



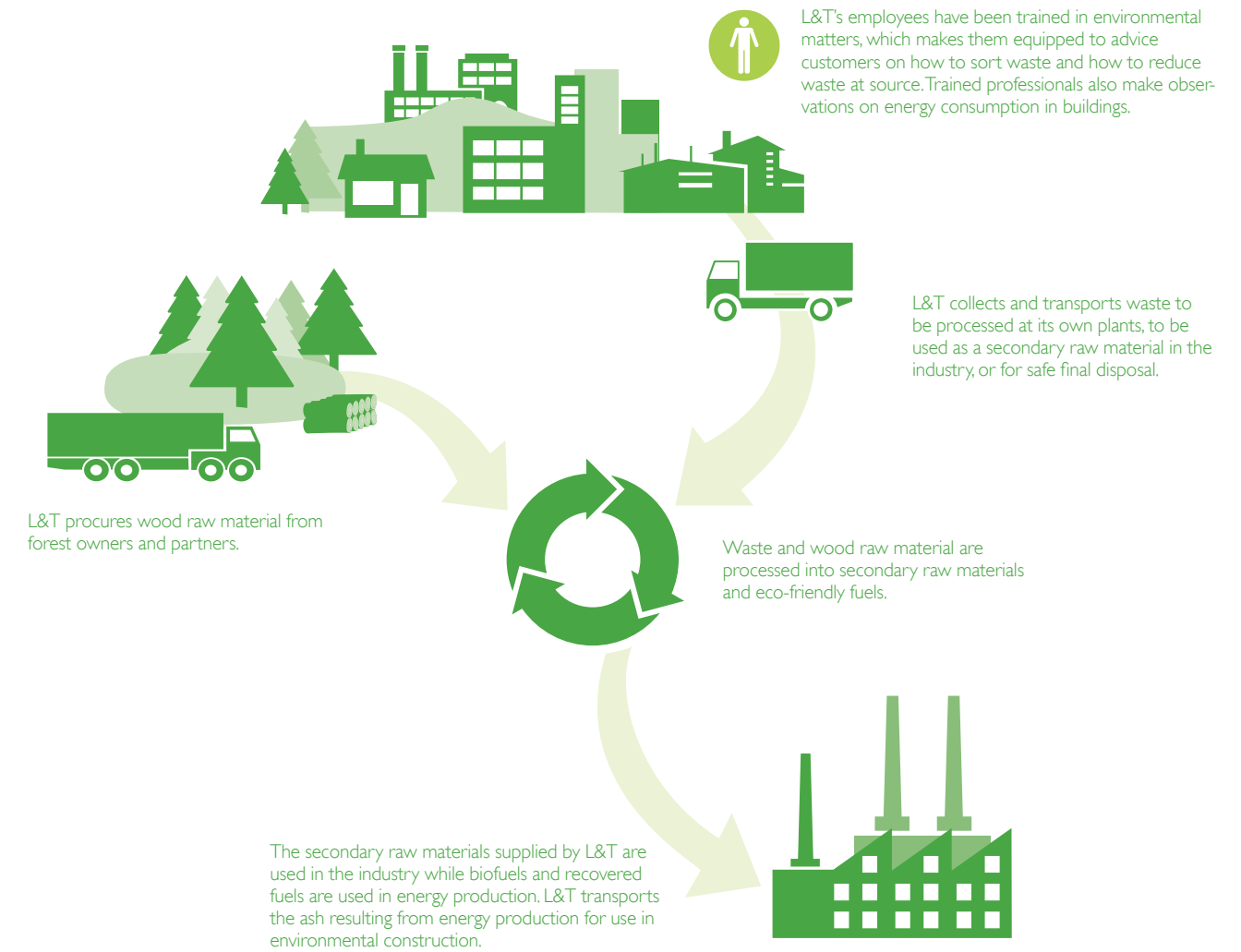
# Our responsibility



# Our responsibility

In our work, we face **millions of customers and their needs** every year. It is our responsibility to make sure we can match each need with **the appropriate solution**, to allow our customers to **focus on what's essential**. It is our responsibility to ensure that things run **smoothly**, every day. At the same time, we help customers to operate in a way that promotes sustainability, because we are all responsible for **the well-being of our living environment**.

# L&T in the society



## Material efficiency

- Recycling helps save natural resources.
- Our services increase the volume and safety of waste recycling.
- We process waste into secondary raw materials and eco-friendly fuels.
- In 2011, L&T processed more than 210,000 tonnes of waste into secondary raw materials.

## Energy efficiency

- L&T helps its customers reduce their energy consumption.
- An energy-efficient building is economically and ecologically sustainable.
- Waste recycling saves natural resources as well as energy.
- We strive for energy efficiency in our own operations, both in buildings and in vehicle use.

## Reductions in emissions

- We make our customers better equipped to meet their environmental obligations.
- Compared to mass incineration or landfill placement, the benefits of recycling are superior in terms of environmental care.
- Did you know that L&T's waste recycling and fuel deliveries eliminate over one million tonnes of CO<sub>2</sub> emissions?

## Caring for personnel

- We are a major employer, and our personnel is our key resource.
- We are working to improve our skills related to the multicultural work community.
- Thanks to our working capacity project, the average retirement age has risen to 62.9 years (2005: 59.4).

# L&T in brief

Lassila & Tikanoja specialises in environmental management and property and plant support services and is a significant supplier of wood-based biofuels, recovered fuels and recycled raw materials. With operations in Finland, Sweden, Latvia and Russia, L&T employs 9,500 persons. Net sales in 2011 amounted to EUR 652 million. L&T is listed on NASDAQ OMX Helsinki.

## Key figures

	2011	2010
Net sales, EUR million	652.1	598.2
Operating profit, EUR million	25.6	40.2
Operating profit excluding non-recurring items, EUR million	44.3	45.5
Profit before tax, EUR million	21.0	36.0
Return on equity, % (ROE)	7.7	11.9
Return on invested capital, % (ROI)	7.6	11.6
Gearing, %	58.3	50.3
Equity ratio, %	44.5	46.5
Capital expenditure, EUR million	70.6	39.3
Total number of full-time and part-time employees at year end	9,357	8,732
EVA, EUR million	-2.2	10.1
Earnings per share, EUR (EPS)	0.44	0.68
Cash flows from operating activities/share, EUR	1.92	1.65
Capital repayment per share, EUR	0.55 *	0.55 **

\* Proposal by the Board of Directors \*\* Dividend per share, EUR

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STRICTER LEGISLATION, ENERGY EFFICIENCY REQUIREMENTS, CHANGES IN PUBLIC SECTOR AND FIGHT AGAINST CLIMATE CHANGE WILL SUPPORT THE GROWTH OF L&T'S MARKETS ALSO IN THE FUTURE.



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Property maintenance makes properties more pleasant and energy efficient.



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L&T's target during the next five years is to reduce the I+ accident frequency to 15.



# Message from the President and CEO

I joined L&T in June 2011. Since then I have become aware of L&T's strong presence in almost every area of our daily lives.

L&T has every opportunity to grow profitably, since environmental management is the business of the future.

We excel in all areas that matter; areas that build a strong foundation for our operations. L&T has solid business competence and a wealth of experience, as evidenced by the large number of long careers in the company. Something that makes all of us proud at L&T is the company's role in environmentally important matters.

As an environmental management company, our mission is to help our customers to operate in an environmentally sustainable way. We do this by providing services to customers: our waste management and recycling services support general material efficiency, we provide renewable energy sources to replace fossil fuels, and our property maintenance specialists understand the secret behind reducing energy consumption in buildings. When providing cleaning services, our crews use ecological methods and equipment. Our staff are able to offer advice on sorting, waste reduction and energy use optimisation.

## **Good work ability benefits individuals and society**

L&T has successfully completed its five-year Sirius work ability programme, with excellent results: fewer sickness-related absences, lower employee and disability pension costs, and longer careers. For our employees, Sirius offered a way of coping more effectively, both physically and mentally. Sirius helped many of our employees to avoid almost certain retirement. Work ability, even on a partial basis, benefits society too.

Inspired by these positive experiences, we decided to launch another five-year period of the Sirius programme. Key themes in the second period include the prevention and treatment of work-related musculoskeletal disorders and further improvements in occupational safety.

## **Economic cycles have only a minor impact on L&T**

The economy is currently characterised by uncertainty; only time will tell which way the economy will turn. We have built a strong foundation and are prepared to face hard times.

General economic development is particularly reflected in the recycling business and commissioned environmental and support service assignments. Hazardous waste and cleaning services offered to heavy industry depend, to a certain extent, on the industrial utilisation rate, although any decline in utilisation has a delayed impact on demand for services. However, the bulk of our operations are located in low-cyclical markets. This makes us less vulnerable than many other companies to economic fluctuations. In practice, almost all of the products and services we offer are still needed and ordered, even in very weak general economic conditions.

The majority of net sales generated by 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, many of the services provided by L&T are necessary in order to comply with environmental legislation and hygiene requirements.

## **L&T has every opportunity to grow profitably, since environmental management is the business of the future.**

### **Strategy-building is a joint effort**

For L&T, in many respects 2011 marked a new beginning. This doesn't mean that everything has to be changed, but as the new CEO I am expected to produce new results. In 2012, our key focus will be on profitability improvement and strategy overhaul.

Both our personnel and shareholders demand a more clearly defined strategy for the company. This spring, we intend to examine all L&T operations and structures with fresh eyes. Based on our observations, we will begin building a new strategy. Such strategy-building will be a joint effort between company management, the Board of Directors, and a large number of employee representatives.

This work should be completed and a new, clearly focused strategy made ready sometime during 2012. One thing is certain: as an environmental management company L&T will continue to focus on service provision in the future.

In the short term, we will concentrate on enhancing profitability and operational efficiency in all divisions. Our current key projects are geared towards efficiency improvements in logistics, sourcing and the use of business premises. We will also pay attention to working capital and cash flow management.

Everyone at L&T is open to change. We need an open-minded attitude as we set out to build a new, more successful L&T.

February 2012

Pekka Ojanpää  
President and CEO

## **PEKKA OJANPÄÄ**

**Born:** in 1966, France

**Education:** M.Sc. (Econ.)

**Career:** Joined the sales team at Nokia Corporation in 1994, left 11 years later from a position in procurement. Worked for Kemira 2005–2011. For the last few years, was in charge of the company's second-largest unit that develops and sells chemicals for municipal and industrial water treatment.

**Hobbies:** Tennis, cross-country cycling, hunting and other sports





# L&T in 2011

L&T's full-year net sales grew by 9 per cent to EUR 652.1 million. Operating profit was EUR 25.6 million and operating profit excluding non-recurring items was EUR 44.3 million.

### Building a recycling society

Waste is and will be an increasingly important material in the future. Instead of disposal, it should be maximally re-used to reduce the use of virgin raw materials. L&T collects waste materials and delivers them for re-use as secondary raw materials for the industry to be used in production of new products, or as energy. In 2011, L&T strengthened its position in the collection of materials such as paper, board, metal and plastic.

During the year, L&T introduced a production control system that enables the use of modern digital tools. These new tools allow real-time monitoring of waste materials and collections. For the customer, they enable fast waste reporting and provide efficient tools for production planning and operational efficiency enhancement. In service development, key priorities include solutions that rely on L&T's expertise and consultation. During the year, major co-

operation and framework agreements were signed with central trading companies and major property owners. In the industrial sector, integrated environmental management and material efficiency solutions were developed.

The modernised Kerava recycling plant was brought on line, allowing more efficient delivery of material flows for re-use.

### Towards a service society

By outsourcing support services to a central service provider offering a full range of services the customer gains easiness and also cost efficiency can be improved. L&T offers the full spectrum of property maintenance services as well as support services that simplify our customers' daily routines.

As a pioneer in its line of business, L&T is continuously developing new solutions for property and plant management. Special attention is paid to environmental aspects. For example, L&T's EcoMaintenance services are designed to improve energy efficiency, which in most cases generates both environmental and financial savings. When selecting cleaning equipment and methods, greener choices are preferred.

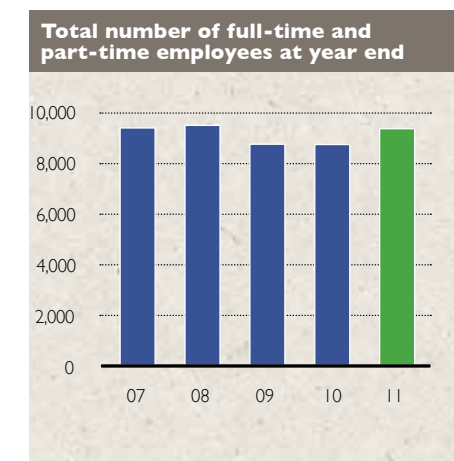
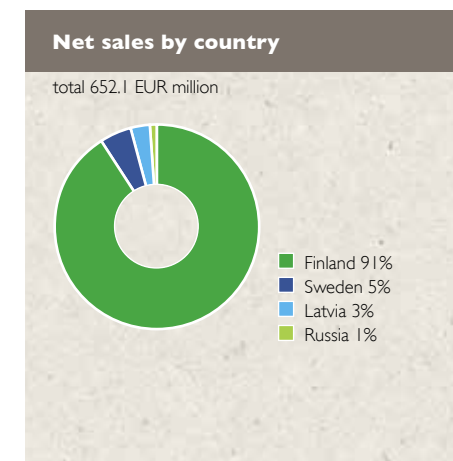
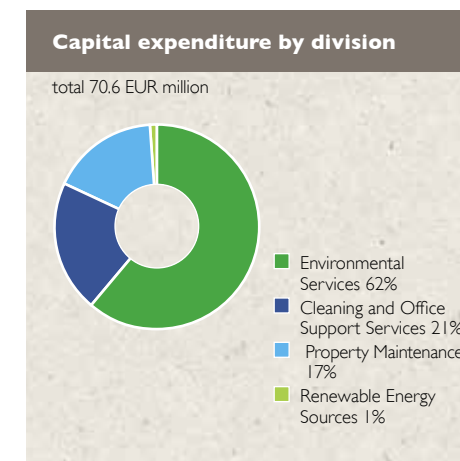
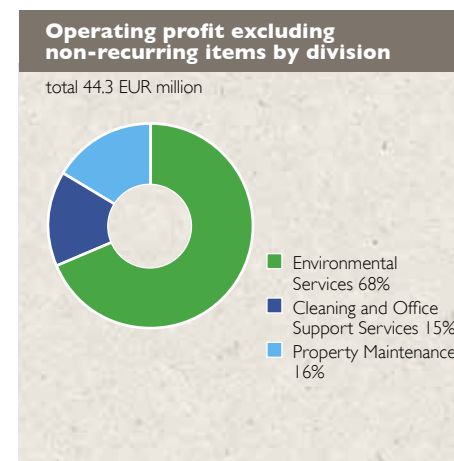
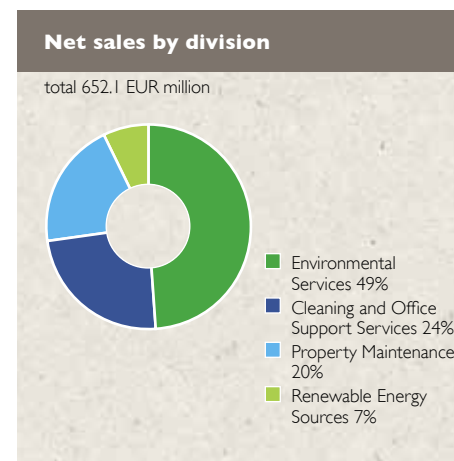
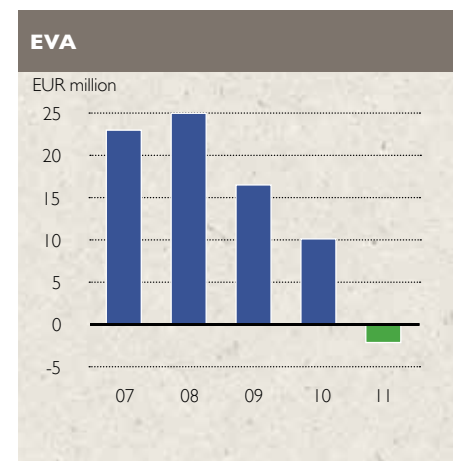
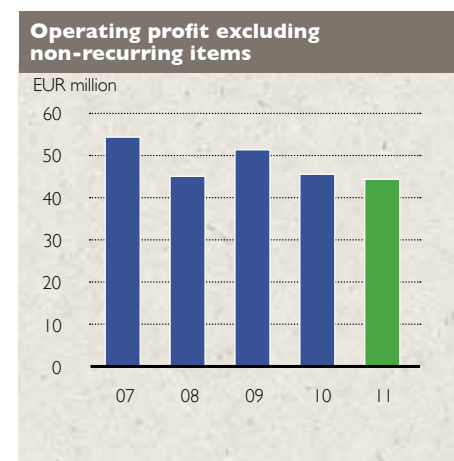
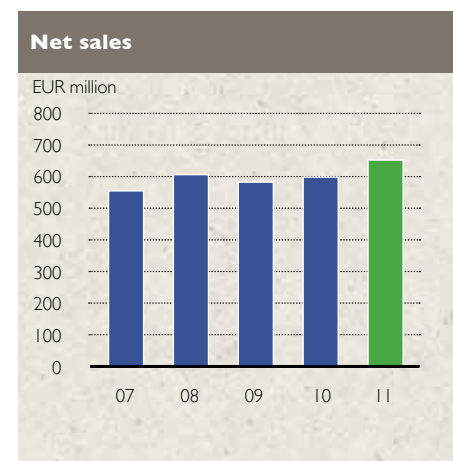
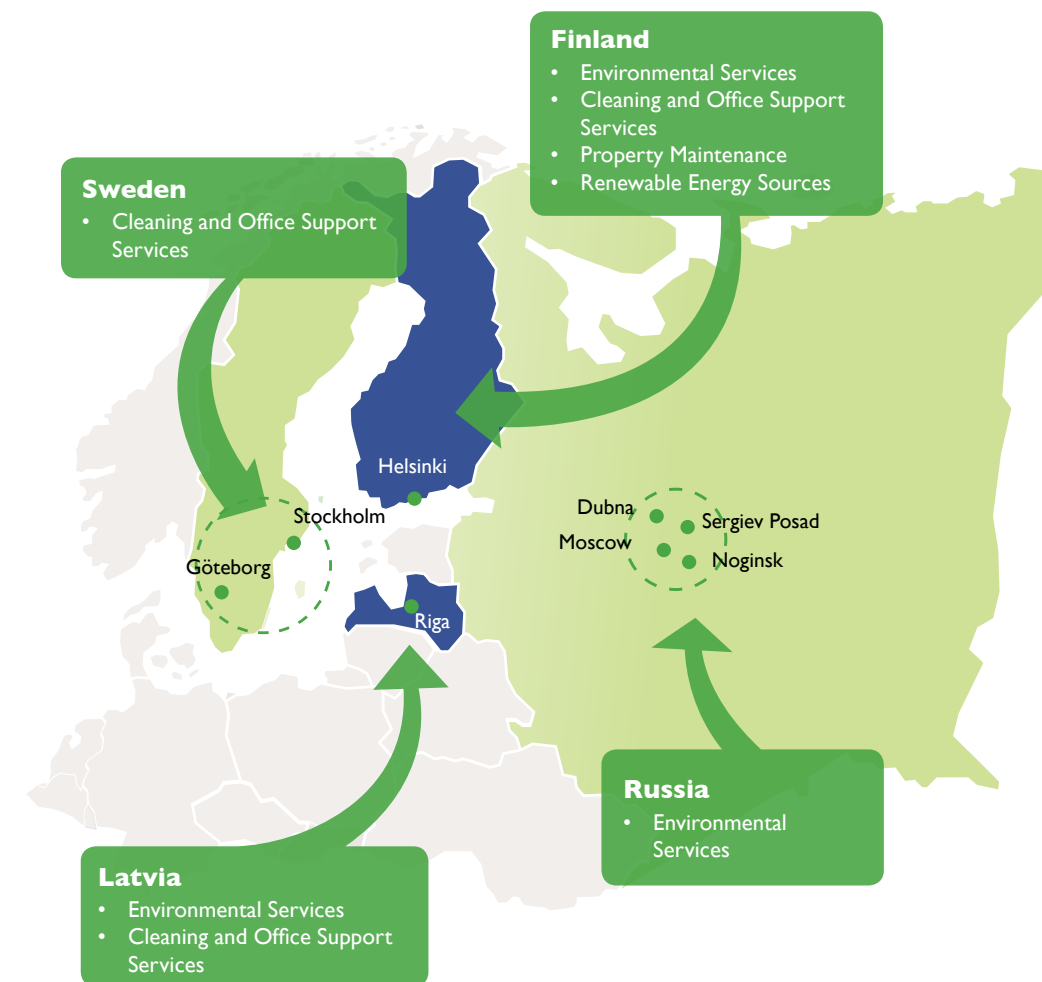
In 2011, L&T completed several acquisitions, in order to strengthen its position as a support services provider.

### Energy for the future

L&T is one of Finland's significant suppliers of wood-based biofuels and recovered fuels that also offers the related complete fuel supply solutions and services.

L&T's recycling plants produce solid recovered fuels from waste materials that cannot be re-used. This recovered fuel is 60–100 per cent renewable biomass. Raw material for wood-based fuels is sourced directly from forest owners through L&T's own forestry service organisation, and from the wood processing industry's by-product flows.

The fuels supplied by L&T replace fossil fuels in energy production. Use of renewable fuels will increase considerably in the future. ■



# L&T helps its customers to operate in an environmentally sustainable way

L&T is striving to become the leading supplier of environmental and support services.

**W**e help our customers achieve their own environmental objectives. We want to be an integral part of our customers' daily operations, and join forces with customers to develop new practices. To be able to achieve this, we need to be able to identify our customers' needs and match our services with their operations.

To become the preferred partner to our customers, we seek to anticipate and shape changes in environmental norms and values.

## **Financial targets pave the way for strategic intent**

Our objective is to make L&T's shares a sound and competitive investment. That is why we focus on improving our profitability, the primary indicator of successful performance.

Our key profitability indicator is Economic Value Added (EVA), in which we seek an annual increase, at a minimum growth in excess of net sales. Annual growth target is 10%.

We strive primarily for organic growth. In particular, we want to grow service businesses that tie up little capital and generate a steady cash flow.

In addition to organic growth, we are prepared to make acquisitions. To enhance

operational efficiency, we will streamline and harmonise our operating methods and invest in technology that improves customer care.

## **Short-term key projects**

Our main objective is to improve profitability in all divisions. To support the related efforts, we have set up named key projects designed to increase operational efficiency.

Our key projects involve logistics and production optimisation, development of sourcing operations, more-efficient use of properties, and enhancement of working capital.

As one of Finland's biggest logistics companies, we view more efficient logistics as an effective tool in improving cost-efficiency and competitiveness. The logistics programme involves a comprehensive re-examination of logistical processes in Environmental Services and Renewable Energy Sources.

Sourcing represents a significant portion of L&T's total costs and we intend to improve cost-efficiency in these operations over the next few years.

The nation-wide property project is designed to simplify L&T's business site network, make more effective use of premises and reduce costs.

Furthermore, the short-term objective is to strengthen working capital and cash flow.

We will pay close attention to the turnover rate of trade receivables and trade payables, and the optimisation of inventories.

## **Focus on the customer**

Our objective is to offer the industry's best customer experience. That is why we are dedicating customer relationship development resources to this area. Towards customers, we want to present a united front as one L&T.

Our professional competence and success are measured by our ability to attend to customer needs and show a customer-driven mindset. To stand out from competition in the eyes of customers, we will further develop our existing services and invest in long-term customer relationship management.

## **Responsibility for the environment and people**

We cannot help our customers to build the optimal conditions for ecological business if we fail to live by our own standards. Responsibility is an inseparable part of L&T's business and services. Environmental aspects are closely linked to our daily activities. In our service operations, special attention is paid to environmental competences.

Responsibility covers more than the environment, it also extends to people.

**In our service operations, special attention is paid to environmental competences. L&T is and continues to be an environmental company.**

Our in-house development efforts focus on improving occupational safety.

We sell services provided by people. Consequently, our business and our competitive strengths rely on skilled and motivated personnel.

## **Strategy overhaul**

During 2012, we will examine our business and structures with fresh eyes. In addition to senior management, L&T personnel and the Board of Directors will also participate in the strategy process.

Although the process will add new touches to the strategy, many of the basic elements remain unchanged. L&T is and continues to be an environmental company. We will focus on service business that does not require major capital investments. Environmental services and property services will continue to be part of L&T. ■

## **FINANCIAL TARGETS**

- › Profitability: Annual EVA improvement
- › Growth: 10 per cent in the long term
- › Net sales growth outperforms invested capital and fixed cost increase



## Global trends support demand for our services

Several major trends affect L&T's markets now and in the future. These include stricter environmental legislation, growing resource and energy efficiency requirements, changes in public sector service production, and the fight against climate change.

**G**rowth in the markets for L&T's services is outperforming long-term general economic growth. However, general economic development affects waste transport and recycling volumes, as well as the market prices of secondary raw materials and demand for those materials. It also impacts on support service orders and demand for services provided to the industry.

### From consumption to recycling

A resource-efficient Europe is one of the key programmes in the EU strategy for 2020. This programme will accelerate EU's transition from a consumer society to a recycling society. Waste management and recycling play a major role in exploring ways of replacing virgin raw materials with secondary raw materials, and of curbing climate change. Waste is the raw material of the future.

Consumers believe that using waste materials as a secondary raw material is an important way of caring for the environment. Most Finns also think that waste sorting represents concrete action in the fight against climate change. From the corporate perspective, environmental issues are gaining in importance. Rather than image issues, they are now drivers of competitiveness.

The most effective way to drive a recycling society is to enact laws that promote the use of secondary raw materials and to foster strict compliance with the waste hierarchy. To ensure compliance with the hierarchy, targets must be set for the recycling of waste fractions, and consumers must be provided with the opportunity to sort waste at source. Other factors promoting recycling include regulations on producer liability and the recycling of packaging materials.



Property and plant support services can help reduce energy consumption by paying special attention to the building's use.

Energy recovery is a viable option when waste is used in existing power plants, to replace fossil fuels with recovered fuels. Reforms of Finland's Waste Act and the Waste Tax Act will significantly promote the recovery of waste material. At the beginning of 2011, the waste tax was raised from EUR 30 to EUR 40 per tonne. At the beginning of 2013, it will be raised by another ten euro.

The re-use and recovery objectives specified in the EU Waste Directive must be reached by 2020. The objective specified in Finland's national waste plan for 2016 is to recycle half of Finland's municipal waste as materials, to use one third for energy production, and to place only 20 per cent of waste in landfills. Construction waste has a recovery rate objective of 70 per cent. However, according to Statistics Finland, waste recycling volumes fell to 33 per cent in 2010 (2009: 36). This is due to increased incineration, which means waste recovery rate and landfill waste volumes have not actually changed much. As much as 45% of municipal waste still ends up in landfills.

If the recycling rate across the EU were raised to 70 per cent, as many as 500,000 new jobs would be created. Furthermore, growth opportunities could be created in environmental technology machinery and equipment manufacture, by seeking methods that enable efficient processing of difficult-to-recover recyclables.

### Energy road map shows the way to renewable energy growth

In an effort to combat climate change, the EU has made a commitment to significantly promoting the use of renewable fuels. In Finland, renewable energy must account for 38 per cent of end use by 2020 instead of the current 30 per cent. According to the EU Energy Road Map 2050, renewable energy should account for more than half of EU's energy production in 2050. Before 2050, targets will be set for 2030.

According to Finland's climate and energy strategy, the use of bioenergy could be considerably increased, particularly in heat and power co-generation and property heating. Use of wood-based biofuels is the key method of increasing renewable energy use in Finland. One of the objectives is to more than double the use of forest processed chips. The number of power plants using wood-based fuels in Finland is expected to grow in the next few years, providing a healthy basis for long-term demand for



wood-based fuels. Fossil fuels, such as peat, can also be replaced with recovered fuels made from non-recyclable waste in heat and power co-generation.

The rate at which demand for energy obtained from forests will increase depends on the price development of emission rights, the fossil fuel price trend and on national decision-making. This will enable the government to make a difference to which fuels are used for heat and power generation. In order to heavily increase the use of forest processed chips, besides tree crowns, energy wood should be harvested from young forests as part of good forest management.

The bioenergy report prepared by the Ministry of Employment and the Economy suggests that the industry could contribute to the creation of thousands of new jobs. Production plants are located across Finland, and could also offer jobs and a livelihood in sparsely populated areas.

#### **Energy efficiency equals resource efficiency**

Besides environmental management and renewable energy use, measures aimed at enhancing energy efficiency also increase resource efficiency. A one-percent reduction in EU energy consumption would result in 50 fewer coal-fired power plants. With determined energy saving efforts, energy demand could be reduced by up to 40 per cent from the peak level.

Energy-saving requirements boost demand for property maintenance services. Stricter norms and building regulations improve the energy efficiency of new buildings, but half of the building stock that will be in use in 2050 has already been built. For this reason, it is important to improve the energy efficiency of the existing building stock. Buildings account for some 40 per cent of Finns' energy consumption and for about a third of all carbon dioxide emissions.

Property and plant support services can help reduce energy consumption by paying special attention to the building's use. When performing property maintenance and clean-

ing services, L&T's specially trained personnel make observations on energy consumption and waste sorting. The results have been encouraging: a notable decrease in energy consumption in a number of customer properties and an increase in waste sorting efficiency.

In Finland, the ageing building stock, water systems and electrical and IT networks will increase long-term demand for wastewater services and technical systems services. Similarly, the markets for industrial and municipal wastewater services are expected to grow.

#### **Winds of change in the labour markets**

While the commercial market accounts for approximately one half of the overall cleaning services and property maintenance market in Finland, the proportion is growing with the increasing popularity of outsourcing. At about 20 per cent, the rate at which public sector support services in Finland are outsourced is clearly lower than in most other EU member states. However, the retirement of the baby boom generation and the need for greater operational efficiency will accelerate outsourcing. Market consolidation continues in Finland and Sweden alike.

As the baby boomer generation retires, work-based immigration must be supported. Even by cautious estimates, the Finnish service society will need the input of up to 10,000–20,000 immigrants per year. The property services industry is very labour-intensive, which is further accentuating the need for workforce. Approximately three per cent of the Finnish population is non-Finnish, which is the lowest proportion in the EU.

In addition to workforce availability, the grey economy is a major concern in the cleaning industry. This issue concerns both the authorities and customers. Whenever they wish, customers can check the legitimacy of their service providers' operations. Actions to combat the grey economy help legitimate businesses to operate on a healthy basis and to offer jobs to qualified employees.

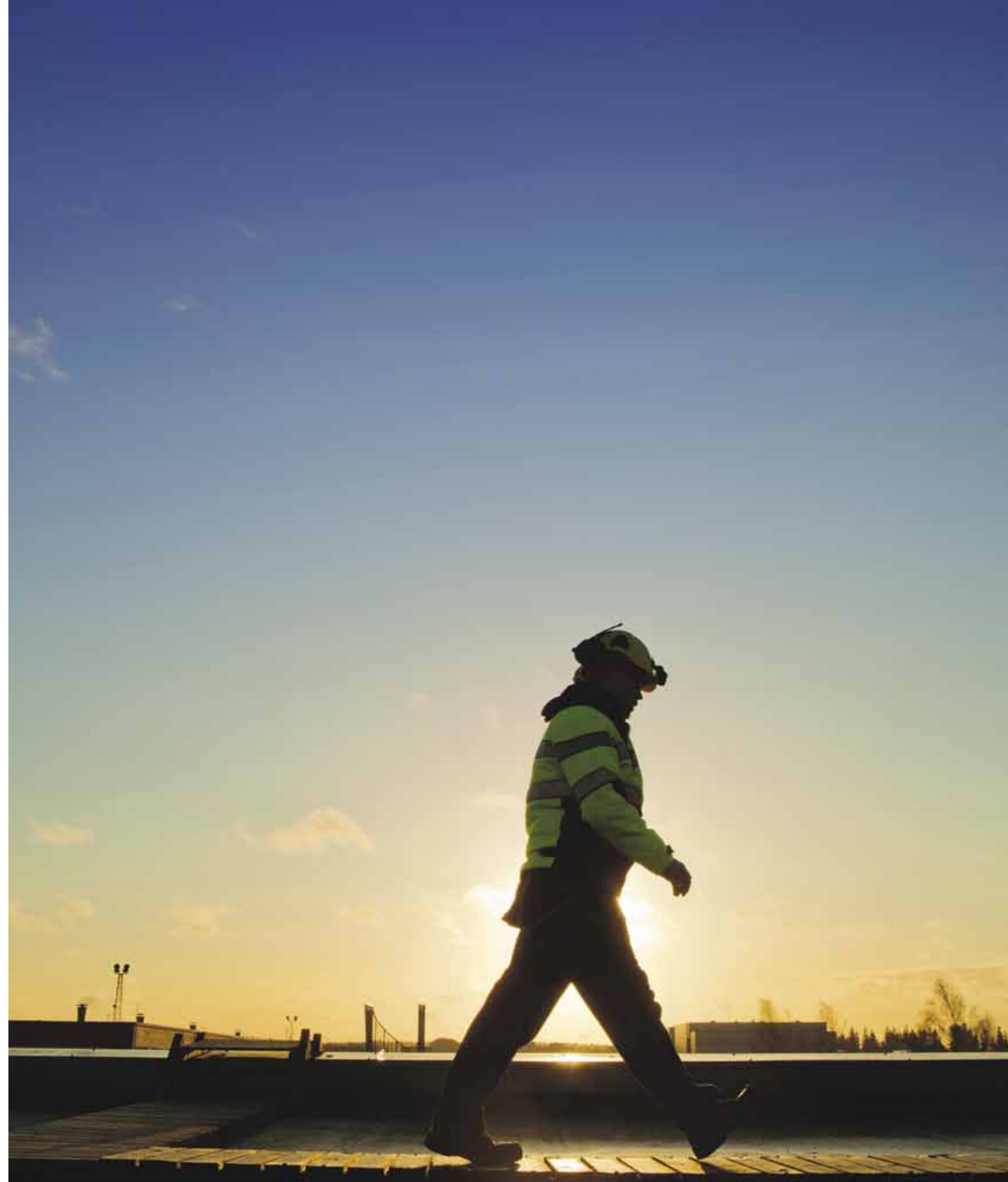
#### **Special features of non-Finnish markets**

Besides Finland, L&T runs operations in Sweden, Latvia, and in the Moscow region in Russia.

Sweden has a much higher rate of public sector outsourcing than Finland. The list of outsourced services is long. Examples abound of institutions which have outsourced all of their non-core operations. In fact, cleaning and office support services are, almost without exception, provided in extensive packages. Customers expect the service provider to show an innovative approach to developing new support services. Environmental values are also quickly gaining in significance.

Latvia is recovering from a deep economic crisis, which has left a mark both on environmental care and cleaning. Waste legislation is being harmonised for compliance with the EU Waste Directive, which will bolster Latvia's recycling and final disposal markets. Riga's geographic location is crucial to trade in secondary raw materials.

Interest is growing in Russia towards environmental management, and both private and public environmental management investments are in the pipeline. Legislation does not yet fully support waste management and recycling. In the Moscow region, waste volumes continue to grow and the sector offers huge growth potential. ■



## Divisions in brief

**49%**

**Environmental Services**

**24%**

**Cleaning and Office Support Services**



**7%**

**Renewable Energy Sources (L&T Biowatti)**

**20%**

**Property Maintenance**

### Environmental Services

- › Waste management
- › Recycling services
- › Hazardous waste services
- › Sewer management services
- › Industrial process cleaning
- › Environmental products
- › Environmental management services
- › Materials utilisation

Our extensive selection includes a range of environmental management solutions that can be customised to meet the individual needs of households, businesses and the public sector.

With our network of collection services and plants we can effectively utilise a wide variety of waste materials. Collected waste materials are processed for re-use as secondary raw materials or as energy. L&T Recoil, a joint venture, processes used lubricating oil into base oil. In addition to environmental management, we provide wastewater system and industrial process equipment cleaning and maintenance services.

### Property Maintenance

- › Property management
- › Maintenance of technical systems
- › Damage repair services

As a specialist in property maintenance, we can provide a full range of the property services required, cost-efficiently and aiming at higher energy efficiency.

Property Maintenance services include maintenance, upkeep and repairs of technical equipment on the property, the upkeep of outdoor areas, and cleaning of common areas. Technical systems maintenance covers the design, maintenance, repair and installation of technical systems in properties. Damage repair services cover fire restoration, special cleaning and drying services, as well as environmental and major damage services.

### Cleaning and Office Support Services

- › Cleaning services
- › Office support services

We offer businesses and the public sector a comprehensive service package that includes cleaning and services designed to support the customer's operations.

In addition to contract cleaning, we provide support services for customers' day-to-day routines, such as reception services, switchboard operator services, and mailing and copying services. Besides contract cleaning, we provide separately agreed one-time services to enhance user comfort within the property. Cleaning services for the SME sector are provided by the Huomenta Toimitilapalvelut franchising chain.

### Renewable Energy Sources (L&T Biowatti)

- › Wood-based biofuels
- › Recovered fuels
- › Forestry services to forest owners

We offer sustainable and clean fuel solutions to energy producers, and forestry services to forest owners.

L&T Biowatti's services include complete fuel supply solutions built on wood-based biofuels and the recovered fuels produced by Environmental Services. In addition, the company supplies raw materials for the wood-processing industry and offers forestry services, such as first thinning, to forest owners.



# Case gallery



## PALPA

Glass bottle recycling points will soon be available in 5,000 retail stores. L&T and Suomen Palautuspakkaus (PALPA) have agreed on the management of glass bottle recycling bins. Glass bottles will be reused.

For consumers, this is an eagerly awaited change, as it allows Alko (state alcohol store) bottles with a refund value to be returned to any grocery store in Finland. Previously, bottles had to be returned to one of the 350 service points shared by Alko and supermarkets.

PALPA does not own the collection equipment; instead these are the property of L&T. A system based on smart technology enables efficient container management.

"All collection bins are equipped with barcodes and RFID tags that enable remote identification. With this system, we can easily report to PALPA on the use and movement of the collection bins. With regular maintenance, the collection bins can be used for an extensive period," explains L&T's Business Director Petri Salermo.



## Valmet Automotive

The automotive industry has seen a genuine revolution since the 1960s, when the factory was opened in Uusikaupunki, but the pursuit of high quality remains

The same principles apply to support services and car manufacture: high quality, innovation and ecology. Packages are carefully designed to eliminate any unnecessary packaging material, and energy efficiency is constantly under scrutiny. The factory is almost as sterile as a hospital. Flawless performance is also expected of L&T's cleaning and equipment cleaning crew.

For production purposes, it is actually critical that waste containers are emptied on schedule, because materials have to move forward at the correct tempo. The factory has a waste train that removes full containers and replaces them with empty ones. The train terminus is equipped with a row of compactors, with separate ones for plastics and cardboard.

"It's important to us that our partner is able to process several different waste fractions. We expect L&T to be proactive, in other words to take steps to constantly improve our waste management. Our production volumes fluctuate, which means that last year's recycling rates or costs are not necessarily the best basis for future development," says Kari Vainio, Property Manager at Valmet Automotive.



## Valio

Valio's dairy producers make the purest milk in the EU. First-grade milk is one of the cornerstones of food safety.

To guarantee the safety, steps must be taken to ensure production hygiene and to keep products refrigerated from the farm to the store shelf.

L&T is responsible for sanitation at Valio's Vantaa plant. Careless washing or cleaning could lead to the growth of unwanted bacteria or mould, which might ruin the products.

Karl-Magnus Lindfors, Director of Valio's Cheeses business unit, underlines that food safety is a top priority because of consumer safety rather than legal requirements.

"Consumers associate reliability and high quality as characteristics of Valio. Product safety can not be highlighted too much. It comes from the competence of personnel and business partners, cooperation, correct working methods and the right attitude."

Hygiene monitoring includes meeting practices, shaped by the years, that support daily and long-term goals.

When L&T and Valio developed the washing methods together, water consumption was reduced and the operational reliability of machines improved. In a currently ongoing development project, L&T's employees reassemble the lines for production after washing.



## TYKS

A regular Friday morning with staff in white coats going about their daily business quickly turned different as fire broke out at the Turku University Hospital.

Seven floors suffered smoke damage. L&T's damage repair services immediately started giving first aid: cleaning, tearing down, washing and sanding.

"It was necessary to restore the premises to working condition as quickly as possible, to safeguard the wellbeing of the population. L&T was able to bring an adequate supply of skilled staff and equipment on site quickly," says Tapani Kosonen of the Hospital District of Southwest Finland.

The quantity and quality of equipment were quite unique about damage repair in a hospital. Without the assistance of hospital personnel, there was no way of knowing if the device the damage repair staff held in their arms was particularly expensive or sensitive. Almost 30 truck loads of items were removed. These included beds, machinery and hard drives, which were taken to storage facilities to be cleaned and stored until the return, or catalogued for insurance purposes and destroyed.

"You could tell by the way the staff worked that, even though the project was large, it was a job just like any other. Their quiet confidence helped others stay calm and the massive project gradually turned into methodical, hard work," Kosonen concludes.



## Kempele commercial property

When tasked with the management of commercial property in Kempele, the attention of Annemari Mustonen, Facility Manager at Kiinteistötahtkola Oy property management firm, was drawn to high energy costs.

Mustonen arranged a competitive tender for property maintenance, and L&T was awarded the contract. In 4 months, consumption of district heating fell by 42% and electricity consumption by 57%. The savings were enough to pay for more than two years' worth of property maintenance.

The positive cycle began with L&T's Eco-Maintenance assessment. Henry Hintikka, an L&T specialist, went through the 5,000-square-metre building with a fine-tooth comb. He found incorrect settings and faulty equipment in the ventilation and heating systems.

"Equipment is very rarely set to operate at an optimal level. You can always create savings by making a adjustments."

In addition to his to-do list, Hintikka wrote a shopping list: electric resistors, thermostats and filters. The refurbishment did not require any major investments.

"We were surprised by the savings achieved without having to make compromises," Annemari Mustonen says. In fact, conditions improved once the heating and ventilation problems were resolved.



## Keravan Energia

Full trailer combinations deliver an uninterrupted supply of wood-based fuels to Keravan Energia power company's biopower plant.

Reliable deliveries are a necessity; delays in fuel deliveries would bring the plant to a standstill. The plant uses wood to generate heat and electricity for homes and other properties in Kerava. Energy supplied by L&T - forest processed chips - comes from nearby forests.

"Environmental values and the ability to use local, domestic fuel are important to us. We wanted to reduce dependency on natural gas and oil," says Heikki Hapuli, Production Manager at Keravan Energia.

To ensure timely fuel deliveries to the power plant, L&T's logistics supervisor Wilhelm Lyra maintains regular contact with the plant's personnel.

"Communication helps us anticipate changes. It makes both our and the customer's job easier."

Besides delivering fuel to the plant, L&T also transports the resulting ash for recovery.

"When you burn wood, ash is an inevitable by-product. We would rather see it recovered than disposed of," Heikki Hapuli says. Recovery saves on costs and is a pro-environmental solution.



65,000  
CONTAINERS  
EMPTIED EACH DAY

We take care of and manage the recycling and recovery of more than 300 types of waste generated by households and companies, processing this waste into 140 different secondary raw materials. Regardless of whether a household or company is involved, sorting begins with individuals.

## From a consumer society to a recycling society

Landfill disposal of waste or incineration are unsustainable disposal methods. Recycling and sustainable consumption will play a key role in the future.

**E**fficient use of resources helps to curb climate change and ensure an adequate supply of virgin raw materials. Environmental management plays a major role in the transition from a consumer society to a recycling society. We offer tools and services to enhance recycling, and to help our customers operate more ecologically.

In the future, ecological choices will also be the answer to cost-related questions. Envi-

ronmental legislation is becoming increasingly stringent: significant limitations will be placed on landfill disposal of waste, the waste tax base will be expanded, and waste taxes will be raised.

Our expertise will be in high demand over the next few years. We have joined forces with our customers to identify the right ways of preparing for future changes and making the best use of waste in a cost-efficient and ecological way. Growing environmental requirements represent an opportunity for L&T, which we will seize by being involved in the customer's daily operations and processes. We view waste as a resource and are therefore able to find both local and national points of recovery for waste and by-product flows. More than 95 per cent of our operations in Finland are certified (excl. L&T Recoil).

### **Simplicity of sorting**

Sorting at source is the cornerstone of a recycling society. The more segregated the different material flows, the more efficient the re-use of waste. Sorting is easier if carried out near a person's home or workplace. We have launched a website offering sorting instructions for various articles and materials.

The recycling society relies on choices made by individuals. Households and companies today are willing and equipped to recycle;

*"We expect L&T to be proactive in waste management. As production volumes fluctuate, last year's recycling rates or costs are not the best basis for future development."*

**Kari Vainio, Property Manager,  
Valmet Automotive**



what they need is continuous training and advice, and the appropriate collection equipment. L&T can provide the right solutions for household needs, as well as for various commercial and industrial properties.

**From collection service provider to specialist**

The most prominent business of the Environmental Services division is logistics, where our strengths include the ability to collect materials optimally, and to move people and equipment efficiently. Last year, we made significant progress in our efforts to make our operations more efficient. We implemented a systems overhaul, pooling our resources and material flows into a single system.

Our customers are more and more interested in exploring various ways of going greener and lowering their overall waste management costs. To respond to this need, we have supplemented our basic services with

various specialist, training and consultation services in environmental management. Services are always customised on a case-by-case basis, to match each customer's needs. In the environmental management markets, winning companies must be able to deliver measurable added value to the customer.

In the industry sector, L&T ensures smooth operability. In addition to environmental management, we provide industrial process equipment cleaning and maintenance services. L&T is also a leading player in wastewater system upkeep and maintenance.

**Waste recovery rate to rise**

According to the EU waste strategy, the municipal waste recycling rate should be raised to 50 per cent by 2016, in addition to which 30 per cent of waste should be used as an energy source. With Finland's current recycling rate of 33 per cent and overall recovery rate of over 50 per cent, there is plenty of room

for improvement. However, the recycling rate decreased by 3 percentage points in one year as waste incineration has increased. We strive for uncompromising implementation of the EU waste strategy, which identifies recycling and recovery as primary objectives, over final disposal and incineration.

**Our customers are more and more interested in exploring various ways of going greener and lowering their overall waste management costs.**

L&T runs an extensive network of recycling plants, where part of waste is processed into secondary raw material for the domestic and international markets. The recycling plant in Kerava has been modernised and was brought fully on line in 2011. Following the modernisation, the waste recovery rate rose and the plant is now working as planned.

We are continuously expanding our services to cover new waste materials. In 2011, we established our position as a metals collector, launched the collection of ash from industrial clients, and, following a business acquisition, became a major player in fibre recycling.

**Markets for environmental management growing**

The Environmental Services division is a market leader in its industry in Finland, Latvia, and in selected regions of Russia. Increasingly stringent legislation and new technologies could create thousands of new jobs in the environmental management industry in Finland alone. In Russia, the objective is to build a waste management system compliant with EU standards.

Only about six per cent of all waste is municipal waste; that is, waste from service industries and households or subject to producer liability. Since traditional waste volumes are showing very little growth, we are seeking growth in new waste materials, for instance in industry by-product flows such as sludge and ashes, whose recovery is still in its infancy.

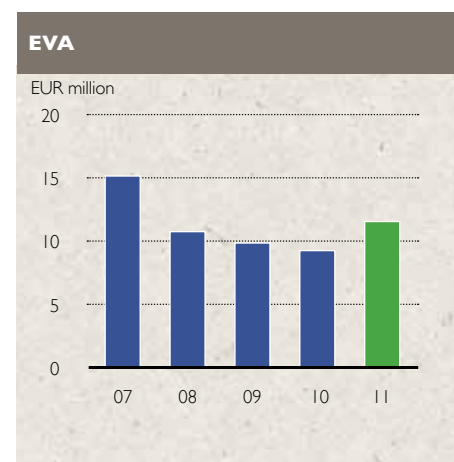
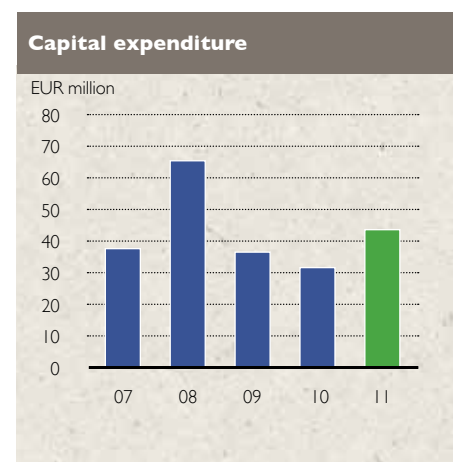
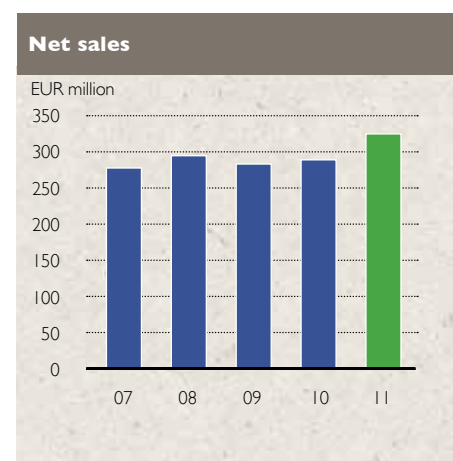
Besides providing a wide array of services, L&T is engaged in the sale of environmental management products such as collection

Users of L&T's four-compartment service can forget about unnecessary temporary storage of waste, and instead sort waste directly into a container with four compartments. Containers are emptied by a garbage lorry equipped with four compartments, collecting all material at once into the designated compartments and transporting it for recovery. The four-compartment service is available in the Turku and Pori economic regions.

equipment, compactors, and eco-products designed for consumers in Finland and in selected exporting countries, through its dealer network. In the development of environmental products, special attention is paid to usability, material recyclability and the product's lifecycle.

**The 2011 financial year**

The division's full-year net sales increased by 12.4% to EUR 325.9 million (290.0). Operating profit amounted to EUR 34.0 million (33.7), and operating profit excluding non-recurring items was EUR 34.0 million (34.0). More detailed information on factors affecting net sales and financial performance in 2011 is presented on page 2 of Financial Statements. ■



Metal products can always contain recycled material.

**Perspective**

**Many uses of metal**

Metal is not only a valuable material, it also has a fascinating life cycle. What is now a fork could previously have been a door handle, and the metal container of a tea light candle could be crossing the open sea at the bottom of an aluminium boat.

With the cost of excavating new raw material soaring, recycled metal is becoming an attractive option. There is a global shortage of scrap metal, and metal is guaranteed to sell even in weak economic conditions.

"Metal products can always contain recycled material. Metal can be re-used almost endlessly,"

explains Seppo Suomalainen, L&T's Service Director.

In Finland, approximately one million tonnes of metal is recycled annually. Most scrap metal collected by L&T ends up as raw material for domestic industry. For example, the plates used in newspaper printing presses are transformed into socket and cable casings used in offices.

"Our job is to find the best solution for the customer and the environment," Suomalainen concludes.





**5,000  
PROFESSIONALS**

L&T employs around 5,000 cleaners in Finland, Sweden and Latvia. Their input contributes to the construction of a service society, in which the service industry is a major employer.

## Everything in working order

For our Cleaning and Office Support Services division, successful performance goes beyond cleaning. It means smoothly running daily operations for customers, and pleasant and environmentally sound facilities with good support functions.

**C**leaning and Office Support Services provide cleaning and sanitation services and offer support services for various premises. Cleaning services primarily cover offices, production, logistics and business premises and common areas in residential properties. We also work in the food industry, where we are required to demonstrate a high level of hygiene and specialised expertise. Typical customers are users of facilities, such as tenants. The bulk of our net sales come from cleaning contracts. Similarly, the majority of additional services are

provided to cleaning contract customers. We provide services either as individual basic services, or combined into a multi-service package. Services are always individually tailored to each customer, based on L&T's strong professional expertise and its experience in providing services customised for specific premises, customers and needs. In the future, L&T will focus on further improving its ability to identify the needs of its customers. Other development areas include more efficient use of IT systems and further reductions in occupational accidents.

*"The Swan-labelled service model activated our personnel to recycle. Daily waste is now sorted much more carefully."*

**Arto Pulliainen, Property Assistant, Altia Plc**

In the TEP 2011 corporate image survey conducted by Taloustutkimus, L&T received the best overall rating in the cleaning industry from corporate decision-makers. Especially L&T's reputation as employer was considered good. We were also commended for our operational reliability and quality. At the moment, we are paying special attention to improving our customer experience and customer management.

**Green cleaning**  
Our customers appreciate cost efficiency and ecological choices. Pro-environmental choices often increase comfort and generate measurable savings for the customer. For instance, more effective recycling reduces waste, thereby cutting waste management costs. We provide cleaning services with a special focus on energy and resource efficiency. Our concepts consist of ecological cleaning, efficient



recycling and advice on sorting, complemented by a value-adding working method adopted by the cleaning crew. They make observations on recycling practices and on water, energy and material consumption.

The ecological cleaning service has been introduced to complement the Nordic Eco-labelled L&T EcoCleaning service, because we want to offer all of our customers an opportunity for pro-environmental cleaning. Both services are provided with eco-labelled equipment and detergents, and recycling plays a crucial role.

**Support services make everyday life easier**

Demand for office support services is growing, as companies increasingly outsource their support functions. L&T is making continued efforts to diversify its office support service offering. For example, we have obtained a guarding services licence to enable us to provide security-related surveillance services alongside other lobby and reception services. Office support services can also include catering for meet-

ings, maintenance of office supply stocks and mailing in the offices, returning shopping carts and recyclable bottles in stores or even taxi queue management or luggage trolley handling at airports.

L&T sees a great deal of potential in the Swedish markets. There is plenty of room for growth as these markets are twice the size of Finland's markets, and so far L&T is a small player. In Sweden, the practice of procuring multiple services from one provider is more established than in Finland, and customers know how to make full use of support services.

**People behind the service**

Cleaning and Office Support Services is the most labour-intensive of all of L&T's divisions. We employ approximately 5,000 cleaning and support service professionals. In an industry where differentiation is difficult, the only way to succeed is to provide excellent service to customers, and this is where our personnel plays a crucial role.

L&T has long been taking steps to prepare for the intensifying competition for workforce

caused by changes in population age structure. To keep our employees satisfied and in good working condition, we offer them good supervisors, sufficient training, measures to maintain work ability and the appropriate tools and equipment.

**Demand for office support services is growing, as companies increasingly outsource their support functions. L&T is making continued efforts to diversify its office support service offering.**

Similarly, a major improvement in the employment markets has represented a challenge in terms of workforce availability. High employee turnover is typical of the industry as the work available includes part-time work for temporary workforce such as students.

The revised salary system adopted for cleaning personnel in 2010 and the related five-year earnings development guarantee programme significantly increase personnel expenses, but will also improve the long-term availability of workforce.

The importance of a multicultural approach is growing, and continued development efforts are being made in this respect. For example, as a joint effort with our partners we organised a recruitment training programme for immigrants that included studies in the cleaning business and other studies, such as Finnish language learning.

**Stable markets**

While the markets in our industry are stable, they are characterised by a high degree of competition. L&T is the second-biggest operator in its field in Finland. About half of the market is dominated by a few major operators and the other half is divided between small companies. There are very few medium-sized companies in the market. In Latvia, L&T is the market leader. It is also among the four biggest players in Sweden.

In 2011, L&T focused on the integration of business acquisitions. The biggest acquisitions included Hansalaiset, which operates in a number

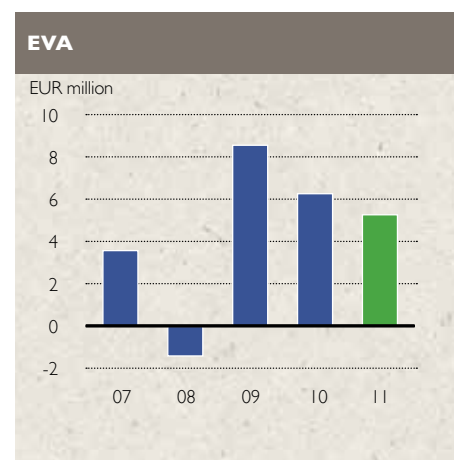
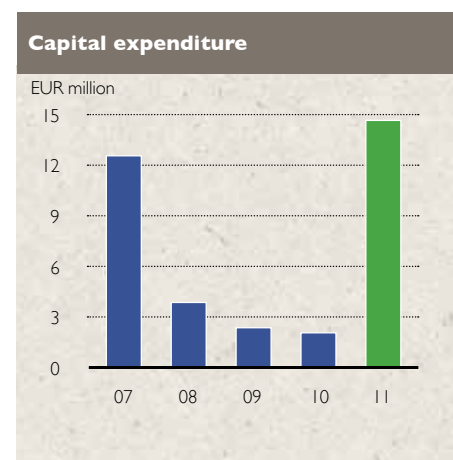
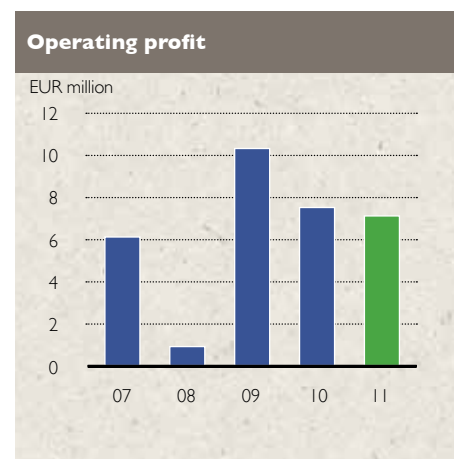
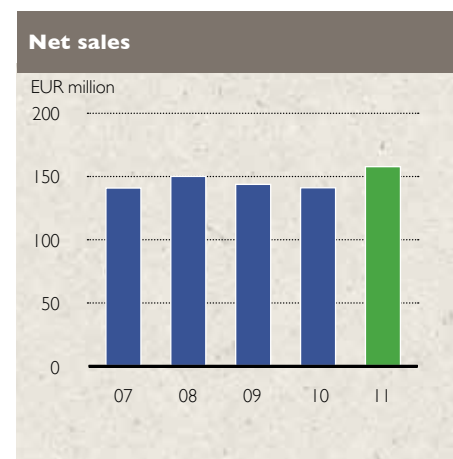
To ensure a good service outcome, cleaning and support service specialists have been trained to understand the customer's service needs, their premises, methods used, and operating policies.

of locations in Finland, and the Swedish Östgöta Städt, that raised the number of L&T personnel by around a thousand.

Like many other industries, service purchasing is in transition: processes are becoming more formalised, with the involvement of procurement professionals and procurement conducted on a larger scale, sometimes across national boundaries. Reporting is gaining in importance as a major procurement criterion. Competitive bidding is increasingly common and price competition is intense. We expect the commercial markets for both cleaning and office support services to grow in the next few years, as municipalities outsource their operations and companies focus on their core business.

**The 2011 financial year**

The division's net sales for 2011 grew by 11.8 per cent, to EUR 157.3 million (140.6). Operating profit totalled EUR 7.1 million (7.5), and operating profit excluding non-recurring items was EUR 7.5 million (8.0). More detailed information on factors affecting net sales and financial performance in 2011 is presented on page 3 of Financial Statements. ■



**Perspective Working together with customers to ensure high quality**

In food hygiene as well as in our other competence areas, quality assurance means that each L&T employee accepts responsibility for their input. We have to do our job well every day, in order to help our customer companies ensure the safety of their products and services.

Our work is assessed every day. In food hygiene, our work is visually inspected every morning, and the standard of cleaning is also regularly checked, using microbiological samples. To support our work, we have a system of documented control rounds in place, as well

as a carefully planned division of duties and a conceptual operating model.

The requirements of different fields are most clearly expressed in customer feedback. We engage in active co-operation with our customers and suppliers, to develop new working methods and solutions.

One purpose of working with customers in joint development groups is to improve safety at work. New methods and techniques help us to enhance the cost-efficiency of our services and to ensure their competitiveness.





## A well maintained property is more functional

A well cared-for property offers a pleasant environment and safe living. When a property is properly maintained, it works like it should – without wasting energy and money.

**L**&T Property Maintenance takes care of a wide range of property types: offices, business premises, industrial properties and residential properties, as well as public sector properties. Our customers, many of whom sign long-term contracts,

include property owners and managers, facility managers, and various companies. In damage repair services, we partner with leading insurance companies.

### We take responsibility for the entire property

L&T's strength is its ability to offer an extensive range of property services. We can quickly adapt our support services to suit customer needs, and provide customers with various alternatives. We pay special attention to our customers' energy and cost efficiency.

Tasks entrusted to us include property maintenance, technical systems management, upkeep of outdoor areas, and a wealth of separately acquired services.

To supplement our property maintenance services, we offer technical systems maintenance covering the installation, maintenance and repair of HVAC systems, electrical systems and refrigeration systems. Carefully planned and executed work helps extend the service life of properties, increase user comfort and reduce operational disruptions and the need for maintenance and investments.

*"We were surprised by the savings achieved without having to make any compromises. In fact, conditions on the premises improved once the heating and ventilation problems were resolved."*

**Annemari Mustonen, Facility Manager, Kiinteistötähkölä Oy**

**70%  
VALUE INCREASE**

Improvements in energy efficiency can raise the value of a property by as much as seven per cent. Appropriate measures will improve the technical condition of the property, lower maintenance costs, increase user comfort and raise the value of the property.



L&T's damage repair services cover the prevention of consequential damage, in other words the protection, cleaning and drying of property and structures. They also include restoration to the pre-damage state, for instance in the case of fire or water damage.

**Always room for energy improvement**

Our customers are showing strong interest in energy saving and environmental issues. To address their needs and expectations, we have devised service models that focus on energy efficiency: the L&T® EcoMaintenance and L&T EnergyGuarantee.

The L&T® EcoMaintenance concept consists of property maintenance geared towards energy efficiency. It is based on the observations of our personnel, their improvement suggestions and corrective actions. Properties account for 40 per cent of all energy consumption in Finland, which means huge

potential for energy savings. Improvements in energy efficiency can raise the value of a property by as much as 7 per cent.

L&T EnergyGuarantee is a service co-developed with Siemens, involving an energy savings and consumption guarantee for properties. This system can reduce consumption by as much as 30 per cent. Such cooperation allows companies to tap into L&T's property maintenance competence and Siemens' building automation expertise.

**Work affected by the weather**

The weather affects almost half of the net sales generated by Property Maintenance. The heavy snowfall and cold weather experienced in the last few years have translated into a heavy workflow, as well as many challenges. In addition to clearing of snow and preventing slipperiness, we are preparing repair capabilities in anticipation of the irregular weather conditions caused by climate change.

**Growth through acquisitions**

L&T's Property Maintenance is the second biggest player in the field in Finland. The markets are highly fragmented, with several small players operating in the markets. In 2011, we completed several small acquisitions.

**L&T's strength is its ability to offer an extensive range of property services. We pay special attention to our customers' energy and cost efficiency.**

Our key success factors include a sales process focusing on customer needs and solutions, skilled personnel, cost efficiency, flexibility, and an extensive service package. Customer management has been one of the key development areas in the past year, and thanks to these efforts shared practices and procedures have been adopted by customer care personnel.

Price competition is intense as expenses are growing and prices are falling. This forces companies to enhance production efficiency and trim fixed costs. For us, this means a lean organisation and more efficient use of technology, such as IT, machinery and equipment. We also promote innovation because it is necessary in our line of business, although the number of innovations made in the industry tends to be small.

Property services are being outsourced to a growing extent in Finland, and L&T makes every effort to tap into the second wave of outsourcing. Public sector has so far only outsourced very few of its operations, but with the retirement of the baby boomer generation and the tight fiscal regimes in municipalities, swift measures will be required.

The markets are also transforming in response to changes in procurement practices. Procurement is becoming more professional, cost awareness is growing, and customers are becoming more motivated to monitor their energy consumption and other property-related expenses. Large-scale procurement of services is the key trend. Obtaining all services from one provider enhances the customer's cost efficiency and eliminates the

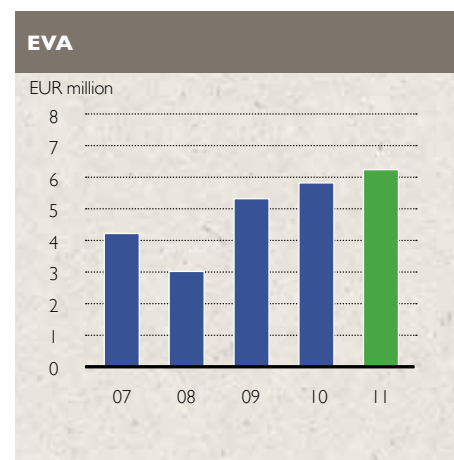
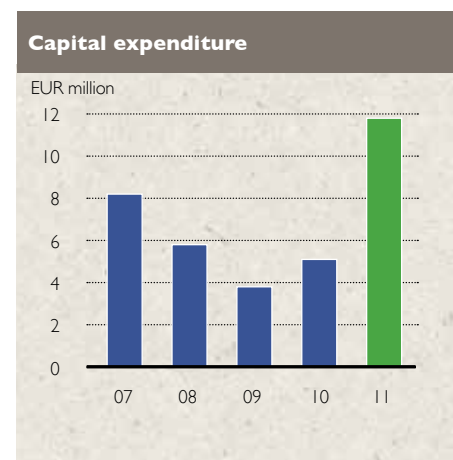
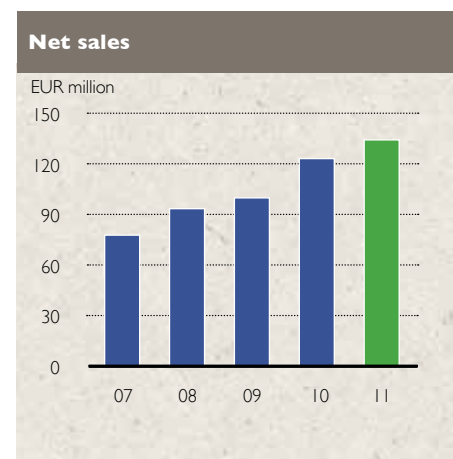
As a property maintenance partner, L&T works with customers to explore different ways of saving energy. Together, we can make sure our efforts produce results.



need for an extensive contact network. In many cases, the customer merely specifies a certain quality level, leaving us to attain that level with maximum efficiency.

**The 2011 financial year**

The division's net sales for 2011 grew by 9.0 per cent, to EUR 134.6 million (123.5). Operating profit totalled EUR 8.2 million (7.8), and operating profit excluding non-recurring items was EUR 8.2 million (7.9). More detailed information on factors affecting net sales and financial performance in 2011 is presented on page 3 of Financial Statements. ■



Leena Kuutti-Alanko, Head of Department, Tapiola

**Perspective**  
**Helping damage sufferers back on their feet**

Any accident, whether minor water damage or a devastating fire, can cause great personal pain and suffering. We at Tapiola are here to help customers get back on their feet in difficult circumstances.

We aim to begin damage assessment as soon as possible, so that we can make a quick and fair decision on compensation. To do this, we need a reliable partner who can report to us from the scene of the accident and provide an account of the damage occurred and its extent.

It's important for us that damage repairs proceed in line with jointly agreed rules. Our policyholders expect things to happen quickly and flexibly, with

flawless results. It is also important that we can rely on a professional repair crew arriving at the scene, even when extensive repairs are needed. In practice, our partner delivers the security which our customers buy in their insurance policies. Our work with L&T's damage repair services covers the restoration of building damages suffered by thousands of customers. With such an extensive shared history, our co-operation now runs like clockwork.

Mutual trust is the cornerstone of our co-operation. The party benefitting most from this mutual trust is the damage sufferer – our shared customer.





## Cleaner and more sustainable energy supply

Energy produced by forests will provide heat and power in the future. This local, abundant source of energy is good for our change-sensitive climate.

**R**enewable Energy Sources (L&T Biowatti) is one of Finland's leading suppliers of wood-based biofuels and a provider of forestry services nationwide. For us, every forest is a valuable source of energy.

Our primary objective is to make successful deliveries to our customers. Energy produc-

tion and wood processing are not part of our business. Our wood procurement focuses on young forests, in order to protect our material volumes from fluctuations in wood processing. We also serve as the sales organisation for the recovered fuel and wood-based fuel produced by Environmental Services.

A waste tax was specified for ash in early 2011, raising interest among our power plant customers in the further processing of ash. Ashes generated by the use of our wood-based fuels are now removed from power plants. Ash and wood-based cover materials included in our product range are used for environmental construction, such as noise walls and landfill construction.

As a Finland-based company, we want to promote the use of Finnish wood. We deliver wood bio masses, particularly those rejected by the traditional wood processing industry, for energy production. We use wood bio masses excluded from forest industry applications, and industrial wood waste, as fuels.

*"When you burn wood, ash is an inevitable by-product. We would rather see it recovered than disposed of. Recovery saves on costs and is a pro-environmental solution."*

**Heikki Hapuli, Production Manager, Keravan Energia**

# 200,000 HOUSES

If all fuel supplied by L&T Biowatti to power plants were delivered to private home owners, the fuel would heat 200,000 single-family houses for a year.

### Forest management doubles productivity

As new generations gain ownership of forests, the new owners do not necessarily have the



time, desire, skills, or, due to long distances, even the opportunity to manage their forests. L&T's services are designed precisely for these people: L&T's forest specialist assesses the forest and plans the necessary care, making the service easy, cost-efficient and reliable for the customer.

A forest needs care, particularly during the growth period from sapling to first thinning. Actions taken during this period will have the greatest impact on the forest's yield during its entire cycle. Proper forest management can double the proceeds.

A young forest is not optimally suited to traditional wood processing needs, but can still be utilised in energy production as a replacement for fossil fuels. Management of young forests raises future stumpage revenues, while creating better conditions for recreational use. Proper care helps

to nurture an overdense forest into valuable growth condition and to curb climate change, while creating jobs and a source of livelihood for Finnish people.

**Reliability is in our hands**

L&T's Renewable Energy Sources invests in reliable deliveries. Through our own 50-strong forestry service organisation, we procure wood directly from forest owners. This puts wood procurement in our own hands. In wood procurement, our own forestry service organisation is complemented by a large partner network.

A customised IT system is used for logistics management. While harvesting, chipping, crushing and transport operations are carried out jointly with long-term partner entrepreneurs, we also use our own transport fleet to ensure full delivery reliability. L&T runs

a nation-wide terminal network to ensure delivery, even in the event of disruptions.

**Making Finland a low-emission country**

Under the Renewable Energy Directive, Finland, as part of the European Union, is required to increase its use of renewable energy as a share of final consumption to 38 per cent (2005: 28.5) by 2020. This requires raising the competitiveness of wood-based fuels against fossil fuels.

**A forest needs care, particularly during the growth period from sapling to first thinning. Proper forest management can double the proceeds.**

We expect the commercial wood-based fuel markets and demand for wood-based fuels to grow in the future, as Finland, alongside the rest of the European Union, strives to build a more sustainable energy supply system. Our promising market prospects are, however, clouded by the political decision-making process, which has so far wavered with respect to subsidies. This could hamper long-term planning and, at worst, put the 38 per cent target at risk.

Forest processed chips offer the biggest potential, and their use is to be doubled by 2020. The related additional flows of forest processed chips primarily originate outside the wood processing industry: the chips made from wood obtained from young forests.

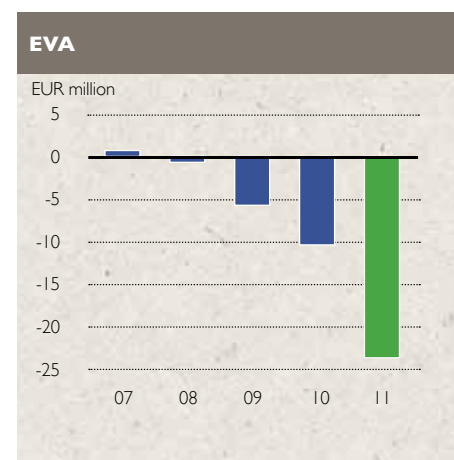
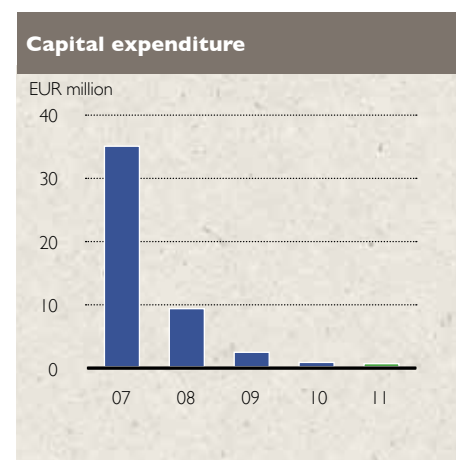
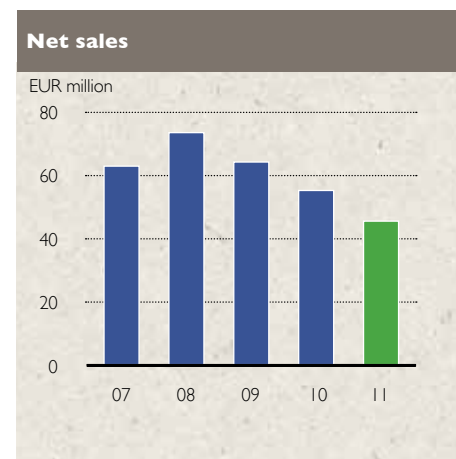
Sustainable energy supply solutions are needed to curb climate change. Using wood for energy is an effective method of controlling climate change, as the carbon dioxide released from burning wood is bound in by new generations of growing trees. Meanwhile, the carbon dioxide from fossil fuels represents an additional burden on the natural carbon cycle. In short, wood is a carbon-neutral fuel.

**The 2011 financial year**

The division's net sales for 2011 fell by 17.6 per cent, to EUR 45.4 million (55.1). Operating

Reliability is in our hands. Through our own 50-strong forestry service organisation, we procure wood directly from forest owners. We also use our own transport fleet to ensure full delivery reliability.

loss totalled EUR 21.3 million (loss of 6.6), and operating loss excluding non-recurring items was EUR 3.8 million (loss of 3.1). More detailed information on factors affecting net sales and financial performance in 2011 is presented on page 3 of Financial Statements. ■



Paavo Nygård, forestry service specialist, L&T Biowatti

**Perspective**

**Looking ahead across decades**

A young forest needs thinning, if the forest owner wants it to generate proceeds in the future. Fortunately for the owner, the first thinning produces energy wood, which is in growing demand. It is my job to remind forest owners of this fact.

Some owners contact me directly, others I run into as I drive past thickets during my rounds. Sometimes a thinning was never completed due to lack of energy or time. For those who have inherited a forest, forest management may be a totally foreign concept. And, if the size of the estate is relatively small, as is often

the case in Southern Finland, forests are not perceived as valuable.

Of course price matters in thinning, but a clean result is the most important thing. Many owners are worried about the marks a 15-tonne forest machine will leave. One way to make sure the result is clean is to conduct the thinning in winter, when the ground is frozen. Contractors thin the area in accordance with forest management recommendations and bring the lumber to the roadside for chipping. Next, the chips are delivered directly to L&T Biowatti's customers, i.e. to power plants.



# Responsibility is part of our business

Corporate responsibility is the foundation of our day-to-day operations. By providing services to customers, we help them operate responsibly.

**W**e comply with legislation and regulations, while observing the principles of sustainable development and good business practices. To maintain our competitiveness and profitability, we take action to improve operational efficiency, to enhance the customer experience, and to deliver added value to customers. Our personnel are committed to continuous operational improvement. Responsibility is such an essential part of L&T's strategy and services that it can be seen as part of business, or as a means of securing competitiveness. It is the key requirement in our operations.

**Leadership and management at L&T**  
The L&T Integrated Management System is a tool used to plan, develop and steer our everyday work and operations. It includes jointly defined operating procedures and provides tools for strategy implementation and the achievement of business goals. The system also extends to our international operations. It is used to ensure that our operations are consistent, harmonised and of high quality in all locations. During the year, measures were launched to revise the L&T management system. The objective is to improve management practices,

to clarify operating policies and to boost strategy implementation.

Environmental, health and occupational safety risk management is an integral part of our management system. Ensuring our personnel's well-being, providing a safe working environment and setting an example in environmental matters are factors that allow us to drive the company and its operations forward. Environmental and safety risks are regularly and extensively assessed across all organisational levels.

Our management system is certified for compliance with the ISO 9001 (quality), ISO 14001 (environment) and OHSAS 18001 (occupational health and safety) standards.

**Stakeholder groups**  
Stakeholder expectations regarding responsibility at L&T are highly diverse. This is because our customers alone, from households to public companies, number thousands. The stakeholder groups identified by L&T are shown in the table below.

We engage in active dialogue with various stakeholders on various issues, such as the benefits of recycling. We maintain dialogue with organisations and the media on developments in society, expressing our views through this discussion. We want to promote L&T's business by increasing our stakeholders' understanding of the market-driven environmental management system.

Because the property services industry is highly labour-intensive, transparency of operations and caring for employees are important. Topics actively discussed within the industry include the ways in which companies do business and the related supervision needs, fulfilling social obligations, caring for employees, combating the grey economy, and promoting environmental values. In summer 2011, L&T hosted a discussion at SuomiAreena, during the Pori Jazz Festival, on the theme "Jobs of the future – Where to find more work and more workforce?" Influential people from different sectors of society took part in this discussion.

## Trends that shape society affect our business

Our ageing population, availability of workforce and increasing service demand are key drivers of social change for service companies. Our job is to ensure the future availability of adequate and skilled labour force. In this situation, multicultural management, improvements in the recruitment process and competence development are issues of strategic importance. We are also acting to ensure that as many L&T employees as possible remain in working condition until retirement age.

We equip our customers to meet their environmental goals and obligations. Growing awareness of environmental matters is creating greater expectations with respect to L&T's services. Improvement in material and energy efficiency is becoming an even more integral part of customer companies' daily operations. This is because process enhancement is a key requirement in ensuring economic efficiency, and emissions must be cut to curb climate change. The motivation for environmental management has changed. Instead of waste disposal, the emphasis is on waste prevention and collection for reuse.

## L&T's operations support material economy

Compliance with the principles of sustainable development helps to save raw materials, energy and nature. Rising prices of raw materials, energy and pollution are prompting the creation of new technologies and service concepts. These will allow the more-efficient replacement of virgin raw materials and fossil fuels, with secondary raw materials and renewable fuels.

EU policies, such as the resolution on energy efficiency, as well as the national waste plan and national legislation, are gradually turning Finland into a recycling society. The waste tax base will expand and taxes will rise, steering our customers towards choices that promote sustainable development. Action must be taken to prevent waste and recover it for re-use as an industrial raw material.

The new Waste Act, the ban on organic waste landfill disposal currently under preparation, and future waste tax policies will gradually abolish landfill disposal, creating more favourable conditions for the recycling business. It is important to create structures and conditions that permit Finland to become a recycling society.

Over the next few years, L&T will assume a major role as Finland increases its use of renewable energy sources. Our wood-based biofuels and recovered fuels are replacing fossil fuels in energy production. We collect and process waste and by-products into secondary raw materials and recovered fuels: these are replacing fossil fuels and helping to save virgin resources, thereby contributing to the effort to curb climate change.

**Our responsibility objectives**  
Our responsibility objectives are strongly linked to our vision of the kind of society and operating environment likely to emerge in the future. Our key objectives are listed in the table below.

**Scope of responsibility reporting**  
The reporting included in the Annual Report covers L&T's operations in all divisions and all operating countries. Financial indicators are based on the financial statements. In some aspects, the social and environmental responsibility indicators only cover L&T's operations in Finland. Any exceptions are mentioned separately. The Global Reporting Initiative (GRI) recommendations on the content and principles of social responsibility reporting were applied in the preparation of the Annual Report. The scope of reporting in relation to the GRI reporting guidelines is shown on page 54. According to L&T's estimate, the report is consistent with reporting level C. ■

## Responsibility stakeholder group analysis

Stakeholder group	Stakeholder group's expectations
<b>Customers</b>	
› corporate customers	› solving the customer's problems
› public sector	› keeping promises
› consumers	› safety
› end users	› ethical principles
	› compliance with regulations
	› risk management
	› caring for employees and the environment
	› consumer education
<b>Personnel</b>	
› current	› earning a living and job security
› potential	› caring for employees
	› career opportunities
	› competence development
	› fair leadership
	› decent corporate image
<b>Partners</b>	
	› clear instructions and requirements for subcontractors on responsibility
<b>Society</b>	
› trade unions	› caring for employees
› the authorities	› dialogue
› politicians	› subcontractor responsibility
	› compliance with regulatory requirements
<b>Media, organisations</b>	
	› responsible operations and regulatory compliance
	› ability to engage in dialogue and react to information requests
<b>Investors</b>	
	› profitable and competitive investment
	› management of responsibility

## KEY OBJECTIVE

- › To reduce emissions and energy consumption
- › To extend working life
- › To create a safe workplace

## INDICATOR

- Reductions in CO<sub>2</sub> emissions, recovery rate
- Retirement age
- Accident frequency



## Perspective TOK cares for the environment

L&T has calculated the carbon footprint generated by waste management for a number of supermarkets operating under the Turku regional cooperative, TOK.

Responsibility is one of TOK's key values – a responsible company cares for the environment. That's why we want to have our waste management carbon footprint calculated.

For TOK, the carbon footprint from waste management is an interesting indicator. It helps us keep regular track of the carbon footprint from

waste management operations, and to take further action to reduce it.

In the future, TOK wants to offer more detailed information about its carbon footprint to customers and personnel, because environmental issues are a growing concern in the retail sector.

**Jussi Virtanen**, Prisma Retail Chain Manager, and **Olavi Kemiläinen**, Environmental and Safety Manager, Turun Osuuskauppa regional cooperative.

## Tools for our customers to meet their environmental targets

As an industry leader, we bear a heavy responsibility for environmental issues. We make our environmental expertise available to our customers, equipping them to meet their environmental obligations and achieve their environmental targets.

**W**e provide services that reduce the strain on the environment and improve the quality of our customers' operations. Material and energy efficiency represents the key element in our services. L&T's operations reduce Finland's CO<sub>2</sub> emissions by more than a million tons.

### Efficient material recovery

Our environmental management operations are designed to help the customer comply with sustainability requirements. Our first priority is to assess the opportunities for reducing waste and byproduct flows. We then make every effort to re-use waste and byproducts, preferably as raw materials and secondarily as energy. Landfill disposal or incineration is the last resort.

The national waste management plan targets for 2016 state that 50 per cent of municipal waste should be recycled and 30 per cent used as energy. A maximum of 20 per cent should be placed in landfill sites.

As much as 84% (2010: 81) of the waste processed at L&T's plants was re-used as secondary raw materials or as energy, in 2011. The modernisation of the Kerava recycling park permits the recovery of an even larger proportion of the waste received. This facility is part of L&T's recycling plant network, which includes the plant network in Finland and plants in Russia and Latvia.

### Everything starts from sorting at source

Sorting at source is the cornerstone of a recycling society. We want to promote waste recovery by making recycling as easy as possible. Among other things, we arrange training sessions and provide equipment needed for local collection. Thanks to the environmental competence of our cleaning personnel, waste fractions are correctly sorted for recycling at source. We have launched a website offering sorting instructions for various articles and materials.

Environmental Services complemented its service range, to feature more deeply integrated environmental solutions in addition to traditional environmental services. This environmental management service package consists of customised environmental care consultation and specialist services, and allows effective management of comprehensive environmental care agreements and the related network partners.

### Dual-fuel combustion for sustainable energy utilisation

L&T offers a more sustainable energy recovery solution in place of mass incineration. In heat and power plants, dual-fuel burners are able to use the standard-compliant recovered fuels produced at L&T's recycling plants, together with fuels such as wood chip, peat or coal. The resulting heat and electricity can be used to heat properties or meet industrial process energy needs.

Dual-fuel combustion enables energy, heat and electricity generation with the highest possible operating efficiency and the lowest possible CO<sub>2</sub> emissions. Here, the maximum amount of biofuel, such as forest processed chips, is used alongside recovered fuels. Energy utilisation in dual-fuel operations is covered by emissions trading.

### Reporting and follow-up tools to assist customers

We offer tools for both the customer's own monitoring and for reporting to the authorities. Our Ympäristönetti online service offers a channel through which our customers can monitor their waste volumes and costs. Co-developed with VTT Technical Research Centre of Finland, the corporate waste environmental impact calculator is a tool enabling companies to calculate the impacts of their waste management on greenhouse gas emissions, and to compare waste management solutions. Based on the results, various development proposals will be presented to the customer.

### Property maintenance helps save energy

Property maintenance plays a major part in properties' energy consumption. Finnish properties have an estimated energy savings potential of around 20 per cent.

The L&T® EcoMaintenance concept involves energy saving training for maintenance personnel. On this basis, they are trained to make observations and address problems, which can generate considerable savings. One of our new eco-concepts in property maintenance is the L&T EnergyGuarantee service co-developed with Siemens, involving an energy savings guarantee for properties, and superior property management including technical services.

Energy efficiency improvement can raise the value of a property by 5–7 per cent if the energy bill falls by a fifth. A one-fifth energy saving is enabled by a combination of new technology and energy-efficient maintenance. In addition to the rise in value, correct maintenance improves the technical condition of the property, lowers

maintenance costs and increases user comfort. An independent study of energy efficiency was conducted by a property appraisal specialist, Kiinteistötaito Peltola & Co Oy.

### Ecological cleaning part of corporate responsibility

Our cleaning services combine environmental awareness with efficient office recycling and environmental expertise. Our objective is to better equip our cleaning personnel to offer day-to-day, practical support to our customers in waste sorting and energy saving. Our cleaning and office support service personnel receive training in environmental issues, and are able to assist property users in sorting, recycling and energy use.

The L&T® Eco-cleaning service has been awarded the Nordic environmental label, or the Swan label. All detergents used have been awarded an environmental label; the dosage is carefully monitored and microfibre products are used to reduce water consumption.

### Wood is a carbon-neutral energy source

L&T is introducing a considerable number of renewable fuels to the market, to replace fossil fuels. Biofuel delivery volumes grew by 15 per cent in 2011. Availability of wood-based fuels is secured by signing procurement contracts directly with forest owners and by focusing procurement on young forests, which also supports forestry management goals. The EU directive (2009/28/EC) requires that Finland raise its renewable energy use from 28.5 per cent (in 2005) to 38 per cent by 2020.

Bio-based raw materials should be used for energy generation purposes as close to the growth site as possible. In fact, 95 per cent of the production and distribution of renewable energy at L&T takes place in Finland.

### Major potential from forest processed chips

Forest processed chips provide means of significantly increasing renewable energy use in Finland. The objective is to increase use from 5 million to 13.5 million cubic metres by 2020. However, to fulfil Finland's obligation to increase its renewable energy consumption, use of forest processed chips should be increased by several million solid cubic metres from the proposed volume. According to experts,

the likelihood of traditional wood-processing volumes remaining at their current levels, the launch of biodiesel production and the fulfilment of wind power objectives, involve several uncertainty factors. Forest processed chips will compensate for these.

## Sorting at source is the cornerstone of a recycling society. We want to promote waste recovery by making recycling as easy as possible.

In Finnish conditions, wood represents the most cost-efficient way of increasing renewable energy use. Forest processed chips from a young forest provide renewable energy at one fourth of the cost of wind power. Wood is also a carbon neutral energy source, as the carbon dioxide emissions generated from burning wood are bound into the growth of a new forest generation. Meanwhile, burning coal or peat adds new carbon to the atmosphere, thereby fuelling climate change.

Forest processed chips represent approximately 72 per cent of L&T's biofuels and 64 per cent of all fuels.

In the renewable energy obligations package, wood accounts for 55 per cent of the planned increase in renewable energy use, with forest processed chips accounting for as much as 48 per cent. The package will involve gradual changes in steering measures; for example, taxation on fossil fuels such as peat was raised in 2011. According to the Finnish Forest Research Institute (Metla), Finnish forests contain enough wood to allow an increase in the use of renewable energy.

### Biodiversity

Maintaining and fostering biodiversity is a priority for us. Our forestry operations are guided by the forest management recommendations drawn up by experts and players in the industry, and published by the Forestry Development Centre Tapio. Good forest

management in a young forest boosts growth, while improving forest quality and carbon-dioxide binding capability.

In Finland, forest certification operations extend to energy wood harvesting, guaranteeing the ecologically sustainable use of our forests. Calculations show that wood could fulfil at least one third of Finland's energy needs, without putting biodiversity at risk.

### Technology and product development

The goal of product development is to give L&T's services a competitive edge and thereby to help the company achieve its growth targets. Our research and development objectives support our strategy: the main objective in technologies and R&D related to recycling, biofuel and industry, is to improve material efficiency.

We participate in industry or business-driven projects, either as the project leader or as a partner. In joint projects, our duty is to process waste into raw materials or fuels. Other participants include research institutes, technology suppliers and power plants using recovered fuels. In projects led by research institutes, we offer financing and steer activities with the objective of driving the industry forward. Projects currently underway include both national and EU-level projects.

Our efforts are also geared towards honing our customers' processes. For example, in the Carbon-Free Communities project, the objective was to commit to shared goals and have specialists, enterprises, decision-makers and residents within communities join forces to identify solutions for reducing greenhouse gas emissions.

In environmental products, we seek to use recycled materials and develop products with a long economic life. Local production and efficient transport are key considerations. The products themselves support green technology: we design and manufacture composters and various waste collection containers. ■



## The environmental impacts and overall benefits of our operations

Whenever we serve customers, our own operations must set an example. This is why we strive to minimise our own environmental impacts.

**W**e monitor our own environmental impacts systematically. The carbon dioxide emissions from our operations increased from the previous year. They rise as the operational volume grows. On the whole, our services help to generate considerable emission reductions compared to our environmental impacts.

### Better energy and material efficiency in L&T properties

In 2011, L&T launched a project geared towards more effective use of its properties. We will introduce more open-plan offices, arrange shared workstations for highly mobile employees, and combine storage rooms, halls, break rooms and meeting rooms. This project also involves a pilot project designed to improve energy efficiency in our own buildings and premises.

Compliance with the L&T® EcoMaintenance concept is required in maintenance agreements for properties owned by L&T, to ensure minimum energy and water consump-

tion. The objective is a 20 per cent reduction in energy and water consumption by 2015. Furthermore, efforts will be made to include as many properties as possible in the remote monitoring system.

An insurance company conducted risk assessments in 12 L&T locations. These assessments focussed on fire and environmental risks in properties, but other risks were also addressed.

WWF has awarded L&T's head office the Green Office designation for fulfilling the criteria of the Green Office programme. Programme actions help further reduce environmental impacts at the office. At the same time, they help generate cost savings, increase employees' environmental awareness and slow down climate change.

### More efficient logistics reduce emissions

Because L&T is one of Finland's biggest logistics companies, improvements in logistics offer huge potential for enhancing the company's competitiveness and reducing environmental

impacts. Improvements in logistics have a significant effect on emissions.

Logistics are based on meticulous calculations of the maximum viable distances that material can be transported, without compromising ecoefficiency and the benefits gained from the material. In 2010, we launched a programme which involves assessing the logistics processes of the Environmental Services and Renewable Energy Sources divisions, and the revision of these processes in pursuit of greater eco-efficiency. An analysis of the current situation was completed in spring 2011 and will serve as the basis for actions aimed at improving logistics efficiency.

Improvement measures include introducing an efficient routing system to reduce unnecessary driving. Introduction of a production control system in environmental services has provided more opportunities for transport optimisation. When transporting wood-based fuel, the energy content of wood-based fuels is maximised by ensuring that the material transported is as dry as possible.

Equipment training courses are organised for the personnel of the Environmental Services division, with the objective of improving drivers' equipment skills and occupational safety awareness. We also strive for better fleet maintenance and lower repair costs, and keep track of accident frequency.

### Effects of transport small in relation to overall benefit

The most significant negative environmental impacts of our operations include the emissions generated by collection and transport

services. However, the negative effects of transport only represent a few percentage points of the overall benefit gained from biofuel deliveries or from transporting material for recycling.

Passenger vehicles and vans used by property maintenance and technology personnel are equipped with a vehicle positioning system. This helps to make vehicle use more efficient. The system is extensively used in the Environmental Services division. Our fleet includes low-emission gas-powered cars, and in 2011 we launched the test use of a bioethanol-diesel powered vehicle. User experiences have been positive. Using ethanol as a fuel would reduce carbon

dioxide emissions by 85 per cent. In 2012, we will commence the test use of hybrid vehicles.

L&T's own fuel monitoring scheme has shown that drivers have very diverse driving styles; depending on the driver, fuel consumption can vary by as much as 50 per cent. Our emission-reduction measures include a course on proactive driving. To fulfil the related EU directive, all drivers must complete this course by 2014.

### Responsibility a requirement for partners

We expect our business partners to be good corporate citizens. As required by the contrac-

tor's liability legislation, we only sign agreements and collaborate with companies whose affairs are in good order. Similarly, all partners accepting waste from us must have the necessary environmental permits. L&T holds 78 environmental permits in Finland, related to the handling and storage of waste and biofuels.

A competitive tendering process is arranged when selecting a major new supplier or subcontractor. The provider's ability to deliver a service or a product is also assessed from the quality, environmental and security perspectives. ■

## CO<sub>2</sub> emissions from L&T's operations and calculated reductions in CO<sub>2</sub> emissions

1,000 tonnes CO <sub>2</sub> equivalent	2011	2010	2009	2008	2007
<b>Emissions</b>					
Transport and machinery	60.7	55.4	55.5	59.3	64.5
Travelling	2.0	2.0	1.8	2.5	2.3
Energy consumption	8.5	6.6	7.2	8.5	8.1
<b>Total</b>	<b>71.1</b>	<b>64.0</b>	<b>64.5</b>	<b>70.2</b>	<b>74.9</b>
<b>Calculated emission reductions</b>					
Materials recycling	-312.2	-276.8	-223.1	-279.8	-279.3
Supplies of renewable fuels	-1,058.2	-919.4	-1,192.2	-1,757.7	-1,683.8
Through recycling plants to landfills	7.1	20.2	11.5	12.5	12.2
<b>Total</b>	<b>-1,363.3</b>	<b>-1,176.1</b>	<b>-1,403.8</b>	<b>-2,025.0</b>	<b>-1,950.9</b>

The figures were calculated based on L&T's operations in Finland using a model created by VTT Technical Research Centre of Finland. Calculated reduction in emissions covers the entire chain from waste/raw material collection to secondary raw material/recovered fuel consumption.

Emissions continued to decrease from the previous year. Both material recycling and biofuel deliveries grew, and deliveries to landfills decreased considerably.

Meanwhile L&T's own emissions rose from previous years, largely because fuel consumption rises as the operational volume grows. To reduce consumption, actions are taken in all divisions to improve logistics efficiency. Similarly, emissions from electricity use increased. In addition, calculation methods and the emissions factor applied have been specified more accurately. Comparison data has not been changed accordingly.



## Service experiences are created by people

Our customers' service experiences are the outcome of our employees' actions. This is why our human resources strategy takes centre stage at L&T. L&T wants to be an interesting, attractive employer, with skilled and motivated personnel able to meet the targets set in the business strategy.

In 2011, HR management efforts focused on work ability management and disability cost minimisation, and on securing the availability of workforce. Coaching programmes and training sessions designed to strengthen supervisory skills are arranged on an ongoing basis.

Key strategic projects in the future will focus on management development, meas-

ures to secure workforce availability, and the second stage of the Sirius work capacity programme.

### Job opportunities for different stages of life

Employee age distribution at L&T is clearly wider than the average of most other com-

panies: our employees are aged between 15 and 74. We offer various job opportunities for different stages of life, and provide full support for working until retirement age. A major achievement in 2011 was raising the average retirement age at L&T to 62.9 years from 59.4 years in 2005.

At the end of 2011, the total number of L&T employees working full-time and part-time was 9,357 (8,732). Of all personnel, 1,976 (1,883) worked outside Finland. The average number of personnel, converted to full-time equivalents, was 8,513 (7,835).

### Management system guarantees consistent HR practices

As a service industry company, employees are one of our key resources. Our management system is used to guarantee consistency

The only way to succeed is to provide excellent service to customers, and this is where our personnel plays a crucial role. To keep our employees satisfied and in good working condition, we offer them good supervisors, sufficient training, measures to maintain work ability and the appropriate tools and equipment.



in HR activities. In HR management, we follow the corporate operating instructions specified in L&T's Integrated Management System (IMS), which are based on EU legislation. Country-specific instructions can be added if necessary.

Compliance with instructions is supervised through external and internal audits. Together with country managers and HR managers, our HR Director supervises adherence to shared principles in all countries in which we operate. Business development needs and HR risks are discussed as part of the annual strategy processes.

### Development and competence management

Our goal is to employ skilled and competent personnel to ensure that our targets are achieved. This requires systematic management covering target-setting and follow-up, appraisals and good day-to-day management. It also emphasises the significance of supervisory work.

The main objective of supervisory work is to guarantee employees the best possible conditions to enable them to succeed in their work. To this end, we actively encourage self-development. We conduct 1-2 appraisals per year, carrying out work community surveys to monitor these appraisals and their perceived usefulness. The work community survey conducted in 2011 indicated that almost 80 per cent of those appraised considered the appraisal discussion useful.

In addition to standard induction training, new supervisors undergo ABC training, in which

the supervisor's role and key operating models for supervisors are discussed. For supervisors, we also arrange training programmes leading to a degree and organise courses where important issues such as appraisals and ways of bringing up sensitive issues are discussed.

Two mentoring projects intended for supervisors and specialists are currently underway in L&T. These projects are designed to support participants' professional growth, while sharing best practices and silent knowledge within the organisation and through networks with selected business partners. Experiences of the mentoring project have been very positive.

### Work community survey

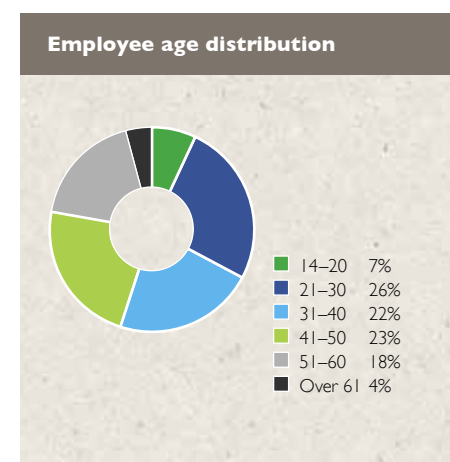
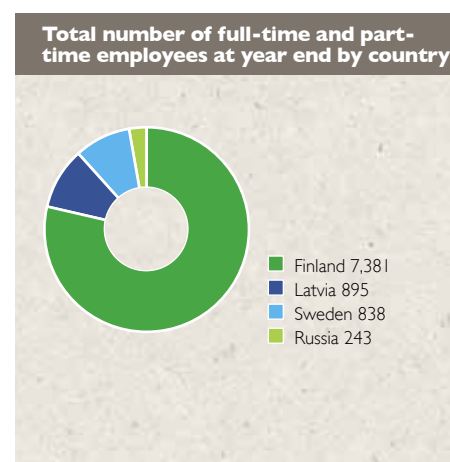
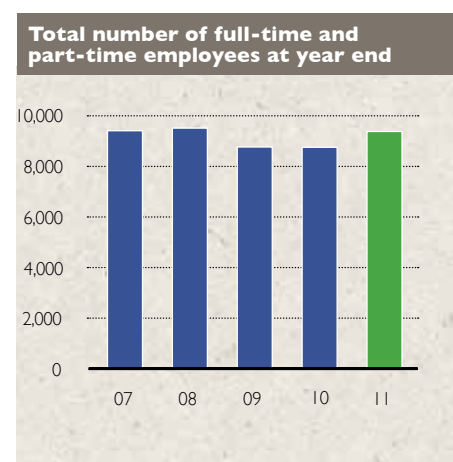
According to work community surveys we have conducted, our personnel feel that they are performing meaningful and important

work for a good cause. These surveys were conducted in 2005, 2007 and 2011.

The survey conducted in 2011 covered Finnish and international operations and focused on basic working conditions, competence development and motivation. The response rate was high, and the HUPPO index used for benchmarking results has shown positive development since 2005. The results were reviewed by the Group Executive Board and various units. They were used for determining key actions required to promote employee motivation, profitable business, and business goals.

### L&T will continue to offer jobs in the future

In a service-intensive industry, securing adequate and skilled workforce is a key issue. As demand for services grows and the





population continues to age, competition for skilled labour in the service sector will become more intense. Our objective in recruitment is to secure the availability, competence and retention of personnel in the short as well as the long term. To ensure workforce availability, L&T is currently running a five-year personnel availability programme. We are also in the process of preparing systems for the assessment of job requirements and for rewarding.

Being an employer of the future is one of our strengths and competitive assets. Although industrial jobs are increasingly transferring to other countries, as a service enterprise we are able to offer work in the countries in which we operate.

Our recruitment process has been designed to provide a positive experience to all applicants. Because we want to build an equal opportunities workplace, applying fair recruitment criteria and ensuring equal treatment of applicants are important to us.

We encourage employee relocation to another position within the company and make every effort to maintain an atmosphere in which employees are not afraid to express their wishes concerning their jobs. If a supervisor is unable to offer the desired work, our recruitment services are on-hand to explore opportunities for in-house job rotation. In 2012, a more systematic process will be created for career path development.

**Diversity is an asset**

We believe that diversity in the workplace is a competitive asset. We want to become an even better workplace in this respect, by considering ways of addressing the different backgrounds of employees and of working together, regardless of age, gender and cultural background.

The number of employees with an immigrant background at L&T has been growing at a steady rate, and we want to see this number grow further. Employees with an immigrant background represent 73 different nationalities and account for 13 per cent of all L&T personnel (2010: 12). Challenges to be addressed in the case of employees from different cultural backgrounds include language skills, the ability to adjust to Finnish working culture, supervisors' ability to work with them, and customer expectations.

We are continuously working to improve our skills related to the multicultural work community, for instance by participating in the Multinetwork Project organised by the Palmenia Centre for Continuing Education and funded by the European Social Fund. We are also in the process of building network partnerships with educational institutes and the authorities. In 2011, L&T attended a cleaning industry recruitment training session targeting immigrants. ■

Key figures on personnel

	2011	2010	2009
Total number of full-time and part-time employees at year end	9,357	8,732	8,743
Average number of employees converted to full-time	8,513	7,835	8,113
Personnel in Finland:			
Personnel by gender			
Female, %	49	49	52
Male, %	51	51	48
Personnel by type of employment			
Permanent, %	94	92	94
Temporary, %	6	8	6
Full-time, %	61	61	62
Part-time, %	28	28	28
Employees called in when necessary, %	11	10	9
Share of employees with an immigrant background, %	13	12	11
Average retirement age	62.9	62.4	61.9
Sickness absences, %	5.7	5.7	5.7
Accident frequency*	35	34	43
Safety observation reports	5,341	4,433	3,503
Hazard assessments	1,707	1,958	2,079
SafetyWalk observation rounds	1,519		

\* Injuries leading to at least one day's leave

Case

**Recruitment training brought Ilona to L&T**

Ilona Remets, who was born in Latvia but grew up in Estonia, was one of the ten cleaners who took part in the immigrant recruitment training programme.

Ilona cleans an office corridor in Helsinki. She began her current job after completing a training course organised by L&T and the Amiedu vocational adult education centre. During the course, participants completed one module of the basic programme in property services. Later, they will be given the opportunity to continue these studies.

"I was interested in cleaning work. When they told me at the job centre that there was an opportunity to receive training in the cleaning profession, I was really excited. I wanted to learn the professional skills required for the job," Ilona says with enthusiasm.

Now Ilona is fully trained in cleaning methods, the secrets of recycling, and cleaning terminology. She is also able to share the latest news and developments in the business with more experienced colleagues. The course included both practical on-the-job learning and theoretical studies, both of which Ilona considers important.

"At work, I was paired up with an experienced cleaner, whose advice has been worth its weight in gold."

Other team members have also proven invaluable. The group had an extremely warm team spirit; it also formed a network whose members can call each other when there's a problem, for instance when a machine refuses to work properly.





## Work ability and occupational safety

L&T's actions to enhance work ability have produced results: lower disability-related costs and longer careers.

**A**s an employer, we want to ensure our employees' work ability and occupational safety. Our objective is to offer personnel a healthier and safer working environment. In 2011, new five-year targets were set for our work ability management programme, and the programme management system was revised.

### Work ability management included in daily routines

L&T's objective is to have as many employees as possible maintain their work ability until retirement. To support this goal, we launched the five-year Sirius programme in Finland in 2005, which is still under way.

The programme's five-year targets include minimisation of disability and accident pension costs, reduction of the sickness-related absence rate to five per cent, reduction of the I+ accident frequency to 15 and stabilisation of the TyEL (Employees Pensions Act) payment category to level 3.

What makes the programme exceptional is its scope and systematic implementation. The programme has been managed on an accounting basis, with shared objectives, operating models and indicators, and the related follow up playing a major role. Developments and figures are monitored on a quarterly basis and any deviations are quickly addressed.

The programme has prompted us to work proactively; in other words, to avoid problems that affect work ability.

### The power of co-operation

Programme management is based on our close co-operation with the occupational

health care services and insurance companies. We urge employees, supervisors and occupational health care providers to engage in open dialogue. If all personnel are familiar with the operating models and objectives, they are willing and able to discuss issues affecting their work ability. Staff can rely on L&T to support the kind of work their personal resources permit.

Supervisors have been trained to prevent work ability problems and identify them at an early stage. Our accounting-based operating model is designed to promote supervisor commitment. With work ability-related risks identified, supervisors can now take timely action to prevent them. Through this programme, work ability management has become part of everyday supervisory work.

Ways of resolving work ability problems include alternative duties, adjustments to working hours and duties, and relocation of employees with partial work ability. If our employees fall sick, they receive professional care regardless of their place of residence or personal financial situation.

### Turning targets into results

The Sirius programme has produced positive results, both from the employee and the company perspective. In terms of retirement age targets, our expectations were exceeded, and we were able to achieve the desired payment category.

Despite difficult circumstances, the number of sickness-related absences has not grown in recent years. In the last five years, there has been a 60 per cent reduction in disability pension costs.

Thanks to the work ability management programme, L&T's average retirement age has risen from 59.4 in (2005) to 62.9 in (2011). The average retirement age in Finland is 60.5. During the same period, new jobs reflecting their current work ability were offered to more than 80 people, thereby preventing almost certain retirement.

The Sirius programme conducted in Finland improved personnel well-being and commitment at different career stages and offered many employees the opportunity of a longer working life. Programme success can also be measured in cost savings: better work ability and health translated into financial benefits for the company.

### Occupational safety

In occupational safety management, key priorities in 2011 included rooting occupational safety practices and methods more deeply in everyday operations at all organisational levels. Proactive indicators are also used to monitor the development of the occupational safety culture.

L&T has achieved good occupational safety results. In recognition of this, L&T was named the safest service supplier of Metsä Fibre's units in Finland in 2011. Good practices applied in the industry sector will be introduced more extensively in L&T in the near future.

Safety observation reports are used to report all non-conformities considered deviations from safe daily operations. The Safety-Walk observation round is a tool, designed for managers, for monitoring safety in the work environment. We conduct efficient risk and hazard assessments to improve our own safety, as well as the safety of our customers and other interest groups, and to eliminate any hazardous elements.

All dangerous situations and accidents are investigated. We take sufficient and immediate measures to ensure that all hazardous elements are eliminated and minimised. Accidents leading to absence are reviewed by an accident panel under the business director's supervision.

Occupational safety and measures for its improvement concern everyone. One of the key themes of our new five-year work ability programme is to further improve occupational safety.

Our objective is to halve the frequency of accidents in three years. In 2011, accident frequency remained at the previous year's level, in Finland at 35. To ensure the right direction, an annual target has been set for 2012 – accident frequency reduction by more than 20 per cent – and management will track the development monthly. Our final objective is an accident level of zero: we are committed to taking determined action to create an accident-free workplace. The divisions have operational responsibility for occupational safety management. In Environmental Services, for example, occupational safety is one of the key divisional strategy factors.

L&T's management system and centralised functions have been certified for compliance with the OHSAS 18011 occupational safety standards. ■



Sirkka Parry, Senior Physician, Terveystalo

### Perspective

## Support for daily activities from occupational health care

Co-operation between occupational health care and the workplace helps support the working capacity and well-being of employees. Reacting to early signs and taking minor corrective action can often help prevent a major problem.

The biggest challenge at L&T is physically strenuous work that causes musculoskeletal disorders. Occupational health professionals help improve safety at work, and offer advice on good ergonomics.

Sometimes a serious situation can build up unnoticed. In these situations, an atmosphere of trust and the supervisor's sensitivity are vital. Occupa-

tional health care offers support to supervisors in work ability related issues.

Systematic occupational health care services benefit society. For an employee, early retirement means lower income, and for society it means a lost work contribution and tax income. It also increases the need for various forms of support and the cost of medical care.

With the first Sirius project, L&T has established standard practices for work ability issues and built a culture of caring. We will continue our co-operation in the new five-year term.



# Corporate Governance Statement

Lassila & Tikanoja plc (L&T) complies with the Finnish Corporate Governance Code issued by the Securities Market Association on 15 June 2010. L&T has not deviated from the recommendations of the Code. The code is available on the website of the Securities Market Association at [www.cgfinland.fi](http://www.cgfinland.fi).

This statement was prepared in accordance with recommendation 54 of the Finnish Corporate Governance Code. The report is issued separately from the Report of the Board of Directors. L&T's Audit Committee has reviewed this report.

In addition to the Code, L&T's corporate governance complies with the laws and regulations of Finland, its Articles of Association, and the Guidelines for Insiders issued by NASDAQ OMX Helsinki. The consolidated financial statements and interim reports have been prepared in accordance with the IFRS reporting standards approved for use in the EU, the Securities Market Act, the standards imposed by the Financial Supervisory Authority, and the rules of the NASDAQ OMX Helsinki. The Report of the Board of Directors and the parent company's financial statements were prepared in accordance with the Accounting Act and the instructions and statements issued by the Accounting Board.

The Annual General Meeting, the Board of Directors and its two Committees, and the President and CEO, assisted by the Group Executive Board, are responsible for company administration and operations.

## Business organisation

The business is divided into four divisions: Environmental Services, Cleaning and Office Support Services, Property Maintenance and Renewable Energy Sources. Vice Presidents in charge of the divisions report to the President and CEO.

In Finland each division is organised into business areas. Country Managing Directors are responsible for operations in each country outside Finland. Administration and the management of group-level processes are centralised.

## General Meetings

The General Meeting is the supreme decision-making body of Lassila & Tikanoja plc. The 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 to 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 Group 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 Group

website within two weeks of the General Meeting.

## General Meetings in 2011

The Annual General Meeting was held in Helsinki on 17 March 2011. The meeting was attended by shareholders representing 54.3 per cent of the votes. The members of the Board of Directors, President and CEO, principal auditor and prospective director attended the meeting.

The Extraordinary General Meeting was held in Helsinki on 8 September 2011. The meeting was attended by shareholders representing 34.6 per cent of the votes. The members of the Board of Directors, except Hille Korhonen, and President and CEO attended the 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 biographical details of the member candidates will be available on the company website before the General Meeting.

The President and CEO is present at Board meetings presenting issues to the Board, and the CFO serves as secretary to the Board.

### 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 Board of Directors is also responsible for the duties specified in the

Companies Act and the Articles of Association, and in other regulations.

The duties of the Board are defined in a written charter adopted by the Board in 2011, 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 confirming divisional strategies
- › establishing a dividend policy and being 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 Report of the Board of Directors
- › 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, financial, disclosure as well as risk management and insurance policies and internal control policy
- › nominating and dismissing the President and CEO and monitoring and evaluating his work
- › deciding on nomination, remuneration and other financial benefits of the President and CEO's immediate subordinates (Group Executive Board).

### Meeting practice

The Board of Directors convenes as often as its tasks require. It confirms its annual, regular meetings. Meetings held annually prior to the publication of the financial statements and each interim report, strategy meeting, budget meeting and other meetings confirmed in the annual programme of the Board, are considered regular meetings. In addition to regular meetings, the Board can hold extraordinary meetings, which can be arranged as telephone conferences.

Minutes are prepared of Board meetings, subject to the signature of members of the

## Board member meeting participation in 2011

	Board of Directors	Audit Committee	Remuneration Committee
Heikki Bergholm	15/15		10/10
Matti Kavetvuo*	15/15		10/10
Eero Hautaniemi	14/15	7/7	
Hille Korhonen	13/15		10/10
Sakari Lassila**	13/13	6/6	
Miikka Majjala	15/15	7/7	
Juhani Lassila***	2/2	1/1	

The Board of Directors met two times before 17 March 2011 and 13 times after it. Audit Committee met once before 17 March 2011 and six times after it. Remuneration Committee met four times before 17 March 2011 and six times after it.

\*Vice Chairman and Member of the Board until 27 December 2011.

\*\* Member of the Board of Directors and Audit Committee since 17 March 2011.

\*\*\* Member of the Board until 17 March 2011.

Board of Directors participating in the meeting as well as the President and CEO of the company and secretary to the meeting. These minutes are kept at the company's headquarters.

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 CFO serves as secretary to the Board.

### 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.

### The Board of Directors in 2011

The Board of Directors comprises the following persons: Mr Heikki Bergholm, Chairman, Mr Eero Hautaniemi, Vice Chairman, Mr Sakari Lassila, Mrs Hille Korhonen and Mr Miikka Majjala. Mr Matti Kavetvuo acted as Vice Chairman and member of the Board of Directors until 27 December 2011. Mr Juhani Lassila acted as Vice

Chairman and member of the Board of Directors until 17 March 2011. The Annual General Meeting elected Sakari Lassila as a new member of the Board of Directors. Biographical details of the Directors are given on pages 50-51, and information on their holdings in the company and changes in the holdings during the year are set out on page 48.

The Board of Directors met 15 times during 2011. The average attendance per cent of the members at the meetings was 96.6.

Key themes in Board work included guidance for acquisitions that support core business, leadership and management development, and profitability and cash flow improvement.

### Committees

The Board has an audit committee and a remuneration committee.

### Audit committee

The audit committee consists of the Chairman of the committee and at least two members, who all are elected annually by the Board of Directors from among its members. The Board shall select one member as Chairman of the committee. The members of the audit committee shall be independent of the company and at least one member shall be independent of a significant shareholder. The members of the audit committee shall have the qualifications necessary to perform the responsibilities of the audit committee, in particular, sufficient



knowledge of bookkeeping, accounting and financial statements practices.

The duties and operating principles of the audit committee are defined in a charter approved by the Board of Directors. The committee will convene at least four times a year.

The duties of the audit committee include:

- › monitoring the financial position and financing
- › monitoring the reporting process of financial statements
- › supervising the financial reporting process
- › monitoring the efficiency of the company's internal control, internal audit and risk management systems
- › reviewing the plans and reports of the company's internal audit
- › 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 auditing company
- › evaluating the provision of non-audit services to the company to be audited by the auditing company
- › preparing the proposal for the Auditor of the company
- › maintaining contact with the company's auditor and reviewing the reports prepared to the committee by the Auditor
- › assessment of compliance with laws and provisions.

#### Remuneration Committee

The remuneration committee has at least three members. The Board shall elect members of the committee from among its members on an annual basis, for the duration of the Board's term. In compliance with the Corporate Governance Code for Listed Companies in Finland, the majority of members must be independent of the company. On an annual basis, the Board of Directors shall likewise select one member as Chairman of the committee, for the term of the Board. The committee will convene at least twice a year.

The duties of the remuneration committee include:

- › handling, evaluating and making statements on the salary structure of the Group

management and personnel and remuneration and incentive schemes

- › monitoring the functionality of the remuneration systems, to ensure that the management's incentive schemes promote the achievement of the company's targets and are based on personal performance
- › handling and preparing other questions related to management and personnel remuneration and drafting statements to the Board regarding them
- › handling and preparing executive appointment issues for consideration by the Board of Directors.

#### Committees in 2011

Eero Hautaniemi is Chairman of the audit committee and the members are Sakari Lassila and Miikka Majjala. The audit committee met seven times during 2011. The attendance per cent of the members at the meetings was 100.

Heikki Bergholm is Chairman of the remuneration committee and the members are Matti Kavetvuo (until 27 December 2011) and Hille Korhonen. The committee met ten times during 2011. The attendance per cent of the members at the meetings was 100.

#### 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. Pekka Ojanpää assumed the position of President and CEO on 1 November 2011. The President and CEO until 13 June 2011 was Jari Sarjo. Ville Rantala served as temporary President and CEO from 13 June to 31 October 2011.

#### Other Management

The Group Executive Board assists the President and CEO in the management of the company. The members of the Group Executive Board and their areas of responsibility are presented on pages 52-53, and their holdings in the company shares and options and changes in the holdings during the year are set out on page 48.

The HR management board is one of L&T's management forums. Its goal is to establish systematic co-operation with personnel representatives.

## Risk management

### Objective

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

### Responsibilities

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

Principles for financial risk management are defined in the Financial Policy. Principles for insurance risk management are defined in the Risk Management and Insurance 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 area 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, areas 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 determined in L&T's Integrated Management System.

A risk assessment in all divisions, areas, 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.

### Insider guidelines

The Board of Directors has taken a decision that the Group observes the guidelines for insiders issued by 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. Insiders with a duty to declare include members of the Board of Directors, President and CEO, the principal auditor, the Group Executive Board and the Head of Legal Affairs who acts as secretary to the Group Executive Board. Persons included in the company-specific permanent insider register based on their position include the divisional management teams, L&T Biowatti Oy's Board of Directors, HR management board, financial 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 Head of Legal Affairs is the person responsible for insider issues.

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 Group website.

### Auditing

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

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 2011, the fees paid for statutory auditing to PricewaterhouseCoopers group totalled EUR 203,000. 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 39,000.

### Description of the main features of internal control and risk management systems pertaining to Lassila & Tikanoja plc's financial reporting process

The financial reporting principles represent an essential element of L&T's Integrated Management System (IMS). The Group's financial reporting process includes both financial accounting and management accounting. The

internal control and risk management systems and procedures pertaining to the financial reporting process are explained in more detail below. Their purpose is to ensure the financial reports published by the company contain essentially correct financial information.

### Audit committee

The audit committee supervises and monitors the efficiency of L&T's financial reporting process and internal control systems. The duties and operating principles of the audit committee are defined in a charter approved by the Board of Directors. The audit committee has reviewed L&T's internal control policy and the Board of Directors has approved it.

The audit committee meets at least four times a year before the publication of interim reports and the financial statements release. In its meetings, the audit committee reviews the financial information presented by the Chief Financial Officer, as well as interim reports and financial statements releases. The auditor is also invited to attend the meetings. The audit committee is presented in more detail on page 45 and members of the audit committee are introduced on page 46.

### L&T's financial reporting process

L&T conducts a significant proportion of its business in Finland. Functions having to do with accounting, sales invoicing, accounts payable and receivable, payments and financing in the financial reporting process in Finland are centralised. Organisation of these functions into different teams allows the separation of various finance-related tasks. To support the consistent process in Finland, L&T also runs a centralised accounting system and common account framework.

L&T's foreign subsidiaries each have independent financial management departments operating in compliance with the accounting principles and reporting instructions issued by the Group's financial management. Foreign subsidiaries submit a monthly reporting package to the Group according to the Group's instructions. Financial controllers supervise operations related to foreign subsidiaries' financial management, their financial reports and financial statements. They visit companies assigned to them on a regular basis and conduct inspections and prepare written inspection reports.

L&T's Group financial management is responsible for preparing and updating the Group accounting policies and instructions, and for preparing reporting schedules. The financial management department consolidates subsidiaries' financial statements into consolidated financial

statements which include notes to the financial statements, and prepares interim reports and financial statement releases, official financial statements and the annual report.

### Internal control

L&T's operations and financial reports are monitored and compared against budgets and forecasts on different organisational levels. Group management, divisional management and product line management as well as business unit management analyse the results and any nonconformities. Divisional business controllers and financial controllers responsible for foreign operations analyse the financial reports and prepare reports for management use.

L&T's Group financial management has defined and documented the control objectives and control points associated with external financial reporting in 2009. Control points have been specified both for individual companies and for Group accounting, and they represent a minimum requirement imposed by the Group on internal control of financial reporting. Foreign subsidiaries have been informed of the control points, and the financial controllers assess foreign subsidiaries' operations against the specified control points as part of their regular visits.

The company has financing, risk management and insurance, and disclosure policies as well as internal control policy confirmed by the Board of Directors.

### Risk management

The risks associated with financial management processes are assessed in the annual risk management process, which is part of L&T's Integrated Management System. Risks identified through risk assessment are prioritised, action plans and schedules are prepared, and persons responsible for implementing the action are named. Implementation of actions is monitored annually. Risk management process is presented on page 46 and in the Report by the Board of Directors on page 8 of the Financial Statements of the Annual Report.

### Internal control

L&T has no internal audit organisation of its own. Executive management may invite external experts to conduct internal audit assignments when necessary.

Regular auditing of the financial statements of international units is the duty of the financial controller of international business who works 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.



## Remuneration paid to the members of the Board of Directors in 2011

	Annual fee*, EUR	Meeting fee, EUR	2011 total, EUR	2010 total, EUR
Heikki Bergholm	46,250	23,500 **	69,750	33,950 **
Matti Kavetvuo	30,500	14,800	45,300	60,050
Eero Hautaniemi	25,750	14,700 **	40,450	33,250 **
Hille Korhonen	25,750	10,000	35,750	32,750
Sakari Lassila	25,750	8,000	33,750	
Miikka Majjala	25,750	9,500	35,250	34,250
Juhani Lassila		2,100	2,100	42,700

\* Each member purchases company shares worth of the net amount of the fee (40%)

\*\* Includes a meeting fee from Board meeting of L&T Recoil

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

	At 31 December 2011	Percentage of shares and	At 1 January 2011
Heikki Bergholm	778,807	2.01	776,807
Eero Hautaniemi	7,000	0.02	5,000
Matti Kavetvuo*			116,286
Hille Korhonen	2,399	0.01	1,569
Sakari Lassila**	7,368	0.02	
Miikka Majjala	69,272	0.18	68,272
Juhani Lassila***			20,253
Evald and Hilda Nissi Foundation			2,413,584
Total	864,846	2.23	3,401,771

\* Member of the Board until 27 December 2011.

\*\* Member of the Board since 17 March 2011.

\*\*\* Member of the Board until 17 March 2011.

## Shares and share options held by the Group Executive Board

	Shares		2008 options
	31 December 2011	1 January 2011	31 December 2011
Pekka Ojanpää			
Jorma Mikkonen	4,116	4,116	15,000
Ville Rantala	12,175	9,139	
Juha Simola	1,698	1,698	5,000
Henri Turunen	4,989	3,289	3,000

There were no changes in the holdings of options during 2011.

## Remuneration Statement

Lassila & Tikanoja plc complies with the Finnish Corporate Governance Code. This Remuneration Statement is prepared in accordance with recommendation 47.

### Remuneration of the Board of Directors

#### Decision-making process and main principles of remuneration

The General Meeting of Shareholders determines the emoluments payable to the members of the Board of Directors in advance, for one year at a time.

In 2011, the following annual fees were decided to be paid: Chairman EUR 46,250, Vice Chairman EUR 30,500 and each member EUR 25,750. The fees are paid so that each member purchases company shares worth of the net amount of the fee (40%) in public trading on NASDAQ OMX Helsinki. In addition, the Annual General Meeting decided on the following meeting fees to be paid to the participants of the board and committee meetings: Chairman of the board EUR 1,000, Vice Chairman of the board EUR 700, board member EUR 500, Chairman of the committee EUR 700 and committee member EUR 500 per meeting.

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

### Remuneration of the Board of Directors in 2011

In 2011, Board of Directors met 15 times, audit committee met seven times and remuneration committee met ten times.

Heikki Bergholm is Chairman of the Board. Matti Kavetvuo was Vice Chairman of the Board until 27 December 2011. Eero Hautaniemi is Vice Chairman of the Board since 28 December 2011. Eero Hautaniemi is Chairman of the audit committee and the members are Sakari Lassila and Miikka Majjala. Heikki Bergholm is Chairman of the remuneration committee and the members are Matti Kavetvuo (until 27 December 2011) and Hille Korhonen.

In 2011, the fees decided by the Annual General Meeting were paid to the Board of Directors.

### Remuneration of President and CEO and other management

#### Decision-making process and main principles of remuneration

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 Board has established a remuneration committee. The duties of the committee include among others handling and preparing questions related to management and personnel remuneration and drafting statements to the Board regarding them. The duties of the remuneration committee are presented in detail on page 46.

The remuneration of President and CEO and the members of the Group Executive Board consists of a fixed monthly salary and benefits, of a compensation scheme, of share option schemes and of a share-based incentive programme.

The President and CEO and the members of the Group Executive Board are included in the share option scheme and in the share-based incentive programmes directed to the key personnel of the company, which are approved by the General Meeting. The basis for the determination of the reward is decided annually by the Board of Directors. Rewards to be paid for the year 2012 will be based on the EVA result of Lassila & Tikanoja Group excluding L&T Recoil. The maximum share-based payment may equal 4–12 months' salary depending on the responsibilities of the member of the Group Executive Board. The decision on the remuneration is done by the Board of Directors based on the statement drafted by the remuneration committee.

The company has also provided a compensation scheme, the criteria of which are determined annually in advance by the Board of Directors. The bonus is based on operating profit excluding non-recurring items and it may equal 3–6 months' salary, at maximum, depending on the responsibilities of the member of the Group Executive Board. The decision on the remuneration is done by the Board of Directors based on the statement drafted by the remuneration committee.

Separate emoluments are not paid to the members of the Group Executive Board for the memberships of Boards of Directors of the subsidiaries.

President and CEO and members of the Group Executive Board are not covered by any supplementary pension scheme.

### Service contract of President and CEO

A written service contract has been drawn up for the President and CEO. According to the contract, the period of notice is 6 months should the company terminate the contract,

and 6 months should the President and CEO terminate the contract. In case the company terminates the contract the President and CEO's salary will be paid for 12 months.

The company has taken out statutory pension and accident insurance for the President and CEO.

### Short-term and long-term incentive schemes

Lassila & Tikanoja operates an incentive programme for one year which started in 2012, and option scheme 2008 started earlier. A three-year share-based incentive programme which started in 2009 ended in 2011. The company has also provided a compensation scheme, which is described in more detail above.

### Share-based incentive programme 2009–2011

Lassila & Tikanoja plc's Board of Directors decided on 24 March 2009 on a share-based incentive programme to form a part of the incentive and commitment scheme for the company's key personnel. The basis for the determination of the reward is decided annually.

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

A maximum total of 180,000 Lassila & Tikanoja plc shares could be paid out on the basis of the programme. The shares were obtained in public trading. The Annual General Meeting authorises the Board of Directors to purchase and issue the company shares. In the beginning of 2011, the programme covered 23 persons.

### Share-based incentive programme 2012

Lassila & Tikanoja plc's Board of Directors decided on 14 December 2011 on a share-based incentive programme to form a part of

the incentive and commitment scheme for the company's key personnel. The basis for the determination of the reward is decided annually.

Based on the programme a maximum of 65,520 shares of the company can be granted. The company will buy the shares from the stock market. The programme covers 22 persons.

### Option scheme 2008

Share options have been granted to the key personnel belonging to the management determined by the Board of Directors. The share options entitle their holders to subscribe for the shares of Lassila & Tikanoja plc at an exercise price and over a period determined in the terms and conditions of the option scheme. Terms and conditions of option schemes are available on L&T's Group website.

### Remuneration of President and CEO and other management in 2011

The President and CEO until 13 June 2011 was Jari Sarjo. His salary in 2011 totalled EUR 187,000 including salaries and benefits EUR 156,000 and bonuses EUR 31,000.

Ville Rantala served as temporary President and CEO from 13 June to 31 October 2011. The salary of Rantala for that period totalled EUR 63,000 including salaries and benefits.

Pekka Ojanpää assumed the position of President and CEO on 1 November 2011. The salary of Ojanpää in 2011 totalled EUR 66,000 including salaries and benefits.

The salaries paid to the Group Executive Board totalled EUR 794,000 which includes salaries and benefits EUR 678,000 and bonuses EUR 116,000. The figures include salaries for the period during which the persons in question held an executive position.

No share-based payments will be paid for the year 2011. No options were granted in 2011.

In 2011, EUR 49,000 arising from the pension agreement of the President and CEO, Jari Sarjo, was recognised in the income statement. ■



# Board of Directors

## Heikki Bergholm

### born 1956

M.Sc. (Eng.)

Chairman of the Board since 2011 and member since 2008, Chairman of the Remuneration Committee since 2011 and member since 2010.

#### Work experience:

Suominen Corporation, President and CEO 2002–2006

The former Lassila & Tikanoja Group, President and CEO 1998–2001, Vice President 1997–1998, President of business units 1986–1997 and CFO 1985–1986

Industrialisation Fund of Finland Ltd, Researcher and development manager 1980–1985

#### Other Board memberships:

Yarra Investment Oy (2010–), Foundation Institutum Romanum Finlandiae (2011–, COB), L&T Recoil (2010–, COB.), Seniorirahasto Oy (2010–), Forchem Oy (2007–), Componenta Corporation (2002–, COB), MB Funds Oy (2002–), Lakan Betoni Oy (1986–, COB), Suominen Corporation (2001–2011), Kemira Oyj (2004–2007), Pohjola Group plc (2003–2005), Sponda Plc (1998–2004)

Holds 778, 807 Lassila & Tikanoja plc shares.

## Eero Hautaniemi

### born 1965

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

Vice Chairman of the Board since 28 December 2011 and member since 2007, Chairman of the Audit Committee since 2011 and member since 2009.

#### Work experience:

GE Healthcare Finland Oy, President 2004–2005

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

#### Other Board memberships:

L&T Recoil (2010–), Nurminen Logistics Plc (2009–)

Holds 7,000 Lassila & Tikanoja plc shares.

## Hille Korhonen

### born 1961

Licentiate of Technology, Vice President, Operations (responsible for manufacturing, sourcing and logistics strategies) at Fiskars Corporation 2008–, Group Director, Operations at Iittala Group 2003–

Member of the Board since 2009, Member of the Remuneration Committee since 2010.

#### Work experience:

Executive positions within worldwide delivery chain strategies and processes in Nokia Corporation 2000–2003, Nokia Networks 1998–2000 and Nokia Mobile Phones 1996–1997  
Outokumpu Copper, positions in developing logistics and marketing 1993–1996

#### Other Board memberships:

Nokian Tyres Plc (2006–), Mint of Finland Group (2008–)

Holds 2,399 Lassila & Tikanoja plc shares.

## Sakari Lassila

### born 1955

M.Sc. (Econ.), Managing Director and partner of Indcrea Oy and a management board member of Cupori Group Oy 2008–

Member of the Board and audit committee since 2011

#### Work experience:

Carnegie Investment Bank AB, Finland Branch: executive positions, 2002–2005  
Alfred Berg Finland Oyj: executive positions within investment banking, 1994–2002  
Citibank Oy: head of corporate bank, 1991–1994  
Union Bank of Finland: supervisory and executive positions, 1983–1991

#### Other Board memberships:

Vice Chairman of Board of Evald and Hilda Nissi Foundation (member 1987–)

Holds 7,368 Lassila & Tikanoja plc shares.

## Miikka Maijala

### born 1967

M.Sc. (Eng.), CEO of Clinius Ltd 2006–

Member of the Board since 2010, Member of the Audit Committee since 2010.

#### Work experience:

GE Healthcare Finland Oy, Business Segment Manager 2004–2006  
Instrumentarium Corporation (currently GE Healthcare Finland Oy), Director, Business Development 2000–2004  
Instrumentarium Corporation, supervisory and executive positions within sales, marketing and financial management 1992–2000

Holds 69,272 Lassila & Tikanoja plc shares.

Changes in the Board of Directors: Mr Juhani Lassila acted as Vice Chairman and member of the Board of Directors until 17 March 2011. The Annual General Meeting elected Sakari Lassila as a new member of the Board of Directors. Matti Kavetvuo, Vice Chairman of the Board, announced his resignation from the Board of Directors on 27 December 2011.

## President and CEO

### Pekka Ojanpää

President and CEO of Lassila & Tikanoja Group since 1 November 2011

The biographical details are on the next page.

The changes in the holdings of the members of the Board and the President and CEO during 2011 are listed on page 48.

## Auditor

PricewaterhouseCoopers Oy, Authorised Public Accountants  
Principal auditor Heikki Lassila, APA

# Group Executive Board



Pekka Ojanpää

**born 1966**

President and CEO as of 1 November 2011

M.Sc. (Econ.)

Kemira Oyj: President, Municipal & Industrial segment 2008–2011, President of the Kemira Specialty business area 2006–2008 and Executive Vice President of Procurement & Logistics 2005–2006  
Nokia Oyj: Vice President, Electromechanics Supply Line Management 2001–2004, Managing Director of Nokia Hungary 1998–2001 and sales and logistics managerial positions in Nokia Mobile Phones 1994–1998



Ville Rantala

**born 1971**

CFO since 2009, Vice President, Renewable Energy Sources since 2011

M.Sc. (Econ.)

Lassila & Tikanoja plc: President and CEO (acting) 13 June–31 October 2011  
L&T Biowatti Oy: Managing Director 2011–2012  
Suunto Oy: Director, Finance and Business Development 2007–2009  
UPM-Kymmene Corporation: Finance Director of Fine and Speciality Papers Division 2006–2007, Business Controller 2002–2006 and Controller 2000–2002  
Salomon Sport Finland Oy: Finance Manager 1999–2000



Jorma Mikkonen

**born 1963**

Vice President, Environmental Services since 2009

Master of Laws

Lassila & Tikanoja plc: Vice President, Industrial Services 2000–2009, Säkkiväline Oy: Administrative Director 1999–2000, Legal Counsel 1992–1999  
Helsinki Finnish Savings Bank: Legal Counsel 1991–1992



Juha Simola

**born 1962**

Vice President, Property Maintenance since 2010

Lt. Cdr. (Rtd)

Lassila & Tikanoja plc: Product Line Director 2001–2010  
Säkkiväline Oy: Regional Director 1996–2001, Regional Manager 1993–1996 and District Manager 1991–1993  
Suomen Teollisuuden Vartiointi Oy: Head of Department 1989–1991  
The Finnish Defence Forces: Officer duties 1985–1989



Henri Turunen

**born 1969**

Vice President, Cleaning and Office Support Services since 2010

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

Lassila & Tikanoja plc: Business Controller 2007–2010, Director, International Development 2005–2007  
Conventum Corporate Finance Ltd.: Associate Director 2000–2004  
McKinsey & Company: Consultant 1997–2000  
Helsinki University of Technology: special teacher, assistant and lecturer 1990–1996



Kirsi Matero

**born 1968**

HR Director since 1 January 2012

M.Sc. (Econ.)

Atria Plc: Group Vice President, Human Resources 2010–2011  
Pfizer Oy: HR Director 2007–2010  
Nokia Mobile Phones: Senior Business HR Manager 2004–2007  
Nokia Networks and Nokia Mobile Phones: Business HR Manager and Competence Development Manager 1998–2003  
Aadulta Oy: Program Manager 1996–1998  
Shell Oy: Customer Service Officer, Transport Planner and Product Manager 1993–1995



Tuomas Mäkipeska

**born 1978**

Business Development Director since 6 February 2012

M.Sc. (Econ.)

Deloitte: Management Consultant, Strategy & Operations 2005–2012  
Fiskars Corporation: Project Manager 2004–2005  
Rieter Automotive Management AG: Market Analyst 2003  
Tapiola Group: Finance Assistant 2000–2002



Antti Tervo

**born 1978**

Chief Procurement Officer since 14 February 2012

M.Sc. (Econ.)

Siemens, North West Europe: Head of Commodity Management 2009–2012, Work stream Lead, Procurement & Supply Chain Management 2008–2009  
Siemens Oy: Director, Procurement 2005–2009, Procurement Manager 2003–2005, Supply Chain Consultant 2001–2003

#### Changes in Group Executive Board in 2011:

Ville Rantala was appointed as Managing Director of L&T Biowatti Oy and Vice President, Renewable Energy Sources division as of 22 March 2011. Tomi Salo, Managing Director of L&T Biowatti, did not continue in the company.

Pekka Ojanpää was appointed as President and CEO on 13 June 2011. Ojanpää assumed his position as of 1 November 2011. Jari Sarjo, former President and CEO left his position as President and CEO immediately. Ville Rantala, CFO, acted as a temporary President and CEO from 13 June to 31 October 2011.

Kirsi Matero was appointed as HR Director and Group Executive as of 1 January 2012. As of 7 December 2011 HR Director Inkeri Puputti left the company. Tuomas Mäkipeska was appointed as Business Development Director and Antti Tervo as Chief Procurement Officer. They assumed their positions in February 2012.

Säkkiväline was a group company of Lassila & Tikanoja Group between 1989 and 2001. 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 2011 are listed on page 48.



# GRI Content Index

■ reported    ■ partly reported

GRI content	Scope	Page	Remarks
<b>1. Strategy and Analysis</b>			
1.1	Statement from the most senior decision-maker of the organization	2, 33	President and CEO's review on sustainability is available on the company website <a href="http://www.lassila-tikanoja.com">www.lassila-tikanoja.com</a>
1.2	Description of key impacts, risks, and opportunities	8–10, 17–18, 33, 34	
<b>2. Organizational Profile</b>			
2.1–2.3 and 2.5	Name of the organization, products and services, operational structure, countries where the organization operates	5, 12–31, FS 22, FS 30	
2.4 and 2.6	Location of headquarters, Nature of ownership and legal form	FS 14, FS 22	
2.7	Markets served	5, 12–31	
2.8–2.9	Scale of the reporting organization, Changes regarding the organization	4–5, 15, 38–40	No significant changes
2.10	Awards received	42	
<b>3. Report Parameters</b>			
3.1–3.3	Reporting period and cycle, date of previous report		Reporting period: 1 January–31 December. Report is published annually.
3.4	Contact point	back cover	
3.5	Process for defining report content	32–33	
3.6–3.8	Boundary of the report, basis for reporting on joint ventures and subsidiaries	33, 37, FS 30	Possible deviations are reported with the respective indicators.
3.10	Re-statements of information provided in earlier reports		Not applicable
3.11	Significant changes from previous reporting periods		L&T's organisation was renewed in 2009 and 2010. Comparative figures have been restated accordingly.
3.12	Table identifying the location of the Standard Disclosures in the report	54	
<b>4. Governance, Commitments, and Engagement</b>			
4.1–4.4	Governance	44–53	
4.8	Statements of mission or values, codes of conduct, and principles	32–33	
4.13	Memberships in associations	32, 34	
4.14–4.15	Stakeholder groups and identification of stakeholders	32	
<b>Economic Performance Indicators</b>			
EC2	Risks and opportunities due to climate change	8–10, 33–35	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit	4–5, 16–31	
<b>Environmental Performance Indicators</b>			
<b>Energy</b>			
EN5	Energy saved	36	
EN6	Energy-efficient or renewable energy based products and services	12–31, 34–35	Several of L&T's services are based on energy efficiency and renewable energy sources.
<b>Biodiversity, Emissions, effluents and waste</b>			
EN12, EN14	Impacts on biodiversity and strategies for managing impacts	35	Reported from the viewpoint of Renewable Energy Sources
EN16	Total direct and indirect greenhouse gas emissions	37	
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<b>Products and services, Transport</b>			
EN26	Initiatives to mitigate environmental impacts of products and services	34–35	
EN29	Environmental impacts of transporting	36–37	
<b>Social: Labor Practices and Decent Work</b>			
<b>Employment, Occupational health and safety, Training and education</b>			
LA1	Description of personnel	38, 40	
LA7	Injuries, occupational diseases, lost days, absenteeism, fatalities	40, 42–43	
LA8	Education and prevention programs regarding serious diseases	42–43	Sirius work ability programme
LA11	Skills management	39–40	
LA12	Performance and career development reviews	39	
<b>Human Rights and Society</b>			
<b>Diversity and equal opportunity, Public policy</b>			
HR2	Suppliers and contractors	37	Principles for engaging with partners
SO5	Participation in public policy development and lobbying.	32–33	



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