                 | 346            | 335         |             |
|   | 3 600          | 3 233       |             |
| Non-current receivables                           |                |             |             |
| Loan receivables                                  | 395            | 1           |             |
| Current receivables                               |                |             | 12          |
| Receivables from Group companies                  | 117 143        | 108 867     |             |
| Receivables from joint ventures                   | 264            | 110         |             |
| Trade receivables                                 | 49 263         | 44 618      |             |
| Other receivables                                 | 781            | 874         |             |
| Prepaid expenses and accrued income               | 4 110          | 4 011       |             |
|   | 171 561        | 158 480     |             |
| Cash and cash equivalents                         | 23 159         | 9 732       |             |
| <b>Total current assets</b>                       | <b>198 715</b> | 171 446     |             |
| <b>Total assets</b>                               | <b>321 581</b> | 292 162     |             |
| <b>EUR 1000</b>                                   | <b>2008</b>    | <b>2007</b> | <b>Note</b> |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>       |                |             |             |
| <b>Shareholders' equity</b>                       |                |             | 13          |
| Share capital                                     | 19 399         | 19 392      |             |
| Share premium account                             | 50 672         | 50 474      |             |
| Retained earnings                                 | 22 990         | 19 710      |             |
| Profit for the period                             | 26 071         | 24 603      |             |
| Total shareholders' equity                        | 119 132        | 114 179     |             |
| <b>Appropriations</b>                             |                |             |             |
| Depreciation difference                           | 3 148          | 3 422       |             |
| <b>Obligatory provisions</b>                      |                |             | 14          |
| Non-current                                       | 1 912          | 1 255       |             |
| Current   | 311            | 205         |             |
|   | 2 223          | 1 460       |             |
| <b>Liabilities</b>                                |                |             | 15          |
| Non-current                                       |                |             |             |
| Loans from financial institutions                 | 64 808         | 70 927      |             |
| Pension institution loans                         | 25 000         |             |             |
| Accrued income                                    | 166            | 108         |             |
| Other liabilities                                 | 200            | 200         |             |
|   | 90 174         | 71 235      |             |
| Current   |                |             |             |
| Commercial papers                                 |                | 15 927      |             |
| Loans from financial institutions                 | 28 119         | 15 144      |             |
| Advances received                                 | 241            | 75          |             |
| Trade payables                                    | 13 002         | 14 390      |             |
| Liabilities to Group companies                    | 13 113         | 9 072       |             |
| Other liabilities                                 | 15 401         | 14 095      |             |
| Accruals and deferred expenses                    | 37 028         | 33 163      |             |
|   | 106 904        | 101 866     |             |
| <b>Total liabilities</b>                          | <b>199 301</b> | 174 561     |             |
| <b>Total shareholders' equity and liabilities</b> | <b>321 581</b> | 292 162     |             |

# Parent company

## Notes to the financial statements of the parent company

### Principles for preparing the financial statements

The financial statements of Lassila & Tikanoja plc have been prepared in accordance with the Finnish Accounting Standards (FAS). Items in the financial statements are stated at cost.

### Fixed assets

Tangible and intangible assets are stated in the balance sheet at direct acquisition cost less planned depreciation. Planned straight-line depreciation is calculated from the historical cost on the basis of probable economic life except for new landfills. The depreciation and amortisation periods are as follows:

|   |            |
|---|------------|
| Buildings and structures                            | 5–25 years |
| Vehicles  | 6–8 years  |
| Machinery and equipment                             | 4–10 years |
| Goodwill  | 5–10 years |
| Intangible rights and other capitalised expenditure | 5–10 years |

In 2008 the company started to apply the units of production method to new landfills. 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. As the Kerava landfill is about to be filled up, it will be fully depreciated using the straight-line method.

Depreciation on fixed assets acquired during the financial year is calculated from the day on which they become operational.

Lease payments are recognised as expenses in the income statement. The assets are not stated in the balance sheet.

Investments are measured at cost.

### Inventories

Inventories are measured at the variable cost of production or the probable lower replacement or sales price. The inventories of Environmental Products are measured using the weighted average cost method. The value of other inventories is determined using the FIFO method. The cost of inventories produced by the company comprises, in addition to direct costs, a share of production overheads.

### Items denominated in foreign currencies

Foreign currency transactions are recorded using the exchange rates for the dates of the transactions. Receivables and liabilities denominated in foreign currencies are translated into euros at the reference rate of the European Central Bank for the balance sheet date. Exchange rate differences are recognised in the income statement.

### Derivatives

Interest rate swaps are used to hedge cash flow against interest rate risk. Interest income or expenses arising from the swaps are allocated over the contract period and recognised as adjustments to the interest on the hedged item.

### Net sales

Sales are stated net of indirect sales taxes, discounts and exchange rate differences. Sales freights and other costs incurred in sales and deliveries are recognised as either cost of goods sold or sales expenses. Bad debt is recognised under other operating expenses.

### Research and development expenditure

Research and development expenditure is recognised as an expense.

### Other operating income and expenses

Other operating income and expenses consist of items not included in regular service and product sales, such as gains and losses on the sale or disposal of fixed assets, as well as the recognition and recovery of bad debt.

### Income taxes

Current income tax is determined for the taxable profit for the period according to prevailing tax rates. Taxes are adjusted by current tax rates for previous periods, if any. Deferred tax liabilities are stated in the notes to the financial statements.

## 1. Net sales

| EUR 1000                             | 2008           | %            | 2007           | %            |
|--------------------------------------|----------------|--------------|----------------|--------------|
| <b>Net sales by division</b>         |                |              |                |              |
| Environmental Services               | 185 689        | 42.2         | 171 520        | 44.2         |
| Property and Office Support Services | 173 917        | 39.5         | 146 655        | 37.8         |
| Industrial Services                  | 80 304         | 18.3         | 69 969         | 18.0         |
| Group administration and other       | 8              |              | 9              |              |
| <b>Total</b>                         | <b>439 918</b> | <b>100.0</b> | <b>388 153</b> | <b>100.0</b> |
| <b>Net sales by market</b>           |                |              |                |              |
| Finland                              | 435 549        | 99.0         | 381 942        | 98.4         |
| Other countries                      | 4 369          | 1.0          | 6 211          | 1.6          |
| <b>Total</b>                         | <b>439 918</b> | <b>100.0</b> | <b>388 153</b> | <b>100.0</b> |

## 2. Personnel and administrative bodies

|                          | 2008         | 2007         |
|--------------------------|--------------|--------------|
| <b>Average personnel</b> |              |              |
| Clerical personnel       | 1 002        | 976          |
| Workers                  | 4 746        | 4 331        |
| <b>Total</b>             | <b>5 748</b> | <b>5 307</b> |

| EUR 1000                      | 2008           | 2007           |
|-------------------------------|----------------|----------------|
| <b>Personnel expenses</b>     |                |                |
| Salaries and bonuses          | 156 163        | 135 879        |
| Pension expenditure           | 26 612         | 21 866         |
| Other salary-related expenses | 10 979         | 9 704          |
| <b>Total</b>                  | <b>193 754</b> | <b>167 449</b> |

Salaries, bonuses and pension benefits of the management are described in the Note 35 of the consolidated financial statements, Related-party transactions. No loans were granted to the related parties of the Group companies.

## 3. Auditor's fees to PricewaterhouseCoopers Oy

| EUR 1000  | 2008       | 2007       |
|---|------------|------------|
| Auditing  | 84         | 76         |
| Other assignments in accordance with the auditing act | 3          | 2          |
| Tax consulting services                               | 10         | 22         |
| Other services  | 33         | 56         |
| <b>Total</b>  | <b>130</b> | <b>156</b> |

## 4. Depreciation and amortisation

| EUR 1000   | 2008          | 2007          |
|--|---------------|---------------|
| <b>Depreciation and amortisation by function</b> |               |               |
| Cost of goods sold                               | 4 589         | 3 645         |
| Sales and marketing                              | 20            | 22            |
| Administration                                   | 69            | 19            |
| Goodwill   | 8 597         | 8 849         |
| <b>Total</b>                                     | <b>13 275</b> | <b>12 535</b> |

Depreciation and amortisation are itemised under intangible and tangible assets.

## 5. Other operating income and expenses

| EUR 1000                              | 2008          | 2007         |
|---------------------------------------|---------------|--------------|
| <b>Other operating income</b>         |               |              |
| From Group companies                  |               |              |
| Compensation for administration costs | 383           | 302          |
| From others                           |               |              |
| Merger profit                         |               | 544          |
| Profit on sale of real estates        | 437           |              |
| Profit on sale of shares              | 14 183        | 225          |
| Profit on sale of other fixed assets  | 81            | 175          |
| Government grants                     | 599           | 157          |
| Rents                                 | 128           | 157          |
| Recovery of bad debt                  | 118           | 98           |
| Low-wage support                      | 695           | 833          |
| Other operating income                | 463           | 627          |
| <b>Total</b>                          | <b>17 087</b> | <b>3 118</b> |
| <b>Other operating expenses</b>       |               |              |
| To others                             |               |              |
| Losses on sale of fixed assets        | 9             | 4            |
| Losses on sale of shares              | 504           |              |
| Bad debt                              | 714           | 388          |
| Other                                 | 144           | 158          |
| <b>Total</b>                          | <b>1 371</b>  | <b>550</b>   |

## 6. Financial income and costs

| EUR 1000                            | 2008    | 2007   |
|-------------------------------------|---------|--------|
| Dividend income                     | 1 651   | 362    |
| Other interest and financial income | 14 383  | 9 392  |
| Other interest and financial costs  | -12 158 | -9 326 |
| Total financial income and costs    | 3 876   | 428    |
| Financial income and costs include  |         |        |
| Dividend income                     |         |        |
| from Group companies                | 1 647   | 360    |
| from others                         | 4       | 2      |
| Interest income                     |         |        |
| from Group companies                | 13 046  | 8 373  |
| from joint ventures                 | 202     |        |
| from others                         | 1 134   | 1 017  |
| Interest costs                      |         |        |
| to Group companies                  | 6 897   | 4 614  |
| to others                           | 5 146   | 4 639  |

## 7. Extraordinary items

| EUR 1000                                | 2008    | 2007   |
|---|---------|--------|
| <b>Extraordinary income</b>             |         |        |
| Group contribution received             | 863     | 2 042  |
| <b>Extraordinary expenses</b>           |         |        |
| Group contribution paid                 | -17 013 | -4 674 |
| Total extraordinary income and expenses | -16 150 | -2 632 |

## 8. Income taxes

| EUR 1000  | 2008  | 2007  |
|---|-------|-------|
| Income taxes on operations for the financial year |       |       |
|   | 4 341 | 8 635 |
| Income taxes for previous periods                 |       |       |
|   | -4    | -29   |
| Total   | 4 337 | 8 606 |
| <b>Deferred tax liabilities/receivables</b>       |       |       |
| From depreciation differences                     |       |       |
|   | -824  | -900  |
| From other matching differences                   |       |       |
|   | 578   | 380   |
| Total   | -246  | -520  |

## 9. Intangible assets

| EUR 1000                                | Intangible rights | Goodwill | Other capitalised expenditure | Advance payments and construction in progress | Total   |
|---|-------------------|----------|-------------------------------|---|---------|
| Cost at 1 January                       | 1 627             | 108 801  | 234                           |   | 110 662 |
| Additions                               | 335               | 294      | 3                             | 303   | 935     |
| Cost at 31 December                     | 1 962             | 109 095  | 237                           | 303   | 111 597 |
| Accumulated depreciation at 1 January   |                   |          |                               |   |         |
|   | -1 285            | -87 956  | -139                          |   | -89 380 |
| Depreciation during the period          |                   |          |                               |   |         |
|   | -66               | -8 597   | -23                           |   | -8 686  |
| Accumulated depreciation at 31 December | -1 351            | -96 553  | -162                          |   | -98 066 |
| Total book value                        | 611               | 12 542   | 75                            | 303   | 13 531  |

## 10. Tangible assets

| EUR 1000  | Land  | Buildings | Machinery and equipment | Other | Advance payments and construction in progress | Total   |
|---|-------|-----------|-------------------------|-------|---|---------|
| Cost at 1 January                                   | 2 710 | 44 472    | 33 048                  | 132   | 646   | 81 008  |
| Additions   |       | 3 790     | 577                     |       | 7 679   | 12 046  |
| Disposals   | -33   | -457      | -2 853                  |       |   | -3 343  |
| Transfers between items                             |       | 2 816     | 74                      |       | -2 890  |         |
| Cost at 31 December                                 | 2 677 | 50 621    | 30 846                  | 132   | 5 435   | 89 711  |
| Accumulated depreciation at 1 January               |       |           |                         |       |   |         |
|   |       | -16 141   | -27 937                 | -85   |   | -44 163 |
| Accumulated depreciation on disposals and transfers |       |           |                         |       |   |         |
|   |       | 156       | 2 819                   |       |   | 2 975   |
| Depreciation during the period                      |       |           |                         |       |   |         |
|   |       | -3 325    | -1 264                  |       |   | -4 589  |
| Accumulated depreciation at 31 December             |       | -19 310   | -26 382                 | -85   |   | -45 777 |
| Total book value                                    | 2 677 | 31 311    | 4 464                   | 47    | 5 435   | 43 934  |

## 11. Investments

| EUR 1000                | Shares in Group companies | Holdings in joint ventures | Capital loan receivables* | Other shares and holdings | Total  |
|-------------------------|---------------------------|----------------------------|---------------------------|---------------------------|--------|
| Cost at 1 January       | 54 576                    | 508                        | 4 761                     | 2 744                     | 62 589 |
| Additions               | 2 000                     |                            | 5 750                     | 107                       | 7 857  |
| Transfers between items |                           | -504                       | -2 000                    | -2 541                    | -5 045 |
| Cost at 31 December     | 56 576                    | 4                          | 8 511                     | 310                       | 65 401 |
| Total book value        | 56 576                    | 4                          | 8 511                     | 310                       | 65 401 |

\* Capital loan receivables include:

|                          |       |
|--------------------------|-------|
| Capital loan receivables |       |
| From joint ventures      | 8 396 |
| From others              | 115   |

# Parent company

## Holdings in Group companies

|  | Holding of shares and votes, % |
|--|--------------------------------|
| Kanta-Hämeen Ympäristöyhtiö Oy, Helsinki     | 100.0                          |
| Kiinteistö Oy Vantaan Valimotie 33, Helsinki | 100.0                          |
| L&T Advance Oy, Helsinki                     | 100.0                          |
| L&T Biowatti Oy, Helsinki                    | 70.0                           |
| L&T Improvement Oy, Helsinki                 | 100.0                          |
| L&T Kalusto Oy, Helsinki                     | 100.0                          |
| L&T Muoviportti Oy, Merikarvia               | 83.3                           |
| L&T Relations Oy, Helsinki                   | 99.0                           |
| L&T Toimi Oy, Helsinki                       | 100.0                          |
| Salvor Oy, Helsinki                          | 100.0                          |
| Suomen Keräystuote Oy, Helsinki              | 100.0                          |

## Joint ventures

|                         |      |
|-------------------------|------|
| L&T Recoil Oy, Helsinki | 50.0 |
|-------------------------|------|

## 12. Receivables

EUR 1000 2008 2007

### From Group companies

|                   |         |         |
|-------------------|---------|---------|
| Loan receivables  | 116 568 | 108 268 |
| Trade receivables | 575     | 599     |
| Total             | 117 143 | 108 867 |

### From joint ventures

|                   |     |     |
|-------------------|-----|-----|
| Loan receivables  | 202 |     |
| Trade receivables | 62  | 110 |
| Total             | 264 | 110 |

### Prepaid expenses and accrued income

|                                     |       |       |
|-------------------------------------|-------|-------|
| Interests                           | 228   | 168   |
| Employees' health care compensation | 1 498 | 1 775 |
| Statutory personnel insurance       | 265   | 689   |
| Insurances                          | 277   | 941   |
| Other                               | 1 842 | 438   |
| Total                               | 4 110 | 4 011 |

## 13. Shareholders' equity

EUR 1000 2008 2007

|                                |        |        |
|--------------------------------|--------|--------|
| Share capital at 1 January     | 19 392 | 19 264 |
| Subscription with 2002 options |        | 128    |
| Subscription with 2005 options | 7      |        |
| Share capital at 31 December   | 19 399 | 19 392 |

|                                |        |        |
|--------------------------------|--------|--------|
| Share premium at 1 January     | 50 474 | 47 666 |
| Subscription with 2002 options |        | 2 808  |
| Subscription with 2005 options | 198    |        |
| Share premium at 31 December   | 50 672 | 50 474 |

|                                |         |         |
|--------------------------------|---------|---------|
| Retained earnings at 1 January | 44 313  | 40 900  |
| Dividend                       | -21 338 | -21 202 |
| Out-dated dividend             | 15      | 12      |
| Reversal of revaluations       |         |         |

|                                     |         |         |
|-------------------------------------|---------|---------|
| Retained earnings at 31 December    | 22 990  | 19 710  |
| Profit for the period               | 26 071  | 24 603  |
| Shareholders' equity at 31 December | 119 132 | 114 179 |

### Distributable assets

|                            |        |        |
|----------------------------|--------|--------|
| Retained earnings          | 22 990 | 19 710 |
| Profit for the period      | 26 071 | 24 603 |
| Total distributable assets | 49 061 | 44 313 |

## 14. Obligatory provisions

EUR 1000 2008 2007

|                             |       |       |
|-----------------------------|-------|-------|
| Environmental provision     | 815   | 561   |
| Lease provision             | 14    | 102   |
| Pension liabilities         | 622   | 493   |
| Screened construction waste | 772   | 304   |
| Total                       | 2 223 | 1 460 |

The environmental provisions relate to the site restoration cost of the landfill in Kerava and the lease provision relates to unleased premises.

## 15. Liabilities

EUR 1 000 2009\* 2010 2011 2012 2013 2014 and later

### Repayments of non-current liabilities in coming years

|                                   |        |        |        |        |        |        |
|-----------------------------------|--------|--------|--------|--------|--------|--------|
| Loans from financial institutions | 28 119 | 15 772 | 15 771 | 15 771 | 21 297 | 21 197 |
|-----------------------------------|--------|--------|--------|--------|--------|--------|

\* In the balance sheet under current liabilities

EUR 1000 2008 2007

### Non-interest-bearing liabilities

|             |        |        |
|-------------|--------|--------|
| Non-current | 366    | 308    |
| Current     | 66 377 | 62 089 |
| Total       | 66 743 | 62 397 |

### Liabilities to Group companies

|  |        |       |
|--|--------|-------|
| Current interest-bearing liabilities     | 12 704 | 8 809 |
| Current non-interest-bearing liabilities | 409    | 263   |
| Total                                    | 13 113 | 9 072 |

### Accruals and deferred expenses

|                        |        |        |
|------------------------|--------|--------|
| Personnel expenses     | 30 993 | 26 364 |
| Interests              | 1 293  | 1 053  |
| Waste charges          | 1 451  | 1 359  |
| Other matched expenses | 3 291  | 4 387  |
| Total                  | 37 028 | 33 163 |

## 16. Contingent liabilities

EUR 1000 2008 2007

### For other own commitments than borrowings

|                       |     |     |
|-----------------------|-----|-----|
| Real estate mortgages | 192 | 114 |
| Other securities      | 156 | 127 |

### For other own commitments

|                                 |        |        |
|---------------------------------|--------|--------|
| Leasing liabilities             |        |        |
| Falling due next year           | 6 471  | 6 484  |
| Falling due in subsequent years | 19 181 | 16 214 |
| Total                           | 25 652 | 22 698 |

Leasing liabilities include also the liabilities related to leases of premises and land.

### For Group companies

|            |       |       |
|------------|-------|-------|
| Guarantees | 7 301 | 6 594 |
|------------|-------|-------|

### For joint ventures

|            |        |       |
|------------|--------|-------|
| Guarantees | 15 686 | 4 047 |
|------------|--------|-------|

|  |       |       |
|--|-------|-------|
| Bank guarantees required for environmental permits | 2 898 | 3 000 |
|--|-------|-------|

The company has given on behalf of subsidiary Salvor Oy a commitment related to the rental agreement of a hall used by Salvor Oy for temporary storing and treatment of contaminated soil. The company is responsible for 50% of probable environmental damage in case Salvor Oy is not capable of paying indemnity or the lessor does not receive any other compensation for the damage through e.g. an insurance.

## 17. Derivatives

EUR 1000 2008 2007

### Interest rate swaps

|               |        |        |
|---------------|--------|--------|
| Nominal value | 45 543 | 56 071 |
| Fair value    | -498   | 1 097  |

Interest rate swaps were entered into in hedging purposes. Their fair values base on the market prices 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 49,060,145.05, of which EUR 26,070,501.66 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 per share will be paid on each of the 38,798,874 shares, totalling | EUR 21,339,380.70 |
| To be retained and carried forward  | EUR 27,720,764.35 |
| Total   | EUR 49,060,145.05 |

In accordance with the resolution of the Board of Directors, the record date is 27 March 2009.

The Board of Directors proposes to the Annual General Meeting that the dividend be paid on 3 April 2009.

## Signatures to the Report of the Board of Directors and the Financial Statements for the year 2008

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Helsinki on 9 February 2009

Juhani Majjala

Juhani Lassila

Heikki Bergholm

Eero Hautaniemi

Matti Kavetvuoto

Lasse Kurkilahti

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 year ended on 31 December 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity 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 the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with 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 perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 have complied with the Limited Liability Companies Act.

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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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.

The audit was performed in accordance with good auditing practice in Finland. 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.

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

Helsinki 11 February 2009

**PricewaterhouseCoopers Oy**  
Authorised Public Accountants

Heikki Lassila  
Authorised Public Accountant

# Investor relations

## 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 joint venture.

### Information leaks

In the event that confidential 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 statement 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 CFO (Finance Director from 1 March to 31 December 2009). Announcements are published by IR personnel supervised by the CFO. Individual investor relations and meetings are the responsibility of the President and CEO together with the Investor Relations Manager and CFO.

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 Investor Relations Manager.

### 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 the period between the end of the financial period and the disclosure of the result.



## Financial Information in 2009

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The interim report for the period between 1 January and 31 March will be published on 5 May 2009 at 8 am.

The interim report for the period between 1 January and 30 June will be published on 28 July 2009 at 8 am.

The interim report for the period between 1 January and 30 September will be published on 27 October 2009 at 8 am.

## Distribution of financial information

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Lassila & Tikanoja's annual report and interim reports are published in Finnish and English.

The annual report will be mailed to shareholders in accordance with information in the share register maintained by Euroclear Finland Ltd and to the persons on the mailing list maintained by the company. The company website can be used for subscribing for annual reports.

E-mail alerts for stock exchange releases can be ordered on the company website.

## Analyses of the company

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The financial performance of Lassila & Tikanoja plc is monitored and assessed by at least the brokerage firms listed below. Lassila & Tikanoja plc is not responsible for any comments made in these analyses.

Carnegie, Finland Branch  
Danske  
Evli Bank  
eQ Bank  
FIM  
Handelsbanken  
Iccapital  
Nordea  
SEB Enskilda  
Sofia Bank

The contact details of the analysts are available on the company website.

## Changes of address

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Shareholders are requested to provide any changes of address to the bank, brokerage firm or other account operator that manages the shareholders' book-entry account.

## Contact information

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www.lassila-tikanoja.com  
E-mail: ir@lassila-tikanoja.fi or  
firstname.lastname@lassila-tikanoja.fi  
IR Manager Keijo Keränen,  
tel. +358 10 636 2782 or  
+358 50 385 6957

## Lassila & Tikanoja plc share and listed share options

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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. Listing date is 1 October 2001.

|              | Share        | 2005A share option | 2005B share option |
|--------------|--------------|--------------------|--------------------|
| Trading code | LAT1V        | LAT1VEW105         | LAT1VEW205         |
| ISIN code    | FI0009010854 | FI0009618375       | FI0009618383       |

# Annual General Meeting and payment of dividend

## Annual General Meeting

The Annual General Meeting of Lassila & Tikanoja plc will be held on Tuesday 24 March at 4 pm in the Helsinki room of the Finlandia Hall, Mannerheimintie 13 e, Helsinki. Each shareholder, who is registered on 13 March 2009 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 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 17 March 2009 at 4 pm by giving a prior notice of participation. Such notice can be given:

- a) by e-mail at [taru.maatta@lassila-tikanoja.fi](mailto:taru.maatta@lassila-tikanoja.fi)
- b) by telephone at +358 10 636 2882 / Taru Määttä
- c) by fax at +358 10 636 2899 or
- d) 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 to the above address by the end of the registration period.

## Payment of dividend

The Board of Directors proposes to the Annual General Meeting of Shareholders that a dividend of EUR 0.55 per share be paid for the 2008 financial year. The dividend determined by the Annual General Meeting of Shareholders 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 24 March 2009  
Ex-date 25 March 2009  
Record date 27 March 2009  
Payment of dividend 3 April 2009

# Stock exchange releases in 2008

## Stock exchange releases disclosed by Lassila & Tikanoja in 2008

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|                  |   |
|------------------|---|
| 22 January 2008  | EUR 14.3 million capital gain to Lassila & Tikanoja   |
| 5 February 2008  | Financial statements release 1 January – 31 December 2007   |
| 5 February 2008  | Shares subscribed for pursuant to share options   |
| 4 March 2008     | Annual Report and Annual summary 2007 published   |
| 7 March 2008     | Notice to convene Annual General Meeting  |
| 26 March 2008    | Announcement pursuant to Chapter 2 Section 10 of the SMA; Holding of Varma falls below 5%               |
| 1 April 2008     | Resolutions by Annual General Meeting and Organisation of the Board                                     |
| 29 April 2008    | Interim Report 1 January – 31 March 2008  |
| 21 May 2008      | Announcement pursuant to Chapter 2 Section 10 of the SMA; Ilmarinen's holding exceeds 10%               |
| 22 July 2008     | L&T's full-year result to be somewhat lower than anticipated  |
| 29 July 2008     | Interim Report 1 January – 30 June 2008   |
| 29 July 2008     | Shares subscribed for pursuant to share options   |
| 3 October 2008   | Completion of L&T Recoil's re-refinery to be postponed until spring                                     |
| 28 October 2008  | Interim Report 1 January – 30 September 2008  |
| 3 November 2008  | Changes in L&T's management   |
| 3 November 2008  | L&T applies for listing of 2005B share option rights  |
| 3 December 2008  | Financial information and AGM in 2009   |
| 3 December 2008  | Share subscription schedule for 2009  |
| 12 December 2008 | L&T's full-year operating profit excluding non-recurring and imputed items to be lower than anticipated |
| 30 December 2008 | 2005B share options to be listed on 2 January 2009  |

All Lassila & Tikanoja stock exchange releases since 2003 are available on the company website.



**LASSILA & TIKANOJA**

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