ANNUAL REPORT 2005

LASSILA & TIKANOJA PLC

Contents

Review by the President and CEO

Lassila & Tikanoja's strategic goals are clear, and the Company is working single-mindedly to achieve them. We will remain in the current growing markets of environmental management and support services for properties and plants, and we will expand operations in the Baltic region in a controlled manner. We want growth in Finland to be more rapid than market growth. Our long-term target is growth of more than 10 per cent a year, and it must be profitable. In this way we can ensure that the Company is a good and competitive investment for shareholders. The markets are growing and changing, and we must be able to respond to these changes.

Net sales and financial performance for 2005

In 2005, L&T's net sales went up by nearly 12 per cent and reached EUR 377 million. Organic growth increased and was 5.3 per cent. The improvement in organic growth is in the first instance thanks to our professional sales team. Operations were expanded into new countries: in Russia and from the beginning of 2006 in Sweden. We can be quite satisfied with the growth in net sales.

The profit for the financial year was at the same level as the year before. Property Services improved its operations as measured against all indicators, and its financial performance was particularly good. The improvement in the financial performance was a result of strong growth in net sales, effective cost management and considerably lower pension costs compared with last year.

Although the other divisions' financial performance was not bad, it was not totally satisfactory either. Environmental Services and Industrial Services did not achieve their targets. The financial performance of these divisions was affected by external factors such as losses caused by the labour dispute in the forest industry and the exceptionally sharp rise in the price of fuels. The expansion of international operations also affected the financial performance of the Company as a whole.

We cannot change the world outside, so the Company must focus on its own operations and seek ways of making improvements from within. Although the Company has placed considerable emphasis on growth by investing in recycling plants and by expanding operations geographically, we must improve our financial performance at the same time.

Market development will demand more from L&T

L&T operates in the environmental management market and the support services market for properties and plants. These markets will grow faster than the national economy long into the future in all the countries in the Baltic region. Legislation is continually placing new, more restrictive demands on waste recovery. The municipal sector and industry, especially the forest industry, are outsourcing their services at an accelerating rate for professional companies in the sector to handle. We want to continue to strengthen our position in these markets and to expand our operations geographically.

There are other phenomena than growth at play in the development of the market. In concentrating on their core business operations, customers want to acquire more extensive service packages and expect service providers to manage the development of these services on their behalf. This is a challenging task, but a positive one from L&T's point of view, since its service supply is extensive, and we have considerable experience in providing comprehensive service solutions.

The other side of the development described above is that customers expect the cost level to be strictly controlled. It is often thought that services are produced and consumed locally and that they cannot be imported or exported in the traditional sense of the word. This has partially protected service sectors from international competition. Although competition in the service sectors is fierce, the cost effectiveness of services has not grown at the same rate as productivity in industry. Rising costs have in the main been passed on to prices, or profit margins have been sacrificed, which is always reflected in the quality of the service in the end. In this respect times are clearly changing. Our customers operate either directly or indirectly in tough international competition, which is reflected in L&T as a requirement to improve productivity and cost effectiveness. Maintaining a competitive edge also requires considerable investment in product development.

Improving productivity and cost effectiveness is key

A genuine improvement in productivity can only be based on the insight that is created within a stimulating environment. Work satisfaction and long-term commitment to the Company are issues that L&T is doing well in. Making personnel responsible for their own work and work productivity has been successfully implemented in Property Services through a teamwork approach to working. L&T aspires to be a challenging and safe place to work where individuals are trusted at every level of the organization. Taking responsibility at the team-level is well-suited to this environment, and teamwork will be increased purposefully.

One significant project aimed at improving productivity is the change from decentralised customer service to centralised management of the customer management process. Centralising decentralised customer service through telecommunications technology into a few contact centres forms the key to the changes in the customer management process. Customer service becomes available through several channels and will be two-way; moreover communication with the customer will increase significantly.

Information systems play a key role in improving productivity. A gradual introduction of systems relating to the payroll started at the end of 2005. The new system package will make calculating the payroll and its information retrieval processes more effective. Changing over to a more efficient operating approach will be fundamental to updating the production control system for providing environmental management services. The new system will make route planning more efficient, speed up invoicing and automate the customer reporting system. The system will be introduced next autumn.

Improvements in the performance of the service sector cannot be effected solely with a few large projects, but cost effectiveness is dependant on many small matters, too. Good performance demands unstinting everyday management of even the smallest matters. This has been achieved best in Property Services, where the cost structure has been analysed in detail, and changes in even small cost items are monitored in real-time, and measures are proactive. Throughout the Company more attention is being paid to managing costs.

Improving productivity is also a question of service product development. L&T has been engaged in systematic product development work for years; by conceptualising service products for selected customer segments it has proved possible to tailor L&T's service supply to meet the needs of the customer segment in question. The implementation of the service is cost efficient as a result of the exact planning and follow-up. We have increased and will continue to increase resources for product development. L&T's long-term aim is that over 60 per cent of net sales should come from conceptualised service products. These services currently account for noticeably less than 20 per cent.

Thus this year the emphasis for management will be on improving productivity and managing costs. The cost-saving programme that was started at the end of 2005 will be implemented consistently. L&T is committed to improving its financial performance.

I would like to thank the Company's shareholders and customers for their loyalty and all the staff for the work done to make L&T a successful company.

February 2006

JARI SARJO

Lassila & Tikanoja in brief

Lassila & Tikanoja is a publicly quoted Finnish company that specialises in environmental management and property and plant maintenance. Its business is divided into three divisions: Environmental Services, Property Services and Industrial Services. Lassila & Tikanoja operates in Finland and to an increasing extent in other countries in the Baltic region.

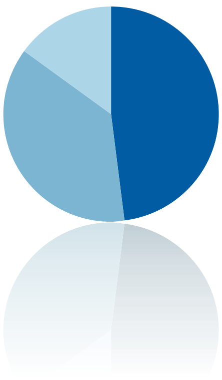
Lassila & Tikanoja is listed on the Helsinki Stock Exchange main list in the sector Industrials, Environmental and facilities services.

	Environmental Services	**Property Services**	**Industrial Services**
Division	Environmental Services covers the collection, transport and treatment of waste and reusable material and the supply of processed recycled materials for reuse.	Property Services offers cleaning, property maintenance and office support services	Industrial Services specialises in heavy-duty cleaning and damage repair for industry and other types of property that require special expertise.
Product lines	**Waste Management** **Recycling Services** L&T is also engaged in wholesale trade in environmental management products.	**Cleaning services** **Property maintenance** **Maintenance of technical systems**	**Hazardous waste management** **Industrial cleaning** **Damage repair services** **Wastewater services**
Net sales 2005	EUR 180.7 million	EUR 142.9 million	EUR 57.6 million
Operating profit 2005	EUR 24.0 million	EUR 11.9 million	EUR 4.7 million
EVA 2005	EUR 10.2 million	EUR 9.5 million	EUR 0.2 million

- Environmental Services
- Property Services
- Industrial Services

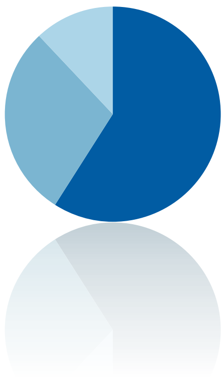
Net sales by division

Total EUR 377.4 million



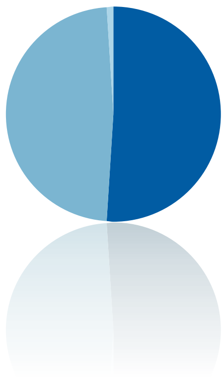
Operating profit by division

Total EUR 39.3 million



EVA by division

Total EUR 18.3 million



2005 in brief

Lassila & Tikanoja's net sales increased by nearly 12 per cent in 2005 to reach EUR 377 million. Organic growth strengthened primarily as a result of professional sales operations. The profit for the financial year was at the same level as in the previous year. The financial performance of Property Services was particularly good. The financial performance of Environmental Services and Industrial Services was affected by losses resulting from the labour dispute in the forest industry and the exceptionally sharp increase in the price of fuels. The financial performance of the whole Company was affected by the international expansion in operations.

Lassila & Tikanoja started operations in Russia by establishing a joint venture to handle environmental management in the city of Dubna and by buying a cleaning company in Moscow. The operations of Property Services were also strengthened in Latvia. The net sales for foreign operations was EUR 19.2 million, which was 5.1 per cent of the total net sales.

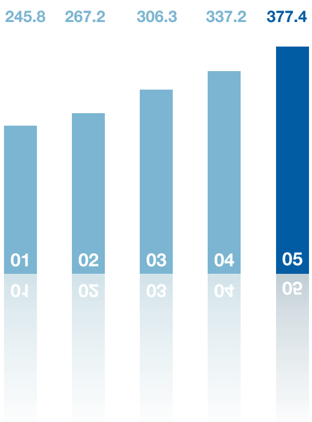
The recycling plant in Turku was completed, and trials started there in December. The recycling plant under construction in Riga will be completed in the spring.

Key figures for 2005 and 2004	**2005**	**2004**	**Change %**
Net sales, EUR million	377.4	337.2	11.9
Operating profit, EUR million	39.3	40.8	-3.8
Profit before tax, EUR million	37.5	37.9	-1.1
Return on equity (ROE), %	18.8	25.2	
Return on invested capital (ROI), %	17.9	22.5	
Gearing, %	49.3	45.6	
Equity ratio, %	49.5	48.1	
Gross investments, EUR million	60.9	48.1	26.6
Average personnel employed converted to full-time	5 918	5 409	9.4
EVA, EUR million	18.3	22.7	-19.4
Earnings/share (EPS), EUR	0.70	0.79	-11.4
Cash flows from operating activities/share, EUR	1.28	1.40	-8.6
Dividend per share, EUR	0.40*	0.25	60.0

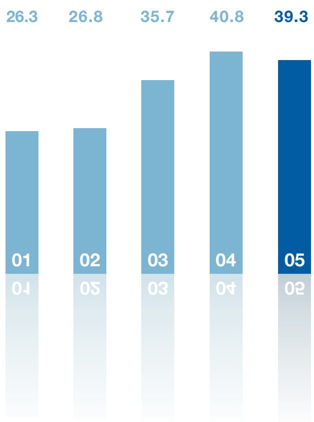
* Proposal by the Board of Directors

Calculation of the key figures is presented on the pages 66 and 67.
Key figures for 2004 are stated excluding revenue recognition of pension liability.

Net sales, EUR million
2001-2003 FAS, 2001 pro forma



Operating profit, EUR million
2001-2003 FAS, 2001 pro forma



Strategy

The key points of Lassila & Tikanoja's strategy:

- continuing to strengthen market position in Finland
- investing in recycling plants and concentrating on product development
- controlled expansion in the Baltic region
- organic growth and growth through acquisitions

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

L&T intends to remain in its present operating sectors and expand in a controlled manner. Growth will be pursued mainly organically, in addition to which there will be acquisitions. The Company aims to grow faster in Finland than market growth. The long-term growth target for the Company's net sales is more than 10 per cent annually. The growth target abroad is higher, and growth will be based on organic growth, establishing new units and acquisitions. Growth will be sought in particular in Sweden, the Baltic States and selected areas in Russia.

Over the next few years, L&T will be investing significantly both in Finland and abroad, which will accelerate the growth in net sales. Investment in product development will be increased.

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

Divisions' competitive strategies

Environmental Services is the sector's market leader in Finland. The aim is also to be a significant operator abroad in selected business activities in environmental management.

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

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

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

Property Services is the second-biggest operator in its field in Finland. In the future, Property Services will be aiming to take a significant position in Sweden, the Baltic States and selected areas in Russia. L&T will be endeavouring to distinguish itself from its competitors through the quality of its work and the high standard of its production management systems. An important tool for achieving this aim is the system of service concepts for specific customer segments. The Company also provides office support services, e.g. mailing, reception and catering, either on its own or in cooperation with other companies in the field.

Industrial Services: L&T offers the widest selection of industrial services in Finland, and in terms of product lines it is the biggest or second-biggest operator in Finland. In Industrial Services, Lassila & Tikanoja is a customer-oriented supplier of comprehensive solutions. The focus is on constructing operating models that can optimise capacity allocation in fluctuations in demand.

Goals

Lassila & Tikanoja aims to be

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

We will achieve our goals

- by producing added value for our customers
- by sharing power and responsibility in the organisation
- by ensuring continued profitable growth

Profitable and competitive investment

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

Our personnel

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

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

Our customers' needs

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

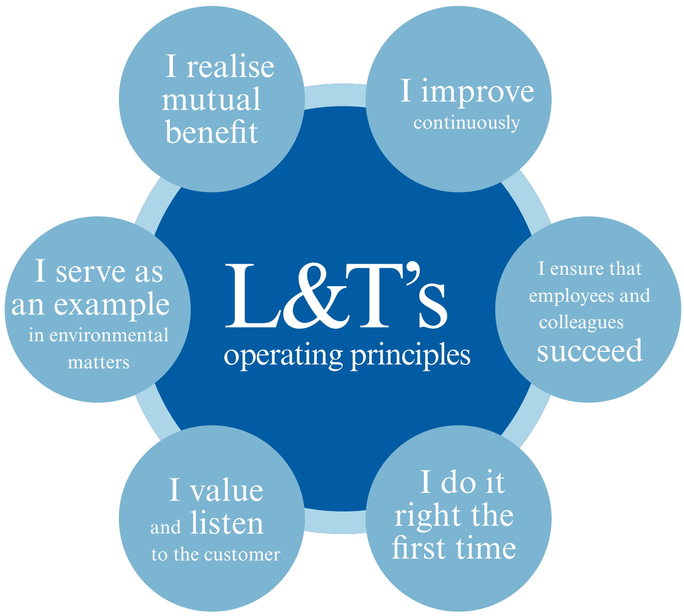
Good corporate citizenship

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

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

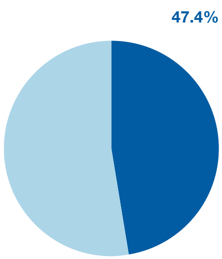
Operating principles

L&T's operating principles are the common rules by which the goals are achieved within the Company. The operating principles are put into effect through the actions of every employee. The implementation of these operating principles are evaluated with the help of development discussions, work satisfaction surveys, internal assessment and customer satisfaction surveys.



Environmental Services

Percentage of net sales



Services

L&T's Environmental Services division covers the collection, transportation and processing of waste and recyclable materials and the supply of recycled materials and recycled fuel (REF) for reuse.

Collection services for individual premises cover the design, dimensioning, marking, cleaning and leasing of bins in addition to the collection itself. Internal transportation of waste inside premises, staff training and reporting are often included in the service. Materials that are collected separately include paper, board, card-board, metal, plastic, glass, biowaste, energy waste, wood, electrical and electronic scrap (WEEE), confidential material and tyres.

The collected waste materials are brought for processing either to L&T's own plants or to the plants of cooperation partners. L&T is constantly increasing its processing capacity in order to reduce the proportion of waste ending up at landfills. Processed recycled materials and recycled fuel are generally sold to the end-user on long-term contracts.

L&T manages recycling services based on producer liability in tyres, waste paper, packaging and electrical and electronic scrap. The most extensive service package covers discarded tyres; the entire material chain from collection to processing and reuse is managed by L&T throughout Finland.

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

Salvor Oy, a joint venture of L&T and the Finnish Road Enterprise, specialises in processing services for industrial by-products, soil remediation and the construction of landfill barrier systems.

The main emphasis of operations in Latvia is, for the time being, on the collection and transportation of waste. However, the amount of materials collected separately and recyclable material is increasing continuously as L&T's own processing capacity increases. In Dubna, Russia, L&T Ecosystem manages the collection and transportation of waste and landfill sites for the whole city.

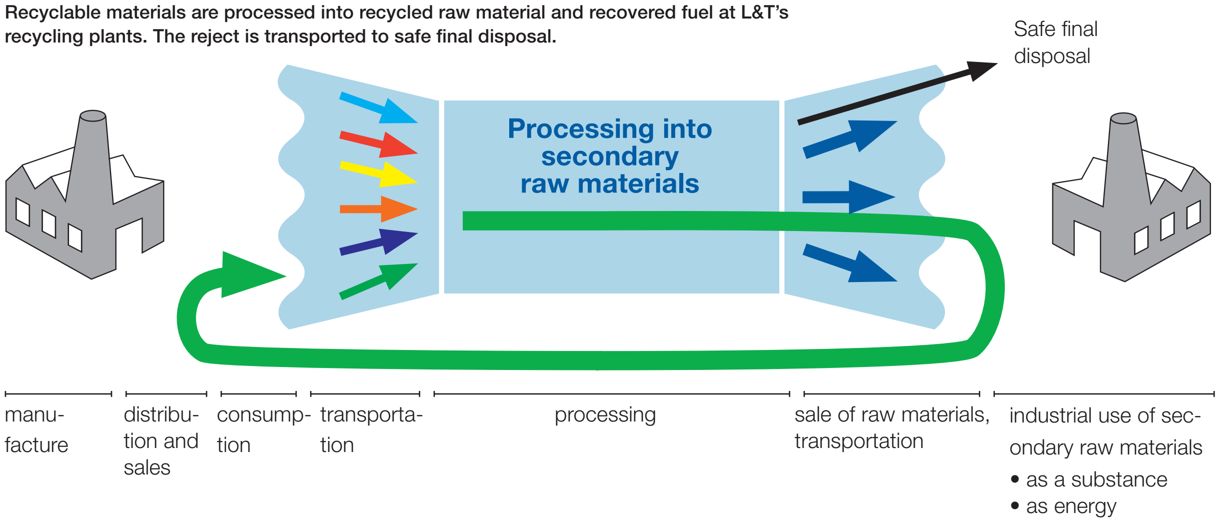
The Environmental Products unit is engaged in the wholesale trade and export of environmental management products and acts as the purchaser of these products for the service divisions. The unit is also responsible for the product development of collection equipment for environmental management.

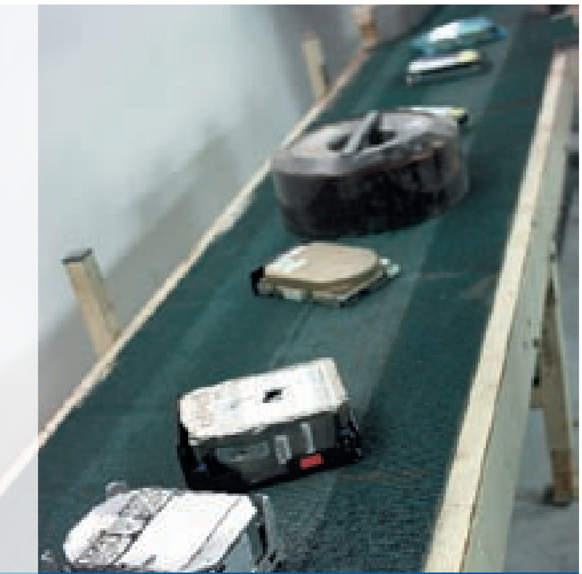
The market is still growing at a faster rate than the national economy

According to Finland's National Waste Plan, the level of waste recovery should have risen during the year under review from its current level of under 50 per cent to 70 per cent, but the goal was not reached. However, more stringent waste recovery obligations and the growth in the national economy boosted the market, and L&T increased its market share. Work to draw up a new national waste plan has begun, and at the same time the requirements for a complete overhaul of the Waste Act are being sketched out. The legislation already in force, the stricter recovery obligations for packaging and the EU's waste strategy and Waste Framework Directive will continue to expand the environmental manage-

Lassila & Tikanoja stands for sustainable development

Recyclable materials are processed into recycled raw material and recovered fuel at L&T's recycling plants. The reject is transported to safe final disposal.





Producer liability for electric and electronic scrap (WEEE) came into force in August, and the collection and treatment of WEEE material increased considerably.

ment market at a faster rate than the national economy.

The Baltic States, as the newest EU Member States, have not come as far as Finland in the application of environmental legislation, although waste recovery requirements are continually increasing both in the Baltic States and in Russia. The potential markets are extremely large, especially in Russia.

Producer liability for electric and electronic scrap (WEEE) came into force in August, and the collection and treatment of WEEE material increased considerably. L&T can provide specialist services both for producers of WEEE and for companies, in particular for the safe treatment of WEEE materials containing sensitive information and their supply for reuse.

The EU's Directive on Incineration of Waste came into force at the end of the year. Its stricter requirements will result in a temporary reduction in the exploitation of energy coming from waste, although many companies in the energy sector are planning new plants that will use recycled fuels. L&T has concluded comprehensive agreements for supplying recycled fuels for 2006.

In Finland, L&T is the market leader in environmental management with a share of nearly 20% of the market and it also has the country's most extensive service network. L&T is the largest environmental services company in Latvia. Environmental Products is a strong market leader in Finland and has been very successful with exports, too. Operating throughout the chain together with the comprehensive production plant network allows for benefits of scale and gives L&T a significant competitive edge.

2005

Net sales by Environmental Services stood at EUR 180.7 million (EUR 159.2 million), which was an increase of 13.5%. The operating profit was EUR 24.0 million (EUR 26.1 million).

The division grew through business acquisitions and organically. The largest acquisition during the year was for a company operating in the Helsinki region, Jäteässät Oy, which has been integrated on schedule, and the planned synergy benefits have been achieved. Sales have been very successful. The first wide-ranging outsourcing of recycling services for a logistics terminal was undertaken in summer.

The financial performance was affected by the extremely sharp rise in the price of fuels, the drop in the selling prices of recycled fuel, the labour dispute in the forest industry and the loss by the joint venture company Salvor Oy. The rapid rise in costs could not be passed on in sufficient extent to prices.

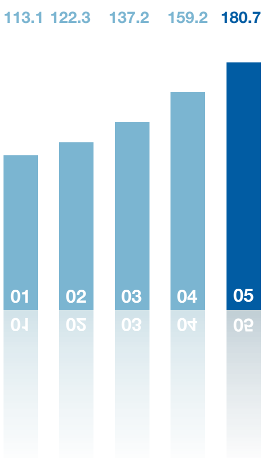
The joint venture in Dubna, Russia, 74% of which is owned by L&T, started its operations in May, which have gone according to plan. The operations will be expanded during the year to neighbouring towns in a controlled manner. The financial performance at the unit in Latvia came under pressure from the rise in costs, which could not be passed on to prices due to price control. Prices will be raised in both Russia and Latvia during this year.

The recycling plant in Turku was completed and trials began in December. The construction of the plant in Riga is on schedule and will be completed in the spring of this year. Appeals lodged against environmental permits slowed down the implementation of the investments. However, permits have been granted so that it will be possible to construct two to three mid-sized plant and terminal projects in Finland during the year.

The rise in price of oil-based products also affected the financial performance of Environmental products. Price rises could only be passed on to selling prices at the end of year, and Environmental products fell well short of its targets.

Net sales, EUR million

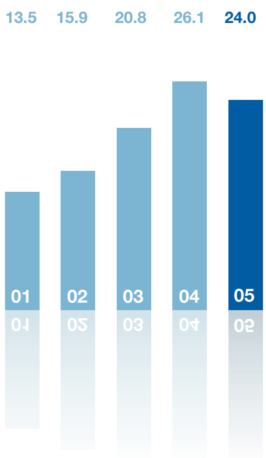
2001-2003 FAS, 2001 pro forma



Operating profit, EUR million

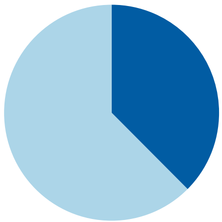
2004 excluding revenue recognition of pension liability

2001-2003 FAS, 2001 pro forma



Property Services

Percentage of net sales



Services

L&T's Property Services offers cleaning and office support services as well as property and technical systems maintenance services.

Cleaning services offers its customers comprehensive solutions, which, in addition to cleaning, can include other office support and user services, such as reception services, mailing, security and catering services. These extensive service packages are provided by L&T itself or by networking with the leading company in each sector. Management of office premises may also be included in contracts in addition to services management.

Blue Service Partners Oy, a joint venture with Fazer Amica that started operations in the spring, provides services to the local government sector and especially those local government customers who want to acquire maintenance services for properties and catering as one complete package.

Property maintenance comprises the general security, operation and maintenance of technical systems, maintenance of outdoor areas, cleaning of public facilities, indoor and user services and multiple non-recurring special services. Technical systems maintenance produces M&E (heating, water, air conditioning, electricity, refrigeration, automation) and technical management services. Kiinteistönetti® is an Internet-based service system that constitutes a channel for real-time contact and extensive customer reporting.

L&T has developed service concepts for major retail operators and commercial centres, for the food industry, which requires top-class hygiene standards, and for service station chains. The Reilu® cleaning concept designed for offices also comprises waste recycling at office premises. During the autumn, anti-allergy cleaning, developed together with the Finnish Allergy and Asthma Federation, was added to the concept, and L&T was the first cleaning services company to receive the right to use the allergy symbol from the Federation. Blue Service Partners created a service concept for local government customers based on the services of both parent companies.

L&T also provides cleaning services in Moscow, Latvia and from the beginning of 2006 in Sweden, too.

Outsourcing is increasing the market

Office and commercial properties and industry are the biggest customer groups in cleaning services. In property maintenance, the biggest customers are institutional property owners and facilities management

Property maintenance tasks are diversifying and the tools used are constantly being developed.

L&T started cleaning operations also in Moscow in 2005.

companies. The commercial market accounts for around a third of the total market in cleaning services in Finland and property maintenance for just over 20 per cent. Both markets have consolidated rapidly in the past few years and more than half of the net sales of the commercial market are accounted for by the three biggest operators.

In Finland, the commercial market is expected to grow faster than the national economy for a number of years, since industry and a significant part of the public sector are giving up their own property maintenance organisations. In the local government sector, for example, the outsourcing rate for property services is now under 20 per cent in Finland, but this will increase rapidly in the coming years as the baby boom generation reaches retirement age. The opening up to competition of support services in the forest industry as a consequence of the labour dispute in the spring will also expand the market.

The cleaning services market is growing rapidly in Moscow, Latvia and particularly in Riga. In Sweden, the cleaning services market is also growing faster than growth in the national economy as a result of outsourcing.

L&T's competitive edge is derived from customer-responsiveness, high quality, cost effectiveness and a multiple range of services. The Company differentiates itself from competitors by providing advanced service products to selected customer groups. Particular attention is paid to efficient production planning and control, in which software tools play a significant role. By networking L&T can expand operations to tangential markets and offer its customers an increasing range of service packages. The demand for comprehensive service solutions increased during 2005 and network cooperation got off to a good start.

L&T has expanded more rapidly than market growth and strengthened its market share in Finland to around 13 per cent. L&T is Finland's second-biggest operator in both cleaning services and property maintenance. In Latvia L&T is one of the leading companies in the cleaning sector.

2005

Net sales by Property Services totalled EUR 142.9 million (EUR 124.8 million), which was an increase of 14.5%. The operating profit increased by 28.0% and stood at EUR 11.9 million (EUR 9.3 million).

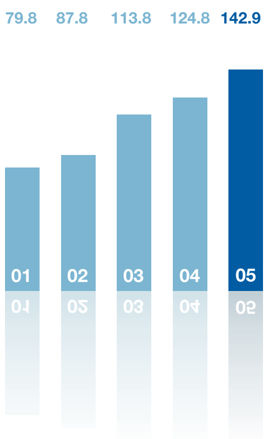
A significant proportion of the growth in net sales was organic. Highly developed service products sold well and new comprehensive service agreements were concluded. The market position strengthened. Cooperation between sales and production was good.

The financial performance of both product lines improved both in absolute and relative terms. The division's financial performance improved, one of the causes being noticeably low social costs, particularly pension costs. The organisation and integration costs of the cleaning business acquired in Moscow had an adverse effect on the financial performance of cleaning services. A reorganisation of production and the systematic introduction of new management and control systems contributed to the steady improvement in the financial performance of property maintenance, as well as the fact that there was not much snow at the end of the year.

Cleaning operations were strengthened in Latvia during the third quarter by the acquisition of SIA 99 Perfekts, a company operating in the cleaning sector in Riga. At the start of 2006, cleaning operations commenced in Sweden with the acquisition of Allied Service Partners AB, which operates in Stockholm and Gothenburg. Operations in Sweden will be expanded during the year.

Net sales, EUR million

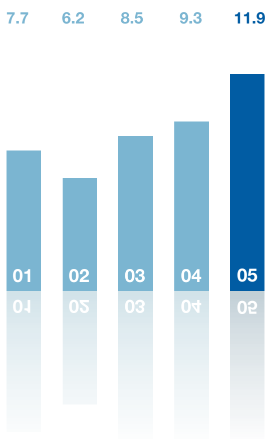
2001-2003 FAS, 2001 pro forma



Operating profit, EUR million

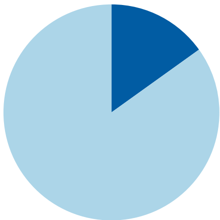
2004 excluding revenue recognition of pension liability

2001-2003 FAS, 2001 pro forma



Industrial Services

Percentage of net sales



Services

L&T's Industrial Services specialises in heavy-duty, expertise-demanding cleaning and damage repair work. L&T is the leading operator in Finland in the services it provides.

Hazardous waste services provides customised collection, sorting and processing services for its customers. L&T plants produce recycled raw materials and recycled fuels for industry.

Industrial cleaning specialises in providing cleaning services for industrial process equipment (pipeline systems, boilers, heat exchangers) by means of high-pressure water equipment, suction and combination equipment, and heavy-duty vacuum suction equipment. Customers include the forest, metal and chemical industries, power plants and oil refineries.

Damage repair services minimises property damage in various loss situations, such as fires, accidents, and the occurrence of damage caused by water and damp.

Wastewater services offers maintenance services to properties, municipalities and industry. L&T maintains sewers, pipeline systems, wells, tanks, separators and infrastructure wastewater systems and systems for sparsely populated areas.

From decentralised acquisition of services to partnership

The purchasing culture of the industrial services market is changing: customers are trying to exploit their purchasing volumes by acquiring services nationally and reducing the number of suppliers. At the same time, the need is growing at the plant level to find more advanced cooperation models where added value is achieved through a joint strategy and set of indicators. L&T must be able to operate in both circumstances. As a provider of basic services L&T's competitiveness is measured in unit prices, whereas with partnerships the emphasis is on managing the total costs and taking responsibility for the customer's support operations and their development.

The market for hazardous waste services is growing at a moderate pace in Finland, since the amount of hazardous waste is not really increasing and the level of collection is high. The greatest growth potential is in the neighbouring countries, in Russia and the Baltic States, where hazardous waste management is in its initial development stages. As processing technology develops and requirements for recycling become more strict, there has been a move away from the safe final disposal and

L&T's industrial cleaning services include cleaning of process pipeline systems with high-pressure water equipment.

L&T is a pioneer in finding solutions for recovering hazardous waste; the waste recovery rate at the Company's processing plants is already over 80%.

destruction of hazardous waste towards reuse and recycling. L&T's aim is to find comprehensive recycling and reuse solutions for the entire Baltic region by expanding its operations in the area and by networking with foreign operators. The increasingly tight requirements of the EU's Waste Incineration Directive will temporarily reduce the demand for recycled fuels made from hazardous waste and increase the need to improve the reuse of hazardous waste material.

The importance of nationwide operators is increasing in the field of industrial cleaning as the size of accounts increases. The change demands more centralised production control and procedures development from L&T. At the same time, L&T must be able to act nationally but provide services locally, which, as the market leader, it is well placed to do. As a result of the labour dispute in the forest industry in spring, the major work carried out during the summer and Christmas shutdowns will in future be spread over a longer period, which will reduce seasonal fluctuations and the need for equipment.

In damage repair services, awareness of health risks caused by damp, mould and impurities in indoor air is constantly increasing the demand for drying services. Interest in preventing new types of threats is also increasing: L&T's role in preventing animal diseases takes the form of cleaning and disinfecting contaminated premises, and in cases of environmental damage L&T is able to manage extensive service packages by combining its expertise in damage repair with a variety of environmental management operations.

Of the product lines of Industrial Services, the market for wastewater services is expected to grow and develop most rapidly during the coming years. The importance of preventive servicing of wastewater systems is increasing continuously, and Finland's ageing sewer network will require thorough renovation. The operation of wastewater treatment plants and sludge maintenance is being transferred from local government and industry to service companies, which will offer L&T a more diverse role in wastewater maintenance. The demand for sewer network maintenance and renovation services is also growing in Finland's neighbouring countries, where L&T is aiming to expand its operations. In addition to Finland, L&T also provides wastewater services in Latvia.

2005

Total net sales by Industrial Services were EUR 57.6 million (EUR 56.2 million), which was an increase of 2.5%. The operating profit was EUR 4.7 million (EUR 6.9 million). The division's financial performance did not reach the targets.

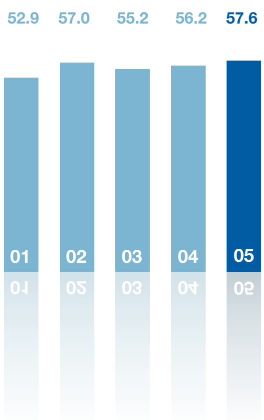
The hazardous waste services product line increased its net sales even though the amount of hazardous waste that accumulated in Finland did not increase. The processing of hazardous waste into recycled products at L&T's own plants increased, which improved profitability. The difficulties in selling recycled fuels affected the financial performance to some extent. L&T will continue to raise the waste recovery level.

It was a difficult year for Industrial cleaning, and its results weakened. Net sales were clearly lower than in the previous year due to the labour disputes and cost saving programmes in the forest industry. The impact of the labour disputes was still felt in the final quarter as there were fewer Christmas stoppages in the forest industry. A systematic reorganization and adjustment programme has been implemented in the product line during the year, the impact of which is already apparent. The collective agreement for the forest industry is resulting in more steady demand, which facilitates work being carried out using less equipment.

Net sales and financial performance by the damage repair and wastewater services product lines did not reach their targets due to weak demand. As in the previous year, there was no large-scale damage. Wastewater services were short of sales resources, which have now been acquired.

Net sales, EUR million

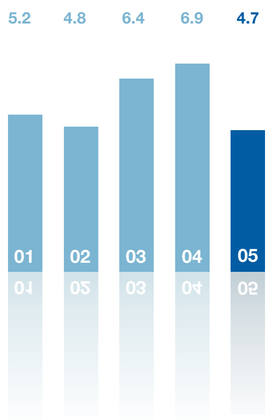
2001-2003 FAS, 2001 pro forma



Operating profit, EUR million

2004 excluding revenue recognition of pension liability

2001-2003 FAS, 2001 pro forma



Quality, the environment and occupational safety

Systematic development on the principle of continuous improvement

L&T improves operating methods by identifying and developing best practices. Operating policy, operating principles and the integrated management system create the foundation for development. The integrated management system also takes into account quality and environmental and occupational safety issues. Systematic improvements in operating methods ensure that L&T's customers receive high-quality services produced as safely and as cost effectively as possible. Continuous improvement is the basic approach to our operations.

Internal and external assessments are used to identify the areas of L&T's operations that could be improved and best practices. Assessments are carried out in service production at the customer interface level and by examining the agreed procedures and how processes function in practice. The assessment practices were updated and improved during 2005.

New certifications including L&T's operations abroad

In the spring, L&T's group level integrated management system and centralised operations were awarded ISO 9001 (quality), ISO 14001 (environmental) and OHSAS 18001 (occupational health and safety) certifications. In addition, certifications for service production were extended. The Environmental products unit, confidential data material service in Oulu, environmental services in Jyväskylä and the recycling station for consumers in Kerava were certified in line with the Company's integrated management system. The quality and environmental certification for industrial services in Imatra was extended.

Systematic measures to improve quality and management at L&T's companies abroad were launched. The first certification abroad conforming to L&T's integrated management system was awarded in Latvia to the cleaning services company SIA L&T Serviss, which was granted ISO 9001:2000 certification for its quality system operations.

Environmental permits direct operations

L&T's units have dozens of environmental permits related to issues such as waste treatment and transportation of hazardous materials and waste. Ten new environmental permits were applied for during 2005. Apart from supervision by the au-

thorities, obtaining and maintaining permits calls for an effective internal assessment system.

Practical measures to benefit the environment

The new EU engine standards and consumption values are taken into account when acquiring heavy-duty vehicles. 70% of L&T's lorry engines comply with the Euro3 and Euro4 standards that reduce environmental loading.

The upkeep and maintenance of equipment and machinery has a significant bearing on environmental emissions and occupational and traffic safety. The Environmental Services division increased the effectiveness of its machinery and equipment maintenance procedures. Guidelines were renewed and personnel were trained in the new operating method.

The key aim in the optimisation of routes is to increase routing efficiency. Increasing the efficiency reduces the time taken and the environmental impact of transportation. More than 60 collection route optimisations were carried out during 2005.

The most significant environmental impact of cleaning services results from how and what type of substances and equipment are acquired. Personnel are trained to use the correct amount of substances and to use equipment and machinery correctly. The acquisition process was made more efficient by centralising the logistics through one contract supplier. The environmental criteria for acquisitions were also updated. An agreement was reached with the supplier on recycling and reusing used packaging and equipment.

Promoting occupational safety means active cooperation

L&T's goal is to identify the risks and hazards involved in various jobs in advance and to reduce and eliminate them proactively. Improvements in occupational safety take place in cooperation with personnel, customers, experts in the safety sector and with insurance companies.

Safety training and risk awareness among personnel were increased by continuing and expanding the occupational safety card training programme. The purpose of this training is to improve occupational safety in shared workplaces, i.e. in the very operating environment in which L&T produces its services. A total of 1,500 L&T employees and service providers have received the training to date.

In 2005, occupational safety days were held in every division for occupational health and safety personnel and business unit managers. An occupational safety campaign was also launched with the aim of making staff take more responsibility for perceiving and recording dangerous and near-miss situations, thus reducing occupational accidents. The campaign included more effective communication about occupational safety matters, for example by starting to hold short occupational safety sessions. The guidelines concerning occupational safety were also improved and expanded.

Occupational safety was reorganised by increasing the responsibility of the divisions and exploiting their expertise. An occupational safety coordinator was appointed in each division and an occupational safety steering group was set up at group level.

Managing environmental, health and occupational safety risks

Managing environmental, health and occupational safety (EHS) risks is part of Lassila & Tikanoja's integrated management system. EHS risk audits are carried out annually in compliance with the system and EHS objectives are drawn up on the basis of the results. 26 extensive EHS audits or environmental risk surveys were carried out in 2005. EHS considerations were also assessed internally in the units and in conjunction with integrated management system assessments.

L&T's business operations observe, where appropriate, all applicable EU-level and national environmental acts, decrees, licence conditions and guidelines. Hazardous waste treatment and storage facilities most at risk carry special insurance, in connection with which audits and monitoring of environmental obligations are carried out by the insurance company.

L&T focuses on the customer

Contact centre – multi-channelled services on the customer's terms

During 2005, a contact centre operation was launched through which about 40 service points around Finland will be centralised into one single operation both technically and in terms of processes. In the future, the contact centre will consist of several service points operating in different localities, in which the personnel will be linked to each other using phone technology and a contact forwarding system.

The contact centre's operations incorporate L&T's customer service and invoicing as well as some back office duties, such as managing orders and feedback from online services and customer reporting. The contact centre also participates in increasing the effectiveness of L&T's other operating models and developing internal cooperation.

The first contact centre began operating in the Helsinki area in May. Its operations cover waste management and recycling services, environmental products and cleaning, property maintenance and wastewater services. The centre will additionally manage all communication concerning services in Finland received via online services. During the autumn, the centre received more than 10,000 calls, emails and faxes a month. At the end of the year the contact centre operation was expanded to cover Southwestern Finland.

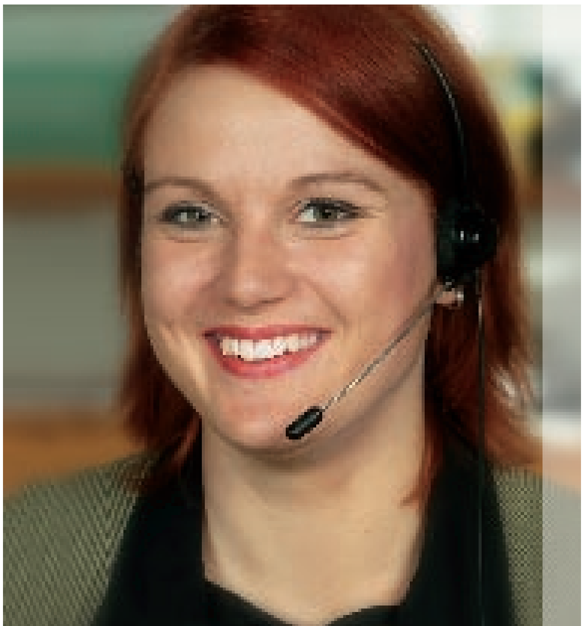
The demands of customer service are continuously increasing, so customer service should be provided in a more customer focused manner. Customers will see only one contact centre irrespective of where in Finland a customer contacts L&T, or whether the customer is a private or corporate customer, or irrespective of the means used to contact L&T. The aim is that contacting L&T should be easy and fast. Customer contact is managed in the contact centre through many channels and on the customer's terms.

Sales and account management

Customers' needs and expectations are increasingly focused on comprehensive environmental management, property and office support services. L&T's sales and accounts were reorganised at the end of 2004 to meet customer expectations more successfully. During 2005, L&T started to operate in line with the comprehensive solutions model and organisation. Specific account managers were appointed for the largest customers and their task is to take total responsibility for managing their particular customer relations. Sales managers in the comprehensive solutions unit are responsible for selling new, comprehensive service packages.

L&T's corporate sales activity was improved through a long-term training programme. Resources were increased and greater consideration was given to sales operations. A new telemarketing unit was also established with the task of researching the needs of potential customers, managing after-sales marketing and acting as support for other sales functions. Taken as a whole, sales in Finland performed well, surpassing the targets that were set in all sub-sectors.

As a result of L&T's expansion abroad, local sales organisations were established in the new business areas and sales staff were familiarised with L&T's sales operating methods.



Product development

The goal of product development is to improve L&T's competitiveness and help in achieving growth targets. This is achieved by combining the needs of selected customer segments with the practical implementation of services through a conceptualisation model to create service products. The service products devised meet the needs of the particular customer segment extremely well and they can be produced cost effectively and are difficult to copy. Product development concentrates on service products that comprise services from several product lines. Services are also developed in product lines, in addition to centralised product development.

L&T aims to introduce from two to four new service products onto the market every year. In the long term, the aim is to raise the share accounted for by service products to over 60 per cent of net sales. In 2005, the share of conceptualised service products accounted for well under 20 per cent of net sales.

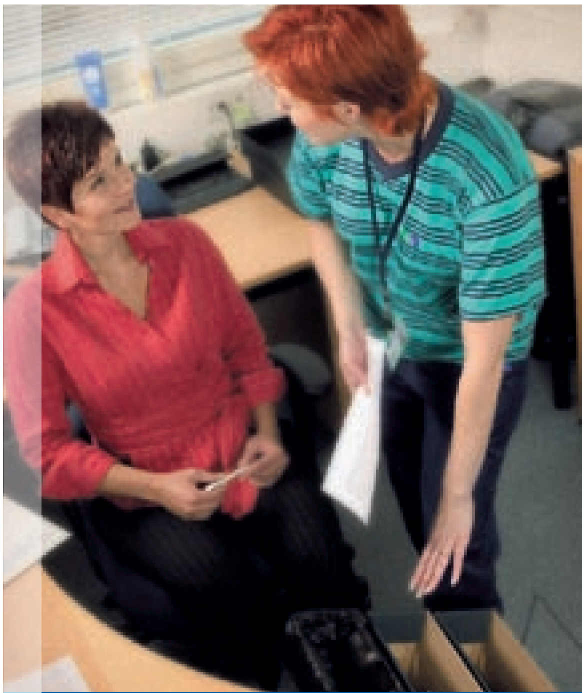
At the start of 2005, L&T's service product for unmanned fuel stations was introduced extensively, as a result of which L&T has become the market leader in these services in a short period of time.

The Reilu office cleaning service was revised during the year. As part of its new Reilu+ service product L&T is offering office customers allergen surveys in office premises and a standard of cleaning corresponding to the recommendations of the Finnish Allergy and Asthma Federation. Reilu+ also includes solutions for recycling in office premises and arrangements for the proper collection of confidential data material.

The service concepts in use in Finland have started to be modified to meet the needs of the markets in the Baltic States and Russia. L&T's service model for hygiene services in the food industry has already been used in Latvia.

Blue Service Partners Oy, the joint venture between L&T and Fazer Amica, started its operations in the spring. The Blue service product was developed for local-government clients as a joint initiative between L&T and Fazer Amica. Its key aims are to produce high-quality catering and cleaning services cost effectively.

L&T's conceptualisation model was developed to better cover the different stages of account management. The product development process was itself improved and the product development organisation was strengthened with new personnel resources.



Reilu+ cleaning service also includes solutions for recycling in office premises.

Personnel

L&T's business operations and competitive advantage are based above all on its highly skilled personnel. The rapid growth in business operations and expansion abroad was reflected in the growth in personnel. The average number when converted into full time employees was 5,918 (2004: 5,409). At the year end, the total number of employees working at L&T was 7,512 (6,456), of whom 1,256 were working abroad.

During 2005, the Company's basic processes concerning human resources development were redefined, and tools and benchmarks were established to help take better account of the employees' perspective in everyday management.

A new perspective for managing working capacity

L&T is a responsible employer that has been investing for years in measures to maintain working capacity. During 2005, an extensive preliminary report was undertaken on the current state of L&T's management processes for maintaining working capacity. An action plan was drawn up on the basis of the report sought to promote employees' working capacity and commitment in a more effective way, and to bring costs caused by work incapacity under better control. The action programme was launched at the start of 2006, and will be seen at the individual level as increased investment in maintaining working capacity at the different stages of an employee's career.

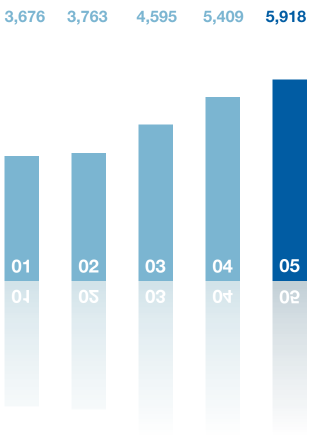
HUPO 2005 links the effectiveness of workplace communities with the ability to produce profits

The HUPO 2005 effectiveness study into workplace communities covering all personnel in Finland was carried out in the autumn. A questionnaire was used to measure employees' performance potential, which was based on three factors: expertise, qualifications and motivation. The HUPO questionnaire helped to achieve a comprehensive picture of the current circumstances and areas for development, which will be tackled in the operating plans for 2006.

Encouraging employees to take responsibility through teamwork

Over the last two years, L&T has introduced a teamwork programme. Nearly 600 supervisors and employees have been trained to take a new perspective in which personnel at different levels of the organisation are encouraged to participate in the planning, monitoring and development of work. The aim is to improve customer satisfaction and work productivity. The programme was launched in Property Services and will be extended to other divisions during 2006.

Average personnel converted to full-time



Many enthusiastic teams took part in the staff football outdoor tournament organised in connection with L&T's 100th anniversary.

Lassila & Tikanoja plc's financial statements for the year 2005

All figures in the annual report have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

Report by the Board of Directors

Net sales and financial performance

Lassila & Tikanoja's net sales totalled EUR 377.4 million (EUR 337.2 million), an increase of 11.9%, of which 6.3 percentage points derived from business acquisitions. The operating profit totalled EUR 39.3 million (EUR 40.8 million), and the earnings per share were EUR 0.70 (EUR 0.79).

Organic growth clearly strengthened. Business operations were expanded to Russia and at the start of 2006 to Sweden. The financial performance was affected by the labour dispute in the forest industry, the sharp rise in the price of fuel, expansion abroad and the poor performance by joint ventures. The rise in costs could not be passed on in sufficient extent to prices. In spite of this, Property Services clearly surpassed its target, one of the causes being the exceptionally low level of social costs.

Since the last quarter, special attention has been paid to managing costs and improving productivity. The measures that have been taken started to have an impact at the start of 2006. Prices were raised in all the divisions at the start of 2006, and these increases should cover the corresponding rise in costs.

Environmental Services

Net sales by Environmental Services stood at EUR 180.7 million (EUR 159.2 million), which was an increase of 13.5%. The operating profit was EUR 24.0 million (EUR 26.1 million).

The division grew through business acquisitions and organically. The largest acquisition during the year was for a company operating in the Helsinki region, Jäteässät Oy, which has been integrated on schedule, and the planned synergy benefits have been achieved. Sales have been very successful. The first wide-ranging outsourcing of recycling services for a logistics terminal was undertaken in summer.

The financial performance was affected by the extremely sharp rise in the price of fuels, the drop in the selling prices of recycled fuel, the labour dispute in the forest industry and the loss by the joint venture company Salvor Oy. The rapid rise in costs could not be passed on in sufficient extent to prices.

Net sales

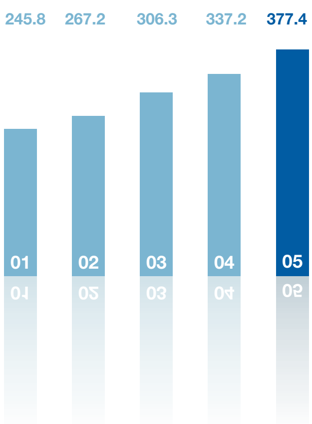
EUR 1000	2005	2004	Change %
Environmental Services	**180 679**	159 152	13.5
Property Services	**142 890**	124 820	14.5
Industrial Services	**57 584**	56 195	2.5
Group administration and other	**366**	377	
Inter-division net sales	**-4 071**	-3 303	
Total	**377 448**	337 241	11.9

Operating profit

	2005		2004		
	EUR 1000	%	EUR 1000	%	Change %
Environmental Services	**23 986**	**13.3**	26 097	16.4	-8.1
Property Services	**11 947**	**8.4**	9 336	7.5	28.0
Industrial Services	**4 746**	**8.2**	6 907	12.3	-31.3
Group administration and other	**-1 425**		-1 553		
Total	**39 254**	**10.4**	40 787	12.1	-3.8

Net sales, EUR million

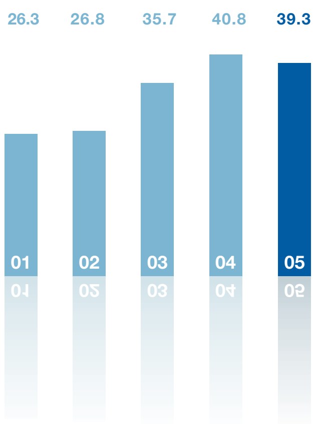
2001-2003 FAS, 2001 pro forma



Operating profit, EUR million

2004 excluding revenue recognition of pension liability

2001-2003 FAS, 2001 pro forma



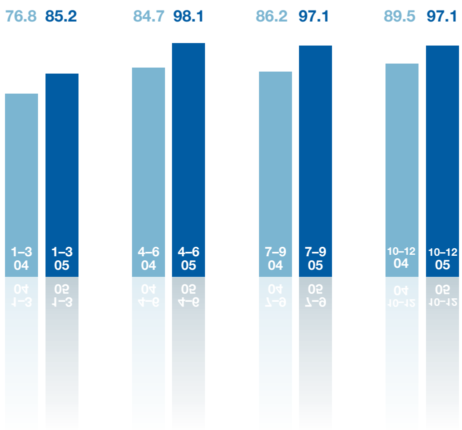
The joint venture in Dubna, Russia, 74% of which is owned by Lassila & Tikanoja, started its operations in May, which have gone according to plan. The operations will be expanded during the year to neighbouring towns in a controlled manner. The financial performance at the unit in Latvia came under pressure from the rise in costs, which could not be passed on to prices due to price control. Prices will be raised in both Russia and Latvia during this year.

The recycling plant in Turku was completed and trials began in December. The construction of the plant in Riga is on schedule and will be completed in the spring of this year. Appeals lodged against environmental permits slowed down the implementation of the investments. However, permits have been granted so that it will be possible to construct two to three mid-sized plant and terminal projects in Finland during the year.

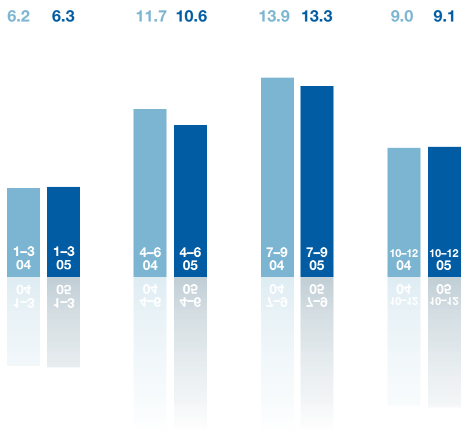
Quarterly results

EUR 1000	Q4/2005	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Net sales								
Environmental Services	47 333	46 588	47 234	39 524	42 387	39 950	40 679	36 136
Property Services	36 545	35 645	35 955	34 745	33 610	31 051	29 750	30 409
Industrial Services	14 362	15 838	15 746	11 638	14 325	15 865	14 938	11 067
Group administration and other	92	91	92	91	91	92	94	100
Inter-division net sales	-1 235	-1 064	-966	-806	-904	-752	-775	-872
Lassila & Tikanoja	97 097	97 098	98 061	85 192	89 509	86 206	84 686	76 840
Operating profit								
Environmental Services	5 862	7 017	6 390	4 717	5 968	7 161	7 484	5 484
Property Services	2 393	4 462	2 868	2 224	2 133	3 985	2 014	1 204
Industrial Services	909	2 260	1 820	-243	1 306	3 067	2 604	-70
Group administration and other	-110	-439	-524	-352	-367	-318	-449	-419
Lassila & Tikanoja	9 054	13 300	10 554	6 346	9 040	13 895	11 653	6 199
Operating margin								
Environmental Services	12.4	15.1	13.5	11.9	14.1	17.9	18.4	15.2
Property Services	6.5	12.5	8.0	6.4	6.3	12.8	6.8	4.0
Industrial Services	6.3	14.3	11.6	-2.1	9.1	19.3	17.4	-0.6
Lassila & Tikanoja	9.3	13.7	10.8	7.4	10.1	16.1	13.8	8.1
Finance costs, net	-120	-263	-1 010	-408	-665	-861	-253	-1 190
Share of profits of associates	27				64			
Revenue recognition of deferred pension liability					10 535			
Profit before tax	8 961	13 037	9 544	5 938	18 974	13 034	11 400	5 009

Quarterly net sales, EUR million



Quarterly operating profit, EUR million



The rise in price of oil-based products also affected the financial performance of Environmental Products. Price rises could only be passed on to selling prices at the end of year, and Environmental Products fell well short of its targets.

Property Services

Net sales by Property Services totalled EUR 142.9 million (EUR 124.8 million), which was an increase of 14.5%. The operating profit increased by 28.0% and stood at EUR 11.9 million (EUR 9.3 million).

A significant proportion of the growth in net sales was organic. Highly developed service products sold well and new comprehensive service agreements were concluded. The market position strengthened. Cooperation between sales and production was good.

The financial performance of both product lines improved both in absolute and relative terms. The division's financial performance improved, one of the causes being noticeably low social costs, particularly pension costs. The organization and integration costs of the cleaning business acquired in Moscow had an adverse effect on the financial performance of cleaning services. A reorganisation of production and the systematic introduction of new management and control systems contributed to the steady improvement in the financial performance of property maintenance, as well as the fact that there was not much snow at the end of the year.

Cleaning operations were strengthened in Latvia during the third quarter by the acquisition of SIA 99 Perfekts, a company operating in the cleaning sector in Riga. At the start of 2006, cleaning operations commenced in Sweden with the acquisition of Allied Service Partners AB, which operates in Stockholm and Gothenburg. Operations in Sweden will be expanded during the year.

Industrial Services

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The hazardous waste services product line increased its net sales even though the amount of hazardous waste that accumulated in Finland did not increase. The processing of hazardous waste into recycled products at the Company's own plants increased, which improved profitability. The difficulties in selling recycled fuels affected the financial performance to some extent. Lassila & Tikanoja will continue to raise the waste recovery level.

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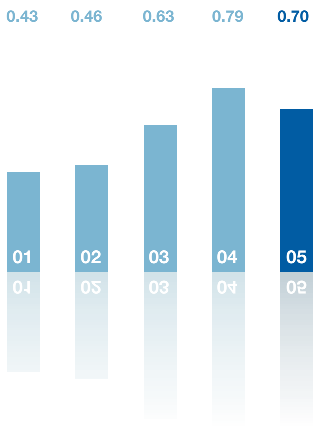
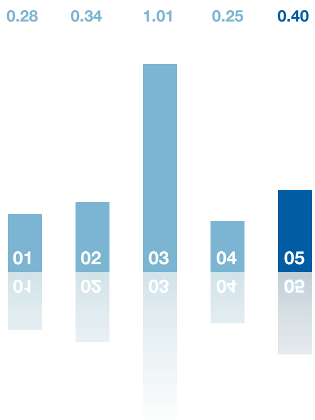
Net sales and financial performance by the damage repair and wastewater services product lines did not reach their targets due to weak demand. As in the previous year, there was no large-scale damage. Wastewater services were short of sales resources, which have now been acquired.

Earnings/share, EUR
2004 excluding revenue recognition
of pension liability
2001-2003 FAS, 2001 pro forma



Dividend/share, EUR
2001 pro forma



Proposal by the Board of Directors

Gross investments

Gross investments totalled EUR 60.9 million (EUR 48.1 million). EUR 19.6 million were spent on corporate acquisitions. The biggest company acquired was Jäteässät Oy, a waste management company operating in the Helsinki region. Its net sales totalled EUR 10 million in 2004 and it employed 65 people. A Latvian cleaning company SIA 99 Perfekts and the cleaning operations of the Moscow-based Alfa Cleaning LLC were acquired. The corporate acquisitions totalled 12. The combined annual net sales of the acquired companies totalled EUR 18.5 million.

Machinery and equipment was replaced and production premises were expanded. Depreciation amounted to EUR 24.8 million (EUR 21.4 million).

Investments by balance sheet item

EUR million	2005	2004
Real estates	**5.8**	4.8
Machinery and equipment and other property, plant and equipment	**38.6**	28.1
Goodwill and intangible rights from business acquisitions	**14.1**	13.9
Other intangible assets	**2.4**	1.3
Total	**60.9**	48.1

Investments by division

EUR million	2005	2004
Environmental Services	**40.5**	26.9
Property Services	**11.4**	12.6
Industrial Services	**8.8**	8.6
Total	**60.9**	48.1

Invested capital

EUR 1000	31 Dec. 2005	31 Dec. 2004
Non-current assets	**256 952**	221 767
Inventories and receivables	**50 642**	41 458
Liquid assets	**7 252**	19 759
Deferred tax liability	**-15 768**	-10 628
Trade and other payables	**-58 956**	-54 154
Provisions	**-984**	-821
Other non-interest-bearing liabilities	**-400**	-1 407
Invested capital	**238 738**	215 974

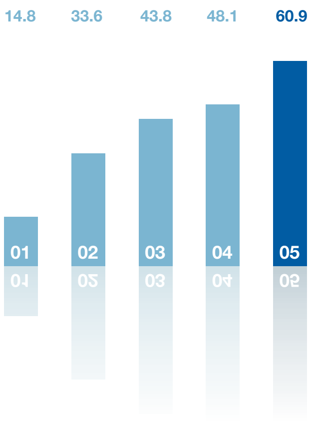
The amount non-current assets increased by investments exceeding depreciation by EUR 36.1 million. The increase of trade receivables exceeded the increase in net sales, because majority of business operations acquired during the year used longer payment periods than Lassila & Tikanoja in the average. The rate of circulation for invested capital was 1.6 (1.6).

Product development

The Company's product development is responsible for developing new products and improving current service products. The costs of the centralised product development projects were EUR 1.4 million and 0.4% of net sales (EUR 1.0 million and 0.3%). The most significant projects were the renovation of the Reilu office cleaning concept and the creation of a service model for the joint venture company Blue Service Partners. Development of services takes place also in the product lines.

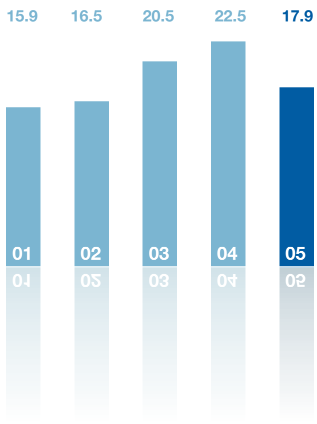
Investments, EUR million

2001-2003 FAS, 2001 pro forma



ROI, %

2001-2003 FAS, 2001 pro forma



Financing
Net interest-bearing liabilities amounted to EUR 2.5 million more than a year earlier. Net interest-bearing liabilities, totalling EUR 76.5 million (EUR 61.4 million), increased by EUR 15.1 million. Interest expenses decreased by EUR 1.3 million, because the average interest rate of the Company's loan portfolio including interest rate swaps decreased significantly. In addition, the share issue carried out in the final quarter of 2004 improved the Company's financial position. A finance income of EUR 0.8 million (EUR 1.0 million) resulted from the changes in the fair values of interest rate swaps. Net finance costs decreased by 39.3% and were 0.5% (0.9%) of net sales and 4.6% (7.3%) of operating profit.

The equity ratio was 49.5% (48.1%) and the gearing rate was 49.3 (45.6). Cash flow from operating activities amounted to EUR 48.9 million (EUR 48.4 million). EUR 3.3 million were tied up in the working capital while EUR 0.1 were released in 2004. Liquidity remained on a good level during the whole year. Major part of investments was financed out of cash flow from operating activities.

Financial risks and financial risk management are presented in the notes to the consolidated financial statements on page 35.

Personnel
The average number of personnel converted to full-time employees was 5,918 (5,409) in 2005. At the end of the year the total number of employees working full-time and part-time was 7,512 people (6,456). Of them 1,256 people were abroad.

Major risks and uncertainties relating to L&T's business
Lassila & Tikanoja complies with the risk management policy approved by the Company's Board of Directors. The policy sets out the risk management objectives, areas of responsibility and reporting procedure. The Company has assessed the most significant risks to Lassila & Tikanoja's business operations that were they to occur could harm or prevent Lassila & Tikanoja from achieving its business goals.

The destruction of servers, data system break-ins and malicious programs can cause significant risks to the use of information systems. Data systems may also experience interruptions as they get old. Extensive data system modernisation projects are currently underway in the Company to update the systems and reduce data security risks.

The entry of new competitors into the market, legislative changes or the transfer of waste management to municipal ownership could change the market situation. Being independent of single large customers and the provision of a variety of services reduce risks, as well as developing of own service products.

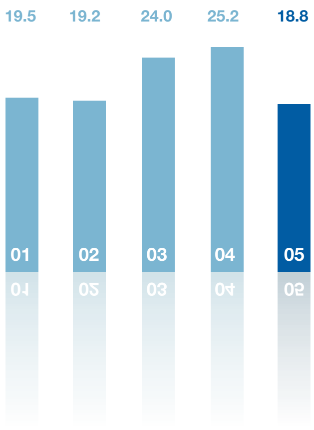
Business operations in developing countries make the Company vulnerable to political and financial risks as well as risks relating to changes in social conditions. Risks are minimised by focusing on the international market situation and familiarization with the business culture.

Lassila & Tikanoja's growth may be slowed by uncertainties such as appeals relating to environmental permits and business acquisitions.

Lassila & Tikanoja's competitiveness rests on its ability to hire a sufficient number of personnel. In order to ensure an available labour force Lassila & Tikanoja is working systematically to improve occupational wellbeing and safety.

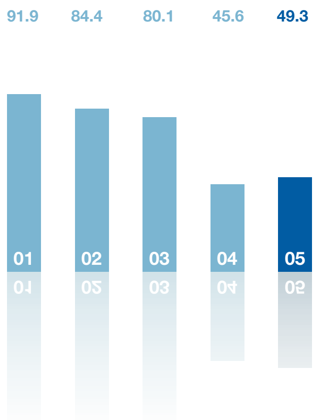
ROE, %

2001-2003 FAS, 2001 pro forma



Gearing, %

2001-2003 FAS, 2001 pro forma



Environment and occupational safety

Lassila & Tikanoja's group level integrated management system and centralised operations were awarded ISO 9001 (quality), ISO 14001 (environmental) and OHSAS 18001 (occupational health and safety) certification. In addition, certifications for service production were extended. A certification conforming to the Company's integrated management system was awarded in Latvia to SIA L&T Serviss, which was granted ISO 9001:2000 certification for its quality system operations.

Managing environmental, health and occupational safety (EHS) risks is part of Lassila & Tikanoja's integrated management system. EHS risk audits are carried out annually in compliance with the system and EHS objectives are drawn up on the basis of the results. 26 extensive EHS audits or environmental risk surveys were carried out in 2005. EHS considerations were also assessed internally in the units and in conjunction with integrated management system assessments.

Changes in the Group structure

The shares of Jäteässät Oy, Kaakon Teollisuuspalvelu Oy, Puhtaanapitoliike K Kervinen Oy, Tammelan Huolto Oy and a Latvian cleaning company SIA 99 Perfekts were acquired by the Group.

The following business operations were acquired to Environmental Services: the machine loading operations of Lahden Autokunta, the waste paper collecting business of Raahen Romu Oy, the secure destruction operations of Recall Finland Oy and the waste management operations of Toijalan Jätehuolto Tmi. The cleaning services operations of Siivous Rusila Tmi and of the Moscow-based Alfa Cleaning LLC were acquired for Property Services.The hazardous waste management operations of Säiliö Cistern Puts Ab Oy:n were acquired to Industrial Services.

The following companies were established: L&T Hankinta Ky, Lassila & Tikanoja Services OÜ in Estonia and Lassila & Tikanoja Service AB in Sweden.

Keski-Suomen Pesutech Oy was merged with Lassila & Tikanoja plc and Sil-Va Clean Oy, Tampereen Aluesiivous Oy, Kaakon Teollisuuspalvelu Oy and Ympäristöhuolto Mäkeläinen Oy with L&T Toimi Oy.

Puhdas Uusimaa Oy, Aluehuolto Tiptop Oy and Kaakkoisen Roskaton Oy were dissolved.

Board of Directors and Auditor

The Annual General Meeting of Shareholders held on 4 April 2005 confirmed five as the number of the members of the Board of Directors. The following Board members were re-elected to the Board until the end of the following AGM: Heikki Hakala, Lasse Kurkilahti, Juhani Lassila, Juhani Maijala and Soili Suonoja. The Board re-elected Juhani Maijala Chairman and Heikki Hakala Vice Chairman.

PricewaterhouseCoopers Oy, Authorised Public Accountants, were elected auditors. Principal Auditor is Heikki Lassila, Authorised Public Accountant.

Transition to IFRS

As of 1 January 2005, Lassila & Tikanoja has adopted the International Financial Reporting Standards (IFRS) in its financial reporting. The transition date for Lassila & Tikanoja is 1 January 2004. Prior the adoption of IFRS Lassila & Tikanoja reported under Finnish Accounting Standards (FAS).

The transition to IFRS improved Lassila & Tikanoja's result compared to the Finnish Accounting Standards mainly due to the discontinuation of annual amortisation on goodwill. The balance sheet total is also increased by different accounting principles applied for business combinations, assets leased by or to the Company under finance lease agreements and increase in deferred tax liability.

A non-recurring pension liability amounting to EUR 10.5 million (EUR 7.8 million net of deferred tax assets) was recognised as revenue in the IFRS income statement for the final quarter of the year 2004, because the principles for calculating disability pension liabilities under the Finnish statutory employment pension scheme had changed (TEL). The IFRS income statement for the period 1 January - 31 December 2004 and key figures 12/2004 are presented in the Annual Report also excluding this revenue recognition. The figures in the Report of the Board of Directors are shown excluding the revenue recognition of pension liability.

Company shares and the share capital

The volume of trading in Lassila & Tikanoja plc shares on the Helsinki Stock Exchange during 2005 was 15,263,446, which is 40.0% (49.8%) of the average number of shares. The value of trading was EUR 224.1 million. The trading price varied between EUR 13.10 and EUR 16.67. The closing price was EUR 14.90. The market capitalisation was EUR 571.8 million on 31 December 2005 (EUR 500.7 million).

At the beginning of the year 2005, the Company's registered share capital amounted to EUR 19,068,117. During the year 2005, a total of 241,540 shares have been subscribed for pursuant to the 2002A and 2002B share options. After these subscriptions, the Company's share capital amounts to EUR 19,188,887 and the number of the shares is 38,377,774.

On 7 February 2006, the Board approved the subscriptions of 9,700 new shares made pursuant to the 2002B share options. As a result of these subscriptions, the Company's registered share capital will increase by EUR 4,850 to EUR 19,193,737 and the number of the shares will increase to 38,387,474 shares after the increase has been entered in the Trade Register.

Share option plans

The Annual General Meeting of the year 2002 decided to issue share options to the key personnel and a wholly-owned subsidiary of Lassila & Tikanoja plc. 2002 option rights have been granted to 28 persons. All granted 2002A options have been exercised. By 27 January 2006, 132,800 shares have been subscribed for pursuant to 2002B options. Pursuant to the remaining outstanding 2002B options a maximum of 123,200 shares may be subscribed for. Pursuant to the remaining outstanding share options issued in 2002, a maximum of 397,200 shares may be subscribed for, which is 1.0% of the current number of shares. The share subscription price for the 2002B options is EUR 7.02 and for the 2002C options EUR 11.46.

The Annual General Meeting of 2005 decided to issue 600,000 share option rights. Each option entitles its holder to subscribe for one share of Lassila & Tikanoja plc. All 170,000 2005A share options have been granted to 27 key persons. All 200,000 2005B and all 230,000 2005C options have been subscribed for by a wholly-owned subsidiary of Lassila & Tikanoja plc to be granted at a later date to the present and future key personnel of the Lassila & Tikanoja Group. The options issued under the share option plan 2005 entitle their holders to subscribe for a maximum of 1.6% of the Company's current number of shares.

Notifications on major holdings

On 10 March 2005, Varma Mutual Pension Insurance Company reported that it holds 5.08% of the share capital and votes of Lassila & Tikanoja plc.

Summary of stock exchange releases pursuant to article 7, chapter 2 of the securities markets act

4 April 2005: The changes caused by the transition to IFRS to accounting principles and figures reported for 2004.

4 April 2005: The Board of Directors resolved to apply for listing of 2002B share option rights on the main list of the Helsinki Stock Exchange starting from 2 May 2005.

Distribution of the profit

The Group's earnings/share were EUR 0.70 (EUR 0.79) and cash flows from operating activities/share EUR 1.28 (EUR 1.40). The Board of Directors will propose payment of a dividend of EUR 0.40 per share (EUR 0.25) to the Annual General Meeting convening on 23 March 2006. The amount of the dividend to be paid is EUR 15,354,989.60 The proposed dividend is 57.0 per cent of earnings per share.

Corporate Governance

Lassila & Tikanoja plc complies with the Corporate Governance Recommendation for Listed Companies by HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers that entered into force on 1 July 2004. In 2005, the corporate governance statement of the Company was amended to the effect that the position of the Chairman is no longer full-time. The Lassila & Tikanoja insider guidelines have been amended to comply with the new guidelines issued by the Helsinki Stock Exchange, which became effective on 1 January 2006.

Prospects for the year 2006

The prospects for Lassila & Tikanoja's markets are good. The demand for environmental services continues to grow in Finland, although the process for acquiring environmental permits is slowing down both Lassila & Tikanoja's and customers' investments in waste recycling and recovery plants. Outsourcing is keeping demand strong in the support services market in Finland. The cleaning services market is also clearly growing in other countries in which Lassila & Tikanoja operates. The prospects for industrial services are more positive than last year, although demand is not expected to rise to the level of 2004. Tough price competition is expected to continue on all markets.

Strong organic growth is expected to continue. Two to three new recycling plants and terminals will be constructed, and operations in Sweden and Russia will be expanded. Investments may be lower than last year, because growth is being focused to a greater extent than before on less capital-intensive business areas.

The key goals for 2006 are to increase productivity and to manage costs more effectively than before. Net sales are expected to increase by over 10 per cent, i.e. in line with the long-term goal. The financial performance is expected to improve.

Consolidated income statement

1 January - 31 December EUR 1000	2005	%	2004	%	Note
Net sales	**377 448**	**100.0**	337 241	100.0	1
Cost of goods sold	**-320 536**	**-84.9**	-271 031	-80.4	
Gross profit	**56 912**	**15.1**	66 210	19.6	
Other operating income	**1 830**	**0.5**	1 279	0.4	5
Selling and marketing costs	**-11 508**	**-3.0**	-9 223	-2.7	
Administrative expenses	**-7 304**	**-1.9**	-6 026	-1.8	
Other operating expenses	**-676**	**-0.2**	-918	-0.3	5
Operating profit	**39 254**	**10.4**	51 322	15.2	3,4
Finance income	**1 431**	**0.4**	1 420	0.4	7
Finance costs	**-3 232**	**-0.9**	-4 389	-1.3	7
Share of profit of associates	**27**		64		15
Profit before income tax	**37 480**	**9.9**	48 417	14.4	
Income tax expense	**-10 250**	**-2.7**	-12 905	-3.8	8
Profit for the period	**27 230**	**7.2**	35 512	10.5	
Attributable to:					
Equity holders of the parent	**26 822**		35 129		
Minority interest	**408**		383		
Earnings per share for profit attributable to the equity holders of the parent:					
Earnings per share, EUR	**0.70**		1.01		9
Earnings per share, EUR - diluted	**0.70**		1.01		

Income statement for 2004 excluding the revenue recognition of pension liability (EUR 10.5 million) is shown in note 35.

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

Consolidated balance sheet

31 December EUR 1000	2005	%	2004	%	Note
ASSETS					
Non-current assets					
Intangible assets					11
Goodwill	**99 120**		92 005		
Intangible assets from acquisitions	**9 859**		4 224		
Other intangible assets	**5 893**		3 905		
	114 872	**36.5**	100 134	35.4	
Property, plant and equipment					13
Land	**4 824**		4 719		
Buildings and constructions	**37 741**		34 367		
Machinery and equipment	**89 946**		72 408		
Other	**44**		48		
Advance payments and construction in progress	**2 849**		3 868		
	135 404	**43.0**	115 410	40.8	
Other non-current assets					
Investments in associates	**338**		322		15
Available-for-sale investments	**3 029**		3 121		17
Finance lease receivables	**2 822**		2 535		18
Deferred income tax assets	**312**		94		8
Other receivables	**175**		151		
	6 676	**2.1**	6 223	2.2	
Total non-current assets	**256 952**	**81.6**	221 767	78.4	
Current assets					
Inventories	**4 744**		4 261		19
Trade and other receivables	**45 788**		37 197		20
Advance payments	**110**				
Available-for-sale investments	**3 696**		15 973		21
Cash and cash equivalents	**3 556**		3 786		22
Total current assets	**57 894**	**18.4**	61 217	21.6	
Total assets	**314 846**	**100.0**	282 984	100.0	

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

31 December EUR 1000	2005	%	2004	%	Note
EQUITY AND LIABILITIES					
Equity					
Equity attributable to equity holders of the parent					23
Share capital	**19 189**		19 068		
Share premium reserve	**46 606**		44 932		
Other reserves	**-179**		-276		
Retained earnings	**60 428**		34 386		
Profit for the period	**26 822**		35 129		
	152 866	**48.5**	133 239	47.1	
Minority interest	**2 166**	**0.7**	1 550	0.5	
Total equity	**155 032**	**49.2**	134 789	47.6	
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	**15 768**		10 628		8
Pension obligations	**176**		1 162		25
Provisions	**684**		821		26
Interest-bearing liabilities	**59 629**		67 704		27
Other liabilities	**224**		245		28
	76 481	**24.3**	80 560	28.5	
Current liabilities					
Interest-bearing liabilities	**24 077**		13 481		27
Trade and other payables	**58 956**		53 912		29
Tax liabilities			242		
Provisions	**300**				
	83 333	**26.5**	67 635	23.9	
Total liabilities	**159 814**	**50.8**	148 195	52.4	
Total equity and liabilities	**314 846**	**100.0**	282 984	100.0	

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

Consolidated cash flow statement

EUR 1000	2005	2004	Note
Cash flows from operating activities			
Profit for the period	**27 230**	35 512	
Adjustments	**35 260**	26 809	32
Net cash generated from operating activities before change in working capital	**62 490**	62 321	
Change in working capital			
Change in trade and other receivables	**-4 368**	-2 395	
Change in inventories	**-461**	-312	
Change in trade and other payables	**1 495**	2 775	
Change in working capital	**-3 334**	68	
Interest paid	**-2 902**	-4 414	
Interest received	**142**	390	
Income tax paid	**-7 455**	-9 990	
Net cash generated from operating activities	**48 941**	48 375	
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash	**-15 801**	-15 492	2
Purchases of property, plant and equipment and intangible assets	**-40 151**	-30 119	
Proceeds from sale of property, plant and equipment and intangible assets	**1 685**	2 198	
Acquisition of available-for-sale investments	**-43**		
Change in other long-term receivables	**15**	-30	
Proceeds from sale of available-for-sale investments	**83**		
Dividends received from investments	**7**	2	
Net cash used in investment activities	**-54 205**	-43 441	
Cash flows from financing activities			
Proceeds from share issue	**1 795**	48 569	23
Proceeds from short-term borrowings	**15 407**	35 314	
Proceeds from long-term borrowings	**2 055**	30 771	
Repayments of long-term borrowings	**-16 983**	-75 660	
Dividends paid	**-9 525**	-34 845	
Net cash generated from financing activities	**-7 251**	4 149	
Net change in liquid assets	**-12 515**	9 083	
Liquid assets at beginning of period	**19 759**	10 710	
Effect of changes of foreign exchange rates	**25**	-30	
Change in fair value of current available-for-sale investments	**-17**	-4	
Liquid assets at end of period	**7 252**	19 759	

Liquid assets

EUR 1000	2005	2004
Cash	**3 556**	3 786
Current available-for-sale investments	**3 696**	15 973
Total	**7 252**	19 759

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

Consolidated statement of changes in equity

EUR 1000	Share capital	Share premium reserve	Translation difference reserve	Revaluation reserves	Retained earnings	Equity attributable to equity holders of the parent	Minority interest	Total equity
FAS at 31 December 2003	7 913	7 518			80 355	95 786		95 786
Effect of transition to IFRS			-124	3	-11 412	-11 533	1 167	-10 366
Equity IFRS at 1 January 2004	**7 913**	**7 518**	**-124**	**3**	**68 943**	**84 253**	**1 167**	**85 420**
Dividends paid					-34 889	-34 889		-34 889
Subscriptions pursuant to 2002 options	35	1 319				1 354		1 354
Bonus issue	7 949	-7 949				0		0
Share issue	3 171	44 044				47 215		47 215
Currency translation differences			-165			-165		-165
Remuneration expense of share options					332	332		332
Current available-for-sale investments, change in fair value				10		10		10
Profit for the period					35 129	35 129	383	35 512
Equity at 31 December 2004	**19 068**	**44 932**	**-289**	**13**	**69 515**	**133 239**	**1 550**	**134 789**
Equity at 1 January 2005	**19 068**	**44 932**	**-289**	**13**	**69 515**	**133 239**	**1 550**	**134 789**
Dividends paid					-9 535	-9 535		-9 535
Subscriptions pursuant to 2002 options	121	1 674				1 795		1 795
Currency translation differences			109			109		109
Remuneration expense of share options					448	448		448
Current available-for-sale investments, change in fair value				-12		-12		-12
Investment by a minority holder							208	208
Profit for the period					26 822	26 822	408	27 230
Equity at 31 December 2005	**19 189**	**46 606**	**-180**	**1**	**87 250**	**152 866**	**2 166**	**155 032**

The effects of the transition to IFRS on equity are explained in note 35. More information on equity can be found in note 23 and on taxes recognised in equity in note 8.

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

Notes to the consolidated financial statements

General information

Lassila & Tikanoja plc is a Finnish public listed company. Its domicile is Helsinki. The registered address of the Company is Hopeatie 2, 00440 Helsinki. The Group consists of the Parent Lassila & Tikanoja plc and its subsidiaries (L&T), and it specialises in environmental management and property and plant maintenance. The Group has business operations in Finland, Latvia, Russia and, as from January 2006, in Sweden.

Lassila & Tikanoja share is quoted on the main list of the Helsinki Stock Exchange.

These financial statements have been approved for issue by the Board of Directors on 7 February 2006.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards applying the IAS and IFRS standards as well as SIC and IFRIC interpretations that were in force on 31 December 2005. In the Finnish accounting legislation and in regulations based on it, International Financial Reporting Standards mean standards and related interpretations approved for adoption in EU according to the procedure stated in regulation (EC) No 1606/2002. The notes to the consolidated financial statements also conform with Finnish accounting and corporation legislation.

In 2005, the Group adopted IFRS standards. The transition date was 1 January 2004. L&T used the exemptions allowed for first-time adopters under IFRS 1 concerning IFRS 3 (Business Combinations), IAS 16 (Property, Plant and Equipment), and IAS 19 (Employee Benefits).

The differences caused by transition to IFRS are presented in reconciliations included in note 35. Comparative figures for 2004 have been restated to comply with IFRS.

The consolidated financial statements have been prepared in euros and they are presented in thousands of euros and have been prepared under the cost conventions, unless otherwise stated in the accounting policies.

Consolidation

The consolidated financial statements include the Parent Lassila & Tikanoja plc and the subsidiaries in which it held over 50% of the voting power. The subsidiaries are fully consolidated from the date on which control is transferred to L&T to the date that control ceases. Acquired companies are accounted for using the purchase method according to which the assets and liabilities of the acquired company are measured at fair value at the date of acquisition. For goodwill arising from business combinations made before the year 2004, the carrying amounts according to the accounting principles applied prior to IFRS are recognised. These acquisitions have not been restated when preparing the opening balance sheet.

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

Associates in which L&T holds between 20% and 50% of the voting rights, are accounted for by the equity method. When L&T's share of losses exceeds the carrying amount of the associate, the losses exceeding the carrying amount are not recognised.

All intra-group transactions, receivables, liabilities and unrealised margins, as well as distribution of profits within the Group, are eliminated in the consolidated financial statements. The profit for the period is attributable to the equity holders of the parent and to the minority interest. Minority interest is included as a separate item within the Group's equity.

Foreign currency translation

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

The income statements of the Group entities whose functional currency is not euro, are translated into euros at average exchange rates for the period, and the balance sheets at exchange rates of the balance sheet date.

Foreign currency transactions are translated into euros using the exchange rates at the dates of the transactions. Receivables and liabilities denominated in foreign currencies are translated into euros at exchange rates of the balance sheet date, and the exchange rate differences are recognised in the income statement. Foreign exchange gains and losses on business transactions are included in the respective items above operating profit. Foreign exchange gains and losses on financial assets and liabilities are included in finance income and costs.

Translation differences arising from the applying of the purchase method, as well as translation differences arising from the translation of the income statement and the balance sheet using different exchange rates, are recognised as a separate component of equity. When a foreign operation is sold, such translation differences are recognised in the income statement as part of the gain or loss on sale.

Revenue recognition

Sales of services are recognised after the services have been provided. For instance, in the recycling of tyres, the revenues are recognised after the received tyres have been cut up. At plants producing materials for sale, the cost of materials is recognised in inventories. When the processed materials have no sales price, cost provisions are recognised in accrued expenses.

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

Sales are shown net of indirect sales taxes, discounts and exchange rate differences.

Research and development

Research expenditure is recognised as an expense during the period it is incurred. The probable future revenues from new service concepts are evident at such a late stage that the portion to be capitalised has no material importance, and thus the costs are not capitalised.

Goodwill and other intangible assets

For the business combinations prior to 2004, the first-time adoption standard is applied and the acquisition cost calculations have not been restated to comply with IFRS 3.

Goodwill represents the excess of the cost of an acquisition over the fair value of L&T's share of the net identifiable assets of the acquiree at the date of acquisition. Goodwill is not amortised, but it is tested annually for impairment. For the purpose of impairment testing, goodwill is allocated to cash-generating units.

Intangible assets acquired in a business combination are measured at fair value. Useful lives of intangible assets are assessed to be finite or indefinite. In L&T, the intangible assets recorded in business combinations are such as customer relations, non-competition agreements and environmental permits. They have finite useful lives varying between 1 and 13 years.

Intangible rights, which include computer software and software licences and subscriber connections of real estates are measured at historical cost.

Cost of computer software projects arising in the development phase is recognised as intangible asset under other non-current intangible assets after the projects have moved from research phase to development phase, and the result of the project is an identifiable intangible asset that will generate future economic benefits that exceed cost incurred on its development. The cost comprises all directly attributable costs necessary to prepare the asset to be capable of operating in the manner intended by management. The largest components of the cost are fees for external consultants.

The amortisation period for computer software is 5 years.

Property, plant and equipment

Property, plant and equipment purchased by Group companies are stated at historical cost. One real estate is stated under IFRS 1 at a revalued amount using as deemed cost the revaluation according to the accounting standards applied prior to IFRS. In business combinations property, plant and equipment are measured at fair value at the acquisition date. In the balance sheet property, plant and equipment are shown less depreciation and impairment losses, if any.

Property, plant and equipment are depreciated using the straight-line method over the expected useful lives. The expected useful lives are reviewed at each balance sheet date and, if expectations differ from previous estimates, the depreciation periods are adjusted to reflect the changes in the expectations for future economic benefits.

The depreciations in the financial statements are based on the following expected useful lives:

Buildings and constructions	5 - 25 years
Vehicles	6 - 8 years
Machinery and equipment	4 - 10 years

Joint venture Salvor Oy's investments in bottom liners of receiving and processing sites of contaminated soil are depreciated over their expected lives using the units of production method.

Land is not depreciated.

Ordinary repair and maintenance costs are recognised in the income statement during the period they are incurred. Gains and losses on sales and disposals of property, plant and equipment are determined by comparing proceeds with the carrying amount and included in other operating income and expenses.

L&T has no investment property.

Impairment of assets

Carrying amounts of assets are continuously assessed for impairment. If any indication exists, an estimate of an asset's recoverable amount is made for impairment testing. Impairment tests for goodwill and intangible assets under construction are performed annually.

The recoverable amount is the higher of an asset's fair value less selling costs and its value in use. An impairment loss is recognised in the income statement, when an asset's carrying amount exceeds its recoverable amount. An impairment loss recognised in prior periods is reversed, if there is an indication that an impairment loss may no longer exist or may have decreased, and the recoverable amount has changed.

Goodwill is tested for impairment annually or whenever there is any indication that it may be impaired. Recoverable amount calculations based on both values in use and on net sales price are made for the cash-generating units to which the goodwill belongs. An impairment loss recognised for goodwill is not reversed.

Leases

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

The assets leased under finance lease are recognised in property, plant and equipment at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. They are depreciated over the lease term or, if shorter, over their expected useful lives. Liabilities arising from the lease agreements are recognised in interest-bearing liabilities. Each lease payment is apportioned between interest expense and reduction of finance lease liabilities. Financial cost is allocated to each period of the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

Financial instruments

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are included in this category and they are recognised in the balance sheet at historical cost less credit adjustments and impairment losses. Doubtful debts are reviewed each month. If there is objective evidence that the carrying values of the receivables exceed their recoverable amounts, the difference is recognised as an impairment loss in other operating costs in the income statement. If the difference decreases in later periods, the impairment loss will be reversed correspondingly.

Available-for-sale investments include shares as well as certificates of deposit and commercial papers. The financial instruments in this category are measured at fair value excluding unlisted shares. Their fair value cannot be measured reliably and they are recognised at cost less impairment loss, if any. They are included in non-current assets if management intends not to dispose of the investment within 12 months of the balance sheet date. Certificates of deposit and commercial papers are sold when working capital is needed for business operations. All purchases and sales of available-for-sale financial investments are recognised at settlement date. Change in fair value between trade date and settlement date, if any, is recorded in equity. In the financial statements available-for-sale investments are measured at fair value at market prices of the balance sheet date. Changes in fair values recognised in revaluation reserve in equity are recognised in income statement, when the asset is sold or due.

Cash and cash equivalents consist of cash on hand and in banks as well as short-term held-to-maturity investments maturing in less than 3 months. They are recognised at settlement date and measured at historical cost.

Derivative financial instruments consist of interest rate swaps designated as cash flow hedges to eliminate interest rate risk, and they are measured at fair values. At the moment no hedge accounting in accordance with IAS 39 is applied but the changes in the fair values are recognised in profit or loss. Negative fair values are recognised correspondingly in trade and other payables. Positive fair values are recognised in trade and other receivables. The fair values of interest rate swaps are based on market values at the balance sheet date.

Bank borrowings and other interest-bearing liabilities are recognised in the balance sheet at the settlement date at fair value based on the consideration received including transaction costs that are directly attributable to the acquisition or issue. Subsequently these financial liabilities are measured at amortised cost using the effective interest rate method.

Trade and other current non-interest-bearing payables excluding liabilities arising from non-hedging derivatives are recognised in the balance sheet at cost. Their fair value is considered to equal to or approximate the cost.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The inventories of Environmental Products are measured using the weighted average cost method. The value of other inventories is determined using the fifo method.

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

Employee benefits

Pension obligations

L&T operates pension plans in accordance with the local regulations and practices in the countries in which it operates, and they are mainly defined contribution plans. The contributions to defined contribution plans are recognised in the income statement in the period to which they relate.

In the opening IFRS balance sheet (as of 1 January 2004), the disability pension part of the Finnish statutory pension system (TEL) was classified as a defined benefit plan. As a consequence to amendments to the principles for calculating disability pension liabilities approved by the Finnish Ministry of Social Affairs and Health, the disability pension part of the Finnish statutory pension system will be classified as a defined contribution plan from 1 January 2006 onwards. Consequently, the total liability recorded in the balance sheet was recognised as revenue in the income statement in the periods 2004 and 2005.

L&T operates some minor defined benefit plans originating from business acquisitions. The obligations have been calculated for each plan separately. Pension costs are recognised in the income statement over employees' service based on actuarial calculations.

At the transition date 1 January 2004, all net cumulative actuarial gains and losses have been recognised in equity in accordance with the exemptions allowed for first-time adopters under IFRS 1. The portion of the actuarial gains and losses resulting thereafter that exceeds the greater of 10% of the pension obligations and 10% of the fair value of plan assets is recognised in the income statement over the expected remaining working lives of the persons participating in the plan.

Share-based payment

IFRS 2, Share-based payment, has been applied to share option plans which have been granted after 7 November 2002 and which have not yet vested on 1 January 2005. Options are measured at fair value at grant date and are recognised as expenses on a straight-line basis during the vesting period. The expense determined at grant date is based on the Group's estimate of the number of options that are expected to become exercisable at the end of the vesting period. The fair value is measured using the Black-Scholes option pricing model. The estimate of the number of options is revised at each balance sheet date. The differences in the estimates are recognised in the statement of income. When options are exercised, the proceeds from share subscriptions are recorded in share capital and share premium reserve.

Provisions

An expense is recognised in the income statement under the respective cost item when the Group has a legal or constructive obligation resulting from past events, and when it is probable that an outflow of resources will be required to settle the obligation, and when the amount has been reliably estimated. A liability of uncertain timing and amount is recognised as a provision. In other cases a liability is recognised in accrued expenses. The most significant provisions recognised in the balance sheet are the site restoration provisions for the landfill and Salvor's processing sites.

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they arise excluding transaction costs directly attributable to the issue of a financial liability. They are included in the historical cost of the liability and are recognised as interest expense during the expected life of the liability applying the effective interest method.

Government grants

Government or other grants are recognised in the income statement in the same periods in which the expenses are incurred. Grants for acquisition of property, plant and equipment are recognised as deductions of historical cost. The grant is recognised as revenue over the life of a depreciable asset by way of a reduced depreciation charge.

Income taxes

Income taxes consist of current tax and deferred tax. Current tax is determined for the taxable profit for the period according to prevailing tax rates in each country. Taxes are adjusted by current tax of previous periods, if any.

Deferred tax assets and liabilities are recognised for all temporary differences between the tax bases of assets and liabilities and their carrying amounts. Principal temporary differences arise from goodwill amortisations made under FAS, depreciation of property, plant and equipment, from revaluation of derivative contracts, from measuring at fair value in business combinations and, in 2004, from defined benefit pension plans. Deferred tax is measured at the tax rates enacted by the balance sheet date. Deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilised.

The Representative of the State in Tax Affairs demanded that the 2000 tax assessments concerning the deductibility of capital losses relating to dissolution of Säkkiväline Ympäristöpalvelut Oy be annulled so that they may be taxed afresh. The appeals committee of the Tax Office for Major Corporations has rejected the Representative's demands, the Helsinki Administrative Court rejected the Representative's appeal and the Supreme Administrative Court did not grant leave to appeal in the matter.

Critical accounting estimates and judgements

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

Allocation of acquisition cost

Assets and liabilities acquired in business combinations are measured at fair value according to IFRS 3. Whenever possible, management uses available market values when determining the fair values. When this is not possible, the measurement is based on the historical revenues from the asset and its use in future business operations. Particularly the measurement of intangible assets is based on discounted cash flows and requires management to make estimates on future cash flows and the future use of assets and their effect on the Group's financial position. Although these estimates are based on management's best knowledge, actual results may differ from the estimates (Note 2).

Goodwill impairment testing

When testing goodwill for impairment, the recoverable amounts of the cash-generating units to which the goodwill belongs are determined based on value-in-use calculations. These calculations require the use of estimates by the management. Though the best estimates by the management are appropriate, the estimated cash flows may differ fundamentally from those realised in the future (Note 12).

Applying of new or revised/amended IFRS standards

In 2006, L&T will adopt the following new or revised/amended standards and interpretations issued by IASB. Their adoption has no material effect on financial statements.

Standard or interpretation	Effective
IAS 19 Employee benefits, revised/amended in December 2004	1 January 2006
IFRS 6 Exploration for and evaluation of mineral resources	1 January 2006
IFRIC 4 Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5 Rights to investments arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
IAS 39 Financial instruments: recognition and measurement, amendments made after 31 March 2005	1 January 2006
IFRS 4 Insurance contracts	1 January 2006
IFRIC 6 Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	effective, not yet approved by EU
IFRIC 7 Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies	1 March 2006
IAS 21 Amendments issued in December 2005: Net investment in a foreign operation	1 January 2006
IFRS 1 First-time adoption of IFRS and IFRS 6 Exploration for and evaluation of mineral resources, amendments issued in June 2005	effective, not yet approved by EU
IFRIC 8 Scope of IFRS 2	1 May 2006

L&T will adopt the following new and revised/amended standards in 2006 at the earliest. They extend the notes to the financial statements.

Standard	Effective
IFRS 7 Financial instruments: Disclosures	1 January 2007
IAS 1 Presentation of financial statements, amendments issued in August 2005: Capital disclosures	1 January 2007

FINANCIAL RISK MANAGEMENT

The principles for financial risk management are defined in the financial policy approved by the Board of Directors. The CFO is responsible for financial risk management. Financing and financial risk management have been centralised. The purpose of financial risk management is to hedge against any significant financial risks and minimise the effects of the fluctuations in the financial market on the Group's result.

Foreign exchange risk

All loans taken out by L&T are denominated in euros apart from a bank loan by the Latvian subsidiary. L&T's invoicing currency is almost without exception the euro. In 2005, in approximately 3% of the net sales the invoicing currency was other than euro. The net investments in subsidiaries are small and they are not hedged. As a whole, changes in currency exchange rates have only a limited effect at present on the balance sheet and financial performance. In the future, however, changes in currency exchange rates will have greater significance as the business operations expand further in Sweden, the Baltic States and Russia.

Price risk

L&T has not invested in listed securities, the value of which changes as the market prices change, and the Company is not exposed to securities price risk. The value of the unlisted shares owned by L&T is not significant, and there is no substantial price risk.

The profitability of the Environmental Services division is affected by the world market price of oil. Its fluctuations are reflected in the price of fuel used in waste management transports as well as in the purchase prices of Environmental Products through oil-based raw materials. In waste management a part of customer contracts contain such invoicing periods and contract terms that the sales prices cannot be raised monthly. This means that the rise in fuel prices is passed on to the prices of the services with a delay. A rise of EUR 0.10 in the price per litre of diesel fuel increases L&T's annual costs by approximately one million euros. L&T manages the raw material price risk of Environmental Products through fixing sales prices for a period not exceeding the period the suppliers' purchase prices are valid. No derivatives have been used to hedge against raw material price risk.

Interest rate risk

The most significant interest risk of L&T relates to borrowings, which are tied to variable interest rates. As the demand for L&T's services or their prices are not significantly dependent on fluctuations in economic trends, L&T tries to keep interest costs as steady as possible. Therefore, a considerable portion of the interest rate risk associated with the borrowings is hedged by interest swap agreements, so changes in interest rates do not affect the Group's interest costs in full.

The fair value interest rate risk related to financial assets is of a minor importance, because L&T seeks to minimise the amount of interest-bearing assets and invest them in relatively short-term instruments.

Credit risk

L&T manages credit risk related to financial and derivative instruments by making financial and derivative contracts with major Nordic banks only and by investing surplus liquidity in certificates of deposit and commercial papers of issuers with a good credit standing.

L&T has a large number of customers, and has no concentration of credit risk. L&T has credit control guidelines to ensure that services and products are sold only to customers with appropriate credit standing. 94.9% of net sales came from Finland in 2005. The proportion of impairment loss on trade receivables has been very small during the last few years (less than 0.2% of net sales). The credit risk will grow in the future, when the operations abroad expand. The maximum amount of the credit risk is the carrying amount of financial assets at the balance sheet date.

Liquidity risk

L&T seeks to maintain good liquidity in all circumstances through efficient cash management and by ensuring that any investments can be realised quickly. To ascertain the availability of funding L&T uses several banks in its financial operations. To meet any temporary need for cash due to cash flow fluctuations, L&T has credit limits for short-term loans (EUR 18 million) and commercial paper programmes (total EUR 25 million). Of these EUR 27.5 million were undrawn on 31 December 2005.

Group

1. Segment reporting

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

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

The Group is organised into the following business segments:

Environmental Services covers the collection, transport and treatment of waste and reusable material and the supply of processed recycled materials for reuse. The segment is also engaged in wholesale trade in environmental management products.

Property Services offers cleaning and property maintenance services and office support services.

Industrial Services specialises in heavy-duty cleaning and damage repair for industry and other types of property that require special expertise.

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

Non-allocated assets consist liquid assets and accrued interest receivables, accrued other finance income and tax receivables. In 2005, tax receivables amounted to 1,820 thousand euros (1,424 thousand euros). Non-allocated liabilities consist interest-bearing debt and accrued interest and other financing liabilities and tax liabilities. In 2005, tax liabilities amounted to 15,768 thousand euros (10,868 thousand euros).

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

1.1. Business segments

2005

EUR 1000	Environmental Services	Property Services	Industrial Services	Group Administration and other	Eliminations	Group
Net sales						
External net sales	178 879	141 374	56 829	366		377 448
Inter-division net sales	1 800	1 516	755		-4 071	0
Total net sales	180 679	142 890	57 584	366	-4 071	377 448
Operating profit	23 986	11 947	4 746	-1 425		39 254
Operating profit, %	13.3	8.4	8.2			10,4
Share of profits of associates	27					27
Finance income and costs						-1 801
Profit before tax						37 480
Income tax expense						-10 250
Profit for the period						27 230
Assets						
Assets of the division	189 844	50 330	59 997	5 211		305 382
Non-allocated assets						9 464
Total assets						314 846
Shares in associates	338					338
Liabilities						
Liabilities of the division	29 947	20 910	8 787	269		59 913
Non-allocated liabilities						99 901
Total liabilities						159 814
Investments	40 542	11 471	8 785	54		60 852
Depreciation and amortisation	13 567	5 674	5 422	111		24 774
Other expenses of no-cash transactions *						
Remuneration expense of share options				448		448
Pension obligations	64	-18	33	48		127
Provisions	170			-60		110
Total	234	-18	33	436		685

2004

EUR 1000	Environmental Services	Property Services	Industrial Services	Group Administration and other	Eliminations	Group
Net sales						
External net sales	157 788	123 641	55 435	377		337 241
Inter-division net sales	1 364	1 179	760		-3 303	0
Total net sales	159 152	124 820	56 195	377	-3 303	337 241
Operating profit	28 824	15 576	8 475	-1 553		51 322
Operating profit, %	18.1	12.5	15.1			15.2
Share of profits of associates	64					64
Finance income and costs						-2 969
Profit before tax						48 417
Income tax						-12 905
Profit for the period						35 512
Assets						
Assets of the division	159 659	41 638	55 797	5 241		262 335
Non-allocated assets						20 649
Total assets						282 984
Shares in associates	322					322
Liabilities						
Liabilities of the division	25 462	20 105	8 889	265		54 721
Non-allocated liabilities						93 474
Total liabilities						148 195
Investments	26 928	12 609	8 580	7		48 124
Depreciation and amortisation	11 727	4 888	4 706	80		21 401
Other expenses of no-cash transactions *						
Remuneration expense of share options				332		332
Pension obligationss	365	836	210			1 411
Provisions	155	8				163
Total	520	844	210	332		1 906

* Excluding revenue recognition of pension liability

Income statement and segment reporting for 2004 excluding the revenue recognition of the pension liability is shown in note 35.

1.2. Geographical segments

EUR 1000	2005	2004
Net sales		
Finland	**358 296**	321 988
Other countries	**19 152**	15 253
Total	**377 448**	337 241
Assets		
Finland	**291 862**	252 148
Other countries	**13 520**	10 187
Non-allocated assets	**9 464**	20 649
Total	**314 846**	282 984
Investments		
Finland	**56 416**	46 481
Other countries	**4 436**	1 643
Total	**60 852**	48 124

2. Business acquisitions

2005

EUR 1000	Fair values used in consolidation	Carrying amounts before consolidation
Property, plant and equipment	4 842	4 143
Customer contracts	5 636	
Agreements on prohibition of competition	1 226	
Other intangible assets from acquisitions	115	
Other intangible assets		7
Inventories	15	15
Trade and other receivables	2 991	2 991
Cash and cash equivalents	1 015	1 015
Total assets	15 840	8 171
Deferred tax liabilities	-1 711	
Interest-bearing long-term liabilities	-1 670	-1 670
Trade and other payables	-2 757	-2 809
Total liabilities	-6 138	-4 479
Net assets	9 702	3 692
Goodwill arising from acquisitions	7 115	
Acquisition cost	16 816	
Acquisition cost	16 816	
Cash and cash equivalents at acquisition date	-1 015	
Cash flow effect of acquisitions	15 801	

In 2005 the following acquisitions were made to Environmental Services: to waste management services on 1 January the machine loading operations of Lahden Autokunta and the waste paper collecting business of Raahen Romu Oy, on 1 April Jäteässät Oy, on 1 July Puhtaanapitoliike K Kervinen Oy and on 1 November the waste management operations of Toijalan Jätehuolto Tmi, and to recycling services on 1 December the secure destruction operations of Recall Finland Oy.

The following acquisitions were made to Property Services: to property maintenance on 1 July Tammelan Huolto Oy, and to cleaning services on 1 May the customer contracts of the Russian Alfa Cleaning LLC, on 1 September the Latvian SIA 99 Perfekts and on 1 November the cleaning services operations of Tmi Siivous Rusila. To Industrial Services to industrial cleaning on 1 February Kaakon Teollisuuspalvelut Oy and to hazardous waste services on 1 September the hazardous waste management operations of Säiliö Cistern Puts Oy.

The data on the acquired businesses is stated as a sum total, because none of them is of material importance. All acquisitions have been paid in cash. All share acquisitions have resulted in a holding of 100% of voting power.

Goodwill arising from business combinations consists of the skills of the personnel of the acquired businesses and of the expected synergy benefits resulting from the business combination.

The combined annual net sales of the acquired companies totalled EUR 18.5 million. The biggest acquired companies according to their net sales were Jäteässät Oy (EUR 9.8 million) and Kaakon Teollisuuspalvelut Oy (EUR 2.7 million).

In 2005 the Group net sales would have been EUR 383.5 million and the Group operating profit EUR 26.9 million if all the acquisitions had been made on 1 January 2005. The realised net sales of the acquired businesses have been added to the Group net sales, and to the Group operating profit the realised profits and losses of the acquired businesses according to interim reports at the acquisition dates. Profit for the period is stated less the current depreciation and amortisation on intangible assets and property, plant and equipment measured at fair value in consolidation. Synergy benefits have not been accounted.

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

2004

EUR 1000	Fair values used in consolidation	Carrying amounts before consolidation
Property, plant and equipment	5 495	4 118
Customer contracts	2 106	
Agreements on prohibition of competition	1 558	
Intangible assets arising from acquisitions	976	
Other intangible assets	695	686
Other non-current assets	410	362
Inventories	1 100	910
Trade and other receivables	1 884	1 884
Cash and cash equivalents	2 049	2 049
Total assets	16 272	10 009
Deferred tax liabilities	-1 247	
Interest-bearing long-term liabilities	-2 368	-2 396
Trade and other payables	-3 956	-3 929
Current provisions	-219	-219
Total liabilities	-7 790	-6 543
Net assets	8 482	3 466
Goodwill arising from acquisitions	9 059	
Acquisition cost	17 541	
Acquisition cost	17 541	
Cash and cash equivalents at acquisition date	-2 049	
Cash flow effect of acquisitions	15 492	

In 2004 the following acquisitions were made to Environmental Services: to waste management services Virtain Jätehuolto Oy and business operations of Arto Cederlöf Oy on 1 March, the business operations of Saimaan Sanirent Oy on 1 June and the business operations of Järvelän Jätehuolto Oy on 1 July and Ympäristöhuolto Mäkeläinen Oy on 1 November, to recycling services Vatostep Oy on 1 January and the business operations of Muovinkeräys Oy on 26 February. In addition, joint venture Salvor Oy acquired the businesses of the environmental services unit of Finnish Road Enterprise and Lohja Rudus Oy Environmental Services on 1 July.

The following acquisitions were made to Property Services: to property maintenance Suurlohjan Siivous ja Huolto Oy on 3 May, to cleaning services Sil-Va Clean Oy on 1 August and Tampereen Aluesiivous Oy on 1 September. Keski-Suomen Pesutech Oy on 1 June and the business operations of T:mi Javacorp.in on 1 September were acquired to Industrial Services, industrial cleaning.

The data on the acquired businesses is stated as a sum total, because none of them is of material importance. All acquisitions have been paid in cash. All share acquisitions have resulted in a holding of 100% of voting power.

Goodwill arising from business combinations consists of the skills of the personnel of the acquired businesses and of the expected synergy benefits resulting from the business combination.

The combined annual net sales of the acquired companies totalled EUR 26.2 million. According to their annual net sales, the biggest companies acquired were Vatostep Oy (EUR 6.3 million), Sil-Va Clean Oy (EUR 4.9 million) and Tampereen Aluesiivous Oy (EUR 3.8 million).

In 2004 the Group net sales would have amounted to EUR 347.5 million and the Group operating profit excluding revenue recognition of pension liability EUR 27.8 million, if all acquisitions had been made on 1 January 2004. The realised net sales of the acquired businesses have been added to the Group net sales, and to the Group operating profit the realised profits and losses of the acquired businesses according to interim reports at the acquisition dates. Profit for the period is stated less the current depreciation and amortisation on intangible assets and property, plant and equipment measured at fair value in consolidation. Synergy benefits have not been accounted.

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

3. Employee benefit expenses

EUR 1000	2005	2004
Wages and salaries	**126 944**	111 964
Pension costs		
Defined contribution plans	**20 304**	16 406
Defined benefit plans	**-985**	-8 276
Share-based payments	**448**	332
Other personnel expenses	**9 371**	8 017
Total	**156 082**	128 443
Defined benefit plan costs by function		
Cost of goods sold	**-1 033**	-7 767
Sales and marketing	**48**	-278
Administration		-231
Total	**-985**	-8 276

Average personnel converted to full-time

	2005	2004
Clerical personnel	**997**	905
Workers	**4 921**	4 504
Total	**5 918**	5 409
Finland	**5 052**	4 868
Other countries	**866**	541
Total	**5 918**	5 409

The employee benefits of the top management are shown in note 33 Related party transactions and in Corporate Governance on page 71.

4. Depreciation and amortisation by function

2005 EUR 1000	Intangible assets	Property, plant and equipment	Total
On cost of goods sold	1 998	21 929	23 927
On sales and marketing	24	312	336
On administration	257	254	511
Total	2 279	22 495	24 774

2004 EUR 1000	Intangible assets	Property, plant and equipment	Total
On cost of goods sold	745	19 872	20 617
On sales and marketing	20	264	284
On administration	271	229	500
Total	1 036	20 365	21 401

Depreciation and amortisation are itemised under intangible assets and property, plant and equipment.

5. Other operating income and expenses

EUR 1000	2005	2004
Other operating income		
Gains on sales of property, plant and equipment	**906**	521
Lease income	**27**	
Reversals of impairment losses on trade receivables	**57**	41
Reimbursements and government grants	**336**	
Other	**504**	717
Total	**1 830**	1 279
Other operating expenses		
Losses on disposals and scrapping of property, plant and epuipment	**118**	167
Impairment losses on trade receivables	**300**	546
Other	**258**	205
Total	**676**	918

6. Research and development expenses

EUR 1.4 million (EUR 1.0) research and development expenses arising from centralised development projects are included in the income statement.

7. Finance income and costs

EUR 1000	2005	2004
Finance income		
Interest income	**449**	194
Dividend income	**7**	3
Exchange rate gains	**68**	9
Other finance income	**86**	206
Change in fair value of derivative instruments	**821**	1 008
Total finance income	**1 431**	1 420
Finance costs		
Interest expenses	**-3 011**	-4 337
Other finance expenses	**-108**	-52
Exchange rate losses	**-110**	
Losses on sales of available-for-sale investments	**-3**	
Total finance costs	**-3 232**	-4 389

Exchange rate differences apply to financing. Exchange rate differences arising from sales amounting to EUR 9 thousand (EUR -6 thousand) have been recognised as adjustment items for net sales. Exchange rate differences arising from purchases EUR 15 thousand (EUR 1 thousand) have been recognised as adjustment items for cost of sales.

8. Income taxes

8.1. Income taxes in the income statement

EUR 1000	2005	2004
Income taxes on taxable profit		
Income taxes for the period	**-7 016**	-8 723
Income taxes for previous periods	**-21**	73
Deferred income taxes	**-3 213**	-4 255
Total	**-10 250**	-12 905

The differences between income tax expense recognised in the income statement and income tax calculated at statutory tax rates in Finland (2005:26% and 2004:29%) are as follows:

Hypotethical income taxes at Finnish tax rate on consolidated profit before tax	**-9 745**	-14 041
Different tax rates and losses of foreign subsidiaries	**-244**	214
Non-deductible expenses	**-270**	-238
Impact of change in tax rate		1 035
Income taxes for previous periods	**-21**	73
Other items	**30**	52
Total	**-10 250**	-12 905

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

2005

EUR 1000	At 1 January 2005	Recognised in income statement	Recognised in equity	Acquisitions	At 31 December 2005
Deferred tax assets					
Pension benefits	302	-256			46
Provisions	100	63			163
Fair value adjustments	153	-215			-62
Revenue recognition	305	-25			280
Other tax deductible temporary differences	496	84	-2		578
Total	1 356	-349	-2		1 005
Deferred tax liabilities					
Depreciation differences	-11 525	-2 889		-1 711	-16 125
Fair value adjustments	-4		4		
Finance lease agreements	-294	6			-288
Other taxable temporary differences	-67	19			-48
Total	-11 890	-2 864	4	-1 711	-16 461
Net deferred tax liability	-10 534	-3 213	2	-1 711	-15 456

2004

EUR 1000	At 1 January 2004	Recognised in income statement	Recognised in equity	Acquisitions	At 31 December 2004
Deferred tax assets					
Pension benefits	2 986	-2 684			302
Provisions	57	37		6	100
Fair value adjustments	462	-309			153
Revenue recognition	329	-24			305
Other tax deductible temporary differences	279	184	28	5	496
Total	4 113	-2 796	28	11	1 356
Deferred tax liabilities					
Depreciation differences	-8 807	-1 349		-1 369	-11 525
Fair value adjustments	-1		-3		-4
Finance leases	-213	-81			-294
Other taxable temporary differences	-38	-29			-67
Total	-9 059	-1 459	-3	-1 369	-11 890
Net deferred tax liability	-4 946	-4 255	25	-1 358	-10 534

8.3. Deferred taxes in balance sheet

EUR 1000	2005	2004
Deferred tax assets	**312**	94
Deferred tax liabilities	**-15 768**	-10 628
Net deferred tax liability	**-15 456**	-10 534

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

Deferred tax assets amounting to EUR 212 thousand in respect of losses of Group companies have not been recognised in the financial statements of 2005, because the realisation of the related tax benefit is not probable.

Deferred tax assets of EUR 263 thousand (EUR 72 thousand) in respect of losses of subsidiaries or joint ventures are recognised in the balance sheet. The recognition is based on the estimated realisation of the related tax benefit through future taxable income.

Deferred tax liabilities have not been recognised in respect of undistributed profits of subsidiaries, because the Group controls the distribution of the profit and such distribution is not probable in the near future. The deferred liability not recognised amounted to EUR 139 thousand (EUR 123 thousand) at year end.

9. Earnings per share

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

EUR 1000	2005	Excluding revenue recognition of pension liability 2004	2004
Profit attributable to the equity holders of the parent	**26 822**	27 333	35 129
Adjusted average number of shares during the period, 1,000 shares	**38 193**	34 650	34 650
Earnings per share, EUR	**0.70**	0.79	1.01

Diluted earnings per share are calculated by adjusting average number of shares outstanding to assume conversion of all diluting potential shares. The 2002A, 2002B, 2002C and 2005A options are diluting. The options have a diluting effect, when the exercise price with an option is lower than the market value of the company share. The diluting effect is the number of shares that the company has to issue gratuitously because the funds received from the exercised options do not cover the fair value of the shares. The fair value of the company's share is determined as the average market price of the share during the period.

EUR 1000	2005	Excluding revenue recognition of pension liability 2004	2004
Profit attributable to the equity holders of the parent	**26 822**	27 333	35 129
Adjusted average number of shares during the period, 1,000 shares	**38 193**	34 650	34 650
Effect of share options, 1,000 shares	**228**	221	221
Adjusted average number of shares during the period, 1,000 shares - diluted	**38 421**	34 871	34 871
Earnings per share, EUR - diluted	**0.70**	0.78	1.01

10. Dividend per share

At the Annual General Meeting on 23 March 2006, a dividend of EUR 0.40 is proposed, corresponding to total dividends of EUR 15,354,989.60. This dividend payable is not reflected in the financial statements. The dividend per share paid in 2005 was EUR 0.25.

11. Intangible assets

2005

EUR 1000	Intangible rights	Goodwill	Intangible assets from acquisitions	Other intangible assets	Advance payments	Total
Cost at 1 January 2005	7 949	141 826	4 640	2 500	60	156 975
Additions	705	7 115	6 977	642	1 080	16 519
Disposals	-505				-60	-565
Transfers between items	28			-727	1 341	642
Cost at 31 December 2005	8 177	148 941	11 617	2 415	2 421	173 571
Accumulated amortisation at 1 January 2005	-6 240	-49 821	-416	-364		-56 841
Accumulated amortisation on disposals and transfers	421					421
Amortisation during the period	-579		-1 342	-358		-2 279
Accumulated amortisation at 31 Dec. 2005	-6 398	-49 821	-1 758	-722		-58 699
Net book value at 31 December 2005	1 779	99 120	9 859	1 693	2 421	114 872

2004

EUR 1000	Intangible rights	Goodwill	Intangible assets from acquisitions	Other intangible assets	Advance payments	Total
Cost at 1 January 2004	7 280	132 767		2 768	190	143 005
Translation differences				-1	60	59
Additions	108	9 059	4 640	520		14 327
Disposals	-3			-601		-604
Transfers between items	564			-186	-190	188
Cost at 31 December 2004	7 949	141 826	4 640	2 500	60	156 975
Accumulated amortisation at 1 January 2004	-5 944	-49 821		-568		-56 333
Accumulated amortisation on disposals and transfers				528		528
Amortisation during the period	-296		-416	-324		-1 036
Accumulated amortisation at 31 Dec. 2005	-6 240	-49 821	-416	-364		-56 841
Net book value at 31 December 2004	1 709	92 005	4 224	2 136	60	100 134

Additions in intangible rights consist mainly of intangible assets resulting from business combinations and software licences.
Additions in goodwill and intangible assets result from business combinations.
Additions in other intangible assets result from building of ADP systems.

12. Goodwill impairment tests

EUR 1000	2005	2004
Waste management services	**43 788**	39 592
Recycling services	**19 444**	17 500
Cleaning services	**9 812**	9 854
Hazardous waste services	**9 590**	9 437
Total	**82 634**	76 383
Units for which the amount of goodwill allocated is not significant	**16 486**	15 622
Total	**99 120**	92 005

Lassila & Tikanoja's divisions are divided into product lines that also form the cash generating units. The Latvian/Baltic business operations also form a cash generating unit.

In estimating the recoverable amounts both an asset's value in use and its fair value less cost to sell are used, the approaches being equivalent. Future cash flows are based on annual estimates by the management for a five year period. In these estimates percentages of growth vary between 3.5 and 27.4 % (3.0 – 15.6%) depending on CGU. Beyond that period, a residual growth rate of 2-3% and upkeep investments have been estimated for the cash flows.

Calculation components for the cost of capital are risk free return rate (10 year government bond), market risk premium, illiquidity premium on unlisted companies, industry beta, cost of debt and capital structure. The industry beta, cost of debt and capital structure have been calculated for each cash generating unit on the basis of key figures of peer group companies determined by the management. The peer group companies are listed companies operating in the same business sectors as L&T. Based on these factors, the discount rate used in the impairment tests is pre-tax return on equity (WACC) as follows: waste management 9.9% (9.9%), recycling services 9.4% (8.7%), cleaning services 9.6% (10.9%) and hazardous waste services 9.7% (8.6%). Interest rate for other cash generating units varies between 9.3 and 10.3% (7.7 and 11.5%).

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

No impairment losses have been recognised. According to management's assessment any reasonable changes in the key assumptions do not cause impairment on goodwill of any cash generating unit.

13. Property, plant and equipment

2005

EUR 1000	Land	Buildings and constructions	Machinery and equipment	Other	Advance payments and construction in progress	Total
Cost at 1 January 2005	4 719	46 960	152 861	128	3 868	208 536
Translation differences			14			14
Additions	105	1 591	24 474		18 164	44 334
Disposals		-123	-5 786			-5 909
Transfers between items		4 964	13 548	-4	-19 183	-675
Cost at 31 December 2005	4 824	53 392	185 111	124	2 849	246 300
Accumulated depreciation at 1 January 2005		-12 593	-80 453	-80		-93 126
Translation differences			-2			-2
Accumulated depreciation on disposals and transfers		42	4 685			4 727
Depreciation during the period		-3 100	-19 395			-22 495
Accumulated depreciation at 31 December 2005		-15 651	-95 165	-80		-110 896
Net book value at 31 December 2005	4 824	37 741	89 946	44	2 849	135 404

Assets acquired under finance lease arrangements included in machinery and equipment

EUR 1000	Buildings and constructions	Machinery and equipment	Total
Cost at 1 January 2005	360	713	1 073
Additions		471	471
Cost at 31 December 2005	360	1 184	1 544
Accumulated depreciation at 1 January 2005	-3	-125	-128
Depreciation during the period	-18	-241	-259
Accumulated depreciation at 31 December 2005	-21	-366	-387
Net book value at 31 December 2005	339	818	1 157

Commitments related to property, plant and equipment totalled EUR 5.1 million. No impairment losses on property, plant and equipment have been recognised. Additions to property, plant and equipment relating to acquired businesses are shown in note 2 Business acquisitions.

2004

EUR 1000	Land	Buildings and constructions	Machinery and equipment	Other	Advance payments and construction in progress	Total
Cost at 1 January 2004	3 840	40 628	143 417	180	4 198	192 263
Translation differences	-2	-13	-81		-2	-98
Additions	395	4 863	25 757		3 542	34 557
Disposals	-64	-789	-17 143		-2	-17 998
Transfers between items	550	2 271	911	-52	-3 868	-188
Cost at 31 December 2004	4 719	46 960	152 861	128	3 868	208 536
Accumulated depreciation at 1 January 2004		-10 082	-80 357	-80		-90 519
Exchange differences			51			51
Accumulated depreciation on disposals and transfers		675	17 032			17 707
Depreciation during the period		-3 186	-17 179			-20 365
Accumulated depreciation at 31 December 2004		-12 593	-80 453	-80		-93 126
Net book value at 31 December 2004	4 719	34 367	72 408	48	3 868	115 410

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

EUR 1000	Buildings and construc-tions	Machinery and equip-ment	Total
Cost at 1 January 2004	0	0	0
Additions	360	713	1 073
Cost at 31 December 2004	360	713	1 073
Accumulated depreciation at 1 January 2004	0	0	0
Depreciation during the period	-3	-125	-128
Accumulated depreciation at 31 December 2004	-3	-125	-128
Net book value at 31 December 2004	357	588	945

Commitments related to property, plant and equipment totalled EUR 4.9 million. No impairment losses on property, plant and equipment have been recognised. Additions of property, plant and equipment relating to acquisitions are shown in note 2 Business acquisitions.

14. Joint ventures

The Group has a 50% interest in the following joint ventures:
Blue Service Partners Oy, Helsinki
Salvor Oy, Helsinki

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

EUR 1000	2005	2004
Non-current assets	**4 627**	4 270
Current assets	**1 699**	2 686
Non-current liabilities	**-191**	-240
Current liabilities	**-1 709**	-1 866
Net assets	**4 426**	4 850
Revenues	**4 228**	2 297
Expenses	**-4 798**	-2 454
Loss for the period	**-570**	-157
Average personnel in joint ventures	**32**	13

15. Investments in associates

EUR 1000	2005	2004
Cost at 1 January	**140**	146
Disposals	**-16**	-6
Transfers between items	**5**	
Cost at 31 December	**129**	140
Capital adjustment at 1 January	**182**	118
Share of profit of an associate	**27**	64
Capital adjustment at 31 December	**209**	182
Total carrying amount	**338**	322

Associates

EUR 1000	% interest held	Assets	Liabilities	Net sales	Profit
2005					
Suomen Keräystuote Oy, Tampere	27,8	2 161	866	6 947	71
Rodnik Ltd, St. Petersburg, Russia	35	270	34	309*	1*
Re Plast Oü, Rapla, Estonia	33,3				
2004					
Suomen Keräystuote Oy, Tampere	27,8	2 355	1 043	8 004	247
Rodnik Ltd, St. Petersburg, Russia	35	247	33	505	14
Re Plast Oü, Rapla, Estonia	33,3				

The balance sheet total of Re Plast Oü does not exceed EUR 10,000.
* Net sales and profit for 9 months

16. Investments in Group companies

	Group holding of shares and votes %
A/S L&T Hoetika, Riga, Latvia	100.0
SIA L&T Serviss, Riga, Latvia	100.0
SIA 99 Perfekts, Riga, Latvia	100.0
EM-business Oy, Helsinki	100.0
Kanta-Hämeen Ympäristöyhtiö Oy, Helsinki	100.0
Kiinteistö Oy Meritonttu, Helsinki	100.0
Kiinteistö Oy Vantaan Valimotie 33, Helsinki	100.0
Lassila & Tikanoja Service AB, Stockholm, Sweden	100.0
Lassila & Tikanoja Services Oü, Tallinn, Estonia	100.0
L&T Advance Oy, Helsinki	100.0
L&T Deili Oy, Helsinki	100.0
L&T Development Oy, Helsinki	100.0
L&T Hankinta Ky, Helsinki	100.0
L&T Improvement Oy, Helsinki	100.0
L&T Kalusto Oy, Helsinki	100.0
L&T Muoviportti Oy, Merikarvia	66.7
L&T Palvelu Oy, Helsinki	100.0
L&T Relations Oy, Helsinki	100.0
L&T Services LLC, Moscow, Russia	100.0
L&T Servis Oy, Helsinki	100.0
L&T Toimi Oy, Helsinki	100.0
L&T Viwaplast Oy, Valkeakoski	66.7
L&T Ympäristöhuolto Oy, Helsinki	100.0
Pahvipojat Oy, Kemi	100.0
Säkkiväline Ympäristöpalvelut Oy, in voluntary liquidation, Helsinki	100.0
The Russian-Finnish Company Ecosystem LLC, Dubna, Russia	74.0

17. Non-current available-for-sale investments

EUR 1000	2005	2004
Carrying amount at 1 January	**3 121**	2 793
Additions		342
Disposals	**-87**	-14
Transfers between items	**-5**	
Carrying amount at 31 December	**3 029**	3 121

Available-for-sale investments include unlisted shares. The carrying amount of Ekokem Oy's shares are the most significant. Addition in 2004 originates mainly from real estate company shares from a business acquisition.
A loss of EUR 3 thousand on sale of real estate company shares included in the available-for-sale investments was recognised in finance income and costs in 2005.

18. Finance lease receivables

EUR 1000	2005	2004
Maturity of minimum lease payments		
Not later than one year	**1 165**	898
Later than one year and not later than five years	**3 129**	2 578
Later than five years	**272**	335
Gross investment in finance lease agreements	**4 566**	3 811
Maturity of present value of minimum lease payments		
Not later than one year	**1 114**	694
Later than one year and not later than five years	**2 634**	2 223
Later than five years	**188**	312
Total present value of minimum lease payments	**3 936**	3 229
Unearned finance income	**630**	582
Gross investment in finance lease agreements	**4 566**	3 811

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

19. Inventories

EUR 1000	2005	2004
Raw materials and consumables	**959**	384
Finished goods	**2 385**	2 227
Other inventories	**1 400**	1 650
Total	**4 744**	4 261

Impairments recognised in 2005 amounted to EUR 0,2 million.

20. Trade and other current receivables

EUR 1000	2005	2004
Trade receivables	**37 630**	31 839
Finance lease receivables, short-term	**1 114**	694
Loan receivables		5
Accruals	**5 170**	3 064
Tax receivables	**1 508**	1 331
Other receivables	**366**	264
Total	**45 788**	37 197
Accruals include the following:		
Interest	**1**	20
Employees' health care compensation	**1 130**	745
Statutory pension insurances	**2 032**	1 170
Insurances	**29**	467
Indirect taxes	**785**	344
Receivables from derivative instruments	**253**	
Other	**940**	318
Total	**5 170**	3 064

The receivables are not collateralised. Impairment losses recognised on trade receivables are shown in note 5.

21. Current available-for-sale investments

EUR 1000	2005	2004
Certificates of deposit and commercial papers	**3 696**	15 973

Available-for-sale investments are stated in the financial statements at fair value. Changes in the fair values are recognised in fair value reserve in equity. The weighted average of effective interest rates at 31 December 2005 was 2.42% p.a. (2.16% p.a.) and average maturity 21 days (28 days).

22. Cash and cash equivalents

EUR 1000	2005	2004
Cash on hand and in banks	**2 556**	3 786
Current held-to-maturity investments expiring in less than 3 months	**1 000**	
Total	**3 556**	3 786

The effective interest rate of held-to-maturity investments at 31 December 2005 was 2.20% p.a. and maturity 3 days.

23. Equity

Share capital and share premium fund

EUR 1000	Number of shares in 1,000 shares	Share capital	Share premium fund	Total
1 January 2005	38 136	19 068	44 932	64 000
16 February 2005 subscription pursuant to 2002A options	6	3	41	44
4 August 2005 subscription pursuant to 2002A and 2002B options	80	40	560	600
16 November 2005 subscription pursuant to 2002B options	156	78	1 073	1 151
31 December 2005	38 378	19 189	46 606	65 795
	15 826	7 913	7 518	15 431
1 January 2004	3	1	47	48
10 August 2004 subscription pursuant to 2002A options	68	34	1 272	1 306
17 November 2004 subscription pursuant to 2002A options	15 897	7 949	-7 949	0
18 November 2004 Bonus issue 1:1	6 342	3 171	44 044	47 215
21 December 2004 Share issue 5:2 à EUR 7.50	38 136	19 068	44 932	64 000
31 December 2004				

In accordance with the Articles of Association of Lassila & Tikanoja plc, the maximum number of shares is 100 million shares, and the maximum share capital is EUR 50 million. The book counter value of a share is EUR 0.50. The share has no nominal value.

Other reserves

Translation reserve

Translation reserve includes translation differences arising from elimination of acquisition costs of group companies not operating in euros.

Revaluation reserve

Revaluation reserve includes changes in fair values of current available-for-sale financial assets.

Distributable equity

EUR 1000	31 Dec. 2005
Retained earnings	60 249
Profit for the period	26 822
Portion of accumulated depreciation and amortisation recognised in equity	-10 540
Total distributable assets	76 531
Accumulated depreciation	24 947
Deferred tax liability	-6 486
Share of assets of subsidiaries at acquisition date	-7 805
Minority interest	-116
Portion of accumulated depreciation and amortisation recognised in equity	10 540

Calculation of distributable assets is based on the IFRS balance sheet and Finnish legislation.

24. Share-based payment

The Group has share option plans granted in 2002 and 2005, each divided in series A, B and C. Option plans which have been granted after 7 November 2002 and which have not yet vested on 1 January 2005, have been recognised as expenses under IFRS 2 Share-based payment. Expenses are recognised from stock options 2002B, 2002C and 2005. Expenses arising from fair values of options are recognised as expenses on a straight-line basis during the vesting periods. The fair values are measured using the Black-Scholes pricing model.

Outstanding share option plans

Option	Exercise period	Exercise price/share	Number of shares to be subscribed for at 31 Dec. 2005	Number of shares to be subscribed for at 31 Dec. 2004	End of vesting period
2002A	2.5.2004-30.10.2005	7,86	0	118 440	ended
2002B	2.5.2005-30.10.2006	7,02	132 900	256 000	ended
2002C	2.5.2006-30.10.2007	11,46	274 000	274 000	2.5.2006
2005A	2.11.2007-29.5.2009	14,22	170 000		2.11.2007
Total			576 900	648 440	

Options outstanding by range of exercise price

	2005		2004	
	Weighted average exercise price EUR/share	Number of options	Weighted average exercise price EUR/share	Number of options
At start of period	9,05	648 440	7,44	516 000
New options granted	14,22	170 000	11,46	274 000
Exercised	7,43	241 540*	7,86	141 560
At end of period	11,25	576 900	9,05	648 440
Options exercisable at end of year	7,02	132 900	7,86	118 440

* 2002A options were exercised to subscribe for 118,440 shares and 2002B options to subscribe for 123,100 shares.

The weighted average share price of the exercise dates of shares subscribed for pursuant to stock options in 2005 was EUR 15.06 (EUR 13.54). The proceeds from the subscriptions totalled EUR 1,795 thousand, of which EUR 121 thousand was recorded in share capital and EUR 1,674 thousand in share premium fund (total EUR 1,354 thousand, of which EUR 35 thousand was recorded in share capital and EUR 1,319 thousand in share premium fund). Changes in equity are presented in Note 23.

Parameters used in the Black-Scholes pricing model

	Granted 2005 2005A	Granted 2004 2002C*
Grant date	7 June 2005	5 July 2004
Share price at grant date	14.76	26.60
Exercise price	14.22	26.34
Expected volatility	19%	23%
Expected vesting period	3y 359d	3y 117d
Riskless interest	2.40%	3.20 %
Expected dividends, EUR	1.11	3.11
Fair value at grant date, EUR	2.35	3.87

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

Option plans

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

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

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

Pursuant to share options outstanding on 31 December 2005, a maximum of 576,900 new shares may be subscribed for, which is 1.6% of the current number of shares. As a result of these subscriptions, the share capital may increase by a maximum of EUR 288,450.

On 31 December 2005, a subsidiary held 430,000 options that have not yet been vested. The portion of the shares that may be subscribed for pursuant to these options is 1,1% of the current number of shares. As a result of these subscriptions, the share capital may increase by a maximum of EUR 215,000.

Option plan 2002

The Annual General Meeting of the year 2002 decided to issue 400,000 share options. 130,000 were marked as 2002A, 130,000 as 2002B and 140,000 as 2002C. As a result of share subscriptions pursuant to these options, the number of shares could increase by a maximum of 400,000 new shares, which was 2.5 per cent of the total number of shares at the time when the options were issued. The bonus issue decided by the extraordinary general meeting of shareholders on 15 November 2004 doubled the number of share options and the number of shares that can be subscribed for pursuant to the options.

2002 option rights have been granted to 28 persons.

The 2002A options were listed on the Helsinki Stock Exchange between 3 May 2004 and 24 October 2005 and the 2002B stock options have been listed since 2 May 2005.

In 2005, a total of 241,540 shares were subscribed for pursuant to share options issued in 2002. The share capital was increased correspondingly by EUR 120,770.

Option plan 2005

The Annual General Meeting of 2005 decided to issue 600,000 share options to key personnel of the Lassila & Tikanoja Group and/or to a wholly-owned subsidiary of Lassila & Tikanoja plc. All 170,000 2005A options have been granted to 27 persons. All 200,000 2002B and all 230,000 2005C options have been subscribed for by a wholly-owned subsidiary of Lassila & Tikanoja plc to be granted at a later date to the present and future key personnel of the Lassila & Tikanoja Group.

The share subscription price for the 2005A share options shall be the trade volume weighted average price of the Company's share on the Helsinki Stock Exchange in May 2005, rounded off to the nearest cent, for the 2005B stock options the trade volume weighted average price of the Company's share on the Helsinki Stock Exchange in May 2006, rounded off to the nearest cent, and for the 2005C share options the trade volume weighted average price of the Company's share on the Helsinki Stock Exchange in May 2007, rounded off to the nearest cent.

As a result of subscriptions made pursuant to the 2005 share options, the share capital may increase by a maximum of EUR 300,000 and the number of share by a maximum of 600,000 new shares. This is 1.6% of the current number of shares.

25. Retirement benefit obligations

The disability pension part of the Finnish statutory pension system (TEL) was previously classified as a defined benefit plan. As a consequence to amendments to the principles for calculating disability pension liabilities approved by the Finnish Ministry of Social Affairs and Health, the disability pension part of the Finnish statutory pension system are classified as a defined contribution plan from 1 January 2006 onwards. Consequently, the liability recorded in the balance sheet was recognised as revenue in the income statement as follows: EUR 1.1 million in 2005 and EUR 10.5 million at 31 December 2004. L&T operates some minor defined benefit plans concerning a few Finnish persons. The plans are of no material importance and concern only a few persons in Finland. They originate mainly from company acquisitions.

EUR 1000	2005	2004
The amounts of defined benefit pension liabilities in the balance sheet are determined as follows:		
Present value of unfunded obligations	**193**	1 183
Present value of funded obligations	**225**	392
Fair value of plan assets	**-191**	-408
Unrecognised actuarial gains and losses	**-51**	-5
Retirement benefit obligations in balance sheet	**176**	1 162
The defined benefit pension expenses in the income statement are determined as follows:		
Current service cost	**81**	1 741
Interest cost	**21**	548
Expected return on plan assets	**-22**	-30
Actuarial gains and losses	**0**	0
Past service cost	**48**	
Gains of curtailment	**-1 113**	-10 535
Total	**-985**	-8 276
The movement in the liability recognised in the balance sheet is as follows:		
Beginning of the year	**1 162**	10 295
Total expense charged in the income statement	**-985**	-8 276
Contributions paid	**-1**	-857
Total	**176**	1 162
The principal actuarial assumptions used:		
Discount rate	**4.5% - 5%**	5.0%
Expected return on plan assets	**4.5%**	5.0%
Expected future salary increases	**4.5%**	4.5%

26. Provisions

EUR 1000	Environ-mental provision	Other pro-visions	Total
Provisions at 1 January 2005	748	73	821
Additional provisions	655		655
Used during year	-294		-294
Unused amounts reversed	-143	-73	-216
Effect of discounting	18		18
Provisions at 31 December 2005	984	0	984

EUR 1000	2005	2004
Non-current provisions	684	821
Current provisions	300	
Total	984	821

The environmental provision includes the following obligations:
- site restoration of the landfill in Kerava
- site restoration of the processing and final disposal site of contaminated soil of the joint venture Salvor Oy
- remediation of contaminated sites.

The site restoration provision of the landfill in Kerava has been divided in two parts. Future expenditure has been measured at the present price level adjusted by an annual inflation rate of 2%, because the cost level will be higher at the moment when the provision will be used than during the construction of the landfill. The expenditure adjusted by inflation has been discounted at the date of the building of the landfill. The interest rate used is the yield expectation of a risk-free five-year government bond at the time of construction added by L&T's loan margin at the time in question. This part arising from the building cost of the landfill is recognised at present value in the balance sheet as a part of the cost of the site and it is depreciated according to plan. A corresponding amount has been recognised as a provision in liabilities. This amount is increased annually by a discount interest included in finance costs. The other part is calculated on the basis of the tonnage taken to the landfill.

The same principle has been applied to the site restoration provision of Salvor.

In 2005, EUR 294 thousand was used for remediation of a site. The provision for the remediation of the site was added by EUR 434 thousand.

In 2004, other provisions included social security expenses arising from the vesting of the stock option rights under stock option plans of 2002 and 2005. Due to changes in legislation, this provision was recognised as revenue in 2005.

The settlement of the obligations recognised under long-term provisions will probably require an outflow of resources embodying economic benefits mainly over a period of 2 to 12 years from now.

27. Interest-bearing liabilities

EUR 1000	2005	2004
Non-current		
Bank borrowings	**58 858**	66 764
Finance lease liabilities	**769**	833
Other borrowings	**2**	107
Total	**59 629**	67 704
Current		
Bank borrowings		
Repayments of long-term borrowings	**8 250**	13 061
Repayments of finance lease liabilities	**229**	120
Commercial papers	**15 462**	
Other interest-bearing liabilities	**136**	300
Total	**24 077**	13 481

Almost all of the borrowings are based on floating rates and their fair values are not materially different from their carrying amounts.

Finance lease liabilities

EUR 1000	2005	2004
Maturity of minimum lease payments		
Not later than one year	**236**	167
Later than one year and not later than five years	**887**	899
Later than five years		42
Total minimum lease payments	**1123**	1108
Maturity of present values of minimum lease payments		
Not later than one year	**229**	120
Later than one year and not later than five years	**769**	799
Later than five years		34
Total present value of minimum lease payments	**998**	953
Future finance costs	**125**	155
Total finance lease liabilities	**1 123**	1 108

The most significant lease is the lease agreement on an industrial building located in Merikarvia. The minimum lease payments include the redemption price to be paid in accordance with the agreement at the end of the lease term.

Repayment schedule of long-term borrowings

EUR 1000	2006*	2007	2008	2009	2010	2011 and later
Bank borrowings EUR	8 250	15 530	27 500	15 000		
Bank borrowings LVL		165	116	116	116	315
Finance lease liabilities EUR	229	217	190	328	34	
Total	8 479	15 912	27 806	15 444	150	315

*) In the balance sheet under current liabilities

The average maturity of long-term borrowings at 31 December 2005 was 2.5 years (2.0 years) and the weighted average of effective interest rates 2.83% p.a. (2.74% p.a.).
The loan agreements include equity ratio and interest cover covenants and other normal terms which restrict giving of collaterals to other financiers and discontinuation or disposal of present business. The breaching of the terms will entitle the borrowers to call in the loans immediately. No terms have been breached during 2005.

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

EUR 1000	2006	2007	2008	2009	Total
Total long-term borrowings	23 337	13 717	15 690	15 362	68 106

The weighted average of effective interest rates including interest rate swaps at 31 December 2005 was 3.19% p.a. (4.90% p.a.)

28. Other non-current liabilities

EUR 1000	2005	2004
Accrued expenses and deferred income		244
Advances received	**207**	1
Other non-interest-bearing liabilities	**17**	
Total	**224**	245

29. Trade and other current payables

EUR 1000	2005	2004
Advances received	**1 145**	2 483
Trade payables	**14 241**	11 136
Other current non-interest bearing liabilities	**13 256**	12 189
Accrued expenses and deferred income	**30 314**	28 104
Total	**58 956**	53 912
Accrued expenses and deferred income		
Liabilities related to personnel expenses	**23 607**	21 657
Waste charges	**2 380**	2 350
Liabilities from derivative instruments	**16**	584
Interest liabilities	**413**	697
Other accrued expenses	**3 898**	2 816
Total	**30 314**	28 104

30. Derivative financial instruments

EUR 1000	2005 Nominal value	Fair value	2004 Nominal value	Fair value
Maturity of interest rate swaps				
Not later than one year	6 000		55 333	
Later than one year and not later than five years	44 000		20 000	
Total	50 000	237	75 333	-584

Derivative instruments were entered into in order to hedge cash flow interest rate risk associated with floating rate borrowings. Hedge accounting under IAS 39 has not been applied, but the changes in fair values have been recognised in profit or loss.

31. Operating leases

EUR 1000	2005	2004
Maturity of minimum lease payments of non-cancellable operating leases		
Not later than one year	**2 809**	2 362
Later than one year and not later than five years	**7 016**	6 671
Later than five years	**4 357**	4 084
Total minimum lease payments	**14 182**	13 117

The Group has leased a part of the production and office premises. The lease terms of non-cancellable leases are between three and eight years in general, and usually they include a renewal option. The Group has leased land to be used for storing at production plants. The terms of the lease agreements are in accordance with terms generally used in Finland. Lease payments under each lease are based on fixed unit price per square meter and they are in general tied to the consumer price index. Leased assets have not been leased out.

The income statement of 2005 includes lease expenses arising from other leases EUR 4,804 thousand (EUR 3,616 thousand).

32. Adjustments to the cash flow statement

EUR 1000	2005	2004
Adjustments to cash flows from operating activities		
Taxes	**10 250**	12 905
Depreciation and impairment	**24 774**	21 401
Finance income and costs	**1 800**	2 969
Share of profit from associates	**27**	64
Profit/loss on sales of equipment	**-358**	-1 048
Provisions	**-889**	-8 988
Other	**-344**	-494
Total	**35 260**	26 809

33. Related-party transactions

Lassila & Tikanoja Group has related-party relationships with its joint ventures, associates and top management.

EUR 1000	2005	2004
Transactions and balances with joint ventures		
Sales	**1 026**	6
Purchases	**1 201**	4
Long-term receivables		
Capital loan receivable	**2 000**	2 000
Current receivables		
Trade receivables	**34**	2
Current liabilities		
Trade payables	**105**	

The interest rate of the capital loan is 4.2%. The interest will be paid for the first time on 30 June 2006 if the joint venture has distributable assets according to the balance sheet.

EUR 1000	2005	2004
Transactions and balances with associates		
Sales	**2 970**	3 921
Purchases	**150**	150
Trade receivables	**180**	289
Trade payables	**7**	8

Transactions with associates and joint ventures are carried out at fair market prices.

EUR 1000	2005	2004
Employee benefits for key management		
Salaries and other short-term employee benefits	**1 058**	1 308
Post-employment benefits	**57**	9
Share-based payments	**1 036**	306
Total	**2 151**	1 623

Key management consists of the members of the Board of Directors, President and CEO and Group Executives.

EUR 1000	2005	2004
Salaries and remunerations paid to members of the Board of Directors and President and CEO		
Juhani Maijala, Chairman	**80**	162
Heikki Hakala, Vice Chairman	**26**	31
Lasse Kurkilahti	**22**	26
Juhani Lassila	**22**	26
Soili Suonoja	**22**	26
Jari Sarjo, President and CEO	**526**	369

The position of the Chairman was full-time until the Annual General Meeting held on 4 April 2005. The meeting resolved on annual fees for the members of the Board instead of monthly fees. The figures for 2004 include both the annual fee for 2004 and monthly fees resolved in 2003 paid for the first three months of the year 2004.

The members of the Board of Directors have no pension contracts with the company. The President and CEO has a defined benefit pension contract, according to which he may choose to retire at the age of sixty. In 2005, an expense of EUR 25 thousand arising from that contract was recognised in the income statement (EUR 33 thousand). The amount of the pension is less than the full amount of pension under the Employeers' Pensions Act.

The shareholding of the members of the Board are presented on page 63. The members of the Board are not included in the share option plans.

The President and CEO and the Group Executives were granted 94,000 2005A options in 2005 (152,000 2002C options in 2004). At 31 December 2005, the President and CEO and the Group Executives held a total of 218,700 options, of which 66,700 were exercisable (357,240 at 31 December 2004, of which 65,240 were exercisable). The share and option holdings of the President and CEO and the Group Executives are shown in detail on page 63.

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

34. Contingent liabilities

EUR 1000	2005	2004
For own borrowings		
Real estate mortgages		700
For other own commitments		
Real estate mortgages	**105**	84
Company mortgages	**500**	50
Pledged shares		284
Other securities	**188**	132
Bank guarantees required for environmental permits	**1 969**	1 628

The pledged shares are shares of a real estate company. Other securities are security deposits.

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

Disputes and litigations

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

35. Transition to IFRS

As of 1 January 2005, Lassila & Tikanoja has adopted the International Financial Reporting Standards (IFRS) in its financial reporting. Prior the adoption of IFRS Lassila & Tikanoja reported under Finnish Accounting Standards (FAS).

The Accounting Policies presented in the notes have been applied in preparing the financial statements for the financial period ending on 31 December 2005, comparative financial information for the financial period ending on 31 December 2004 and the opening balance sheet at 1 January 2004. The transition date for Lassila & Tikanoja is 1 January 2004.

The most significant changes caused by transition to IFRS to the accounting principles and the consolidated financial statements for the year 2004 are presented below. Lassila & Tikanoja disclosed on 4 April 2005 comparative financial information for the year 2004 in accordance with IFRS. The information was unaudited and it has been made more precise.

Lassila & Tikanoja used the exemptions allowed for first-time adopters (IFRS 1) concerning IFRS 3 (Business Combinations) IAS 16 (Property, Plant and Equipment) and IAS 19 (Employee benefits). The most significant exemption used is the using of the carrying amount according to FAS as carrying amount of goodwill in the opening balance sheet.

A non-recurring pension liability amounting to EUR 10.5 million (EUR 7.8 million net of deferred tax assets) was recognised as revenue in the IFRS income statement for the final quarter of the year 2004, because the principles for calculating disability pension liabilities under the Finnish statutory employment pension scheme had changed (TEL). The IFRS income statement for the period 1 January - 31 December 2004 and key figures 12/2004 are presented below both including and excluding this revenue recognition.

Reconciliation of profit for the period

EUR 1000	Note	2004
According to FAS		21 376
IFRS 1 First-time Adoption of IFRS: Depreciation on revaluations	7	-76
IFRS 2 Share-based Payment	4	-331
IFRS 3 Business Combinations	5	8 194
IAS 1 Format of financial statements: Minority interest	14	55
IAS 2 Inventories	8	125
IAS 12 Income Taxes	10	-4 316
IAS 17 Leases: Finance Leases	6	-3
IAS 18 Revenue: Recognition in the income statement	3	-39
IAS 19 Employee Benefits: Post-employment benefits	9	9 133
IAS 37 Provisions	11	6
IAS 39 Financial Instruments	2	1 005
According to IFRS		35 129
Revenue recognition of deferred pension liability in the income statement		-7 796
Adjusted IFRS		27 333

Reconciliation of equity

EUR 1000	Note	31.12. 2004	1.1. 2004
According to FAS		130 649	95 786
IFRS 1 First-time Adoption of IFRS: Depreciation on revaluations	7	-1 333	-1 256
IFRS 3 Business combinations	5	8 194	
IAS 1 Format of financial statements: Minority interest	14	1 550	1 167
IAS 2 Inventories	8	240	121
IAS 12 Income taxes	10	-2 406	1 879
IAS 17 Leases: Finance leases	6	785	733
IAS 18 Revenue: Recognition in the income statement	3	-1 176	-1 137
IAS 19 Employee Benefits: Post-employment benefits	9	-1 161	-10 295
IAS 37 Provisions	11	17	10
IAS 39 Financial instruments	2	-570	-1 588
According to IFRS		**134 789**	**85 420**

Consolidated income statement 1 January to 31 December

EUR 1000	Note	FAS 1.1.- 31.12.2004	%	Effect of transition to IFRS	**IFRS 1.1.- 31.12.2004**	%
Net sales	3.6	336 675	100.0	566	**337 241**	100.0
Cost of sales	3,6,8,9	-274 685	-81.6	3 654	**-271 031**	-80.4
Gross profit		61 990	18.4	4 220	**66 210**	19.6
Marketing and selling costs		-8 551	-2.5	-672	**-9 223**	-2.7
Administrative expenses	4	-10 509	-3.1	4 483	**-6 026**	-1.8
Other operating income and expenses		596	0.2	-235	**361**	0.1
Depreciation on goodwill	5	-8 971	-2.7	8 971		
Operating profit		34 555	10.3	16 767	**51 322**	15.2
Finance costs, net	2,6,11	-4 149	-1.2	1 180	**-2 969**	-0.9
Share of profit of associates				64	**64**	
Profit before tax		30 406	9.0	18 010	**48 417**	14.4
Income tax	10	-8 592	-2.6	-4 313	**-12 905**	-3.8
Profit for the period		21 814	6.5	13 697	**35 512**	10.5
Attributable to:						
Equity holders of the parent		21 376	6.3	13 752	**35 129**	10.4
Minority interest	14	438		-55	**383**	
Earnings per share for profit attributable to the equity holders of the parent:						
Earnings per share, EUR		0.62			**1.01**	
Earnings per share, EUR - diluted		0.62			**1.01**	

Consolidated income statement 1 January to 31 December 2004 adjusted by revenue recognition of pension liability

EUR 1000	Note	IFRS 1.1.- 31.12.2004	%	**Adjusted IFRS 1.1.- 31.12.2004**	%
Net sales		337 241	100.0	**337 241**	100.0
Cost of sales	9	-271 031	-80.4	**-280 915**	-83.3
Gross profit		66 210	19.6	**56 326**	16.7
Marketing and selling costs	9	-9 223	-2.7	**-9 578**	-2.8
Administrative expenses	9	-6 026	-1.8	**-6 322**	-1.9
Other operating income and expenses		361	0.1	**361**	0.1
Operating profit		51 322	15.2	**40 787**	12.1
Finance costs, net		-2 969	-0.9	**-2 969**	-0.9
Share of profit of associates		64		**64**	
Profit before tax		48 417	14.4	**37 882**	11.2
Income tax	9	-12 905	-3.8	**-10 166**	-3.0
Profit for the period		35 512	10.5	**27 716**	8.2
Attributable to:					
Equity holders of the parent		35 129		**27 333**	
Minority interest		383		**383**	
Earnings per share for profit attributable to the equity holders of the parent:					
Earnings per share, EUR		1.01		**0.79**	
Earnings per share, EUR - diluted		1.01		**0.78**	

Group

Consolidated balance sheet

EUR 1000	Note	FAS 31.12.2004	Effect of transition to IFRS	**IFRS 31.12.2004**	FAS 31.12.2003	Effect of transition to IFRS	**IFRS 1.1.2004**
ASSETS							
Non-current assets							
Goodwill	5	88 117	3 888	**92 005**	82 946		**82 946**
Intangible assets	5	3 751	4 378	**8 129**	3 095	632	**3 727**
Property, plant and equipment	5,6,7	116 441	-1 031	**115 410**	104 728	-2 984	**101 744**
Other non-current assets	6	3 858	2 365	**6 223**	3 479	1 640	**5 119**
Total non-current assets		212 167	9 600	**221 767**	194 248	-712	**193 536**
Current assets							
Inventories	8	4 005	256	**4 261**	2 729	131	**2 860**
Trade and other receivables	6	36 573	624	**37 197**	30 997	422	**31 419**
Liquid assets		19 821	-62	**19 759**	10 757	-47	**10 710**
Total current assets		60 399	818	**61 217**	44 483	506	**44 989**
TOTAL ASSETS		272 566	10 418	**282 984**	238 731	-206	**238 525**
EQUITY AND LIABILITIES							
Equity attributable to equity holders of the parent							
Share capital, share premium and other reserves		64 000	-276	**63 724**	15 431	-120	**15 311**
Accumulated profits		66 649	-10 887	**69 515**	80 355	-11 413	**68 942**
Total equity attributable to equity holders of the parent		130 649	13 753	**133 239**	95 786	-11 533	**84 253**
Minority interest	14		1 550	**1 550**		1 167	**1 167**
Total equity		130 649	4 140	**134 789**	95 786	-10 366	**85 420**
Minority interest FAS	14	1 595	-1 595		1 157	-1 157	
Non-current liabilities							
Deferred income tax liabilities	10	6 875	3 753	**10 628**	6 825	-1 857	**4 968**
Pension liabilities	9		1 162	**1 162**		10 295	**10 295**
Provisions	11	349	472	**821**	69	294	**363**
Non-current interest-bearing liabilities		66 761	943	**67 704**	79 083	145	**79 228**
Other non-current liabilities	3	107	138	**245**	145	131	**276**
Total non-current liabilities		74 092	6 468	**80 560**	86 122	9 008	**95 130**
Current liabilities							
Current interest-bearing liabilities		13 361	120	**13 481**	9 167	0	**9 167**
Trade and other payables	2,3	52 869	1 285	**54 154**	46 499	2 309	**48 808**
Total current liabilities		66 230	1 405	**67 635**	55 666	2 309	**57 975**
TOTAL EQUITY AND LIABILITIES		272 566	10 418	**282 984**	238 731	-206	**238 525**

Cash flow statement (12)

EUR 1000	FAS 2004	Effect of transition to IFRS	IFRS 2004
Cash flow before change in working capital	63 421	-1 100	**62 321**
Change in working capital	1 042	-974	**68**
Finance costs, net	-4 213	189	**-4 024**
Taxes	-9 572	-418	**-9 990**
Cash flow from operating activities	50 678	-2 303	**48 375**
Investments in group companies	-16 907	1 415	**-15 492**
Other investments	-30 362	253	**-30 109**
Proceeds from sales of property, plant and equipment	2 260	-102	**2 158**
Cash flow from investing activities	-45 009	1 566	**-43 443**
Increase of share capital	48 569		**48 569**
Dividends paid	-34 845		**-34 845**
Change in interest-bearing liabilities	-10 330	757	**-9 573**
Cash flow from financing	3 394	757	**4 151**
Change in liquid assets	9 063	20	**9 083**
Liquid assets at the beginning of the financial period	10 757	-47	**10 710**
Changes in exchange rates and fair values			**-34**
Liquid assets in balance sheet at 31 December 2004	19 820	-61	**19 759**

Key figures

	Note	2004 IFRS	Excluding revenue recognition of pension liability	2004 FAS
Earnings per share, EUR		**1.01**	**0.79**	0.62
Equity per share, EUR		**3.49**		3.43
Cash flow from operations per share, EUR	12	**1.40**		1.46
Return on equity, ROE, %		**32.3**	**25.2**	19.0
Return on invested capital, ROI, %		**27.1**	**22.5**	17.5
Equity ratio, %		**48.1**		48.8
Gearing, %		**45.6**		45.7
Gross investments, EUR 1,000	12	**48 124**		49 039
Depreciation, EUR 1,000	5	**21 401**		29 914
Net interest-bearing liabilities	6	**61 427**		60 407
Adjusted number of shares, 1,000 shares				
average during the period		**34 650**		
at end of period		**38 136**		
average during period, diluted		**34 871**		

Group

Segment reporting

EUR 1000	1-12/2004
Net sales	
Environmental Services	159 152
Property Services	124 820
Industrial Services	56 195
Group administration and other	377
Inter-division sales	-3 303
Lassila & Tikanoja	**337 241**
Operating profit*	
Environmental Services	26 097
Property Services	9 336
Industrial Services	6 907
Group administration and other	-1 553
Lassila & Tikanoja	**40 787**
Operating margin	
Environmental Services	16,4
Property Services	7,5
Industrial Services	12,3
Lassila & Tikanoja	**12,1**
Finance costs, net	-2 969
Share of profit of associates	64
Revenue recognition of deferred pension liability in income statement	10 535
Profit before tax	**48 417**

* Operating profit excluding the revenue recognition of pension liability

Other segment information

EUR 1000	12/2004
Assets	
Environmental Services	159 659
Property Services	41 638
Industrial Services	55 797
Group administration and other	5 241
Non-allocated assets	20 649
Lassila & Tikanoja	**282 984**
Liabilities	
Environmental Services	25 462
Property Services	20 105
Industrial Services	9 889
Group administration and other	265
Non-allocated liabilities	93 474
Lassila & Tikanoja	**148 195**
Investments	
Environmental Services	26 928
Property Services	12 609
Industrial Services	8 580
Group administration and other	7
Lassila & Tikanoja	**48 124**
Depreciation	
Environmental Services	11 727
Property Services	4 888
Industrial Services	4 706
Group administration and other	80
Lassila & Tikanoja	**21 401**

Notes

1. Format of income statement
Lassila & Tikanoja will continue to use with the IFRS reporting the function of expense method that it used under FAS. Some cost items have, however, been reclassified. Therefore, it will not be possible to compare the IFRS gross profit with the FAS one. The expenditure and depreciation caused by the data systems for production is the biggest transfer item. This expenditure has been transferred from administrative expenses to the cost of sales. In 2004 it amounted to EUR 4.4 million.

A pension liability amounting to EUR 10.5 million, EUR 7.3 million net of deferred taxes, was recognised as revenue in the income statement for the final quarter of the year 2004 due to the changes in the accounting principles for post-employment benefits. The income statement for the whole year is presented also without this non-recurring entry.

2. Derivative agreements
Lassila & Tikanoja's derivative agreements are interest rate swaps. IFRS requires recognition of derivative agreements at their fair value. Hedge accounting is applicable only if there is documentation of the hedged risk and the effectiveness of hedging is verified regularly. Lassila & Tikanoja does not apply hedge accounting to derivative agreements valid on the transition date, but changes in the fair values of the agreements will be recognised in profit or loss. The negative effect on the equity at the date of transition is EUR 1.6 million (EUR 1.1 million net of deferred taxes).

In 2004, EUR 1.0 million from interest rate swaps has been entered in the finance income. The corresponding fair values of interest rate swaps have been entered in the balance sheet under trade and other payables. In the opening balance sheet the liabilities amounted to EUR 1.6 million and on 31 December 2004 EUR 0.6 million.

3. Revenue recognition
The principle for the recognition of the revenues from the recycling of tyres and processing of construction waste will change. In the recycling of tyres the revenues will be recognised after the tyres have been crushed. An accrual will be recorded for the lorry and processing costs for construction waste costs not yet generated by the accounting date. As a result of these changes, the equity in the opening balance sheet is reduced by EUR 1.1 million (after deferred taxes EUR 0.8 million). The effects of the changes on the balance sheet is minimal. The change will increase both the current and non-current non-interest-bearing liabilities.

4. Share-based payment
According to IFRS 2, the costs of share options 2002B and 2002C are entered in the income statement. The fair values of share options 2002B and 200C allocated before the end of the year 2004 have been determined in accordance with the Black & Scholes valuation model. External advisors have been consulted in the valuation process. The fair value at grant date for share options 2002B was EUR 2.84 each and for share options 2002C EUR 3.87 each. A total of 265,000 share options 2002B and 2002C were allocated. The amounts and values mentioned above have been determined before the bonus issue in 2004. After the bonus issue, the total number of outstanding share options 2002B and 2002C is 530,000.

The total costs of the option scheme were EUR 0.3 million in 2004. These costs are included in administrative costs with corresponding credits to equity.

5. Business combinations
Acquisition cost calculations for corporate acquisitions made before the year 2004 have not been remade to comply with IFRS 3 but the first-time adoption standard is applied.

Lassila & Tikanoja has applied IFRS 3 to all business combinations that have been made after 1 January 2004. According to IFRS 3, all balance sheet items of the acquired company are recognised at fair value, decreasing the proportion of goodwill.

Under IFRS, goodwill will not be written off but goodwill impairment tests are carried out based on the conditions at the date of transition and after that annually. For the purpose of impairment testing, goodwill is allocated to the cash-generating units, which have been defined based on the reporting format used in business monitoring. In case the carrying amount of a cash-generating unit exceeds its recoverable amount of assets, an impairment loss equal to the difference is recognised. The recoverable amount of assets is determined either as a value in use based on cash flows or as a market value.

From the corporate acquisitions made in 2004, EUR 4.6 million was allocated to intangible assets. A major part of the allocations are related to customer relations and agreements on prohibition of competition. The depreciation period for intangible assets arising from business combinations is from 1 to 13 years.

Lassila & Tikanoja's divisions are divided into product lines that also form the cash-generating units. The Latvian business operations also form a cash-generating unit. Impairment tests have been carried out to the cash-generating units on 1 January 2004 and in the autumn 2004, and no impairment losses were recognised on the basis of these tests.

Due to applying IFRS 3, the balance sheet value of property, plant and equipment increased by EUR 1.4 million compared to the balance sheet under FAS.

6. Finance leases
Under FAS, rental and lease agreements were treated as operating leases. The Environmental Services division rents out equipment, such as waste compactors, that has been entered under property, plant and equipment. Under IFRS, a part of these lease agreements is classified as finance leases. The present values of future lease payments are immediately entered as income and recorded as trade receivables, and equipment is not entered under property, plant and equipment. Each item of lease payment is divided into interest and a reduction of trade receivables. Finance lease receivables amounted to EUR 2.4 million on 1 January 2004, and they increased by EUR 0.8 million during the year 2004.

There are no assets acquired under finance leases in the opening balance sheet. The assets acquired during the period have been recognised in property, plant and equipment less accumulated depreciation and the related obligations in interest-bearing liabilities. The amount of property, plant and equipment acquired under finance leases during 2004 and acquired through finance leases that came with a corporate acquisition totals EUR 1.0 million in the balance sheet as of 31 December 2004.

7. Revaluations
According to the first-time adoption standard, depreciation is made on previously made revaluations of buildings. The depreciations made before the transition date reduce the value of property, plant and equipment in the opening balance sheet by EUR 1.3 million. These entries have only a minor effect on the income statement.

8. Inventories
Under IFRS, a part of fixed production overhead costs will be recognised as part of the inventories related to own production processes.

9. Employee benefits
The disability pension part of the Finnish statutory pension system is handled in IFRS as a defined benefit plan and a non-current liability has been recorded accordingly. This liability reduces the equity net of deferred tax assets. On the transition date, the pension liability amounted to EUR 10.3 million, and the equity is reduced by EUR 7.3 million net of deferred tax assets.

The Finnish Ministry of Social Affairs and Health has approved certain amendments to the principles for calculating disability pension liabilities under the Finnish statutory employment pension scheme (TEL). The amendments are effective from 1 January 2006 onwards. Consequently, EUR 10.5 million of the liability recorded in the balance sheet so far was recognised as revenue in the income statement for the final quarter of the year 2004, and the remaining part will reduce the pension costs in 2005. Thereafter, TEL's disability pension part is accounted as a defined contribution liability in the IFRS accounts.

When calculating the key figures, the pension liabilities are included in non-interest bearing liabilities.

10. Income taxes

The changes in the principles of preparing the financial statements reduced the deferred (net) tax liability on 1 January 2004 by EUR 1.9 million and increased the tax liability by EUR 3.7 million on 31 December 2004. The most significant change was due to the recording of the pension liabilities in the balance sheet of 1 January 2004 and their revenue recognition in the income statement on 31 December 2004.

The tax liability was also increased by the change in the recording of business combinations to the effect that no depreciation will be made on goodwill. In taxation, however, a deferred tax liability caused by deductible dissolution losses and depreciation on goodwill will be recorded.

The deferred tax liabilities and assets calculated on the transactions of Finnish companies are offsetted, because group contributions can be used for combining the taxation of these companies. The tax assets and liabilities for the financial period are also offsetted.

11. Provisions

The provision relating to the post-treatment expenditure for the landfill site at Kerava was recorded on the basis of the filling-in amount under accruals and deferred income in FAS year-end accounts. Under IFRS standards the provision has been divided into two. The amount caused by the construction of the landfill-site area has been capitalised in the balance sheet at current value as part of the acquisition cost of the area and it will be depreciated under planned depreciation. Correspondingly, an amount of the same size has been recorded as a provision under liabilities in the balance sheet. Because the cost level will be higher at the moment when the provision is used than during the construction of the site, discounted interest entered under finance costs increases the provision. The interest rate is the yield expectation of a risk-free government bond at the time of construction increased by L&T's loan margin at the time in question. The provision is also increased by a proportion calculated on the basis of the tonnage taken to the site.

The provision for the post-treatment expenditure for Salvor has been dealt with in the same way as that for the Kerava landfill site.

This will have only a minor effect on the equity at the date of transition.

12. Cash flow statement and gross investments

The changes in the cash flow statements are caused by different accounting principles for business combinations and the different formats of the income statement and the balance sheet. The differences between gross investments under IFRS and under FAS are due to different accounting principles for business combinations and finance leases.

13. Segment reporting

Lassila & Tikanoja's segment reporting is based on business segments that are formed from the divisions. Under IFRS, inter-segment sales are included in the segment revenues while under FAS the net inter-division sales and purchases were under the cost items in the income statement. Under IFRS, cost items including the general overheads and administrative costs will not be allocated to the segments. Previously all revenues and costs were allocated to the divisions.

14. Minority interest

Minority interest is stated in accordance with IFRS 1 in equity.

Pro forma calculation principles for comparison figures

The Lassila & Tikanoja Group was formed in the demerger of Lassila & Tikanoja plc (former) on 30 September 2001. Official financial statements have been prepared for 30 September to 31 December 2001 and pro forma consolidated financial statements with comparison figures for 1 January to 31 December 2001.

The pro forma figures have been calculated as if the demerger had taken place on 1 January 1997. The pro forma calculations concerning the new Lassila & Tikanoja Group for the years from 1997 to 2001 are based on the financial statements of the former Lassila & Tikanoja Group for the periods 1 January 1997 to 30 September 2001 and the financial statements of the new Lassila & Tikanoja Group for the period 30 September to 31 December 2001.Companies have been consolidated to the new Lassila & Tikanoja Group according to the Demerger Plan. The consolidated financial statements were prepared in such a way that the combined shareholders' equities of the new groups formed in the demerger correspond to the equity of the demerged group per 30 September 2001. The balance sheet according to the Demerger Plan was used as that for the Parent Company. Intra-group eliminations have been adjusted to fit the post-demerger group structure. Half of the dividends of Lassila & Tikanoja plc (former) for 2000 have been calculated as dividends.The pro forma calculation principles are explained in more detail in the Demerger Prospectus/ Tender Offer Document of 26 September 2001.

Financial statements of the parent company, FAS

Statement of income

EUR 1000	2005	2004	Note
Net sales	323 238	316 334	1
Costs of goods sold	-279 857	-266 083	
Gross profit	43 381	50 251	
Sales and marketing expenses	-10 589	-7 788	
Administration expenses	-6 376	-8 403	
Other operating income	1 686	910	4
Other operating expenses	-356	-716	
Operating profit before goodwill amortisation	27 746	34 253	2,3
Goodwill amortisation	-11 178	-12 010	
Operating profit	16 568	22 243	
Financial income and expenses	-992	-2 899	5
Profit before extraordinary items	15 576	19 344	
Extraordinary items	144	1 679	6
Profit before appropriations and income taxes	15 720	21 023	
Appropriations			
Increase/decrease in accumulated depreciation	-339	645	
Income taxes	-5 606	-7 820	7
Profit for the period	9 775	13 848	

Statement of changes in financial position

EUR 1000	2005	2004
Operations		
Operating profit	16 568	22 243
Adjustments:		
Depreciation and amortisation	14 954	15 826
Other adjustments	193	31
Cash flow before change in working capital	31 715	38 100
Change in working capital		
Increase/decrease in current non-interest-bearing receivables	-5 811	-3 461
Increase/decrease in inventories	-460	-908
Increase/decrease in current non-interest-bearing liabilities	5 124	3 675
Cash flow from operations before financial income/expenses and taxes	30 568	37 406
Interest expenses and other financial expenses	-4 584	-5 030
Interest income from operations	3 305	2 056
Direct taxes paid	-7 536	-8 666
Cash flow from operations	21 753	25 766
Investments		
Investments in Group companies	-11 799	-2 673
Investments in tangible and intangible assets	-5 495	-7 608
Proceeds from sale of tangible and intangible assets	289	604
Investments in other assets	-222	-4 552
Proceeds from sale of other assets	68	
Dividends received from investments	22	11
Cash flow from investing activities	-17 137	-14 218
Financing		
Proceeds from share issue	1 795	48 569
Group contribution paid	-1 387	-2 981
Group contribution received	3 066	3 491
Proceeds from short-term loans	15 462	
Repayments of current liabilities to Group companies	-12 558	-9 856
Proceeds from long-term loans		30 771
Repayments of long-term loans	-13 315	-39 305
Dividends paid	-9 525	-34 845
Cash flow from financing activities	-16 462	-4 156
Changes in cash and cash equivalents	-11 846	7 392
Cash and cash equivalents at 1 January	17 051	9 659
Cash and cash equivalents at 31 December	5 205	17 051

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

Balance sheet

EUR 1000	2005	2004	Note
ASSETS			
Fixed assets			
Intangible assets			8
Intangible rights	352	12	
Goodwill	37 610	47 425	
Other capitalised expenditure	145	2 247	
Advance payments		60	
	38 107	49 744	
Tangible assets			9
Land	4 167	4 165	
Buildings and constructions	29 771	25 198	
Machinery and equipment	4 754	4 659	
Other tangible assets	44	49	
Advance payments and construction in progress	554	1 155	
	39 290	35 226	
Financial assets			10,11
Shares in Group companies	20 354	10 572	
Shares in associates	158	158	
Shares in joint ventures	3 004	3 004	
Capital loan receivables from associates	2 000	2 000	
Other shares and holdings	2 719	3 073	
	28 235	18 807	
Total fixed assets	105 632	103 777	
Current assets			
Inventories			
Raw materials and consumables	318	225	
Finished products/goods	2 351	2 018	
Other inventories	711	677	
	3 380	2 920	
Non-current receivables			
Loan receivables	1	1	
Current receivables			12
Receivables from joint ventures	85 733	75 828	
Receivables from associates	34		
Trade receivables	34 937	29 503	
Other receivables	134	96	
Prepaid expenses and accrued income	4 753	2 942	
	125 591	108 369	
Cash and cash equivalents	5 205	17 051	
Total current assets	134 177	128 341	
Total assets	239 809	232 118	

EUR 1000	2005	2004	Note
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			13
Share capital	19 189	19 068	
Share premium account	46 606	44 932	
Retained earnings	25 090	20 777	
Profit for the financial year	9 775	13 848	
Total shareholders' equity	100 660	98 625	
Appropriations			
Depreciation difference	3 130	2 779	
Obligatory provisions			14
Non-current	355		
Current	300	160	
	655	160	
Liabilities			15
Non-current			
Loans from financial institutions	58 000	66 783	
Accrued income	1	1	
Accruals and deferred expenses	351		
	58 352	66 784	
Current			
Commercial papers	15 462		
Loans from financial institutions	8 250	12 988	
Advances received	13	2	
Trade payables	9 852	8 752	
Liabilities to Group companies	8 063	10 222	
Liabilities to associates	4		
Liabilities to joint ventures	105		
Other liabilities	10 775	9 872	
Accruals and deferred expenses	24 488	21 934	
	77 012	63 770	
Total liabilities	136 019	130 714	
Total shareholders' equity and liabilities	239 809	232 118	

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

Principles for preparing the financial statements

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

Fixed assets

Tangible and intangible assets are stated in the balance sheet at direct acquisition cost less planned depreciation. Planned straight-line depreciation is calculated from the historical cost on the basis of probable economic life.

The depreciation and amortisation periods are as follows:

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

Depreciation on fixed assets acquired during the financial year is calculated from the day on which they become operational. Land and revaluations are not depreciated. The latest revaluations on land and buildings were made in 1987.

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

Investments are measured at cost.

Inventories

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

Items denominated in foreign currencies

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

Derivatives

Interest rate swaps are used to hedge cash flow against interest rate risk. Interest income or expenses arising from the swaps are recorded in the income statement during the contract period adjusting the interest on the hedged cash flow.

Net sales

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

Research and development expenditure

Research expenditure is recognised as an expense.

Other operating income and expenses

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

Income taxes

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

1. Net sales

EUR 1000	2005	%	2004	%
Net sales by division				
Environmental Services	143 044	44.3	140 109	44.3
Property Services	125 024	38.6	121 404	38.4
Industrial Services	54 804	17.0	54 821	17.3
Group administration and other	366	0.1		
Total	323 238	100.0	316 334	100.0
Net sales by market				
Finland	317 797	98.3	313 316	99.0
Other countries	5 441	1.7	3 018	1.0
Total	323 238	100.0	316 334	100.0

2. Personnel and administrative bodies

	2005	2004
Average personnel		
Clerical personnel	795	728
Workers	3 520	3 226
Total	4 315	3 954

EUR 1000	2005	2004
Personnel expenses		
Salaries	106 179	93 889
Pension expenditure	17 445	14 474
Other salary-related expenses	7 495	6 400
Total	131 119	114 763

Salaries, bonuses and pension benefits of the management are described in the notes of the consolidated financial statements on page 51. No loans were granted to the related parties of the Group companies.

3. Depreciation and amortisation

EUR 1000	2005	2004
Depreciation and amortisation by function		
Costs of goods sold	3 739	3 707
Sales and marketing	15	83
Administration	22	26
Goodwill	11 178	12 010
Total	14 954	15 826

Depreciation and amortisation are itemised under intangible and tangible assets.

4. Other operating income and expenses

EUR 1000	2005	2004
Other operating income		
From Group companies		
Compensation for administration costs	793	
From others		
Profit on sale of fixed assets	216	440
Profit on sale of shares		2
Rents	10	
Recovery of bad debt	43	40
Other operating income	624	428
Total	1 686	910
Other operating expenses		
To others		
Losses on sale of fixed assets	5	30
Losses on sale of shares	4	
Bad debt	196	517
Other	151	169
Total	356	716

5. Financial income and costs

EUR 1000	2005	2004
Dividend income	22	16
Other interest and financial income	3 287	2 068
Other interest and financial costs	-4 301	-4 983
Total financial income and costs	-992	-2 899
Financial income and costs include		
Dividend income		
from associates	15	7
from others	7	9
Interest income		
from Group companies	3 078	1 889
from others	209	179
Interest costs		
to Group companies	1 350	659
to others	2 926	4 278

6. Extraordinary items

EUR 1000	2005	2004
Extraordinary income		
Group contribution received	4 897	3 066
Extraordinary expenses		
Group contribution paid	-4 753	-1 387
Total extraordinary income and expenses	144	1 679

7. Income taxes

EUR 1000	2005	2004
Inxome taxes on operations for the financial year	5 593	7 820
Income taxes for previous periods	13	
Total	5 606	7 820
Deferred tax receivables		
From depreciation differences	-814	-722
From other matching differences	1 228	884
Total	414	162

8. Intangible assets

EUR 1000	Intangible rights	Goodwill	Other capitalised expenditure	Advance payments	Total
Cost at 1 January	47	101 763	4 141	60	106 011
Additions	2	1 303		32	1 337
Transfers between items	2 010	60	-3 899	-92	-1 921
Cost at 31 December	2 059	103 126	242		105 427
Accumulated depreciation at 1 January	-35	-54 338	-1 894		-56 267
Accumulated depreciation on disposals and transfers	-1 664		1 822		158
Depreciation during the period	-8	-11 178	-25		-11 211
Accumulated depreciation at 31 December	-1 707	-65 516	-97		-67 320

9. Tangible assets

EUR 1000	Land	Buildings	Machinery and equipment	Other	Advance payments and construction in progress	Total
Cost at 1 January	2 963	30 295	34 169	1 796	1 155	70 378
Additions	2	660	1 342		3 934	5 938
Disposals			-2 704			-2 704
Transfers between items		8 052	365	-1 667	-4 535	2 215
Cost at 31 December	2 965	39 007	33 172	129	554	75 827
Accumulated depreciation at 1 January		-7 153	-29 510	-1 747		-38 410
Accumulated depreciation on disposals and transfers		-1 848	2 544	1 662		2 358
Depreciation during the period		-2 291	-1 452			-3 743
Accumulated depreciation at 31 December		-11 292	-28 418	-85		-39 795
Revaluations at 1 January and 31 December	1 202	2 056				3 258
Total book value	4 167	29 771	4 754	44	554	39 290

10. Investments

EUR 1000	Shares in Group companies	Holdings in associates	Holdings in joint ventures	Capital loan receivables	Other shares and holdings	Total
Cost at 1 January	10 572	158	3 004	2 000	3 073	18 807
Additions	9 782					9 782
Disposals					-73	-73
Transfers between items					-281	-281
Cost at 31 December	20 354	158	3 004	2 000	2 719	28 235

Parent company

11. Group companies

	Holding of shares and votes, %
EM-business Oy, Helsinki	100.0
Kanta-Hämeen Ympäristöyhtiö Oy, Helsinki	100.0
Kiinteistö Oy Meritonttu, Helsinki	100.0
Kiinteistö Oy Vantaan Valimotie 33, Helsinki	100.0
L&T Advance Oy, Helsinki	100.0
L&T Deili Oy, Helsinki	100.0
L&T Development Oy, Helsinki	100.0
L&T Hankinta Ky, Helsinki	100.0
L&T Improvement Oy, Helsinki	100.0
L&T Kalusto Oy, Helsinki	100.0
L&T Palvelu Oy, Helsinki	100.0
L&T Relations Oy, Helsinki	99.0
L&T Servis Oy, Helsinki	100.0
L&T Toimi Oy, Helsinki	100.0
L&T Ympäristöhuolto Oy, Helsinki	100.0
Säkkiväline Ympäristöpalvelut Oy, in voluntary liquidation, Helsinki	100.0
Joint ventures	
Blue Service Partners Oy, Helsinki	50.0
Salvor Oy, Helsinki	50.0
Associates	
Suomen Keräystuote Oy, Tampere	25.6
Rodnik Ltd, St. Petersburg, Russia	35.0

12. Receivables

EUR 1000	2005	2004
From Group companies		
Loan receivables	85 129	75 670
Trade receivables	604	158
Total	85 733	75 828
From joint ventures		
Capital loan receivables	2 000	2 000
Trade receivables	34	
Total	2 034	2 000
Prepaid expenses and accrued income		
Interests	1	20
Employees' health care compensation	988	582
Statutory personnel insurance	1 314	893
Insurances		91
Direct taxes	1 942	730
Other	508	626
Total	4 753	2 942

13. Shareholders' equity

EUR 1000	2005	2004
Share capital at 1 January	19 068	7 913
Subscription with 2002 options	121	35
Bonus issue		7 949
Share issue		3 171
Share capital at 31 December	19 189	19 068
Share premium at 1 January	44 932	7 518
Subscription with 2002 options	1 674	1 319
Bonus issue		-7 949
Share issue		44 044
Share premium at 31 December	46 606	44 932
Retained earnings at 1 January	34 625	55 666
Dividend	-9 535	-34 889
Retained earnings at 31 December	25 090	20 777
Profit for the period	9 775	13 848
Shareholders' equity at 31 December	100 660	98 625
Distributable assets		
Retained earnings	25 090	20 777
Profit for the period	9 775	13 848
Total distributable assets	34 865	34 625

14. Obligatory provisions

EUR 1000	2005	2004
Environmental provisions	655	160

The obligatory provisions relate to treatment of a contaminated site and to the site restoration cost of the landfill in Kerava.

15. Liabilities

EUR 1000	2006*	2007	2008	2009
Repayments of non-current liabilities in coming years				
Loans from financial institutions	8 250	15 500	27 500	15 000

* In the balance sheet under current liabilities

The company has no loans that fall due within four years or more.

	2005	2004
Non-interest-bearing liabilities		
Non-current	352	1
Current	48 615	44 102
Total	48 967	44 103
Liabilities to Group companies		
Current interest-bearing liabilities	4 685	6 841
Current non-interest-bearing liabilities	3 378	3 381
Total	8 063	10 222
Liabilities to joint ventures		
Current non-interest-bearing liabilities	105	
Liabilities to associates		
Current non-interest-bearing liabilities	4	
Accrued expenses		
Interests	413	697
Waste charges	1 482	2 351
Other matched expenses	22 593	18 886
Total	24 488	21 934

16. Contingent liabilities

EUR 1000	2005	2004
For own borrowings		
Real estate mortgages		700
For Group companies		
Guarantees	1 119	
Other securities		
Real estate mortgages	105	84
Other securities	99	115
For other own commitments		
Leasing liabilities		
Falling due next year	312	252
Falling due in subsequent years	591	483
Bank guarantees required for environmental permits	1 475	1 134

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

17. Derivative contracts

EUR 1000	2005	2004
Interest rate swaps		
Nominal value	50 000	75 333
Market value	237	-584

The derivative contracts were made for hedging purposes and were measured at market value at the balance sheet date.

Shares and shareholders

Share capital

The registered share capital of Lassila & Tikanoja plc is EUR 19,188,887. The shares have no nominal value. There are 38,377,774 shares, with a book counter value of EUR 0.50 each. The shares are quoted on the Helsinki Stock Exchange Main List in the sector Industrials, Environmental and facilities services. The trading code is LAT1V. The ISIN code is FI0009010854. There are 100 shares in each trading lot.

The Company's minimum capital is EUR 10,000,000 and the maximum EUR 50,000,000. The share capital may be increased or reduced within these limits without amending the Articles of Association.

The Company has a minimum of 20,000,000 and a maximum of 100,000,000 shares. The number of the shares may be increased or reduced within these limits without amending the Articles of Association.

On 7 February 2006, the Board approved the subscriptions of 9,700 new shares made pursuant to the 2002B share options. As a result of these subscriptions, the Company's registered share capital will increase by EUR 4,850 to EUR 19,193,737 and the number of the shares will increase to 38,387,474 shares after the increase has been entered in the Trade Register.

The changes in the share capital and the number of the shares in 2005 are shown in note 23 of the consolidated financial statements.

Share trading

The volume of trading in Lassila & Tikanoja plc shares on the Helsinki Stock Exchange during 2005 was 15,263,446, which is 40.0% (49.8%) of the average number of shares. The value of trading was EUR 224.1 million. The trading price varied between EUR 13.10 and EUR 16.67. The closing price was EUR 14.90. The market capitalisation was EUR 571.8 million on 30 December 2005 (EUR 500.7 million).

Notifications on major holdings

On 10 March 2005, Varma Mutual Pension Insurance Company reported that it holds 5.08% of the share capital and votes of Lassila & Tikanoja plc.

Details of share option plans are given in note 24 of the consolidated financial statements.

Shares held by the management

Shares held by the members of the Board of Directors

	Shares on 31 January 2006	% of shares and of voting power	Shares on 31 January 2005
Heikki Hakala	12 882	0.03	12 132
Lasse Kurkilahti	3 600	0.01	3 000
Juhani Lassila	16 578	0.04	9 360
Evald and Hilda Nissi Foundation	2 413 584	6.29	2 413 584
Juhani Maijala	1 524 694	3.97	1 523 544
Soili Suonoja	2 339	0.01	1 600
Total	3 973 677	10.35	3 963 220

Shares and share options held by the Group Executives

	Shares		2002B options		2002C options	2005A options
	31 Jan. 2006	31 Jan. 2005	31 Jan. 2006	31 Jan. 2005	31 Jan. 2006	31 Jan. 2006
Anna-Maija Apajalahti	1 920	1 920	12 000	20 000	22 000	13 000
Martin Forss	720	720	9 700	15 000	18 000	12 000
Kari Korpelainen	240	240	0	15 000	16 000	10 000
Jorma Mikkonen	720	720	0	15 000	16 000	10 000
Arto Nivalainen	4 800	4 800	20 000	20 000	22 000	13 000
Jari Sarjo	13 000	9 600	10 000	40 000	42 000	26 000
Sirkka Tuomola	38 400	38 400	15 000	15 000	16 000	10 000

Dividend policy

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

Redemption obligation

Under §15 of Lassila & Tikanoja plc Articles of Association, a shareholder – either alone or together with other shareholders - with 33 1/3 or 50 per cent of all shares have an obligation upon request by other shareholders to redeem their shares or securities entitling them to shares.

Authorisation for the Board of Directors

The Board of Directors is not authorised to effect any share issues or to launch a convertible bond or a bond with warrants. Neither is the Board authorised to decide on the repurchase nor disposal of the Company's own shares.

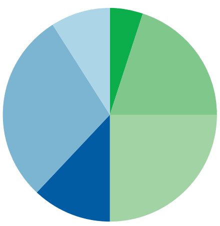
Breakdown of shareholding by size of holding

Number of shares	Number of shareholders	Percentage	Total shares held in each category	Percentage of shares and of voting power
1–1 000	3 577	72.4	1 368 516	3.6
1 001–5 000	927	18.8	2 013 482	5.2
5 001–10 000	188	3.8	1 387 692	3.6
10 001–100 000	205	4.2	6 198 913	16.2
over 100 000	38	0.8	24 177 864	63.0
	4 935	100	35 146 467	91.6
Shares registered in a nominee's name			3 190 763	8.3
Shares not transferred to the book-entry securities system			40 544	0.1
Total			38 377 774	100

Breakdown of shareholding by category

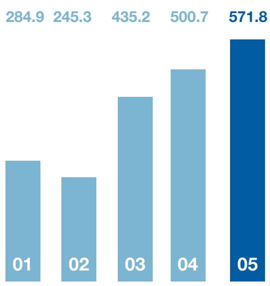
	Number of shareholders	Percentage	Total shares held in each category	Percentage of shares and of voting power
Companies				
Government and municipal companies	9	0.2	7 040	0
Private companies	395	8.0	2 029 230	5.3
Financial institutions and insurance companies	62	1.3	7 534 374	19.6
Public institutions	44	0.9	9 528 339	24.8
Non-profit organisations	172	3.5	4 699 635	12.3
Individuals	4 221	85.5	11 139 949	29.0
Foreign shareholders	32	0.6	207 900	0.6
	4 935	100	35 146 467	91.6
Shares registered in a nominee's name			3 190 763	8.3
Shares not transferred to the book-entry securities system			40 544	0.1
Total			38 377 774	100

Breakdown of shareholding % of shares and of voting power



- Companies
- Financial institutions
- Public institutions
- Non-profit organisations
- Individuals
- Foreign shareholders including shares registered in a nominee's name

Market capitalisation on 31 December, EUR million



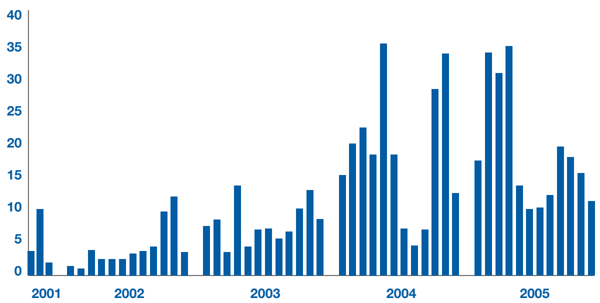
The largest shareholders

	Shareholder	Number of shares	Percentage of shares and of voting power
1.	Varma Mutual Pension Insurance Company	2 881 660	7.5
2.	Ilmarinen Mutual Pension Insurance Company	2 556 250	6.7
3.	Evald and Hilda Nissi Foundation	2 413 584	6.3
4.	Sampo Life Insurance Company Ltd	2 171 238	5.7
5.	Tapiola Group	2 018 856	5.3
	Tapiola General Mutual Insurance Company	907 476	2.4
	Tapiola Mutual Life Assurance Company	545 260	1.4
	Tapiola Corporate Life Insurance Company	228 360	0.6
	Tapiola Instituutio Mutual Fund	186 300	0.5
	Tapiola Hyvinvointi Mutual Fund	89 460	0.2
	Tapiola Tulevaisuus Mutual Fund	62 000	0.2
6.	Tapiola Mutual Pension Insurance Company	1 974 240	5.1
7.	Juhani Maijala	1 524 694	4.0
8.	Heikki Bergholm	829 400	2.2
9.	Mutual funds managed by Nordea Investment Fund Company Finland Ltd	800 600	2.1
10.	Mikko Maijala	682 500	1.8
11.	Kristiina Turjanmaa	595 642	1.6
12.	Mutual Insurance Company Pension Fennia	542 940	1.4
13.	The State Pension Fund	486 700	1.3
14.	Nordea Life Assurance Finland Ltd	425 180	1.1
15.	Pohjola Non-Life Insurance Company Limited	410 000	1.1
16.	Foundation for Economic Education	300 000	0.8
17.	Chemec Ltd	249 648	0.7
18.	Eeva Maijala	241 500	0.6
19.	Aktia Secura Mutual Fund	224 300	0.6
20.	Evli-Select Mutual Fund	214 428	0.6
	Total	21 543 360	56.1

All information concerning the Company's shareholders is based on the book-entry securities register, as on 31 January 2006.

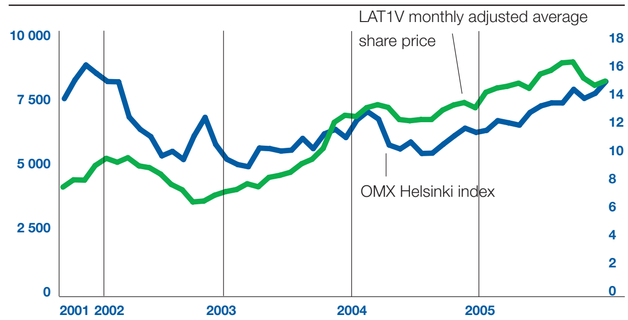
Volume of shares traded

EUR million



Adjusted share price development

OMX Helsinki index EUR



Key figures on shares

	IFRS			FAS		
	2005	2004**	2004	2003	2002	Pro forma 2001
Earnings/share (EPS), EUR	0.70	0.79	1.01	0.63	0.46	0.43
Earnings/share (EPS), diluted, EUR	0.70	0.78	1.01			
Equity/share, EUR	3.98	3.49	3.49	2.78	2.49	2.31
Dividend/share, EUR	0.40*	0.25	0.25	1.01	0.34	0.28
Dividend/earnings, %	57.0*	31.7	24.7	159.6	74.7	64.1
Dividend yield, %	2.7*	1.9	1.9	8.0	4.8	3.3
P/E ratio	21.2	16.6	13.0	19.9	15.4	19.2
Cash flows from operating activities per share	1.28	1.40	1.40	1.40	1.22	1.18
Adjusted share price						
lowest, EUR	13.10	11.48	11.48	6.89	5.97	5.51
highest, EUR	16.67	14.09	14.09	13.54	10.21	8.49
average, EUR	14.68	12.72	12.72	8.83	7.30	7.84
at year end, EUR	14.90	13.13	13.13	12.62	7.12	8.26
Market capitalisation on 31 Dec., EUR million	571.8	500.7	500.7	435.2	245.3	284.9
Adjusted number of shares						
Average during the year	38 193 024	34 650 239	34 650 239	34 477 003	34 477 003	34 477 003
At year end	38 377 774	38 136 234	38 136 234	34 477 003	34 477 003	34 477 003
Average during the year, diluted	38 420 755	34 870 587	34 870 587			
Adjusted number of shares traded during the year	15 263 446	17 264 627	17 264 627	10 365 220	6 295 050	1 872 566***
as a percentage of the average	40.0	49.8	49.8	30.1	18.3	5.4***
Volume of shares traded, EUR 1000	224 128	219 558	219 558	91 556	45 943	14 681***

* Proposal by the Board of Directors
** profit excluding revenue recognition of pension liability
*** 3 months from 1 October to 31 December 2001

Calculation of the key figures

Earnings/share = $\dfrac{\text{profit attributable to equity holders of the parent}}{\text{adjusted average number of shares}}$

Equity/share = $\dfrac{\text{profit attributable to equity holders of the parent}}{\text{adjusted number of shares at year end}}$

Cash flows from operating activities/share = $\dfrac{\text{cash flows from operating activities as in the cash flow statement}}{\text{adjusted average number of shares}}$

Dividend/share = $\dfrac{\text{dividend for the financial year/share}}{\text{share issue adjustment factor of issues made after the financial period}}$

Dividend/earnings, % = $\dfrac{\text{dividend/share}}{\text{earnings/share}}$ x100

Dividend yield, % = $\dfrac{\text{dividend/share}}{\text{share price at year end}}$ x100

P/E ratio = $\dfrac{\text{share price at year end}}{\text{earnings/share}}$

Market capitalisation = number of shares at year end x share price at year end

Share issue adjustment factor = 2.178462

Principles for calculating the pro forma figures for 2001 are presented on page 58.

Key figures on financial performance

	IFRS			FAS		
	2005	2004*	2004	2003	2002	Pro forma 2001
Net sales, EUR million	377.4	337.2	337.2	306.3	267.2	245.8
Operating profit , EUR million	39.3	40.8	51.3	35.7	26.8	26.3
as % of net sales	10.4	12.1	15.2	11.7	10.0	10.7
Profit before income tax, EUR million	37.5	37.9	48.4	31.8	23.2	21.5
as % of net sales	9.9	11.2	14.4	10.4	8.7	8.7
Profit for the period, EUR million	27.2	27.7	35.5	22.1	16.0	14.8
as % of net sales	7.1	8.1	10.5	7.2	6.0	6.0
Profit for the period attributable to the equity holders of the parent	26.8	27.3	35.1	21.8	15.9	14.8
as % of net sales	7.1	8.1	10.4	7.1	5.9	6.0
EVA, EUR million	18.3	22.7		19.6	11.3	10.6
Cash flows from operating activities, EUR million	48.9	48.4	48.4	48.2	42.0	40.7
Balance sheet total, EUR million	314.8	283.0	283.0	238.7	212.1	209.1
Return on equity, % (ROE)	18.8	25.2	32.3	24.0	19.2	19.5
Return on invested capital, % (ROI)	17.9	22.5	27.1	20.5	16.5	15.9
Equity ratio, %	49.5	48.1	48.1	40.6	41.0	38.1
Gearing, %	49.3	45.6	45.6	80.1	84.4	91.9
Net interest-bearing liabilities, EUR million	76.5	61.4	61.4	77.6	73.3	73.1
Gross investments, EUR million	60.9	48.1	48.1	43.8	33.6	14.8
as % of net sales	16.1	14.3	14.3	14.3	12.6	6.0
Depreciation and amortisation	24.8	21.4	21.4	25.6	22.2	22.0
Average personnel employed converted to full-time	5 918	5 409	5 409	4 595	3 763	3 676

* profit excluding revenue recognition of pension liability

Calculation of the key figures

Return on equity, % (ROE) =

$$\frac{\text{profit for the period}}{\text{shareholders' equity (average)}} \times 100$$

Return on invested capital, % (ROI) =

$$\frac{\text{(profit before tax + interest expenses and other finance costs)}}{\text{(balance sheet total - non interest-bearing liabilities(average))}} \times 100$$

Equity ratio, % =

$$\frac{\text{shareholders' equity}}{\text{(balance sheet total – advances received)}} \times 100$$

Interest-bearing liabilities = Interest-bearing liabilities – liquid assets

Gearing, % =

$$\frac{\text{Net interest-bearing liabilities}}{\text{shareholders' equity}} \times 100$$

EVA

operating profit - cost calculated on invested capital (average of four quarters) before taxes
WACC 2003-2005: 9%
WACC 2001-2002: 9.5%

Proposal by the Board of Directors to the Annual General Meeting

Distributable assets according to the consolidated balance sheet on 31 December 2005	EUR	76 530 852.00
Parent Company profit 1 January – 31 December 2005	EUR	9 775 163.34
Parent Company retained earnings	EUR	25 089 601.93
Distributable assets according to the Parent Company balance sheet on 31 December 2005	EUR	34 864 765.27
The Board of Directors proposes that a dividend of EUR 0.40 be paid on each of the 38,387,474 shares	EUR	15 354 989.60
leaving the remainder on the retained earnings account	EUR	19 509 775.67
Total	EUR	34 864 765.27

In accordance with the resolution of the Board of Directors, the record date is 28 March 2006. The Board of Directors proposes to the Annual General Meeting that the dividend be paid after the record period on 4 April 2006.

Helsinki, 7 February 2006

Juhani Maijala

Heikki Hakala

Juhani Lassila

Lasse Kurkilahti

Soili Suonoja

Jari Sarjo
President and CEO

Auditor's report

To the shareholders of Lassila & Tikanoja plc

We have audited the accounting records, the financial statements and the administration of Lassila & Tikanoja plc for the period 1.1. – 31.12.2005. The Board of Directors and the President and CEO have prepared the report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that include the parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements and on the administration of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration is to examine that the members of the Board of Directors and the President and CEO of the parent company have complied with the rules of the Companies' Act.

Consolidated financial statements

In our opinion the consolidated financial statements give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company's financial statements and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable funds is in compliance with the Companies' Act.

Helsinki, 16 February 2006

PricewaterhouseCoopers Oy
Authorised Public Accountants

Heikki Lassila
Authorised Public Accountant

Corporate Governance

Lassila & Tikanoja plc complies with the Corporate Governance Recommendation for Listed Companies by HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers that entered into force on 1 July 2004.

Business organisation

The business is divided into three divisions: Environmental Services, Property Services and Industrial Services. Vice Presidents in charge of each division report to the President and CEO. The Company is also engaged in wholesale trade in environmental management products.

The business units of Environmental Services and Industrial Services report to the product line directors. Property Services has an area organisation with three areas in Finland. Administration, marketing, product development and management of group-level processes have been centralised.

General Meetings

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

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

Advance information

Shareholders are invited to a general meeting by an invitation published in one newspaper in the Company's domicile. The Board of Directors' proposals and the invitation 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 invitation or in a separate stock exchange release before the general meeting.

Attendance of the Board members and President and CEO in a general meeting

The members of the Board of Directors, President and CEO and prospective directors attend a general meeting, unless there are well founded reasons for the absence.

Board of Directors

Composition and term

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

The Board of Directors comprises the following persons: Mr Juhani Maijala, Chairman, Mr Heikki Hakala, Vice Chairman, Mr Lasse Kurkilahti, Mr Juhani Lassila ja Ms Soili Suonoja. Biographical details and holdings in the Company of the directors are given on page 72. The changes in the holdings during 2005 are given on page 63.

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

Duties

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

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

- to decide on the corporate strategy and to confirm divisional strategies
- to decide on group structure and organisation
- to ensure the operation of the management system
- to handle and adopt interim report, consolidated financial statements and annual report
- to confirm the Company's operating plan, budget and investment plan
- to decide on strategically or financially significant investments, corporate acquisitions, disposals or other arrangements as well as financing arrangements and contingent liabilities
- to confirm risk management and reporting practice as well as insurance and financing policies
- to nominate and dismiss the President and CEO and monitor and evaluate his work
- to adopt the nominations of the President and CEO's immediate subordinates
- to decide on the salary, bonuses and other benefits of the CEO and his immediate subordinates as well as other terms of their employment
- to decide on compensation and incentive schemes of the management
- to establish a dividend policy and to be responsible for the development of the shareholder value
- to confirm the Company's goals

Meeting practice

The Board of Directors meets about 12 times a year. If necessary, the Board holds meetings over the telephone. The Chairman is responsible for convening the Board meetings and for the meeting practice. At the meetings, matters are presented by the President and CEO, who is responsible for ensuring that the Board is provided with sufficient information to assess the operation and financial situation of the Company. He also supervises and reports to the Board on the implementation of the Board's decisions.

The Board of Directors met 14 times during 2005. The average attendance per cent of the members at the meetings was 97.

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 18 of the Corporate Governance Recommendation. The evaluation showed that all members of the Board are independent of the Company and of a significant shareholder.

Committees

The Board has established no committees. The entire Board handles all the matters pertaining to it.

Managing Director

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

Other Management

The Group Executives assist the President and CEO in the management of the Company. The Group Executives and their responsibility areas are presented on page 73 and their holdings in the Company on page 63.

Management Team assembles at least twice a year to deal with L&T's performance, strategy, major development projects and goals for the following year. The Management Team consists of the management and four representatives of the employees.

Compensation

Board of Directors

The Annual General Meeting determines the emoluments paid to the members of the Board of Directors in advance, for one year at a time. In 2005, the following annual fees were paid: Chairman EUR 40,000, Vice Chairman EUR 26,500 and the members EUR 22,000. The fees were paid so that the Vice Chairman and each member purchased Company shares worth of the net share of the fee (40%) in the public trading on the Helsinki Stock Exchange.

The position of the Chairman of the Board of Directors was full-time (part-time) until the Annual General Meeting held on 4 April 2005. The salaries and benefits paid to the full-time Chairman totalled EUR 80,015 in 2005.

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

President and CEO and other management

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

In 2005, the salaries paid to the President and CEO totalled EUR 526,162, which includes salaries and benefits (EUR 201,225), an EVA-based bonus (EUR 14,880), and benefits from exercising share option rights (EUR 310,057).

A written service contract has been drawn up for the President and CEO. According to the contract, the period of notice is 12 months if the Company terminates the employment, and 6 months if the President and CEO terminates the employment.

The president and CEO may choose to retire at the age of sixty. The amount of pension is agreed in advance, and an index increase is made to the sum annually. The amount is less than the full amount of pension under the Employees' Pensions Act. The pension is recognised as a defined benefit liability in the financial statements.

Internal control, risk management and internal audit

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

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

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

Insider guidelines

Lassila & Tikanoja observes the guidelines for insiders issued by the Helsinki Stock Exchange. New amended guidelines entered into force on 1 January 2006. The Lassila & Tikanoja insider guidelines have been amended to comply with the new guidelines, and they are in some respects more stringent than those issued by the Helsinki Stock Exchange.

The insider register is maintained in the NetSire Service of Finnish Central Securities Depository. Persons subject to the declaration requirement are recorded in the public insider register. They are the members of the Board of Directors, President and CEO, the Group Executives and the principal auditor. The persons recorded in the company-specific permanent insider register are, due to their positions, management Group, legal counsels, executive assistants and persons participating in group accounting, and persons preparing stock exchange releases. Separate project-specific sub registers are kept for extensive or otherwise significant projects. The Chief Financial Officer is the person responsible for insider issues.

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 of the Lassila & Tikanoja insiders may be read on the Company Internet pages www.lassila-tikanoja.com.

Auditing

The statutory audit of the financial statements is carried out by PricewaterhouseCoopers Oy, Authorised Public Accountants, Heikki Lassila, Authorised Public Accountant as Principal Auditor.

The extent and content of the audit are determined with due regard to the fact that the Company has no internal audit organisation of its own.

The auditors and the Board agree on the audit plan annually and discuss the findings made in the audit. The Principal Auditor and the auditor manager are present at least at one meeting of the Board of Directors annually.

In 2005, the fees paid for statutory auditing to the PricewaterhouseCoopers group totalled EUR 119,341. The fees paid to the auditing company and companies belonging to the same group for non-audit services such as tax, IFRS and due diligence services, totalled EUR 211,003.

Administrative organs

Lassila & Tikanoja plc Board of Directors

Juhani Maijala, born 1939
B.Sc. (Econ.), Master of Laws
Maijala has acted as Chairman of the Board since 2001, the position being full-time from 2001 to 2005. He was member of the Board of the former Lassila & Tikanoja plc since 1983 and Chairman from 1998 to 2001. Maijala acted as President and CEO of the former Lassila & Tikanoja plc between 1983 and 1998. He also acted as President of Säkkiväline Group from 1993 to 1996 and President of Tiklas from 1980 to 1983 in the former Lassila & Tikanoja Group, and CFO of the former Lassila & Tikanoja Group from 1977 to 1980. Maijala was Vice President of Palomex Oy from 1975 to 1977.
Maijala holds 1,524,694 Lassila & Tikanoja plc shares.

Heikki Hakala, born 1941
M.Sc. (Econ.), Doctor of Technology, h.c.
Hakala has acted as Vice Chairman of the Board since 2001. Hakala was member of the Board of the former Lassila & Tikanoja plc from 1988, Vice Chairman from 1998 to 2001. He was President and CEO of Metso Corporation from 1999 to 2000, President and CEO of Rauma Corporation from 1996 to 1999, and Vice President of Rauma-Repola/Repola Corporation from 1986 to 1996. Hakala is member of the Board of Altia Corporation.
Hakala holds 12,882 Lassila & Tikanoja plc shares.

Lasse Kurkilahti, born 1948
B.Sc. (Econ.), CEO of Kemira Oyj
Kurkilahti has been member of the Board since 2001. He was President and CEO of Elcoteq Network Corporation from 2001 to 2004, CEO of Raisio Group from 2000 to 2001, and President and CEO of Nokian Tyres plc from 1988 to 2000. Kurkilahti is member of the Board of Elisa Corporation and Fortum Corporation.
Kurkilahti holds 3,600 Lassila & Tikanoja plc shares.

Juhani Lassila, born 1962
M.Sc. (Econ.), Managing Director of Agros Oy
Lassila has been member of the Board since 2001. He was member of the Board of the former Lassila & Tikanoja plc from 1998 to 2001. Lassila was Group treasurer of Instrumentarium Corporation between 1998 and 2004. He is Chairman of the Board of Directors of Evald and Hilda Nissi Foundation and member of the Board of Suominen Corporation.
Lassila holds 16,578 Lassila & Tikanoja plc shares and has controlling power in Evald and Hilda Nissi Foundation which holds 2,413,584 shares.

Soili Suonoja, born 1944
Teacher of Home Economics, MBA
Member of the Board since 2001. Managing Director of Amica Group from 1989 to 2000. Member of the Board of Alko Ltd., Lännen Tehtaat plc, Outokumpu plc, Finland Post Corporation and Finnish Road Enterprise, Vice Chairman of the Association of Finland's Board Professionals.
Suonoja holds 2,339 Lassila & Tikanoja plc shares.

President and CEO

Jari Sarjo, born 1957
Master of Laws
President and CEO of Lassila & Tikanoja Group since 2001.
Sarjo was President of the Säkkiväline Group from 1997 to 2001, divisional director in Säkkiväline Oy between 1994 and 1997, administrative director from 1987 to 1994 and administrative manager between 1984 and 1987.
Sarjo holds 13,000 Lassila & Tikanoja plc shares and 10,000 2002B options, 42,000 2002C options and 26,000 2005A options.

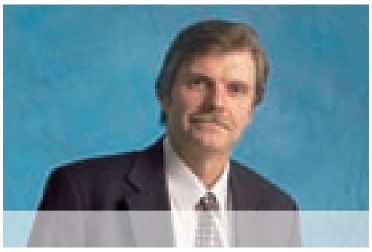
The changes in the holdings of the members of the Board and the President and CEO during 2005 may be found on page 63.

Auditor

PricewaterhouseCoopers Oy
Authorised Public Accountants
Principal Auditor Heikki Lassila, APA

Lassila & Tikanoja Management

Jari Sarjo



Arto Nivalainen

Anna-Maija Apajalahti

Jorma Mikkonen

Martin Forss

Kari Korpelainen

Sirkka Tuomola

Jari Sarjo, born 1957
Master of Laws
President and CEO
President and CEO of the Lassila & Tikanoja Group since 2001. Sarjo was President of the Säkkiväline Group from 1997 to 2001, divisional director in Säkkiväline Oy between 1994 and 1997, administrative director from 1987 to 1994 and administrative manager between 1984 and 1987.

Arto Nivalainen, born 1950
M.Sc.
Vice President, Environmental Services, since 2000.
Nivalainen was production director of WM Ympäristöpalvelut Oy (which was purchased by the Säkkiväline Group in 2000) between 1996 and 2000, regional director from 1995 to 1996 and sales director from 1993 to 1995. Prior to that, he worked with information management duties and acted as sales and district director in the Oy Huber Ab Group from 1982 to 1993.

Anna-Maija Apajalahti, born 1948
M.Sc. (Pol.Sc.)
Vice President, Property Services, since 2000.
Apajalahti was director in charge of Säkkiväline Oy's cleaning services and group marketing between 1997 and 2000, divisional director for cleaning services from 1983 to 1997, also in charge of group marketing, and in information and marketing duties from 1971 to 1983.

Jorma Mikkonen, born 1963
Master of Laws
Vice President, Industrial Services, since 2000.
Mikkonen acted as Säkkiväline Oy's administrative director from 1999 to 2000, and as lawyer between 1992 and 1999. He was lawyer in the Helsinki Finnish Savings Bank from 1991 to 1992.

Martin Forss, born 1962
M.Sc. (Econ.)
Vice President, Corporate Planning and Business Development, since 2001
Forss was financial director of Säkkiväline Oy from 2000 to 2001. Prior to that, he acted as country controller of WM Ympäristöpalvelut Oy (which was purchased by the Säkkiväline Group in 2000) from 1996 to 2000, as business controller from 1995 to 1996, and as division controller from 1993 to 1995.

Kari Korpelainen, born 1969
M.Sc. (Econ.)
Vice President, Marketing and Sales, since 2001
Korpelainen was marketing manager in Säkkiväline Oy's group marketing between 1997 and 2001, marketing manager for cleaning services during 1996 and product and district manager for product sales from 1994 to 1996.

Sirkka Tuomola, born 1947
M.Sc. (Econ.)
Vice President and CFO, since 2001
Tuomola was Vice President and CFO for the former Lassila & Tikanoja between 1992 and 2001. She was bookkeeping manager at the Metsä-Serla Group from 1989 to 1992, Tiklas' (in the Lassila & Tikanoja Group) administrative director from 1985 to 1989, financial manager from 1983 to 1985 and accounting manager between 1981 and 1983. Prior to that Tuomola acted as accounting economist and accounting manager at the Huhtamäki Group from 1974 to 1981.

The holdings of the Group Executives in the Company as well as the changes in the holdings in 2005 may be found on page 63.

Risk management

Lassila & Tikanoja's risk management policy is approved by the Company's Board of Directors. The policy sets out the risk management objectives, areas of responsibility and reporting procedure. The Board of Directors has also approved the financing and insurance policies.

Objectives

Risk management aims to identify significant risk factors, prepare for them and manage them in an optimal way so that each objective is achieved. Efficient risk management endeavours to manage the Group's risk as a whole and not just individual risk factors.

Organisation and reporting

Risk management is an integrated part of L&T's management, monitoring and reporting system. Regular monitoring and reporting take place at both the group and division level. The President and CEO is responsible for the organization and implementation of risk management. The Board of Directors assess internal control and the effectiveness of risk management procedures on an annual basis.

The management of the divisions identifies and assesses the most significant risks for their own division and produces contingency plans. Risk identification and planning primarily take place in divisions, product lines and units responsible for business operations. The management of centralised operations is responsible for auditing and planning for risks in their own areas of responsibility. Risk management is also developed together with insurance brokers and insurance companies.

A group level risk assessment was carried out during the year to assess strategic and financial risk factors and damage-related and operative risk factors. A risk matrix was used to assess a particular risk's importance. The risk assessment was extended from the group level downwards in conjunction with the strategy process.

The following sections describe the most significant risks to L&T's business operations that were they to occur could harm or prevent L&T from achieving its business goals. Financial risks and their management are covered in the notes to the financial statements on page 35 and the management of environmental, health and occupational safety risks on page 15.

Major risks relating to L&T's business

Risks relating to data security

The destruction of servers, data system break-ins and malicious programs can cause significant risks to the use of information systems. Data systems may also experience interruptions as they get old. Extensive data system modernization projects are currently underway in the Company to update the systems and reduce data security risks. Data security and data security systems have been analysed thoroughly. Attention has also been paid to testing retrieval processes and improving the physical safety of premises containing servers.

Changes in the market

The entry of new competitors into the market, legislative changes or the transfer of waste management to municipal ownership could change the market situation. From the perspective of L&T's business operations, major changes to the market could lead to a weakening of L&T's market position or profitability. Being independent of single large customers and the provision of a variety of services reduce risks. L&T is developing to an ever increasing extent service products for each customer segment as a means of endeavouring to stand out from competitors and to create other added value factors in addition to price.

Operations in developing markets

In addition to Finland, L&T has business operations in Latvia and Russia, and is planning to expand operations to other countries with developing markets. Business operations in these countries make the Company vulnerable to political and financial risks as well as risks relating to changes in social conditions, and, for example, the possible restriction of the free pricing of services. Risks are minimised by focusing on the international market situation and familiarization with the business culture.

Factors slowing growth

L&T operates in growing markets and its strategy is growth orientated. The planned investments in recycling plants are frequently delayed by appeals relating to environmental permits. Not exploiting the benefits derived from research and development in business operations would also slow growth. Corporate acquisitions involve the risk of losing customers and staff from the acquired companies, or of not meeting the integration targets.

Dependence on personnel

L&T's competitiveness rests on its ability to hire, train, motivate and retain personnel with expertise, experience and determination. This has succeeded to date, but in the future there is a risk of not being able to find a sufficient number of blue-collar workers. In order to ensure an available labour force L&T is working systematically to improve occupational wellbeing and safety.

Investor relations

Objectives

The purpose of investor communications is to promote acquisition of capital for the Company on the open market by supplying investors with current, accurate and relevant information on the Company's financial standing and outlook.

Principles

Lassila & Tikanoja investor communications are based on a listed company's obligation to publish information regularly. All relevant issues are reported as soon as possible. Periodical reports are produced in a continuous, consistent format in terms of both figures and written assessments. All parties are provided with the same information at the same time in an unbiased, symmetrical manner, both positive and negative events being reported.

Responsibilities

The person in charge of investor relations is Jari Sarjo, President and CEO. Investor communications are the responsibility of Sirkka Tuomola, Vice President and CFO. Martin Forss, Vice President, Corporate Planning and Business Development, is also involved in investor relations and investor meetings.

Public statements on the Company's finances are issued only by the members of the Board of Directors and the President and CEO.

Silent period

No investor meetings are arranged and no comments on the Company's result are issued by representatives of the Company during the time between the end of one financial period and release of the next report.

Printed publications and the Internet

The Annual Report is printed in Finnish and English, the Interim Report only in Finnish. The Annual Report and printed Interim Reports will be posted to all shareholders and persons on the mailing list maintained by the Company.

All the Company's stock exchange releases can be read on the Company's Internet pages immediately after publication.

Investor contacts

ir@lassila-tikanoja.fi or firstname.lastname@lassila-tikanoja.fi

Lassila & Tikanoja share on the Helsinki Stock Exchange

Share

Trading code	LAT1V
List	Main list
Sector	Industrials, Environmental and facilities services
Lot size	100
Number of shares	38,377,774

2002B option

Trading code	LAT1VEW202
Lot size	100
Exchange ratio	1 (LAT1VEW202) : 1 (LAT1V)
Number of options	260,000

Analyses of the Company

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

Alfred Berg Finland
tel. +358 9 228 321

Carnegie Investment Bank
tel. +358 9 618 711

Evli Bank
tel. +358 9 476 690

eQ Bank
tel. +358 9 681 781

FIM Securities
tel. +358 9 613 4600

Kaupthing Bank
tel. +358 9 4784 000

Opstock Securities
tel. +358 10 252 012

SEB Enskilda
tel. +358 9 6162 8900

Cazenove, London
tel. +44 207 155 5000

Merrill Lynch, Edinburgh
tel. +44 131 473 1056

Information to shareholders

Annual General Meeting

The Annual General Meeting of Lassila & Tikanoja plc will be held on 23 March 2006 at 4 p.m. at the Finlandia Hall, Mannerheimintie 13 e, Helsinki. Shareholders who are entered in the Company shareholders register maintained by the Finnish Central Securities Depository Ltd on 13 March 2006 are entitled to attend the Annual General Meeting.

Shareholders whose shares have not been transferred to the book-entry system are also entitled to attend the Annual General Meeting provided that they were registered in the shareholder register of the Lassila & Tikanoja plc demerged on 30 September 2001 (business ID 0110679-8) before 1 November 1993. In such cases, shareholders must present their share certificates at the Annual General Meeting or otherwise demonstrate that title to the shares has not been transferred to the book-entry account.

Payment of the dividend

The Board of Directors proposes to the Annual General Meeting of Shareholders that a dividend of EUR 0.40 per share be paid for the 2005 financial year. The dividend decided on by the Annual General Meeting of Shareholders will be paid to a shareholder registered in the Company share register maintained by Finnish Central Securities Depository Ltd on the record date.

Annual General Meeting	23 March 2006
Ex-date	24 March 2006
Record date	28 March 2006
Payment of the dividend	4 April 2006

Financial Information in 2006

The interim report for the period between 1 January and 31 March will be published on 3 May 2006 at 8.00 am.
The interim report for the period between 1 January and 30 June will be published on 26 July 2006 at 8.00 am.
The interim report for the period between 1 January and 30 September will be published on 25 October 2006 at 8.00 am.

Lassila & Tikanoja's Annual Report, interim reports and stock exchange releases are published in Finnish and in English and are available immediately on the Company's web pages as well. The Internet pages also contain information on how readers can subscribe for an e-mail list for stock exchange releases and mailing list for annual reports and interim reports.