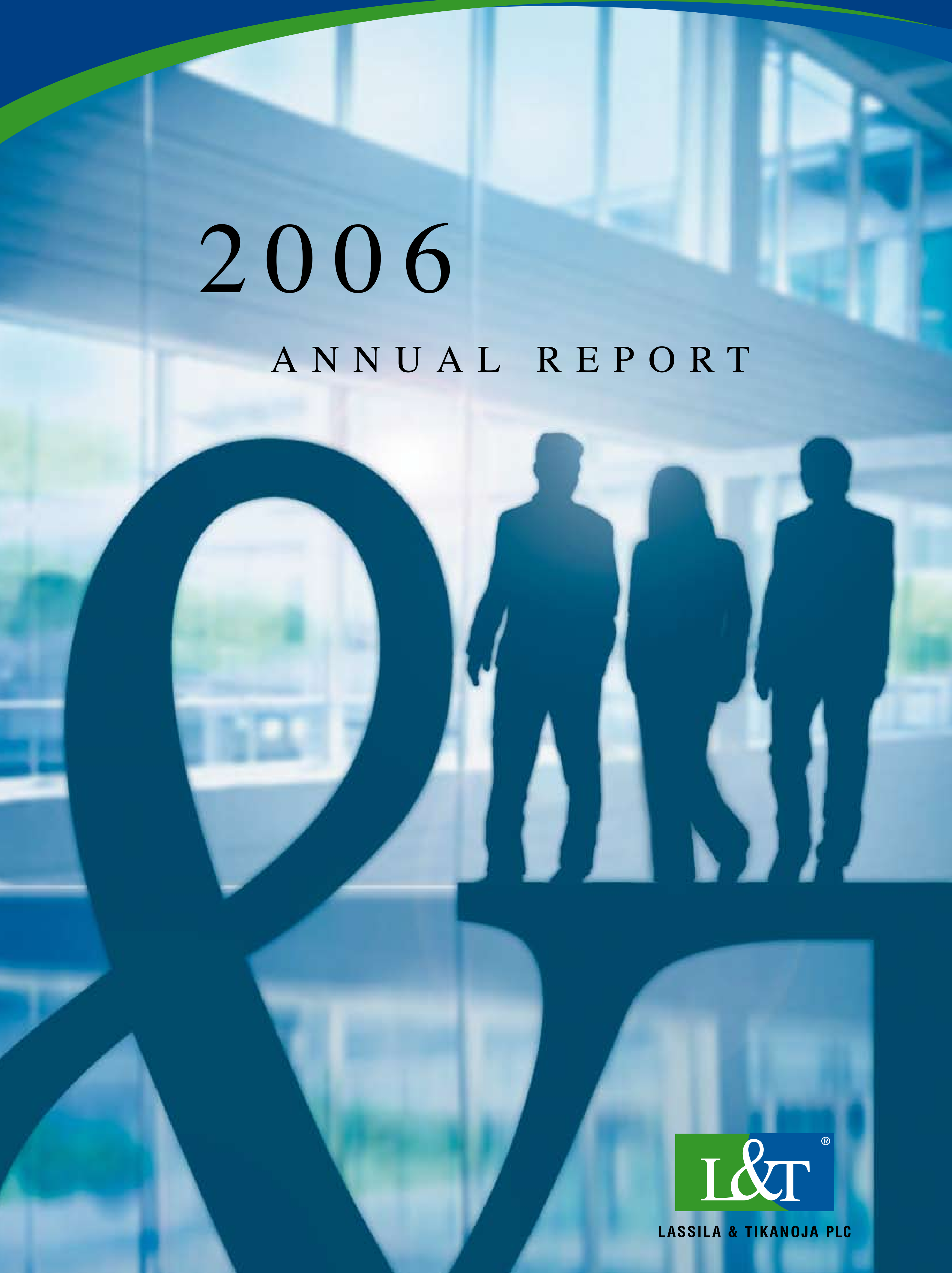
2006

ANNUAL REPORT



LASSILA & TIKANOJA PLC

Contents

Lassila & Tikanoja in brief

Lassila & Tikanoja specialises in environmental management as well as support services for properties and plants. L&T has business operations in Finland, Sweden, Latvia, Russia and Norway. Its business is divided into three divisions: Environmental Services, Property and Office Support Services and Industrial Services. L&T's net sales in 2006 amounted to EUR 436.0 million and it employed 8.328 people at the end of the year. The company's shares are quoted on the Helsinki Stock Exchange.

Environmental Services

Services
The Environmental Services division covers the collection, transportation and processing of recyclable material and waste, as well as the supply of recycled materials and solid recovered fuel (SRF) for reuse.

Biowatti Oy specialises in the procurement, processing and supply of wood-based fuels for customers. Its main products include wood-based by-products from the forest and wood industry, as well as logging chips.

Suomen Keräystuote Oy is engaged in the collection, processing and wholesale trade of recyclable paper and fibre-based packaging.

The joint venture, Salvor Oy, specialises in processing services for industrial by-products, soil remediation and the construction of landfill barrier systems.

The Bajamaja service provides comprehensive services for event organisers.

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

Product lines
Waste Management
Recycling Services
L&T Biowatti

Net sales 2006
EUR 207.3 million

Operating profit 2006
EUR 32.5 million

EVA 2006
EUR 17.8 million

Property and Office Support Services

Services
Property services include the maintenance and operation of buildings, equipment and rooms, while office support services help the users of premises focus on their core business. Office support services include access control, reception, switchboard operator, mailing, copying, security and catering services, as well as facility management. These extensive service packages are either provided by L&T itself, or by networking with the leading company in each sector.

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

Cleaning services provide daily cleaning as well as various special cleaning jobs, such as window cleaning and floor waxing.

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

Product lines
Cleaning services, including office support services
Property maintenance, including technical systems maintenance

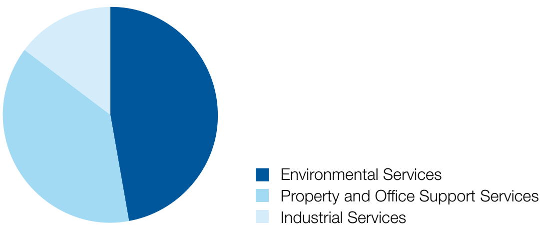
Net sales 2006
EUR 168.4 million

Operating profit 2006
EUR 8.8 million

EVA 2006
EUR 5.8 million

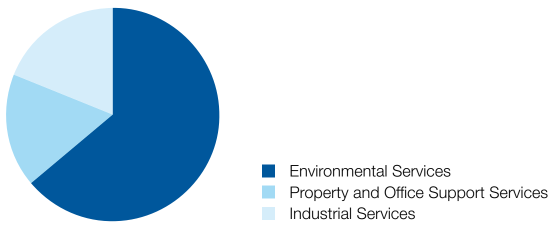
Net sales by division

Total EUR 436.0 million



Operating profit by division

Total EUR 50.2 million



Industrial Services

Services
Industrial Services specialises in heavy-duty cleaning and damage repair for industry and various types of property that require special expertise.
Hazardous waste services provides customised collection, sorting and processing services for its customers. L&T plants produce recycled raw materials and recycled fuels (REF) for industry.
Industrial cleaning specialises in providing cleaning services for industrial process equipment (pipeline systems, boilers, heat exchangers).
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.

Product lines
Hazardous waste services
Industrial cleaning
Damage repair services
Wastewater services

Net sales 2006
EUR 64.4 million

Operating profit 2006
EUR 9.6 million

EVA 2006
EUR 5.0 million

L&T's operating area

Finland
All L&T services

Sweden
Cleaning and office support services

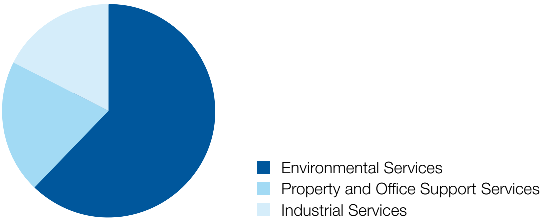
Russia
Waste management and recycling services
Cleaning and office support services, maintenance of outdoor areas

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

Norway
Hygiene services for the food industry

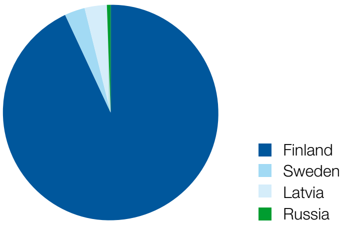
EVA by division

Total EUR 28.6 million



Net sales by country

Total EUR 436.0 million



Review by the President and CEO

Year 2006

Lassila & Tikanoja's net sales increased in 2006 by more than 15 per cent to EUR 436 million. Organic growth was particularly strong, more than 9 per cent, and outperformed the market rate. The company's market shares increased and its market position clearly strengthened. Sweden was introduced as a new operating country, and the targeted position in the Swedish property and premises market was achieved through acquisitions.

We can be satisfied with the increase in net sales, and it is very pleasing to see that organic growth has strengthened. Although we carried out acquisitions at the established pace, the share of organic growth exceeded that of acquisitions. This reflects professional and motivated sales operations and the production organisation's ability to improve customer satisfaction under demanding competitive conditions.

The competitive situation remained challenging throughout the year. Price competition in the Finnish market for Property and User Services was intense, particularly in the first half of the year, but the situation started to normalise during the second half. Although cost-efficient operations and the resulting price competitiveness are essential factors in the selection of a service provider, the significance of product development cannot be overestimated when a service company is building its competitive advantage. Differentiation from the customer's perspective through product development gained momentum in the second half of the year, when product development operations were reorganised and resources were added. New service products are now being launched on the market on a monthly basis.

The slow pace at which the forest industry market and the local government sector have opened up has disappointed some people. In my opinion, it is good that the outsourcing of various support services is being carried out in a controlled manner. While cost saving needs in the forest industry and the local government sector are apparent, there have been substantial decreases in local government personnel, in particular as the baby boom generation reaches retirement age. For these reasons, the pace of outsourcing will certainly accelerate towards the end of the decade.

The management emphasis in 2006 shifted to improving productivity and managing costs. There was a strong commitment to improving earnings. Most targets were achieved and our performance improved significantly, with earnings per share increasing by 29 per cent. Earnings can also be considered good after taking account of the effect of non-recurring income items received during the report year and the prolonged labour conflicts in the forest industry that burdened earnings during the comparison year.

Five years of systematic strategy realisation

Lassila & Tikanoja has operated in its present form for five complete financial periods, long enough to allow the evaluation of our performance against long-term targets.

The markets in which L&T operates have grown faster than the national economy and will continue to do so well into the future. The company's objective is to outperform market growth, which is some 10 per cent annually. Our average annual growth in net sales over these five years has been 12 per cent, and L&T's market position has strengthened in all business operations.

Investments in recycling plants have been carried out systematically. L&T currently has more than 20 production facilities in Finland where waste materials are processed into recycled raw materials. The first recycling plant in Latvia began operating in 2006, and the first in Russia will start at the beginning of 2008. The recovery rate has been raised, and the company's material-specific market shares have increased.

L&T's service offering has been expanded in all product lines in accordance with market requirements while maintaining the scope of the existing business sectors. For example, maintenance of technical systems and office support services have been introduced alongside traditional property services.

Although the Finnish market is growing, the company's objective is to secure the preconditions for profitable growth in the long term. Therefore, we have systematically expanded our operations to new geographical regions.

In addition to Finland, L&T currently has business operations in Sweden, Latvia, Russia and Norway. Net sales outside Finland are expected to exceed EUR 50 million in 2007.

Not all endeavours have been completely successful, and we could also say that the schedules set for achieving some targets have been overoptimistic. The expansion of our operations outside Finland has been slower and more expensive than originally assumed, and some such operations have lost money.

Internationalisation efforts have been carried out enthusiastically and extremely well by a fairly small team. Converting a labour-intensive, purely home-market company into a truly international enterprise has required and will continue to require substantial effort. There are many good business opportunities in the geographical regions of our choice but we have been unable to utilise all of them due to the lack of competent personnel able to embark on international operations. Our resources strengthened during 2006 but ensuring the sufficiency of human resources will remain the most crucial prerequisite for L&T's international growth.

Measuring success

At L&T, success is primarily measured by profitability. Growth must be profitable. The objective is to improve EVA and EPS each year. Exceptions to this goal may be made only temporarily, for example when interest rates rise sharply, operations are significantly burdened by the initial stages of unusually large investments or expansion in international activities places a temporary burden on the result. Observation of our earnings performance and the factors affecting it reveals that during the last five years, we have achieved our targets in almost all cases.

Realisation of shareholders' objective

Lassila & Tikanoja's Board of Directors has understood that our shareholders want to develop the company in a way that in the long term creates the best possible return on the capital they have invested in it. In practice, this is realised through an increase in share value and the payment of dividends. At the end of the year, the price of the company's share was two and half times as high as five years ago. The dividends paid for these five years - assuming that the Board's proposal will be approved - totals EUR 93 million, an average of 77 per cent of the profits. Dividends per share amount to EUR 2.56. The company's share can justifiably be considered having been a profitable and competitive investment.

Clear direction

Lassila & Tikanoja's strategy is clear and we are committed to realising it. While we see no need for actual diversification to maintain profitable growth, the company's earnings logic and logistic operating model are constantly opening up new opportunities. These include the acquisition of Biowatti Oy operating in the renewable energy sources market and the construction of an oil re-refinery by the joint venture, L&T Recoil Oy. For the time being, most investments are being made in Finland but operations outside Finland are also being expanded. The focus for expansion is Russia and Scandinavia.

The good performance in 2006 is attributable to the hard work of our professional and enthusiastic personnel. It is a pleasure to continue working with you!

In February 2007

JARI SARJO

2006 in brief

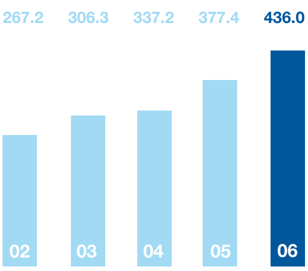
The full-year net sales increased by 15.5% and stood at EUR 436.0 million. Organic growth was strong, which was attributable to good sales management, successful sales work and improved customer satisfaction. In the latter half of the year, the efficiency of product development was improved and several new service products were launched on the market. L&T's market position strengthened, and Sweden was introduced as a new operating country.

The emphasis for management in 2006 was on improving productivity and cost-based management. Industrial Services and Environmental Services were particularly successful in improving their efficiency, and the profitability of both divisions improved substantially. The performance of the Finnish operations of Property and Office Support Services improved, but the expansion of international operations caused an earnings burden that exceeded that planned. Centralisation of customer service improved cost-efficiency.

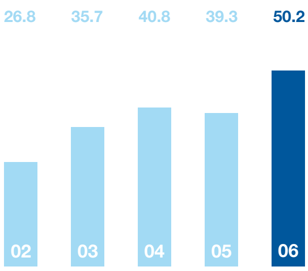
Key figures for 2006 and 2005	2006	2005	Change %
Net sales, EUR million	436.0	377.4	15.5
Operating profit, EUR million	50.2	39.3	27.8
Profit before tax, EUR million	48.5	37.5	29.4
Return on equity, % (ROE)	21.2	18.8	
Return on invested capital, % (ROI)	21.0	17.9	
Gearing, %	29.7	49.3	
Equity ratio, %	50.4	49.5	
Capital expenditure, EUR million	47.2	60.9	-22.5
Total number of full-time and part-time employees at year end	8 328	7 512	10.9
EVA, EUR million	28.6	18.3	56.3
Earnings/share (EPS), EUR	0.90	0.70	28.6
Cash flows from operating activities/share, EUR	1.82	1.28	42.2
Dividend per share, EUR	0.55*	0.40	37.5

* Proposal by the Board of Directors
Calculation of the key figures is presented on pages 41 and 42.

Net sales, EUR million
2002-2003 FAS



Operating profit, EUR million
2004 excluding revenue recognition of pension liability
2002-2003 FAS



Strategy

The key points of Lassila & Tikanoja's strategy:

- continuing to strengthen its 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 sound and competitive investment in the long term through growth and high profitability.

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

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

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

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

Divisions' competitive strategies

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

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

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

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

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

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

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 our organisation
- by ensuring continued profitable growth.

Profitable and competitive investment

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

Our personnel

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

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

Our customers' needs

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

Good corporate citizenship

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

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

Operating principles

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

L&T's operating principles are the common rules through which its internal goals are achieved. These operating principles are put into effect through the actions of every employee. Their implementation is evaluated with the help of appraisal discussions, job satisfaction surveys, internal assessment and customer satisfaction surveys.

L&T develops operating models together with the customer.

Aiming to support the customer's competitiveness

L&T Comprehensive Solution optimising the customer's support services as a whole

The competitiveness of businesses is always the sum of several factors. Actions to increase competitiveness generally include efficiency measures for production, the innovation of new products or marketing efforts. Support services, which include the services provided by L&T, often receive less attention. L&T's sales and customer service were developed in 2006 to improve the firm's ability to survey the actual needs of customers that affect their competitiveness. It is the task of sales together with product development to create service packages that truly support the improvement of our customers' competitiveness.

The L&T Comprehensive Solution is a service package built in accordance with the customer's needs. Its core areas include improved cost-efficiency, overall responsibility for the quality of support services, as well as flexibility of service in various change situations in business operations. Guidance and measurement of co-operation also play a central role.
The L&T Comprehensive Solution optimises the customer's support services as a whole.

Contact Centre – multi-channel customer service always available

The expansion and development of L&T's multi-channel customer service, the Contact Centre, continued in 2006. By the end of the year, the L&T Contact Centre comprised four service points that are virtually interconnected by means of telephone technology and a call routing system. These operations are uniform in terms of technology as well as processes. The Contact Centre allows L&T to serve its customers nationwide around the clock every day of the year. Customers will see only one contact centre irrespective of from 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 Contact Centre also coordinates L&T's new browser-based online services. The public service channel was launched in 2005, and its use doubled in 2006. During 2006, the company developed a new network-based service for key customers that enables more comprehensive customer-specific reporting, follow-up of contacts, as well as documentation.

Sales – professional surveying of the customer's needs

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. Concept Sales, which was launched in the autumn, achieved substantial results in the latter half of the year. This was also true of Comprehensive Solutions sales. The telemarketing unit launched in late 2005 established its position as an integral part of L&T sales and customer relationship management. The unit's tasks include researching the needs of potential customers, managing after-sales marketing and acting as support for other sales functions.

As a result of L&T's expansion abroad, the company continued to establish local sales organisations in the new operating areas and familiarise sales staff with the operating methods of L&T's sales functions.

Everything can be done better than before

L&T's operations are developed in accordance with overall goals and customer needs. Systematic and goal-oriented improvements in processes and operating methods ensure that L&T's customers receive high-quality services produced as safely and as cost-effectively as possible. Development work results in changes that may comprise the introduction of completely new operating models or a multitude of minor improvements. Continuous improvement is the basic approach to our operations. Our operating policy, operating principles and management system create the foundation for development.

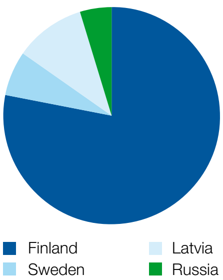
Internal and external assessments are used to identify best practices and areas for improvement. Assessments of service production are carried out together with customers. In addition to the customer relationship and service production processes, improvements concern support processes.

L&T observes the principles of the ISO 9001:2000 quality standard in its operations. L&T's management system and centralised functions are certified in accordance with ISO 9001:2000. Furthermore, L&T's services have received 13 quality management system certifications in Finland, Sweden and Latvia.

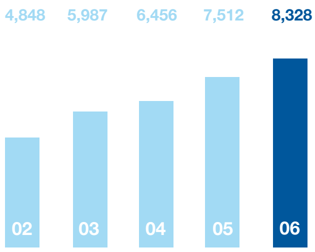
Personnel

L&T trains its personnel for tasks requiring special competencies.

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



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



The growth in our business operations and expansion abroad was reflected in our growth in personnel. The average number of personnel in 2006 converted into full-time equivalents was 6,775 (5,918 in 2005). At the end of December the total number of full-time and part-time employees was 8,328 people (7,512). 1,822 (1,222) employees worked outside Finland.

L&T's business operations and competitive advantage are based on its highly skilled and motivated personnel. Efforts in personnel development were stepped up in 2006, and development projects associated with the most important development targets were launched. These included strategy-oriented competence development, human resources management, recruitment and maintaining working capacity.

Competence development

The internationalisation of L&T's operations imposes new requirements on the competence of personnel. People engaged in international operations were surveyed in the autumn, and an online discussion on the prerequisites of true internationalisation was launched in all operating countries. The results are used for the development of leadership, operating models and managerial competence. The language skills of personnel were improved in several study groups of different levels.

L&T endeavours to maintain working capacity through support for staff clubs, for example.

Professional development of our Finnish personnel was supported by degree-oriented programmes as well as short-term courses. The most significant training efforts focused on developing a team-oriented operating method. 300 people within Property and Office Support Services improved their teamwork skills during three days of training. The development of team-oriented operations has continued for three years, and its results are seen in Property and Office Support Services as better functioning work communities. Team training has proceeded to a stage at which teams have received basic training and are now developing their own operating models. Encouraged by the results, training on L&T's team-oriented operating model was also launched in the industrial cleaning function within the Industrial Services division.

The focal point of development in Sweden, Latvia and Russia was training associated with L&T's operating principles and conceptualised service products.

Functionality of work communities

High skill, motivation and good preconditions for work enable the achievement of business targets. A work community survey analysing these factors and the practical realisation of L&T's operating principles was conducted among our Finnish personnel in late 2005. While the survey will not be used as an actual Group-level indicator of the functionality of the working community, the results will be used as a tool for identifying concrete development targets that affect the working community. These results were processed in early 2006 on various levels of the organisation, and many unit-specific development projects were initiated on their basis. Appraisal discussions were selected as the development target for L&T as a whole. The objective is that regular appraisals be carried out with all full-time L&T employees, and appropriate follow-ups be organised. Training was provided to ensure that supervisors have the skills required for high-quality appraisals. Follow-ups will also be improved.

Other development actions were focused on concrete matters crucial to each unit. The effectiveness of the actions will be analysed in the next work community functionality survey in early 2007.

Process development

Recruiting appropriately skilled personnel to L&T is crucial for the company's business and competitiveness. Competition for skilled labour will continue to become more intense, which means that the commitment of personnel and management of labour turnover are important objectives for HR management.

During 2006, the present state of recruitment was surveyed and the targets for its development were defined. The recruitment process will be made clearer and more uniform in 2007. The objective is to find the correct person for the correct task faster than before, serve applicants better and support the opportunities of existing staff to develop and assume new tasks within L&T.

The payroll related systems previously used in Finland were replaced with a new overall information system, and payroll processes were streamlined. The new overall system consists of payroll functionality, working hours management, personal data and travel management systems, as well as a reporting component. This project proceeded well and on schedule, and all of L&T's Finnish units have adopted the new systems as of the beginning of 2007.

Management of working capacity

L&T's objective is that as many employees as possible maintain their working capacity until retirement age. To support this objective, the working capacity management programme, Sirius, was launched at the beginning of the year with the target of reducing sickness-related absence and disability pensions. The starting point for Sirius is that issues related to working capacity are an important part of everyday management. Joint operating procedures were developed for addressing problems related to working capacity, and supervisors were trained to identify such problems as early as possible. In order to harmonise operating procedures and follow-up and provide services of a uniform standard, occupational health care in Finland was centralised with a single partner as of the beginning of 2007. Shared targets and indicators, commitment to results and the promotion of effective occupational health care practices form a substantial part of such co-operation.

L&T provides financial support for staff clubs engaged in sports and other recreational activities. Physical exercise is also supported through vouchers that can be used for the sports services of each employee's own choice. There were 33 staff clubs operating in Finland in 2006.

Occupational safety

One of the starting points for L&T's operations is to ensure a safe working environment. This is sought by identifying the risks and hazards involved in various jobs in advance and by reducing and eliminating them proactively. A safe working environment is built in co-operation with personnel, customers, experts in the safety sector and insurance companies.

The management of occupational safety risks is an essential part of L&T's management system, in which safety issues are integrated as part of everyday management. The system combines the management of occupational safety issues with occupational health and environmental ones. L&T's environmental, health and safety (EHS) programme is prepared at three-year intervals. The objectives in 2004–2006 included the reduction of occupational accidents and injuries, as well as the maintenance and improvement of working capacity. Each division has an occupational safety coordinator. An occupational safety steering group manages and develops occupational safety at Group level.

L&T's management system and centralised functions have received occupational safety certification in accordance with OHSAS 18001. L&T's services have received ten occupational safety certifications in Finland.

Systematic improvement of the safety culture continued during 2006, and the resources for coordinating and managing occupational safety and working capacity risks were strengthened. The objective of the effort is to create an even better framework for a healthy and safe work environment.

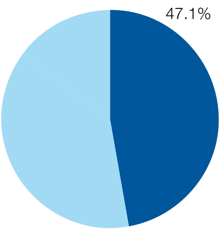
In late 2005, L&T launched a one-year occupational safety campaign in Finland with the objective of increasing personnel activity in identifying and reporting dangers and near misses and thus reducing occupational accidents. The campaign was a success. 1,400 near miss situations were reported in 2006, and these serve as the basis for proactive occupational safety work. The reporting of near miss situations will be established as an operating procedure.

Danger assessments and the analysis of accidents were improved within units and work sites. Occupational safety delegates and managers were trained by arranging courses for obtaining an occupational safety card, among other things. Accident notice boards indicating the number of near miss reports and accidents were introduced within the units. Special attention was paid to slipping accidents concerning drivers by introducing non-skid devices for footwear and step boards.

Environmental Services

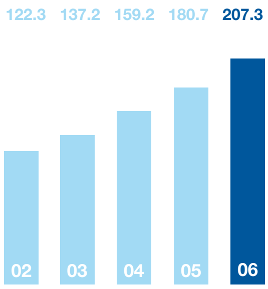
Production at the new recycling plant in Turku started early in the year.

Percentage of net sales



Net sales, EUR million

2002-2003 FAS



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 solid recycled fuel (SRF) for recovery.

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 collected separately include paper, board, cardboard, metal, plastic, glass, biowaste, energy waste, wood, waste electrical and electronic equipment (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 increase the degree of recovery of collected waste and thus reduce the proportion of waste ending up at landfills. At the end of the year the company had 22 recycling plants in Finland and one in Latvia. Processed recycled materials and recycled fuel are generally sold to the end-user on long-term contracts. L&T has a landfill compliant with EU standards in Kerava. It is only used for the final disposal of unusable reject material from L&T's own recycling plant.

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

Biowatti Oy specialises in the procurement, processing and supply of wood-based fuels for customers. Its main products include wood-based byproducts from the forest and wood industry, as well as logging chips.

Suomen Keräystuote Oy (SKT) is engaged in the collection, processing and wholesale trade of recyclable paper, board and fibre-based packaging. SKT has a recyclable paper processing plant in Tampere. SKT operates as a recyclable paper producer organisation for printing paper.

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.

In Latvia, L&T is the market leader in waste collection and transport. The operations of a recycling plant completed in the summer were launched without problems, and the quantity of separately collected and recovered materials is constantly increasing. In Dubna, Russia, Ecosystem manages the collection and transportation of waste and landfill sites for the whole city. Decisions concerning the introduction of recovery processes and the required investments have been made, and a recycling plant to be constructed in Dubna will begin operating at the beginning of 2008.

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.

Number of landfills decreasing, recovery increasing

Finland's National Waste Plan has long called for an increase in the degree of waste recovery, and this objective is also crucial for the ongoing reform of the plan. Problems with increasing recovery have included the low gate fees for waste accepted at landfills, as well as a temporary downturn in energy recovery.

As of November 2007, landfills must comply with the requirements of EU standards, which will lead to the closure of many old landfills. The number of landfills will be substantially reduced and it will become much more expensive to construct them. This will cause an increase in gate fees and, due to longer transport distances, in transport fees. Gate fees have already begun to increase, and the outlook for energy recovery is becoming clearer. The preconditions for waste recovery are improving through decisions already taken but substantial influence will be gained through the new Finnish National Waste Plan alongside the associated waste tax policy and a forthcoming overall reform of the Waste Act.

The outlook for the energy recovery of waste is good even though the use of recycled fuel decreased with the introduction of the EU Waste Incineration Directive at the end of 2005. Continuing operation would have required power plants to invest in emissions measurement and apply for the appropriate permit. However, some power plants continued to use recycled fuel or even increased its usage. As a major supplier of recycled fuel, L&T has successfully sold its entire fuel production.

There are also new users of recycled fuels on the horizon. The Finnish forest industry and other process industries have lots of solid-fuel power plant boilers suitable for co-combustion of recycled fuel with relatively low investment costs. Co-combustion will enable combined heat and power generation with high energy efficiency reflected in lower fuel costs for the user. Recycled fuel is mainly a renewable energy source, which is improving its position in relation to fossil fuels. Fossil fuels are burdened by the constantly rising price of carbon dioxide emissions rights. The market outlook for recycled fuel clearly improved in late 2006: demand increased and the price trend was positive.

Latvian waste legislation was substantially reformed in 2006. There will be some delay in the reforms having any effect because there are many illegal landfills in the country, and large-scale competition with them is difficult for the recycling business. In any case, the recovery of waste material will substantially increase in Latvia during the next few years.

The need and desire for the modernisation of waste management in Russia is great. This is due to constantly increased concerns about the environment and the strengthening of the Russian economy. The waste management outsourcing model implemented by L&T in Dubna, in the northern part of Moscow Oblast, has attracted a great deal of positive interest. These operations are being expanded to Dubna's neighbouring cities.

L&T's market position in Finland strengthened, with its market share exceeding 25 per cent. L&T has the most extensive network of sites in Finland and is the largest environmental services company in Latvia. Environmental Products is a strong market leader in Finland and has been very successful in exporting, too. Operating throughout the chain together with the

L&T collects burnable waste and processes it into recovered fuel for power plants.

comprehensive production plant network should enable benefits of scale and give L&T a significant competitive edge.

Year 2006

Environmental Services' net sales amounted to EUR 207.3 million (EUR 180.7 million), an increase of 14.7%. The operating profit was EUR 32.5 million (EUR 24.0 million).

Investments in improving productivity and recycling plants were continued. Together with strong organic growth, they resulted in a substantial improvement in profitability. The efficiency of recycling plants was improved, and the company was able to process its increasing production volumes at the planned costs. Measures to improve productivity will be continued by increasing training in economical driving, introducing a driving guidance and monitoring system based on vehicle computers and starting the phased introduction of a new production management system.

A fairly large recycling plant was built in Turku, and Suomen Keräystuote Oy was acquired. An extension to Suomen Keräystuote Oy's processing plant will be completed during the first quarter of 2007. Suomen Keräystuote is a wholesaler of recycled paper and board, as well as a recycled paper producer organisation. Appeals filed against environmental permits caused some delays in recycling plant investments. However, currently valid and pending permits will also enable the construction of new recycling plants in 2007. A few plants are currently under construction and several are being planned.

International operations made good progress, and greater efficiency in production and price increases in Latvia and Russia brought a clear improvement to the financial performance. In the late summer, a new recycling plant began operating in Latvia. A decision has been made to build the first recycling plant in Russia, scheduled to begin operating at the beginning of 2008. The company also intends to expand its operations by other means in the northern part of the Moscow region.

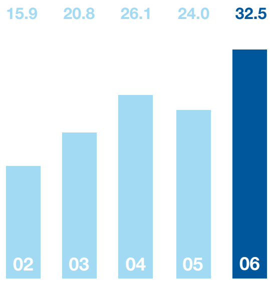
Environmental Products' financial performance improved as a result of reorganisation and efficiency measures. Environmental Products established a dedicated sales organisation in Russia.

The joint venture, Salvor Oy, increased its net sales substantially but clearly fell short of its earnings target. Its performance improved in the fourth quarter, but the full-year result showed a loss.

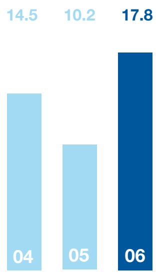
In December an agreement was signed on the acquisition of the majority (70%) of the shares of Biowatti Oy from the acting management of the company. L&T is committed to acquiring the remaining thirty percent of the shares by the end of the year 2011. Biowatti is the leading bio energy company in Finland utilising renewable energy sources, engaging in the procurement, processing, marketing and delivery of fuels for customers. The main products are by-products of forest and wood processing industries and logging chips. The company is a major supplier of raw materials for the board and pulp industries and pellet manufacturers. It also supplies materials for landscaping, composting and for use as bedding. Biowatti's net sales in 2006 amounted to EUR 64.2 million, with two-thirds coming from the supply of biofuels and one-third from the supply of industrial raw materials. Biowatti employs 38 people.

Operating profit, EUR million

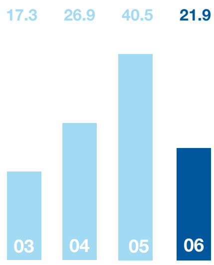
2002-2003 FAS, 2004 excluding revenue recognition on pension liability



EVA, EUR million



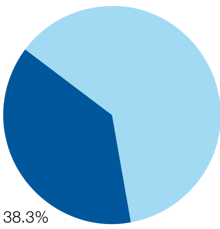
Capital expenditure, EUR million



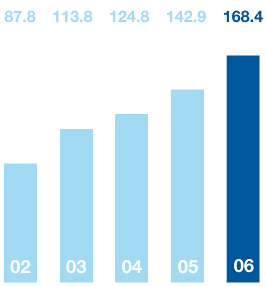
Property and Office Support Services

Winter conditions vary greatly from year to year and provide work for property maintenance.

Percentage of net sales



Net sales, EUR million
2002-2003 FAS



Services

The division was renamed Property and Office Support Services, being previously Property Services. This new name better describes the expanded service offering. Property services refer to the maintenance and operation of buildings, equipment and rooms, while office support services help the users of premises focus on their core business. Office support services include access control, reception, switchboard operator, mailing, copying, security and catering services, as well as facility management. These extensive service packages are either provided by L&T itself, or by networking with the leading company in each sector.

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

Cleaning services provide daily cleaning as well as various special cleaning jobs, such as window cleaning and floor waxing.

Internet-based production control systems provide a channel for real-time communication and enable extensive customer reporting.

L&T has developed service concepts for major retail operators and commercial centres, for the food industry that requires top-class hygiene standards, and for service station chains. The Reilu® cleaning concept designed for offices also comprises waste recycling at office premises. Anti-allergy cleaning, developed together with the Finnish Allergy and Asthma Federation, can be added to the concept, and L&T has the right to use the allergy symbol granted by the Federation.

Particular attention is paid to efficient production planning and control, in which software tools play a significant role. By networking with the leading companies in each sector, L&T can expand its operations to tangential markets and offer its customers an increasing range of service packages.

The division's customers include office and commercial properties, institutional property owners, facility managers, businesses and institutions, as well as the public sector.

Blue Service Partners Oy, a joint venture of L&T and Fazer Amica, provides services to the local government sector, especially those local government customers who wish to acquire maintenance services for properties and catering as a complete package.

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

The operating area of L&T's Property and Office Support Services also includes Moscow, Latvia and Sweden and, as of the beginning of 2007, Norway. In Moscow and Latvia, L&T provides cleaning and office support services as well as the maintenance of outdoor areas, in Sweden cleaning and office support services, and in Norway hygiene services for the food industry.

Market expanding at an accelerating pace

Office and commercial properties and industry are the biggest customer groups in cleaning services. In property maintenance, the biggest customers are institutional property owners, facilities managers and businesses. The commercial market accounts for approximately one half of the overall cleaning services and property maintenance market in Finland. 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 will 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 and local governments fall under cost-cutting pressure. The fact that large customers are interested in comprehensive service packages is also expanding the market.

Support services for the forest industry opened up to competition in 2005, which will also expand the market. The forest industry negotiated on the outsourcing of services on several occasions in 2006 and actually implemented it in a few cases. The pace of outsourcing is expected to increase in 2007.

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 the national economy as a result of outsourcing.

L&T's competitive edge is derived from customer-responsiveness, high quality, cost-effectiveness and a versatile range of services. The company differentiates itself from its competitors by providing advanced service products to selected customer groups. With an approximate market share of 14%, L&T is Finland's second-biggest operator in both cleaning services and property maintenance. In Sweden, L&T is the third-largest commercial operator in the sector, and in Latvia L&T is one of the leading companies in the cleaning sector.

Year 2006

The net sales of Property and Office Support Services totalled EUR 168.4 million (EUR 142.9 million), an increase of 17.9%. Their operating profit was EUR 8.8 million (EUR 11.9 million).

Price competition in Finland was intense during the first half of the year, but the situation normalised during the second half, and new sales were very successful. Lost contracts in the first half of the year were successfully replaced by additional sales to existing customers, and cleaning services within Finland exceeded their earnings target. The first outsourcing agreements for support services were made with forest industry customers. Employment pension costs regained typical levels after having been exceptionally low in 2005.

Most of the net sales growth in cleaning services occurred abroad. However, investment in expanding business operations abroad had a detrimental effect on the division's financial performance. Cleaning operations abroad ran at a loss. Earnings were burdened by the costs of initiating operations and certain other non-recurring items.

Cleaning operations in Sweden were started through the acquisitions of Allied Service Partners AB (ASP) and All Clean & Consulting Entrepreneur i Sverige AB (Accent). At the beginning of 2007, L&T acquired the food industry hygiene services company, Skånsk All Service AB, with its subsidiaries. Through these acquisitions, L&T achieved its targeted position in the Swedish market and is now the third largest commercial operator in the Swedish cleaning market. During 2007, the focus in Sweden will be on integrating acquisitions, seeking organic growth and improving financial

L&T's property services agreements increasingly include user services.

performance. Lassila & Tikanoja now provides cleaning services in Sweden, Latvia, Russia and Norway.

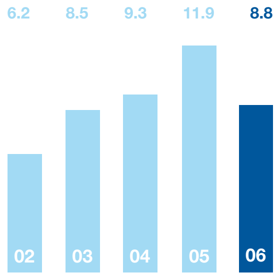
We reorganised our cleaning services in Moscow, reallocating their resources. New sales gained momentum in Moscow and Latvia during the latter half of the year. Cleaning operations in Latvia were strengthened in August through a minor acquisition concerning the SIA Evus company (with annual net sales amounting to some EUR 0.6 million).

The Huomenta Toimitilapalvelut franchising chain, which provides cleaning services and office support services for Finnish SME customers, was established in the autumn. The first franchisees began operating in October.

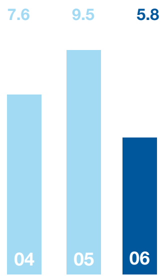
Net sales for property maintenance increased through organic growth and the financial performance improved. In a fairly demanding competitive situation, the product line outperformed market growth. It was able to improve cost control and sell additional services to contract customers. In particular, the maintenance of technical systems showed clear growth, and operations expanded to new locations.

Operating profit, EUR million

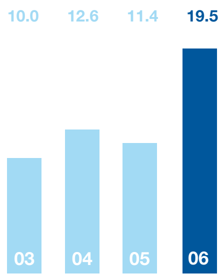
2002-2003 FAS, 2004 excluding revenue recognition of pension liability



EVA, EUR million



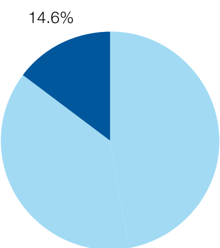
Capital expenditure, EUR million



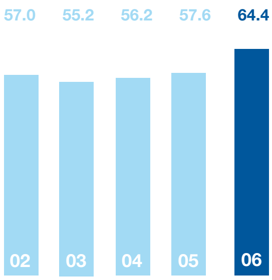
Industrial Services

L&T is continuously looking for new solutions and developing its operating models to serve the needs of industrial customers.

Percentage of net sales



Net sales, EUR million
2002-2003 FAS



Services

Industrial Services specialises in heavy-duty environmental management and maintenance services that require special expertise. In environmental management, Industrial Services specialises in hazardous waste and liquid waste, while its maintenance services focus on heavy-duty process cleaning and damage repair services.

L&T's hazardous waste services cover the entire logistics chain from collection to the processing and further refinement of waste. The company has 12 regional terminals in Finland and Latvia for collecting hazardous waste from customers for pre-processing and intermediate storage. From the terminals, the hazardous waste is taken to L&T's production plants at which it is processed into secondary raw materials or recycled fuel (REF) for industry. Its operations are focused on hazardous waste recovery solutions aiming at the highest possible degree of processing. About 10 per cent only of all hazardous waste collected by L&T ends up at disposal plants.

With regard to liquid waste, L&T wastewater services are focused on services related to the maintenance of sewer networks. L&T maintains wells, engages in the imaging and cleaning of sewer networks, as well as the maintenance of infrastructure wastewater systems and systems for sparsely populated areas. Sewer imaging investigates the functionality and structural condition of sewers and pipeline systems. L&T is endeavouring to expand its wastewater services over the entire logistics chain – that is, to the operation of treatment plants and recovery of sewage sludge.

Industrial cleaning provides heavy-duty cleaning and maintenance for industrial facilities, construction sites and various types of properties. High-pressure cleaning is used for demanding surfaces such as industrial process equipment, tanks and facades, as well as for the removal of coatings. Suction equipment is used for the transport of dry and wet materials and the cleaning of outdoor areas and traffic routes at industrial facilities, for example.

Damage repair services specialises in minimising property damage in various loss situations, such as fires, accidents and the occurrence of damage caused by water and damp. L&T has a comprehensive approach to damage. At sites that have suffered damage, L&T assumes responsibility for preventing subsequent damage through the protection, cleaning and drying of property and structures. If necessary, L&T assumes responsibility for the management of the entire damage repair site.

Industrial Services builds service packages out of the entire service range of L&T to serve its main customer segment, heavy basic industry.

The customers of Industrial Services also include other industrial facilities, harbours and construction sites.

The Industrial Services market and its development

The market for hazardous waste services in Finland is quite stable. The quantity of hazardous waste is not increasing much, and the degree of collection has become established at a high level. Therefore, L&T is seeking growth by expanding its service network outside Finland and by shifting the focal point of its operations from hazardous waste collection to recovery solutions. Higher prices of raw materials and energy, as well as the modern processing technology in which L&T is investing, provide an opportunity for increasing the degree of processing. Moving forward in the value chain also means a step from the national service market to international trade that provides interesting new opportunities for growth.

Industrial cleaning services most clearly reflect the change of procurement culture that has taken place in industry. Negotiations on nationwide solutions concerning a single service are concluded simultaneously with larger service packages and partnership models constructed at a local level. L&T's superior service network and extent of services provide L&T with good preconditions for increasing its role as a partner for industry. Long-term experience gained in Finland has brought L&T's competence in process cleaning to a high level. This provides an opportunity to expand the market area through project exports to selected industrial facilities in the Baltic region.

In the damage repair market, L&T has established its position as the leading fire after-cleaning operator and strengthened its market share in drying services. The drying service market will continue growing for years, because only some 30 per cent of buildings in Finland have been built in compliance with current standards concerning moisture. L&T has also expanded its service range to different types of environmental damage and the cleaning of property contaminated by diseases originating in animals. Demand for these services is expected to grow in the future.

Wastewater services has the best short-term growth outlook among the various sectors of Industrial Services. The maintenance requirements of ageing sewer networks are increasing continuously. Furthermore, the outsourcing of wastewater treatment and sludge management within industry and local governments will increase significantly during the next few years, providing market opportunities for an operator such as L&T. The demand for services is also increasing in the Baltic states and Russia. During the next few years, L&T will increase its efforts to develop its service range and service network within Finland and neighbouring areas.

Industrial Services is the leading operator in Finland in the services it provides.

Year 2006

Industrial Services' net sales amounted to EUR 64.4 million (EUR 57.6 million), an increase of 11.9%. The operating profit was EUR 9.6 million (EUR 4.7 million). All product lines were able to increase their net sales, with damage repair services accounting for the greatest improvement. The division's growth was almost completely organic and its market position strengthened.

The division's financial performance improved clearly, due to increased net sales and improved productivity. An increased volume was managed with lower fixed costs. All product lines clearly improved their performance. The most significant part of the performance improvement was attributable to a reorganisation programme carried out in industrial cleaning in 2005.

Within hazardous waste management, L&T managed to raise the rate of waste recovery, which further reduced the expensive delivery of hazardous waste

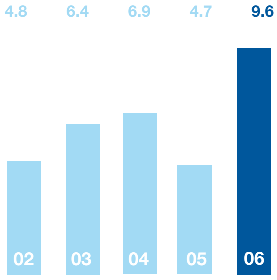
L&T's damage repair services have established a position as a reliable partner with overall responsibility.

for destruction by a third party. The industrial cleaning market established itself and demand increased after a very difficult year in 2005. There were many fires and other accidents in 2006 that increased the net sales of damage repair services. Demand for wastewater services remained at an equally strong level for the entire year.

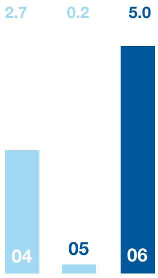
In September, L&T and key personnel from GT Trading Oy established the joint venture, L&T Recoil Oy, which will build a waste oil re-refinery in Hamina. L&T's share of ownership is 50%. The plant will be completed in early 2008 and the total value of the investment exceeds EUR 20 million. This plant is a step forward in the hazardous waste processing chain in accordance with the company's strategy. It will also present new opportunities for growth and internationalisation.

Operating profit, EUR million

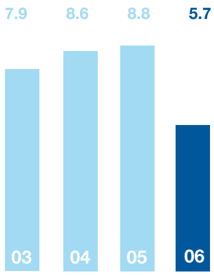
2002-2003 FAS, 2004 excluding revenue recognition of pension liability



EVA, EUR million



Capital expenditure, EUR million



Corporate Governance statement

Lassila & Tikanoja plc complies with the Corporate Governance Recommendation for Listed Companies by Helsinki Stock Exchange, 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 and Office Support Services and Industrial Services. Vice Presidents in charge of each division report to the President and CEO. The company is also engaged in trade in environmental management products.

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

General Meeting of Shareholders

The General Meeting of Shareholders is the supreme decision-making body of Lassila & Tikanoja plc. The General Meeting of Shareholders 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 their remuneration. 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 the holder 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 announced in a stock exchange release. Prospective candidates for Board membership as well as the proposed auditors are disclosed in the invitation or 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 shall attend a General Meeting unless there are well-founded reasons for their 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 each member of the Board of Directors expires at the end of the next Annual General Meeting 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 and Ms Soili Suonoja. Biographical details on the directors are given on page 26, and information on their holdings in the company and changes in the holdings during the year are set out on page 25.

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

Duties

The Board of Directors is responsible for the management of the company and 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 with in addition to the Articles of Association and Finnish laws and regulations.
According to the charter, matters handled by the Board of Directors include:

- determining the corporate strategy and confirming divisional strategies
- determining the group structure and organisation
- ensuring the operation of the management system
- processing and adopting each interim report, consolidated financial statements and annual Board of Directors' report
- confirming the company's operating plan, budget and investment plan
- determining strategically or financially significant investments, corporate acquisitions, divestments or other arrangements, as well as financing arrangements and contingent liabilities
- confirming the risk management and reporting procedures as well as insurance and financing policies
- nominating and dismissing the President and CEO and supervising and evaluating his work
- adopting the nominations of the President and CEO's immediate subordinates

- deciding on the salary, bonuses and other benefits of the President and CEO and his immediate subordinates as well as other terms of their employment
- determining the compensation and incentive schemes of the management
- establishing a dividend policy and bearing responsibility for the development of shareholder value
- confirming the company's goals

Meeting practice

The Board of Directors meets around 12 times a year. If necessary, the Board holds meetings over the telephone. The Chairman is responsible for convening Board meetings and for meeting procedures. At the meetings, matters are presented by the President and CEO, who is responsible for ensuring that the Board is provided with sufficient information for assessing 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 11 times during 2006. The average attendance rate of members was 96 per cent.

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 confirmed that all members of the Board are independent of the company and of any major shareholders.

Committees

The Board has established no committees. The entire Board handles all 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 areas of responsibility are presented on page 27 and their holdings in the company shares and options on page 25.

The Management Team assembles at least twice a year to consider L&T's performance, strategy, major development projects and goals for the following year.

The Management Team comprises the management and four employee representatives.

Compensation

Board of Directors

The General Meeting of Shareholders determines the emoluments payable to the members of the Board of Directors in advance, for one year at a time. In 2006, the following annual fees were paid: Chairman EUR 42,000, Vice Chairman EUR 28,000 and each member EUR 23,000. The fees were paid so that each member purchased company shares worth of the net amount of the fee (40%) in public trading on the Helsinki Stock Exchange.

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 plans aimed at 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 their membership of the Boards of Directors of the subsidiaries.

In 2006, the salaries paid to the President and CEO totalled EUR 325,440, which included salaries and benefits (EUR 223,280) and benefits from exercising share option rights (EUR 102,160).

A written service contract has been drawn up for the President and CEO. According to the contract, the period of notice is 12 months if the company terminates his employment, and 6 months if the President and CEO terminates the employment. The President and CEO may choose to retire at the age of sixty. The amount of pension is agreed in advance, and an index increase is made to the sum annually. The amount is less than the full amount of pension under the Employees' Pensions Act. The pension is recognised as a defined benefit liability in the financial statements. In 2006, EUR 36 thousand (EUR 25 thousand) arising from this agreement was recognised in income statement.

Internal control, risk management and internal audit

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

The company's insurance, financing and risk management policies are confirmed by the Board of Directors.

Shares held by the management

Shares held by the members of the Board of Directors

	Shares on 31 December 2006	Percentage of shares and of voting power	Shares on 1 January 2006
Heikki Hakala	13 682	0.04	12 882
Lasse Kurkilahti	4 182	0.01	3 600
Juhani Lassila	17 178	0.04	16 578
Evald and Hilda Nissi Foundation	2 413 584	6.26	2 413 584
Juhani Maijala	1 525 794	3.96	1 524 694
Soili Suonoja	2 989	0.01	2 339
Total	**3 977 409**	**10.32**	**3 973 677**

Shares and share options held by the Group Executives

	Shares		2002C options		2005A options	2005B options
	31 December 2006	1 January 2006	31 December 2006	1 January 2006	31 December 2006	31 December 2006
Anna-Maija Apajalahti	2 920	1 920	22 000	22 000	13 000	13 000
Martin Forss	720	720	18 000	18 000	12 000	12 000
Kari Korpelainen	240	240	7 300	16 000	10 000	10 000
Jorma Mikkonen	720	720	16 000	16 000	10 000	10 000
Arto Nivalainen	4 800	4 800	22 000	22 000	13 000	13 000
Jari Sarjo	15 000	13 000	40 000	42 000	26 000	26 000
Sirkka Tuomola	38 400	38 400	16 000	16 000	10 000	10 000

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

By virtue of a decision taken by the Board of Directors, Lassila & Tikanoja Group observes the guidelines for insiders issued by the Helsinki Stock Exchange. The Lassila & Tikanoja insider guidelines are in some respects more stringent.

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

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

The shareholdings and option holdings of the Lassila & Tikanoja insiders are listed on the company's website www.lassila-tikanoja.com.

Auditing

The statutory audit of Lassila & Tikanoja's financial statements is carried out by PricewaterhouseCoopers Oy, Authorised Public Accountants, appointed by the General Meeting of Shareholders. The principal auditor is Heikki Lassila, Authorised Public Accountant.

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

In 2006, the fees paid for statutory auditing to PricewaterhouseCoopers group totalled EUR 147,764. 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 159,666.

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, this position being full-time from 2001 to 2005. He was a member of the Board of the former Lassila & Tikanoja plc from 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 within 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 1,525,794 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 a member of the Board of the former Lassila & Tikanoja plc from 1988, and 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 holds 13,682 Lassila & Tikanoja plc shares.

Lasse Kurkilahti, born 1948
B.Sc. (Econ.), CEO of Kemira Oyj
Kurkilahti has been a 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 a member of the Board of Elisa Corporation.
Kurkilahti holds 4,182 Lassila & Tikanoja plc shares.

Juhani Lassila, born 1962
M.Sc. (Econ.), Managing Director of Agros Oy
Lassila has been a member of the Board since 2001. He was a 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 a member of the Board of Suominen Corporation and Comptel Corporation.
Lassila holds 17,178 Lassila & Tikanoja plc shares and exercises the controlling power in the 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 and Finland Post Corporation, Vice Chairman of the Finnish Association of Professional Board Members.
Suonoja holds 2,989 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, a divisional director in Säkkiväline Oy between 1994 and 1997, administrative director from 1987 to 1994 and administrative manager between 1984 and 1987.
Sarjo holds 15,000 Lassila & Tikanoja plc shares and 40,000 2002C options and 26,000 2005A options and 26,000 2005B options.

The changes in the holdings of the members of the Board and the President and CEO during 2006 are listed on page 25.

Auditor

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

Lassila & Tikanoja Management

Martin Forss, Sirkka Tuomola, Arto Nivalainen, Jari Sarjo, Kari Korpelainen, Anna-Maija Apajalahti, Jorma Mikkonen

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, a 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
Nivalainen has been Vice President of Environmental Services since 2000. He was production director of WM Ympäristöpalvelut Oy between 1996 and 2000, regional director from 1995 to 1996 and sales director from 1993 to 1995. Prior to that, he worked in 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 and Office Support Services
Apajalahti has been Vice President of Property and Office Support Services since 2000. She 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 worked in information and marketing duties from 1971 to 1983.

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

Martin Forss, born 1962
M.Sc. (Econ.)
Vice President, Corporate Planning and Business Development
Forss has been Vice President of Corporate Planning and Business Development since 2001. He was Financial Director of Säkkiväline Oy from 2000 to 2001. Prior to that, he acted as Financial Director and country controller of WM Ympäristöpalvelut Oy from 1996 to 2000, as business controller from 1995 to 1996, and as financial manager and division controller from 1993 to 1995. He was financial manager of Partek Oy from 1989 to 1993.

Kari Korpelainen, born 1969
M.Sc. (Econ.)
Vice President, Marketing and Sales
Korpelainen has been Vice President of Marketing and Sales since 2001. He 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
Tuomola has been Vice President and CFO since 2001. She was Vice President and CFO of 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 analyst and accounting manager at the Huhtamäki Group from 1974 to 1981.

The holdings of Group Executives in the company as well as changes in the holdings in 2006 are listed on page 25.

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

Board of Directors' Report

Net sales and financial performance

The net sales increased by 15.5% and stood at EUR 436.0 million (EUR 377.4 million; EUR 337.2 million), 5.8 percentage points of this growth coming from corporate acquisitions. Earnings per share were EUR 0.90 (EUR 0.70; 0.79).

Organic growth was strong, which was attributable to good sales management, successful sales work and improved customer satisfaction. In the latter half of the year, the efficiency of product development was improved and several new service products were launched on the market. L&T's market position strengthened. Sweden was introduced as a new operating country. Recycling plant investments were held back by delays in obtaining environmental permits.

The emphasis for management in 2006 was on improving productivity and cost-based management. Industrial Services and Environmental Services were particularly successful in improving their efficiency, and the profitability of both divisions improved substantially. The Finnish operations of Property and Office Support Services achieved their targets, but the expansion of international operations caused an earnings burden that exceeded that planned. Centralisation of customer service improved cost-efficiency. Non-recurring sales gains amounting to almost EUR 2 million improved earnings.

Net sales by division

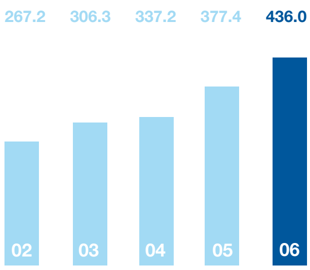
EUR 1 000	2006	2005	Change %	2004
Environmental Services	**207 252**	180 679	14.7	159 152
Property and Office Support Services	**168 403**	142 890	17.9	124 820
Industrial Services	**64 416**	57 584	11.9	56 195
Group administration and other	**118**	366		377
Inter-division net sales	**-4 185**	-4 071		-3 303
Total	**436 004**	377 448	15.5	337 241

Net sales of foreign operations by country

EUR 1 000	2006	2005	2004
Sweden	**13 299**		
Latvia	**14 128**	10 726	10 522
Russia	**2 769**	1 434	

Net sales, EUR million

2002-2003 FAS



Environmental Services

Environmental Services' net sales amounted to EUR 207.3 million (EUR 180.7 million; EUR 159.2 million), an increase of 14.7%. The operating profit was EUR 32.5 million (EUR 24.0 million; EUR 26.1 million).

Investments in improving productivity and recycling plants were continued. Together with strong organic growth, they resulted in a substantial improvement in profitability. The efficiency of recycling plants was improved, and the company was able to process its increasing production volumes at the planned costs. Measures to improve productivity will be continued by increasing training in economical driving, introducing a driving guidance and monitoring system based on vehicle computers and starting the phased introduction of a new production management system.

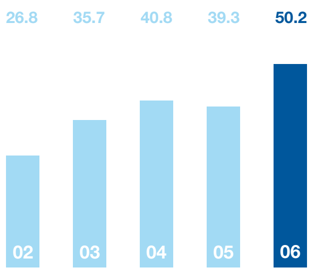
A fairly large recycling plant was built in Turku, and Suomen Keräystuote Oy was acquired. An extension to Suomen Keräystuote Oy's processing plant will be completed during the first quarter of 2007. Suomen Keräystuote is a wholesaler of recycled paper and board, as well as a recycled paper producer organisation. Appeals filed against environmental permits caused some delays in recycling plant investments. However, currently valid and pending permits will also enable the construction of new recycling plants in 2007. A few plants are currently under construction and several are being planned.

International operations made good progress, and greater efficiency in production and price increases in Latvia and Russia brought a clear improvement to the financial performance. In the late summer, a new recycling plant began operating in Latvia. A decision has been made to build the first recycling plant in Russia, scheduled to begin operating at the beginning of 2008. The company also intends to expand its operations by other means in the northern part of the Moscow region.

Environmental Products' financial performance improved as a result of reorganisation and efficiency measures. Environmental Products established a dedicated sales organisation in Russia.

Operating profit, EUR million

2002-2003 FAS, 2004 excluding revenue recognition of pension liability



Operating profit by division

EUR 1 000	2006	%	2005	%	Change %	2004	%
Environmental Services	**32 498**	**15.7**	23 986	13.3	35.5	26 097	16.4
Property and Office Support Services	**8 758**	**5.2**	11 947	8.4	-26.7	9 336	7.5
Industrial Services	**9 601**	**14.9**	4 746	8.2	102.3	6 907	12.3
Group administration and other	**-672**		-1 425			-1 553	
Total	**50 185**	**11.5**	39 254	10.4	27.8	40 787	12.1

The joint venture, Salvor Oy, increased its net sales substantially but clearly fell short of its earnings target. Its performance improved in the fourth quarter, but the full-year result showed a loss.

Property and Office Support Services

The net sales of Property and Office Support Services totalled EUR 168.4 million (EUR 142.9 million; EUR 124.8 million), an increase of 17.9%. Their operating profit was EUR 8.8 million (EUR 11.9 million; EUR 9.3 million).

Price competition in Finland was intense during the first half of the year, but the situation normalised during the second half, and new sales were very successful. Lost contracts in the first half of the year were successfully replaced by additional sales to existing customers, and cleaning services within Finland exceeded their earnings target. The first outsourcing agreements for support services were made with forest industry customers. Employment pension costs regained typical levels after having been exceptionally low in 2005.

Most of the net sales growth in cleaning services occurred abroad. However, investment in expanding business operations abroad had a detrimental effect on the division's financial performance. Cleaning operations abroad ran at a loss. Earnings were burdened by the costs of initiating operations and certain other non-recurring items.

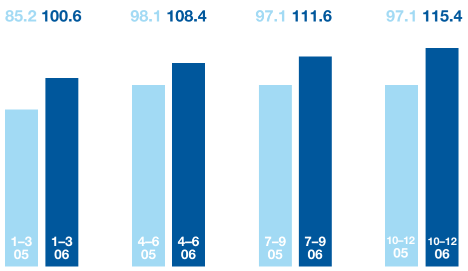
Cleaning operations in Sweden were started through the acquisitions of Allied Service Partners AB (ASP) and All Clean & Consulting Entrepreneur i Sverige AB (Accent). At the beginning of 2007, L&T acquired the food industry hygiene services company, Skånsk All Service AB, with its subsidiaries. Through these acquisitions, L&T achieved its targeted position in the Swedish market and is now the third largest commercial operator in the Swedish cleaning market. During 2007, the focus in Sweden will be on integrating acquisitions, seeking organic growth and improving financial performance. Lassila & Tikanoja now provides cleaning services in Sweden, Latvia, Russia and Norway.

We reorganised our cleaning services in Moscow, reallocating their resources. New sales gained momentum in Moscow and Latvia during the latter half of the year.

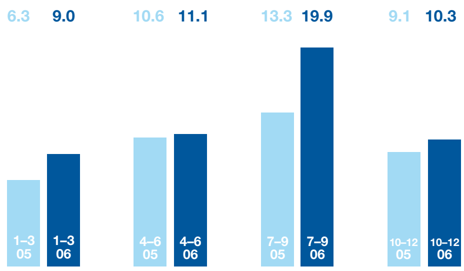
Net sales for property maintenance increased through organic growth and the financial performance improved. In a fairly demanding competitive situation, the product line outperformed market growth. It was able to improve cost control and sell additional services to contract customers. In particular, the maintenance of technical systems showed clear growth, and operations expanded to new locations.

The division was renamed Property and Office Support Services. This new name better describes the expanded service offering. Property services refer to the maintenance, servicing and operation of buildings, equipment and rooms, while office support services help the users of premises focus on their core business. Office support services include access control, reception, switchboard operator, mailing, copying, security and catering services, as well as facility management. These extensive service packages are either provided by L&T itself, or by networking with the leading company in each sector.

Net sales quarterly, EUR million



Operating profit quartely, EUR million



Industrial Services

Industrial Services' net sales amounted to EUR 64.4 million (EUR 57.6 million; EUR 56.2 million), an increase of 11.9%. The operating profit was EUR 9.6 million (EUR 4.7 million; EUR 6.9 million). All product lines were able to increase their net sales, with damage repair services accounting for the greatest improvement. The division's growth was completely organic and its market position strengthened.

The division's financial performance improved clearly, due to increased net sales and improved productivity. An increased volume was managed with lower fixed costs. All product lines clearly improved their performance. The most significant part of the performance improvement was attributable to a reorganisation programme carried out in industrial cleaning in 2005.

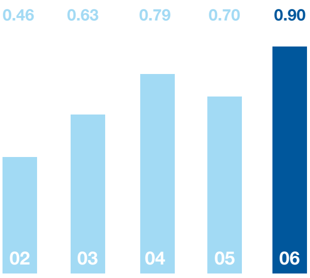
Within hazardous waste management, L&T managed to raise the rate of waste recovery, which further reduced the expensive delivery of hazardous waste for destruction by a third party. The industrial cleaning market established itself and demand increased after a very difficult year in 2005. The net sales of industrial cleaning increased also in the fourth quarter, even though this was the first year with no maintenance shutdowns during this quarter. There were many fires and other accidents in 2006 that increased the net sales of damage repair services. Demand for waste-water services remained at an equally strong level for the entire year.

During the fourth quarter, EUR 0.7 million was recognised in other income due to a change in the fair value of oil derivatives purchased by L&T Recoil in October. Changes in the fair value of oil derivatives have a quarterly earnings effect.

In September, L&T and key personnel from GT Trading Oy established the joint venture, L&T Recoil Oy, which will build a waste oil re-refinery in Hamina. L&T's share of ownership is 50%. The plant will be completed in early 2008 and the total value of the investment exceeds EUR 20 million. This plant is a step forward in the hazardous waste processing chain in accordance with the company's strategy. It will also present new opportunities for growth and internationalisation.

Earnings per share, EUR

2002-2003 FAS, 2004 excluding revenue recognition of pension liability



Financing

Interest-bearing liabilities amounted to EUR 6.4 million less than a year earlier. Net interest-bearing liabilities, totalling EUR 52.5 million, decreased by EUR 24.0 million. The exceptionally high amount of liquid assets at the end of the year was attributable to very positive cash flow from operations during the fourth quarter, as well as an arrangement carried out just before the year end through which L&T sold a major part of its lightweight vehicle fleet to a leasing company.

Interest expenses were on the same level as in the previous year. EUR 0.5 million (EUR 0.8 million) resulting from changes in the fair values of interest rate swaps was recognised in the income statement under finance income. Net finance costs for the whole year decreased by 5.7%, being 0.4% (0.5%) of net sales and 3.4% (4.6%) of operating profit.

A total of EUR 0.4 million arising from the changes in the fair value of an interest rate swap to which hedge accounting under IAS 39 is applied, was recognised in equity in 2006.

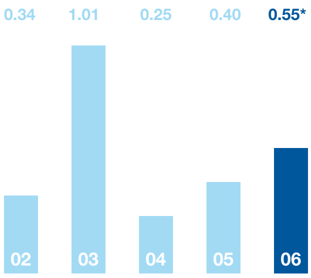
The equity ratio was 50.4% (49.5%). The gearing rate was 29.7 (49.3). Cash flow from operating activities amounted to EUR 69.9 million (EUR 48.9 million). EUR 1.7 million were released from the working capital (EUR 3.2 million were tied up). The investments were financed out of cash flow from operating activities.

Key figures for financing

	2006	2005	2004
Interest-bearing liabilities, EUR million	**77.3**	83.7	81.2
Net interest-bearing liabilities, EUR million	**52.5**	76.5	61.4
Interest expenses, EUR million	**3.0**	3.0	4.3
Net finance costs, EUR million	**1.7**	1.8	3.0
Net finance costs, % of net sales	**0.4**	0.5	0.9
Net finance costs, % of operating profit	**3.4**	4.6	7.3
Equity ratio, %	**50.4**	49.5	48.1
Gearing, %	**29.7**	49.3	45.6
Cash flows from operating activities, EUR million	**69.9**	48.9	48.4
Change in working capital, EUR million	**1.7**	-3.2	0.1

Financial risks and financial risk management are presented in the notes to the consolidated financial statements on pages 54 and 55.

Dividend/share, EUR



*Proposal by the Board of Directors

Invested capital

EUR 1 000	31 December 2006	31 December 2005	31 December 2004
Non-current assets	**265 230**	256 952	221 767
Inventories and receivables	**62 564**	50 642	41 458
Liquid assets	**24 790**	7 252	19 759
Deferred tax liability	**-22 350**	-15 768	-10 628
Trade and other payables	**-74 112**	-58 956	-54 154
Provisions	**-1 208**	-984	-821
Other non-interest-bearing liabilities	**-783**	-400	-1 407
Invested capital	**254 131**	238 738	215 974

The amount of non-current assets increased by EUR 8 million only, though capital expenditure totalled EUR 47.2 million. The book values of property, plant and equipment sold during the year amounted to EUR 11 million, but most of the proceeds were still included in liquid assets at year end. The assets tied up in trade receivables exceeded those for the previous year by 27%. Most of the increase of trade receivables was generated by Finnish business operations, and a portion by the extension of the operations to Sweden. Trade payables increased too.

Tax Office for Major Corporations returned taxes for the years 2000-2005 relating to the dissolution loss arising from the dissolution of Säkkiväline Ympäristöpalvelut Oy. The returned taxes (EUR 2.9 million) were recognised in deferred tax liability, increasing deferred tax liabilities.

The rate of circulation for invested capital was 1.7 (1.6; 1.6).

Capital expenditure

Capital expenditure totalled EUR 47.2 million (EUR 60.9 million; EUR 48.1 million). Approximately EUR 13 million were spent on nine corporate acquisitions. The combined annual net sales of the acquired companies totalled EUR 28.8 million.

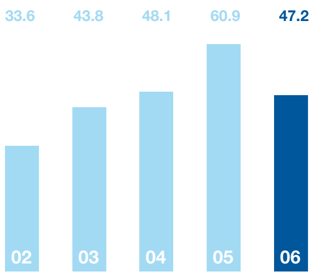
The following acquisitions were made for Environmental Services: In April majority of the shares of Suomen Keräystuote Oy was acquired, and the company, being previously an associate, became a group company. L&T holds presently 100 per cent of the shares. Suomen Keräystuote Oy is a marketing company of Finnish paper collection companies. It supplies collected recoverable paper and board to industry. The net sales for Suomen Keräystuote amounted to EUR 7 million in 2005, but the effect on the group net sales on annual level is only EUR 3.8 million due to intra-group net sales. In the beginning of March, Hämeenlinnan Puhtaaanapito Oy, a waste management company, was acquired. Its net sales totalled EUR 4.4 million in 2005 and it employed 36 people. In addition, the rental operations of WeeCee Finland Oy were acquired.

The following acquisitions were made for Property and Office Support Services: In January Allied Service Partners AB (ASP), a Swedish company specialising in property maintenance services, was acquired. ASP operates in Stockholm and Gothenburg. The net sales of ASP were EUR 10.3 million in 2005, and it employs 390 people. In October a Swedish company All Clean & Consulting Entrepreneur i Sverige AB (Accent) providing cleaning and office support services was acquired. The net sales of Accent amounted to about EUR 9.2 million in 2005, and it employs 180 persons. In addition, a Latvian property and office support services company SIA Evus, the property maintenance and cleaning operations of Sisä-Suomen Kiinteistöapu Oy LKV, the business operations of Kiimingin Kiinteistöpalvelu Oy and the property maintenance operations of Kempeleen Kiinteistöhuolto Oy were acquired.

In addition to corporate acquisitions, machinery and equipment were replaced, production premises and recycling capacity were expanded, and new information systems were built. Depreciation and amortisation amounted to EUR 28.2 million (EUR 24.8 million; EUR 21.4 million).

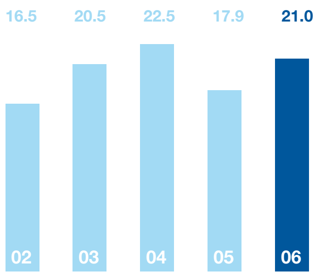
In December an agreement was signed on the acquisition of the majority (70%) of the shares of Biowatti Oy from the acting management of the company for Environmental Services. L&T also made a commitment to redeem the remaining thirty percent of the shares by the end of the year 2011. The acquisition price for the seventy percent portion was EUR 30.4 million. No interest-bearing liabilities were transferred in the acquisition. Biowatti is the leading Finnish bio

Capital expenditure, EUR million



ROI, %

2002–2003 FAS



energy supplier utilising renewable energy sources, operating in the procurement, processing, marketing and delivery of bio fuels. The main products are by-products of forest and wood processing industries and logging chips. The net sales of Biowatti for the year 2006 amounted to EUR 64.2 million. Bio fuel sales accounted for two thirds and industrial raw materials sales for one third of the net sales. Biowatti employs 38 persons. The acquisition became effective on 1 February 2007.

In the consolidated financial statements the whole acquisition price (100%) of Biowatti will be recognised as acquisition cost. No minority interest is separated from the profit or equity, but the estimated acquisition price of the remaining 30 percent (EUR 6 million) is recognised as interest-bearing non-current liability. The final price of the 30 percent portion will be determined based on the future earnings of Biowatti.

In early January 2007, Skånsk All Service AB together with subsidiaries Hygienutveckling AB and Hygienutvickling A/S operating in Norway were acquired. The consolidated net sales of the group totalled about EUR 10 million in 2006, most of which came from hygiene services for the food industry.

Capital expenditure by balance sheet item

EUR million	2006	2005	2004
Real estates	**5.3**	5.8	4.8
Machinery and equipment and other property, plant and equipment	**28.7**	38.6	28.1
Goodwill and intangible rights arising from business acquisitions	**10.1**	14.1	13.9
Other intangible assets	**3.1**	2.4	1.3
Total	**47.2**	60.9	48.1

Capital expenditure by division

EUR million	2006	2005	2004
Environmental Services	**22.0**	40.5	26.9
Property and Office Support Services	**19.5**	11.4	12.6
Industrial Services	**5.7**	8.8	8.6
Total	**47.2**	60.9	48.1

Personnel

In 2006, the average number of employees converted into full-time equivalents was 6,775 (5,918; 5,409). At year end the total number of full-time and part-time employees was 8,328 people (7,512; 6,456). Of them 1,822 people (1,222; 510) worked outside Finland.

The wages and salaries paid in 2006 totalled EUR 144.8 million (EUR 126.9 million; EUR 112.0 million).

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

	2006	2005	2004
Finland	**6 506**	6 290	5 946
Sweden	**542**		
Latvia	**894**	754	509
Russia	**386**	468	1
Total	**8 328**	7 512	6 456

Product development

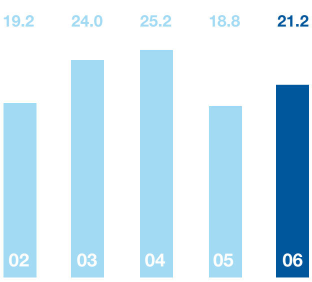
The goal of product development is to ensure the competitiveness of L&T's service products and thus promote the achievement of the company's growth targets. The responsibilities of centralised product development is the planning of product development operations, management of the product development process and the implementation of selected projects.

The costs of the centralised product development projects were EUR 2.0 million (EUR 1.4 million; EUR 1.0 million) or 0.5% of net sales (0.4%; 0.3%).

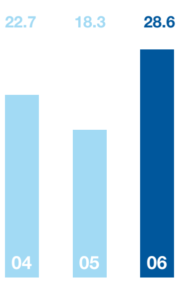
An update of the product development strategy carried out in the spring clearly increased the targets for launching new service products, and differentiation from the customer's perspective was chosen as a key criterion for the assessment of operations. As part of the implementation of the updated strategy, product development was linked as an integral part of the customer relationship process, and its operating models were reformed. The delivery cycles of the product development process were significantly shortened, and co-operation with customers was strengthened.

ROE, %

2002-2003 FAS



EVA, EUR million



Reformed operating models resulted in the launch of several new service products during the second half of the year. These new services included L&T Food Industry, the overall service package L&T Harbours, as well as the extensive L&T Event Services aimed at event organisers. To cater for the special needs of industry, the L&T ATEX service was introduced to integrate services required for compliance with the ATEX regulations applicable to explosive atmospheres.

Environmental management services were compiled into a package easier for the customer by developing L&T Small Builder Services, as well as the certified L&T WEEE service that ensures reliable processing of waste electrical and electronic equipment with a focus on data security. Services for the destruction of documents and other paper material in a secure manner have already been established among corporate customers, and an experimental service was launched for consumers. The experience was positive and product development will continue.

The most substantial new introductions to Property and Office Support Services included a lightweight office cleaning service model responding to the needs of certain service sites, as well as the L&T Playgrounds service intended for housing companies that consists of services promoting the safety of children's playgrounds combined with playground equipment provided by a co-operation partner.

Several new product development projects were started up in the fourth quarter, and new service products will be launched also in 2007 on an almost monthly basis. As the competitive situation of customer companies becomes more intense, services perceived as support services must be able to assume a more important role in the promotion of competitiveness. This perspective is clearly steering L&T's product development that engages in systematic innovation to create optimal service solutions.

Risk management

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. Comprehensive risk management endeavours to manage the Group's risk as a whole and not just individual risk factors.

Organisation and reporting

Risk management forms an integrated part of L&T's management, monitoring and reporting systems. Regular monitoring and reporting of risks take place at both group and division level, as well as within centralised functions defined as being critical, as part of the annual strategy process.

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

As of the beginning of 2006, the development and coordination of comprehensive risk management has been the responsibility of the centralised Business Control function. Its task is to steer the comprehensive risk management process, develop risk management tools, ensure the coverage and accuracy of reporting, as well as increase general awareness of risks across the entire Group. Risk management is developed together with insurance brokers and insurance companies.

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

Progress of risk management

A risk assessment in all divisions, as well as centralised functions defined as being critical, was carried out during the year to assess strategic, financial, damage-related and operational risk factors. The significance of risks was assessed using a risk matrix, and contingency plans for significant risks were prepared on this basis.

The risk assessment will be expanded to product line level and other centralised functions in connection with the strategy process in the spring of 2007.

Risk analysis

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

Strategic and operational risks

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 and interruptions in L&T's operations. Data systems can also hamper the company's functional efficiency as they become obsolete. Extensive data system modernisation projects are currently underway in the company to update its systems and reduce data security risks. The data security policy and organisation are being clarified and reformed. Special attention has been paid to testing data recovery processes and improving the physical safety of premises containing servers.

Market-related 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. 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.
To an ever-increasing extent, L&T is developing service products for each customer segment as a means of standing out from its competitors and creating other added value factors in addition to price.

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

Operations in developing markets: In addition to Finland, L&T has business operations in Latvia and Russia, and is planning to expand its operations into 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, any restriction of the free pricing of services. Risks are minimised by focusing on the international market situation and becoming familiar with the business culture through means such as commissioning studies of the country-specific risks of developing markets.

Availability of competent personnel: L&T's business is labour-intensive. As a consequence of increased demand for services and an ageing population, competition for skilled labour in the service sector will become more intense in the Nordic countries during the next few years. L&T has introduced several programmes for human resource management aimed at efficient recruitment and the improvement of well-being at work through efforts focusing on continuous training, job rotation and occupational safety, among other things. L&T endeavours to maintain a good image as an employer and to be the most attractive employer in its sector.

Damage-related risks

To cover for unexpected damage, L&T has continuous insurance coverage in all of the operating countries, including policies for injuries, property damage, business interruption, third-party liability, environmental damage and transport damage.

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

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

Premature retirement of personnel: Increased disability pension costs could have a fundamental impact on L&T's competitiveness and profitability in the future, particularly in Property and Office Support Services. As a major employer, L&T is liable for pension costs in full arising from the disability of its personnel. L&T is currently undergoing an extensive programme related to promoting the health of employees and managing occupational health care with the aims of minimising absences due to sickness and premature retirement, as well as improving the well-being of personnel.

Financial risks and their management are described in notes to the consolidated financial statements on pages 54 and 55.

Environmental factors

Important environmental aspects of L&T's operations

The starting point for L&T's operations is a high degree of environmental awareness, and environmental aspects are firmly linked to all of the company's operations. In its business, L&T engages in activities such as directing waste for reuse, promoting recycling, as well as collecting and processing hazardous waste appropriately. The most significant adverse environmental impacts of our operations include the atmospheric emissions and noise of vehicles used for collection and transport services, as well as the potential risk of environmental damage associated with the handling of hazardous waste.

The consolidated financial statements include provisions for environmental obligations that cover the site restoration costs for the Kerava landfill site and Salvor's processing and final disposal site for contaminated soil (Note 26 to the consolidated financial statements, 'Provisions').

Environmental management
Environmental management is included in L&T's management system combined with the management of health and safety issues. L&T's environmental, health and safety (EHS) programme is prepared at three-year intervals. The objectives for 2004–2006 included the increased recovery of waste, sustainable operation of properties, as well as the reduction of energy consumption and emissions. The units prepare annual EHS plans, and their realisation is monitored through internal audits.

L&T's management system and centralised functions are certified in accordance with the ISO 14001 environmental standard. Furthermore, L&T's services have received 12 environmental certifications in Finland, Sweden and Latvia.

L&T's sites have 66 environmental permits related to the handling and storage of waste. 18 environmental permits were received and 13 new ones applied for in 2006.

Actions in 2006
The Kokkola unit of Environmental Services and the Joutseno industrial cleaning unit received certification in accordance with ISO 14001. Certification processes were initiated in several units.

The use of vehicle computer systems to develop economical driving habits was tested on lorries. 237 drivers completed an economical driving course. 79% of L&T's lorry engines comply with the Euro2, Euro3 and Euro4 standards that reduce environmental impacts. Development of systematic service and maintenance operations for equipment continued within Environmental Services.

A total of 29 internal assessments and safety audits by insurance companies were completed during the year with regard to environmental and occupational safety. Furthermore, the degree of soil contamination at seven L&T sites was studied. The studies did not reveal any significant contamination that would require soil restoration.

The environmental impact assessment (EIA) procedure concerning Salvor Oy's waste treatment centre in Haukipudas was completed.

Changes in the Group structure

The Group acquired the entire stock of the following companies: for Property and Office Support Services Allied Service Partners Holding AB (ASP) of Sweden, All Clean and Consulting Entrepreneur i Sverige AB (Accent) of Sweden and SIA Evus of Latvia, as well as Hämeenlinnan Puhtaanapito Oy for Environmental Services. A majority holding in Suomen Keräystuote Oy was acquired for Environmental Services, transforming the company from an associate to a Group company.

The following business operations were acquired by the Group: Kempeleen Kiinteistöhuolto Oy's property maintenance business, Kiimingin Kiinteistöpalvelu Oy's business operations and Sisä-Suomen Kiinteistöapu Oy LKV's property maintenance and cleaning operations for Property and Office Support Services, as well as WeeCee Finland Oy's toilet rental operations for Environmental Services.

The joint venture L&T Recoil Oy was established jointly with key personnel from GT Trading Oy. Lassila & Tikanoja plc's share of ownership is 50%.

SIA 99 Perfekts was merged with SIA L&T Serviss, Allied Service Partners AB and Allied Service Partners Golvkonsult AB were merged with Allied Service Partners Holding AB, and Allied Service Partners Holding AB was merged with Lassila & Tikanoja Service AB. Säkkiväline Ympäristöpalvelut Oy was dissolved.

Loans, liabilities and contingent liabilities to related parties

Related-party transactions are accounted for in Note 33, Related-party transactions, to the consolidated financial statements.

Administrative organs

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

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

The Annual General Meeting of Shareholders held on 23 March 2006 confirmed the membership of the Board of Directors as five. Mr Heikki Hakala, Mr Lasse Kurkilahti, Mr Juhani Lassila, Mr Juhani Maijala and Ms Soili Suonoja were re-elected to the Board. At its organising meeting after the Annual General Meeting, the Board re-elected Juhani Maijala Chairman and Heikki Hakala Vice Chairman. PricewaterhouseCoopers Oy, Authorised Public Accountants, were elected auditors. The principal auditor is Heikki Lassila, Authorised Public Accountant.

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

Distribution of profit

The Group's earnings per share amounted to EUR 0.90 (EUR 0.70; EUR 0.79) and cash flow from operating activities per share EUR 1.82 (EUR 1.28;EUR 1.40). The Board of Directors will propose payment of a dividend of EUR 0.55 per share (EUR 0.40; EUR 0.25) to the Annual General Meeting convening on 26 March 2007. The amount of the dividend to be paid is EUR 21,202,345,45. The proposed dividend is 61.1 per cent of earnings per share.

Events after the balance sheet date

An agreement to acquire a majority holding of Biowatti Oy from the company's active management was signed in December. The acquisition was subject to approval of the competition authority. The approval was given on 18 January 2007, and the acquisition became effective on 1 February 2007.

Near-term uncertainties

The most significant uncertainty factor in the near term is that the performance of foreign units within Property and Office Support Services may not improve on the planned schedule. The slowness of environmental and other permit procedures may cause delays in the implementation of planned recycling plant investments in Finland as well as Russia. Changes in the fair value of oil derivatives related to L&T Recoil's operations depend on the development of world market prices for oil. This may have a substantial effect on the earnings of Industrial Services.

Prospects for the year 2007

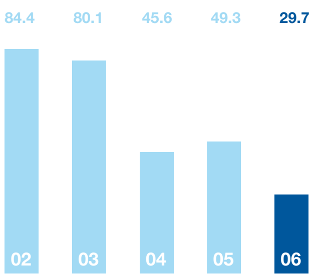
The prospects in Lassila & Tikanoja's markets are good, and the company's market position has strengthened. Among other things, the demand for Environmental Services in Finland will be increased by the fact that many landfills will have to be closed down towards the end of the year due to new EU regulations. The forest energy market should develop favourably, due to a continuing trend towards increasing the use of renewable energy sources. The market outlook for Property and Office Support Services in Finland is better than last year, and the competitive situation has normalised. The market outlook for Industrial Services is quite positive. Strong demand seems to be continuing, and the company's position in the market has clearly improved. Clear growth will also be seen in markets outside Finland.

Successful new sales in the latter half of 2006 provided the preconditions for continuing strong organic growth. Corporate acquisitions, Biowatti in particular, will strongly increase net sales. Biowatti's operations require very little capital and do not call for an operating profit level as high as that of other operations within Environmental Services. This will decrease the operating profit of Environmental Services in comparison with net sales.

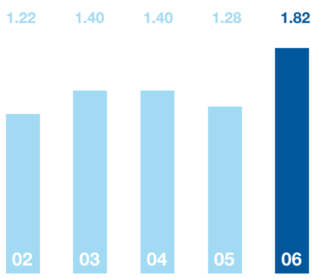
During the year, two or three new recycling plants and terminals will be built, including one in Russia. Investments will increase due to completed corporate acquisitions and other investment decisions.

The management emphasis in 2006 was on improving productivity and cost-based management. This concept will be further elaborated, particularly in Property and Office Support Services. We estimate that the growth in net sales will clearly exceed 20% and financial performance will improve.

Gearing, %
2002-2003 FAS



Cash flows from operating activities/share, €



Shares and shareholders

Shares and shareholders

Share capital and number of shares
The registered share capital of Lassila & Tikanoja plc is EUR 19,264,087. The shares have no nominal value. The number of shares is 38,528,174. Each share carries one vote. The book equivalent value of each share is EUR 0.50. The company's shares are included in the book-entry system of securities maintained by the Finnish Central Securities Depository Ltd (FCSD). The FCSD maintains the company's official list of shareholders.

The company's minimum capital is EUR 10,000,000 and the maximum EUR 50,000,000. Its 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 5 February 2007, the Board approved the subscriptions of 21,545 new shares made pursuant to the 2002C share options. As a result of these subscriptions, the company's registered share capital will increase by EUR 10,772.50 to EUR 19,274,859.50 and the number of the shares will increase to 38,549,719 shares after the increase has been entered in the Trade Register.

The changes in share capital and the number of the shares in 2005 and 2006 are listed in more detail in Note 23 Equity.

Trading in shares and share options in 2006
The company's shares are quoted on the mid-cap list of the Helsinki Stock Exchange in the Industrials sector. The trading code is LAT1V and the ISIN code is FI0009010854.

The volume of trading in Lassila & Tikanoja plc shares on the Helsinki Stock Exchange during 2006 was 12,807,684, which is 33.3% (40.0%;49.8%) of the average number of shares. The value of trading was EUR 217.6 million (EUR 224.1 million; EUR 219.6 million). The trading price varied between EUR 14.75 and EUR 22.46. The closing price was EUR 21.66. Market capitalisation went up by 45.9% and was EUR 834.5 million (EUR 571.8 million; EUR 500.7 million) at year end.

Lassila & Tikanoja's 2002C share options have been listed on the Helsinki Stock Exchange since 2 May 2006 under trading code LAT1VEW302. Trading in the 2002B share options ended on 30 October 2006.

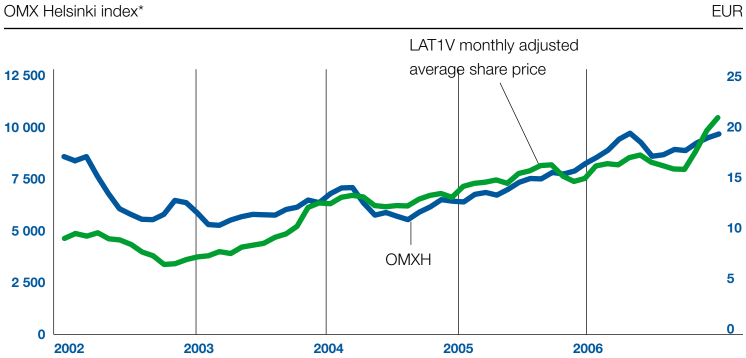
Dividend policy
The amount of dividend is tied to the results for the financial year. Profits not considered necessary for ensuring the healthy development of the company are distributed to shareholders.

Changes in share capital and number of shares between 30 September 2001 and 31 December 2006

Change	Change in share capital, EUR	Change in number of shares	Share capital, EUR	Number of shares
30 September 2001 – 31 December 2003			**7 913 154**	**15 826 308**
Subscriptions pursuant to share options during 2004	35 390	106 170	7 948 544	15 897 088
Bonus issue 1:1	7 948 544	15 897 088	15 897 088	31 794 176
Rights offering 5:2 at EUR 7.50 each *)	3 171 029	6 342 058	19 068 117	38 136 234
31 December 2004			**19 068 117**	**38 136 234**
Subscriptions pursuant to share options during 2005	120 770	241 540	19 188 887	38 377 774
31 December 2005			**19 188 887**	**38 377 774**
Subscriptions pursuant to share options during 2006	75 200	150 400	19 264 087	38 528 174
31 December 2006			**19 264 087**	**38 528 174**

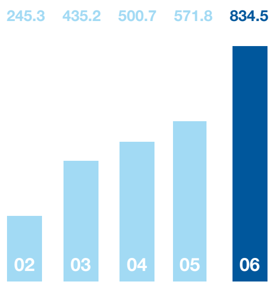
* Subscription ratio before the bonus issue

Adjusted share price development



*OMX Helsinki index, monthly average

Market capitalisation at year end, EUR million



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

Redemption obligation
Under Article 15 of Lassila & Tikanoja plc Articles of Association, a shareholder whose holding either alone or together with other shareholders as specified in the Article reaches or exceeds 33 1/3 or 50 per cent of all shares has an obligation upon the request of other shareholders to redeem their shares or securities entitling them to shares.

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

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

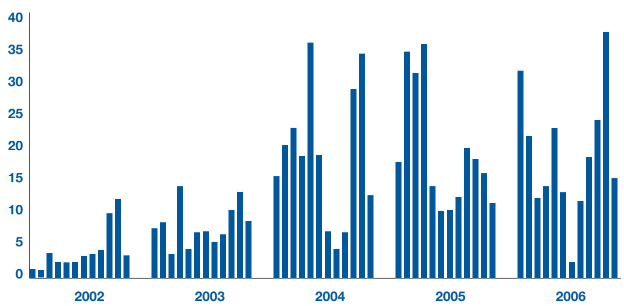
Terms and conditions of share subscriptions based on the share option plans for 2002 and 2005
The subscription periods for the 2002A and 2002B share option plans have expired. The outstanding 2002C share options can be used to subscribe for a maximum of 234,755 shares, 0.6% of the current number of shares. The subscription price for 2002C share options is EUR 11.46. The subscription period will end on 30 October 2007.

The subscription price for 2005A options is EUR 14.22, for 2005B options EUR 16.98 and for 2005C options the company's trading-weighted average share price on the Helsinki Stock Exchange in May 2007 rounded to the nearest cent. The subscription prices will be deducted by any amount of per-share dividend, distributed after the determination of the subscription price and before the subscription of shares, which exceeds a total of 70% of the per-share earnings for the financial period for which the dividends are distributed. The share subscription period for 2005A options is 2 November 2007 to 29 May 2009, for 2005B options 3 November 2008 to 31 May 2010, and for 2005C options 2 November 2009 to 31 May 2011.

Summary of share option plans at 31 December 2006

	2002C	2005A	2005B	2005C
Maximum number of options	280 000	170 000	200 000	230 000
Granted to	28 key employees	25 key employees	35 key employees	
Held by L&T Advance Oy	6 000	8 000	7 000	230 000
Outstanding options	256 300	162 000	193 000	
Listed since	2 May 2006			
Share subscription period	until 30 October 2007	2 November 2007 to 29 May 2009	3 November 2008 to 31 May 2010	2 November 2000 to 31 May 2011
Share subscription price	11.46	14.22	16.98	not determined
Number of shares to which each share option entitles holder	1	1	1	1

Adjusted volume of shares traded
EUR million



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. After 5 February 2007, the total number of shares available for subscription using all share options issued by the company is 840,755, which is 2.2% of the company's current number of shares.

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

More details of share option plans are given in Note 24 to the consolidated financial statements, Share-based payment. The complete terms and conditions of the share option plans are presented on the company's website.

Shareholders

Lassila & Tikanoja plc had 4,535 registered shareholders at the end of 2006 (4,935; 4,134). Nominee-registered shares and shares in direct foreign ownership accounted for 10.9% of the stock (8.9%; 7.9%).

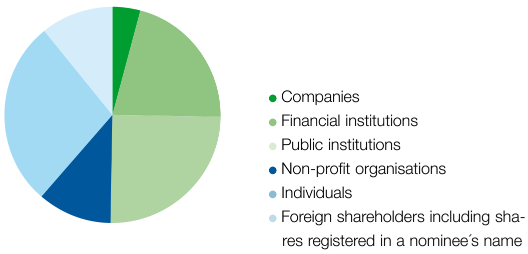
Holdings of the Board of Directors and President and CEO

The Members of the Board, the President and CEO, and organisations under their control held a total of 3,992,409 shares in the company on 31 December 2006. They represent 10.4% of the number of shares and votes. Share options held by the President and CEO on 31 December 2006 will entitle to the subscription of 92,000 shares.

Notifications on major holdings

On 10 April 2006, the Tapiola Group notified Lassila & Tikanoja plc that its holding in Lassila & Tikanoja plc's shares and votes had decreased to 4.6%.

Breakdown of shareholding % of shares and of voting power



Breakdown of shareholding by size of holding at year end

Number of shares	Number of shareholders	Percentage	Number of shares	Percentage of shares and votes
1–1 000	3 317	73.1	1 172 268	3.0
1 001–5 000	822	18.1	1 812 419	4.7
5 001–10 000	164	3.6	1 222 392	3.2
10 001–100 000	196	4.4	5 612 094	14.7
100 001–500 000	23	0.5	4 221 727	11.0
over 500 000	13	0.3	20 433 022	53.0
	4 535	100.0	34 473 922	89.5
Shares registered in a nominee's name			4 013 708	10.4
Shares not transferred to the book-entry securities system			40 544	0.1
Total			38 528 174	100.0

Breakdown of shareholding by category at year end

	Number of shareholders	Percentage	Number of shares	Percentage of shares and votes
Companies	329	7.2	1 639 259	4.3
Financial institutions and insurance companies	47	1.1	8 054 894	20.9
Public institutions	40	0.9	9 591 883	24.9
Non-profit organisations	155	3.4	4 364 325	11.3
Individuals	3 934	86.7	10 647 231	27.6
Foreign shareholders	30	0.7	176 330	0.5
	4 535	100.0	34 473 922	89.5
Shares registered in a nominee's name			4 013 708	10.4
Shares not transferred to the book-entry securities system			40 544	0.1
Total			38 528 174	100.0

The major shareholders at year end

	Shareholder	Number of shares	Percentage of shares and of voting power
1.	Ilmarinen Mutual Pension Insurance Company	3 051 728	7.9
2.	Varma Mutual Pension Insurance Company	2 795 960	7.3
3.	Evald and Hilda Nissi Foundation	2 413 584	6.3
4.	Sampo Life Insurance Company Ltd	2 171 238	5.6
5.	Tapiola Mutual Pension Insurance Company	1 974 240	5.1
6.	Tapiola Group	1 770 556	4.6
	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 Hyvinvointi Mutual Fund	57 460	0.1
	Tapiola Suomi Mutual Fund	32 000	0.1
7.	Juhani Maijala	1 525 794	4.0
8.	Mutual funds managed by Nordea Investment Fund Company Finland Ltd	1 108 640	2.9
9.	Mutual funds managed by OP Fund Management Company Ltd.	960 140	2.5
10.	Heikki Bergholm	815 200	2.1
11.	Mikko Maijala	660 100	1.7
12.	The State Pension Fund	600 000	1.6
13.	Kristiina Turjanmaa	585 842	1.5
14.	Pohjola Non-Life Insurance Company Limited	377 800	1.0
15.	Mutual funds managed by Fondita Fund Management Ltd	364 660	0.9
16.	Mutual Funds managed by Aktia Fund Management Ltd	293 300	0.8
17.	Eeva Maijala	287 000	0.7
18.	Chemec Ltd	254 148	0.7
19.	Foundation for Economic Education	250 000	0.6
20.	Evli-Select Mutual Fund	216 228	0.6
	Total	22 413 158	58.2

All information concerning the company's shareholders is based on the list of shareholders maintained by the Finnish Central Securities Depository Ltd.
Current information on shares and shareholders is available on the company website and is updated monthly.

Key figures on shares

	IFRS				FAS	
	2006	2005	2004**	2004	2003	2002
Earnings/share (EPS), EUR	**0.90**	0.70	0.79	1.01	0.63	0.46
Earnings/share (EPS), diluted, EUR	**0.90**	0.70	0.78	1.01		
Equity/share, EUR	**4.52**	3.98	3.49	3.49	2.78	2.49
Dividend/share, EUR	**0.55***	0.40	0.25	0.25	1.01	0.34
Dividend/earnings, %	**61.1***	57.0	31.7	24.7	159.6	74.7
Dividend yield, %	**2.5***	2.7	1.9	1.9	8.0	4.8
P/E ratio	**24.1**	21.2	16.6	13.0	19.9	15.4
Cash flows from operating activities/share, EUR	**1.82**	1.28	1.40	1.40	1.40	1.22
Share price adjusted for issues:						
lowest, EUR	**14.75**	13.10	11.48	11.48	6.89	5.97
highest, EUR	**22.46**	16.67	14.09	14.09	13.54	10.21
average, EUR	**16.99**	14.68	12.72	12.72	8.83	7.30
at year end, EUR	**21.66**	14.90	13.13	13.13	12.62	7.12
Market capitalisation on 31 Dec, EUR million	**834.5**	571.8	500.7	500.7	435.2	245.3
Number of shares adjusted for issues						
average during the year	**38 444 950**	38 193 024	34 650 239	34 650 239	34 477 003	34 477 003
at year end	**38 528 174**	38 377 774	38 136 234	38 136 234	34 477 003	34 477 003
average during the year, diluted	**38 600 805**	38 420 755	34 870 587	34 870 587		
Adjusted number of shares traded						
during the year	**12 807 684**	15 263 446	17 264 627	17 264 627	10 365 220	6 295 050
as a percentage of the average	**33.3**	40.0	49.8	49.8	30.1	18.3
Volume of shares traded, EUR 1,000	**217 562**	224 128	219 558	219 558	91 556	45 943

* Proposal by the Board of Directors
** Profit excluding revenue recognition of pension liability

Calculation of the key figures

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

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

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

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

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

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

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

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

Adjustment factor for the 2004 issue = 2.178462

Key figures on financial performance

	IFRS				FAS	
	2006	2005	2004*	2004	2003	2002
Net sales, EUR million	**436.0**	377.4	337.2	337.2	306.3	267.2
Operating profit, EUR million	**50.2**	39.3	40.8	51.3	35.7	26.8
as % of net sales	**11.5**	10.4	12.1	15.2	11.7	10.0
Profit before tax, EUR million	**48.5**	37.5	37.9	48.4	31.8	23.2
as % of net sales	**11.1**	9.9	11.2	14.4	10.4	8.7
Profit for the period, EUR million	**35.3**	27.2	27.7	35.5	22.1	16.0
as % of net sales	**8.1**	7.2	8.2	10.5	7.2	6.0
Profit for the period attributable to the equity holders of the parent company, EUR million	**34.6**	26.8	27.3	35.1	21.8	15.9
as % of net sales	**7.9**	7.1	8.1	10.4	7.1	5.9
EVA, EUR million	**28.6**	18.3	22.7		19.6	11.3
Cash flows from operating activities, EUR million	**69.9**	48.9	48.4	48.4	48.2	42.0
Balance sheet total, EUR million	**352.6**	314.8	283.0	283.0	238.7	212.1
Return on equity, % (ROE)	**21.2**	18.8	25.2	32.3	24.0	19.2
Return on invested capital, % (ROI)	**21.0**	17.9	22.5	27.1	20.5	16.5
Equity ratio, %	**50.4**	49.5	48.1	48.1	40.6	41.0
Gearing, %	**29.7**	49.3	45.6	45.6	80.1	84.4
Net interest-bearing liabilities, EUR million	**52.5**	76.5	61.4	61.4	77.6	73.3
Capital expenditure, EUR million	**47.2**	60.9	48.1	48.1	43.8	33.6
as % of net sales	**10.8**	16.1	14.3	14.3	14.3	12.6
Depreciation and amortisation	**28.2**	24.8	21.4	21.4	25.6	22.2
Average number of employees in full-time equivalents	**6 775**	5 918	5 409	5 409	4 595	3 763
Total number of full-time and part-time employees at year end	**8 328**	7 512	6 456	6 456	5 987	4 848

* 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 investment, % (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 2006: 8.75%
WACC 2003-2005: 9%
WACC 2002: 9.5%

Income statement by quarter

EUR 1 000	10–12/2006	7–9/2006	4–6/2006	1–3/2006	10–12/2005	7–9/2005	4–6/2005	1–3/2005
Net sales								
Environmental Services	55 463	52 973	51 692	47 124	47 333	46 588	47 234	39 524
Property and Office								
Support Services	44 584	41 463	41 243	41 113	36 545	35 645	35 955	34 745
Industrial Services	16 554	18 223	16 513	13 126	14 362	15 838	15 746	11 638
Group administration and other	3	19	26	70	92	91	92	91
Inter-division net sales	-1 242	-1 030	-1 044	-869	-1 235	-1 064	-966	-806
Lassila & Tikanoja	115 362	111 648	108 430	100 564	97 097	97 098	98 061	85 192
Operating profit								
Environmental Services	7 390	9 986	7 828	7 294	5 862	7 017	6 390	4 717
Property and Office								
Support Services	1 154	4 833	1 499	1 272	2 393	4 462	2 868	2 224
Industrial Services	2 739	3 800	2 277	785	909	2 260	1 820	-243
Group administration and other	-971	1 233	-547	-388	-110	-439	-524	-352
Lassila & Tikanoja	10 312	19 852	11 057	8 963	9 054	13 300	10 554	6 346
Operating margin								
Environmental Services	13.3	18.9	15.1	15.5	12.4	15.1	13.5	11.9
Property and Office								
Support Services	2.6	11.7	3.6	3.1	6.5	12.5	8.0	6.4
Industrial Services	16.5	20.9	13.8	6.0	6.3	14.3	11.6	-2.1
Lassila & Tikanoja	8.9	17.8	10.2	8.9	9.3	13.7	10.8	7.4
Finance costs, net	-366	-740	-391	-201	-120	-263	-1 010	-408
Share of profits of associates	18				27			
Profit before tax	9 964	19 112	10 666	8 762	8 961	13 037	9 544	5 938

Proposal for the distribution of profit

According to the financial statements, Lassila & Tikanoja plc's distributable assets amount to EUR 40,900,168.17, of which EUR 24,648,860.77 constitutes profit for the financial period. There were no substantial changes in the financial standing of the company after the end of the financial period, and the solvency test referred to in Chapter 13, Section 2 of the Companies Act does not affect the amount of distributable assets. The Board of Directors proposes to the General Meeting of Shareholders that distributable assets be used as follows:

A dividend of EUR 0.55 per share will be paid on each of the 38,549,719 shares, totalling	EUR 21 202 345.45
To be retained and carried forward	EUR 19 697 822.72
Total	EUR 40 900 168.17

In accordance with the resolution of the Board of Directors, the record date is 29 March 2007.
The Board of Directors proposes to the Annual General Meeting that the dividend be paid on 5 April 2007.

Signatures to the report by the Board of Directors and the financial statements for the year 2006

Helsinki on 5 February 2007

Juhani Maijala

Heikki Hakala

Juhani Lassila

Lasse Kurkilahti

Soili Suonoja

Jari Sarjo
President and CEO

Lassila & Tikanoja plc's financial statements for the year 2006

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

Consolidated income statement

1.1.–31.12. EUR 1 000	2006	%	2005	%	Note
Net sales	**436 004**	**100.0**	377 448	100.0	1
Cost of goods sold	**-367 968**	**-84.4**	-320 536	-84.9	
Gross profit	**68 036**	**15.6**	56 912	15.1	
Other operating income	**4 702**	**1.1**	1 830	0.5	5
Selling and marketing costs	**-12 844**	**-2.9**	-11 508	-3.0	
Administrative expenses	**-8 660**	**-2.0**	-7 304	-1.9	
Other operating expenses	**-1 049**	**-0.2**	-676	-0.2	5
Operating profit	**50 185**	**11.5**	39 254	10.4	3,4
Finance income	**1 526**	**0.3**	1 431	0.4	7
Finance costs	**-3 225**	**-0.7**	-3 232	-0.9	7
Share of profit of associates	**18**		27		15
Profit before income tax	**48 504**	**11.1**	37 480	9.9	
Income tax expense	**-13 249**	**-3.0**	-10 250	-2.7	8
Profit for the period	**35 255**	**8.1**	27 230	7.2	
Attributable to:					
Equity holders of the parent	**34 613**		26 822		
Minority interest	**642**		408		
Earnings per share for profit attributable to the equity holders of the parent:					
Earnings per share, EUR	**0.90**		0.70		9
Earnings per share, EUR - diluted	**0.90**		0.70		

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

Consolidated balance sheet

31 December EUR 1 000	2006	%	2005	%	Note
ASSETS					
Non-current assets					
Intangible assets					11
Goodwill	**106 611**		99 120		
Intangible assets arising from acquisitions	**9 893**		9 859		
Other intangible assets	**7 903**		5 893		
	124 407	**35.3**	114 872	36.5	
Property, plant and equipment					13
Land	**3 215**		4 824		
Buildings and constructions	**38 239**		37 741		
Machinery and equipment	**90 397**		89 946		
Other	**174**		44		
Advance payments and construction in progress	**2 013**		2 849		
	134 038	**38.0**	135 404	43.0	
Other non-current assets					
Investments in associates	**3**		338		15
Available-for-sale investments	**2 954**		3 029		17
Finance lease receivables	**3 174**		2 822		18
Deferred income tax assets	**425**		312		8
Other receivables	**229**		175		
	6 785	**1.9**	6 676	2.1	
Total non-current assets	**265 230**	**75.2**	256 952	81.6	
Current assets					
Inventories	**4 315**		4 744		19
Trade and other receivables	**58 094**		45 788		20
Advance payments	**155**		110		
Available-for-sale investments	**13 955**		3 696		21
Cash and cash equivalents	**10 835**		3 556		22
Total current assets	**87 354**	**24.8**	57 894	18.4	
Total assets	**352 584**	**100.0**	314 846	100.0	

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

31 December EUR 1 000	2006	%	2005	%	Note
EQUITY AND LIABILITIES					
Equity					
Equity attributable to equity holders of the parent					23
Share capital	**19 264**		19 189		
Share premium reserve	**47 666**		46 606		
Other reserves	**326**		-179		
Retained earnings	**72 291**		60 428		
Profit for the period	**34 613**		26 822		
	174 160	**49.4**	152 866	48.5	
Minority interest	**2 709**	**0.8**	2 166	0.7	
Total equity	**176 869**	**50.2**	155 032	49.2	
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	**22 350**		15 768		8
Pension obligations	**352**		176		25
Provisions	**936**		684		26
Interest-bearing liabilities	**59 031**		59 629		27
Other liabilities	**431**		224		28
	83 100	**23.6**	76 481	24.3	
Current liabilities					
Interest-bearing liabilities	**18 231**		24 077		27
Trade and other payables	**73 174**		58 956		29
Tax liabilities	**938**				
Provisions	**272**		300		
	92 615	**26.3**	83 333	26.5	
Total liabilities	**175 715**	**49.8**	159 814	50.8	
Total equity and liabilities	**352 584**	**100.0**	314 846	100.0	

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

Consolidated cash flow statement

EUR 1 000	2006	2005	Note
Cash flows from operating activities			
Profit for the period	**35 255**	27 230	
Adjustments	**40 656**	35 260	32
Net cash generated from operating activities before change in working capital	**75 911**	62 490	
Change in working capital			
Change in trade and other receivables	**-8 380**	-4 780	
Change in inventories	**541**	-461	
Change in trade and other payables	**9 585**	2 027	
Change in working capital	**1 746**	-3 214	
Interest paid	**-2 925**	-3 434	
Interest received	**938**	554	
Income tax paid	**-5 776**	-7 455	
Net cash generated from operating activities	**69 894**	48 941	
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash	**-10 658**	-15 801	2
Purchases of property, plant and equipment and intangible assets	**-34 878**	-40 147	
Proceeds from sale of property, plant and equipment and intangible assets	**13 727**	1 685	
Acquisition of available-for-sale investments		-43	
Change in other long-term receivables	**-7**	15	
Proceeds from sale of available-for-sale investments	**353**	83	
Dividends received from investments	**9**	7	
Net cash used in investment activities	**-31 454**	-54 201	
Cash flows from financing activities			
Proceeds from share issue	**1 018**	1 795	23
Change in short-term borrowings	**-14 525**	15 405	
Proceeds from long-term borrowings	**15 000**	2 055	
Repayments of long-term borrowings	**-7 041**	-16 985	
Dividends paid	**-15 339**	-9 525	
Net cash generated from financing activities	**-20 887**	-7 255	
Net change in liquid assets	**17 553**	-12 515	
Liquid assets at beginning of period	**7 252**	19 759	
Effect of changes of foreign exchange rates	**-15**	25	
Change in fair value of current available-for-sale investments		-17	
Liquid assets at end of period	**24 790**	7 252	

Liquid assets

EUR 1 000	2006	2005
Cash	**10 835**	3 556
Current available-for-sale investments	**13 955**	3 696
Total	**24 790**	7 252

The notes are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

EUR 1 000	Share capital	Share premium reserve	Translation difference reserve	Revaluation reserves	Retained earnings	Equity attributable to equity holders of the parent	Minority interest	Total equity
Equity at 1 January 2005	**19 068**	**44 932**	**-289**	**13**	**69 515**	**133 239**	**1 550**	**134 789**
Current available-for-sale investments, change in fair value				-12		-12		-12
Currency translation differences			109			109		109
Items recognised directly in equity			109	-12		97		97
Profit for the period					26 822	26 822	408	27 230
Total recognised income and expenses			**109**	**-12**	**26 822**	**26 919**	**408**	**27 327**
Share option remuneration								
Subscriptions pursuant to 2002 options	121	1 674				1 795		1 795
Remuneration expense of share options					448	448		448
Dividends paid					-9 535	-9 535		-9 535
Investment by a minority holder							208	208
Equity at 31 December 2005	**19 189**	**46 606**	**-180**	**1**	**87 250**	**152 866**	**2 166**	**155 032**
Equity at 1 January 2006	**19 189**	**46 606**	**-180**	**1**	**87 250**	**152 866**	**2 166**	**155 032**
Hedging fund, change in fair value				384		384		384
Current available-for-sale investments, change in fair value				10		10		10
Currency translation differences			111			111	-1	110
Items recognised directly in equity			111	394		505	-1	504
Profit for the period					34 613	34 613	642	35 255
Total recognised income and expenses			**111**	**394**	**34 613**	**35 118**	**641**	**35 759**
Share option remuneration								
Subscriptions pursuant to 2002 options	75	1 060				1 135		1 135
Remuneration expense of share options					396	396		396
Dividends paid					-15 355	-15 355	-164	-15 519
Investment by a minority holder							66	66
Equity at 31 December 2006	**19 264**	**47 666**	**-69**	**395**	**106 904**	**174 160**	**2 709**	**176 869**

More information on equity is shown in Note 23 Equity, and on taxes recognised in equity in Note 8 Income taxes.

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 limited company. Its domicile is Helsinki. The registered address of the company is Hopeatie 2, 00440 Helsinki. The Group consists of the parent company, 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, Sweden, Latvia and Russia, and as from 2007 in Norway.

The Lassila & Tikanoja share is quoted on the Helsinki Stock Exchange.

These consolidated financial statements have been approved for issue by the Board of Directors of Lassila & Tikanoja plc on 5 February 2007.

Summary of significant accounting policies

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

Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards, with application of the IAS and IFRS standards as well as SIC and IFRIC interpretations that were effective on 31 December 2006. In the Finnish Accounting Act and regulations enacted by virtue of it, International Financial Reporting Standards refer to standards and related interpretations approved for adoption within the EU according to the procedure described in regulation (EC) No 1606/2002.

The consolidated financial statements have been prepared in euros, and figures are presented as thousands of euros. The financial statements have been prepared under the historical cost convention with the exception of available-for-sale investments for which a fair value can be determined from market prices and derivative contracts, which have been measured at fair value. Share-based payments have been recognised at fair value on the grant date. In the 2005 financial statements, the revaluation of a building sold in 2006 was depreciated according to the first-time adoption standard.

Consolidation

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

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

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

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

Associates in which L&T holds between 20% and 50% of the voting rights are accounted for using the equity method. When L&T's share of losses exceeds the carrying amount of the interest in the associate, the losses exceeding the carrying amount are not consolidated. Unrealised gains between the Group and an associate are eliminated in accordance with the Group's share of holdings. Investments in associates include the goodwill arising from their acquisition. Suomen Keräystuote Oy became a subsidiary in 2006, and the Group did not have any significant associates at the end of the period.

Foreign currency translation

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

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

The income statements of the Group entities whose functional currency is not the euro are translated into euros at average exchange rates for the period, and the balance sheets at the exchange rates for the balance sheet date. The difference in exchange rates applicable to the translation of profit in the income statement and balance sheet result in a translation difference recognised in the translation difference reserve within shareholders' equity. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries, as well as translation differences in equity items accumulating after the acquisition, are recognised in the translation difference reserve. Non-current loan receivables for which settlement is neither planned nor likely to occur in the foreseeable future are handled as part of the net investment in subsidiaries. The translation differences on such receivables also are recognised in the translation difference reserve. When a subsidiary is sold, any accumulated translation differences are recognised in the income statement as part of the total 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 to the ownership of the goods sold have been transferred to the buyer, and the amount of the revenue can be reliably measured.

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

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

Research and development

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

Goodwill and other intangible assets

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.

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

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

Other intangible assets consist primarily of software and software licences.

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

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

Property, plant and equipment

Property, plant and equipment purchased by Group companies are stated at historical cost. The historical cost includes expenditure that is directly attributable to the acquisition of each asset. In business combinations, property, plant and equipment are measured at fair value at the acquisition date. In the balance sheet, property, plant and equipment are shown less depreciation and impairment, if any.

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

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

Buildings and structures	5–25 years
Vehicles	6–15 years
Machinery and equipment	4–15 years

In connection with review of useful lives, the depreciation periods applicable to some groups of heavy machinery have been extended as of the beginning of 2006. The change will decrease annual depreciation by approximately EUR 0.8 million.

The joint venture Salvor Oy's investments in bottom liners for sites used for the reception and processing 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 in which they are incurred. Gains and losses on sales and disposal of property, plant and equipment are determined by comparing the net proceeds with the carrying amount and are recognised in other operating income and expenses.

L&T has no investment properties.

Impairment of assets

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

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

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

Leases

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

The assets leased under a finance lease are recognised in property, plant and equipment at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. They are depreciated over the lease term or over their expected useful lives, if shorter. 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. Financing costs are allocated to each period of the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases of assets and premises that do not transfer substantially all of the risks and rewards incidental to ownership to the lessee are classified as operating leases. The lease payments are recognised on a straight-line basis over the lease term as income or cost depending on whether L&T is the lessor or the lessee.

Assets leased out under operating leases are recognised in property, plant and equipment and are depreciated over their expected useful lives using the method applied for corresponding property, plant and equipment being utilised by the company.

Financial instruments

Financial assets and liabilities are classified as loans and receivables, available-for-sale investments, financial assets and liabilities held for trading, 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 book 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, excluding unlisted shares, are measured at fair value. 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 on the settlement date. Any change in fair value between the trade date and settlement date 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 are recognised in the revaluation reserve within equity and transferred to the income statement when the asset is sold or becomes due.

L&T's derivative financial instruments include interest rate swaps to hedge the cash flow of variable-rate borrowings against interest rate risk, as well as crude oil put options purchased to hedge the sales price risk associated with the upcoming base oil production of a re-refinery under construction for the joint venture L&T Recoil. Derivatives are recognised initially in the balance sheet at cost, which is their fair value at the time of acquisition. After acquisition, they are measured at fair value at each balance sheet date. The fair values of interest rate swaps are based on that day's market prices. The fair values of the options at balance sheet date are determined by using option pricing models. Any gains and losses arising from fair valuation are accounted for in the manner determined by the purpose of the derivative financial instrument.

Even though all interest rate hedges meet the criteria set for efficient hedging in the Group's risk management policy, hedge accounting in accordance with IAS 39 is not applied to all interest rate swaps for the time being. Changes in the fair value of these items are recognised in the income statement as finance income or costs. L&T does not apply any hedge accounting to oil options made in the name of the joint venture. Any changes in fair value are recognised in full as other operating income or expenses in the income statement. These derivatives for which hedge accounting is not applied are categorised as financial assets and liabilities held for trading. Their positive fair values are recognised in trade and other receivables. Any negative fair values of interest rate swaps are recognised correspondingly in trade and other payables.

With regard to interest rate swaps for which L&T applies hedge accounting, the relationship between the hedged liability and the interest rate swap is documented together with the risk management objectives. At the commencement of a hedge and in connection with each closing of the accounts, L&T assesses the hedging instrument's ability to offset any changes in cash flows. To the extent that cash flow hedging is efficient, changes in fair value are recognised in the hedging reserve within equity. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, the gain or loss on the hedging instrument remains in equity until the hedged cash flow becomes realised. If the hedged cash flow no longer is expected to be realised, the gain or loss incurred on the hedging instrument is recognised in the income statement immediately.

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

Trade and other current non-interest-bearing payables, 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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank deposits redeemable on demand, as well as other short-term liquid investments. They are recognised as of the settlement date and measured at historical 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.

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

Employee benefits

Pension obligations

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

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 of 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 is classified as a defined contribution plan since 1 January 2006. Consequently, the total liability recorded in the balance sheet was recognised as revenue in the income statements for the 2004 and 2005 financial periods.

L&T operates some minor defined benefit plans originating from business acquisitions. Some of these defined benefit pension plans are the Group's own liabilities while some are covered by pension insurance. The obligations have been calculated for each plan separately using the projected unit credit method. Pension costs are recognised in the income statement over employees' periods of service in accordance with actuarial calculations. The discount rate used for determining the present value of a pension obligation is based on the swap interest rate curve plus a risk premium of 0.2% and the estimated duration of the pension obligation. The pension plan assets measured at fair value on the balance sheet date, the share of unrecognised actuarial gains and losses, as well as any past-service costs are deducted from the present value of the pension obligation to be recognised in the balance sheet.

From the transition date of 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 scheme.

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

Share-based payment

IFRS 2, Share-Based Payment, has been applied to share option plans that have been granted after 7 November 2002 and had not become vested before 1 January 2005. The cost recognition of an option plan is based on fair value determined on the grant date and the final amount of benefits granted. The fair value is measured using the Black-Scholes option pricing model. The fair value on the grant date is recognised as an expense on a straight-line basis during the vesting period. In this respect, the expense recognition is not reversible, regardless of whether the recipient subsequently has exercised the share option. The offset item for any income statement recognition always is recognised in equity, and therefore it does not affect the amount of equity as a whole.

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

When options are exercised, the proceeds from share subscriptions are recorded in share capital and the share premium reserve.

Provisions

A provision is recognised when L&T has a legal or actual obligation toward a third party resulting from past events and the event involves a probable payment obligation in an amount that can be estimated reliably. A liability of uncertain timing and amount is recognised as a provision. In other cases a liability is recognised in accrued expenses. Provisions related to the environment are recognised when it is probable that an obligation has arisen and its amount can be estimated reliably. Environmental provisions related to the restoration of sites are made at the commencement of each project. The costs capitalised as a provision, as well as the original acquisition cost of assets, are depreciated over the useful life of the asset. Provisions are discounted to present value. The most significant provisions recognised in the balance sheet are the site restoration provisions for the landfill and the joint venture Salvor's processing site and a provision for onerous lease agreements.

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 grants or other grants received to cover actual costs are recognised in the income statement in the period in which the expenses are incurred. They are presented in other operating income. Grants for acquisition of property, plant and equipment are recognised as deductions of historical cost. The grant is recognised as revenue over the life of a depreciable asset by way of a reduced depreciation charge.

Income taxes

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

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

Critical accounting estimates and judgements

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

Allocation of acquisition cost

Assets and liabilities acquired in business combinations are measured at fair value according to IFRS 3. Whenever possible, the management use 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. In particular, the measurement of intangible assets is based on discounted cash flows and requires the management to make estimates on future cash flows and the future use of assets, along with their effect on the Group's financial position. Although these estimates are based on the management's best knowledge, actual results may differ from the estimates (Note 2 Business acquisitions). The carrying amounts of assets are assessed continuously for impairment. More information about this is provided in the section "Impairment" under the accounting policies. Note 11 Intangible assets specifies the impairment recognised.

Goodwill impairment testing

In testing of goodwill for impairment, the recoverable amounts of the cash-generating units to which the goodwill belongs are determined on the basis of value-in-use calculations. These calculations require the judgment by the management. Though the assumptions used are appropriate according to the management's judgment, the estimated cash flows may differ fundamentally from those realised in the future (Note 12 Goodwill impairment tests).

Application of new or amended IFRS standards

Amendments to standards valid as of the beginning of 2006 that will affect L&T's consolidated accounting policies and financial statements

- IAS 19 (Amendment) Employee Benefits:The amendment enabled an alternative way to recognise actuarial gains and losses in full directly in equity and expanded the notes to the financial statements. Because the Group did not change the accounting policies for actuarial gains and losses, the implementation of the change affected only the notes to the financial statements.
- IAS 21 (Amendment) The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation.The amendment clarified the standard's requirements applicable to receivables from a foreign operation or liabilities to a foreign operation that are processed as part of the net investment made in a foreign operation. This amendment had an unsubstantial effect on translation differences arising from net investments.

Application of standards before their entry into force

- IAS 1 (Amendment) Presentation of Financial Statements, Capital Disclosures. The amendment shall enter into force on 1 January 2007 but the Group already applies it in these financial statements.

Standards, amendments and interpretations that have entered into force in 2006 but are insignificant to L&T

- IAS 39 (Amendment) Hedges of Forecast Intra-Group Transactions
- IAS 39 (Amendment) Fair Value Option
- IAS 39 (Amendment) Financial Instruments: Recognition and Measurement, as well as IFRS 4 (Amendment) Insurance Contracts - Financial Guarantee Contracts
- IFRS 1 (Amendment) First-time Adoption of IFRS and IFRS 6 (Amendment) Exploration for and Evaluation of Mineral Resources
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC 4 Determining Whether an Arrangement Contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group will adopt the following new standards and interpretations in 2007:

- IFRS 7 Financial Instruments: Disclosures (valid for financial periods starting after 1 January 2007). The standard requires new notes on risks arising from financial instruments, including minimum note requirements related to credit risk, liquidity risk and market risk, as well as a requirement for sensitivity analysis concerning market risk. The adoption of the standard will affect the notes to upcoming financial statements.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (valid for financial periods starting after 1 March 2006). The interpretation provides clarification to the IAS 29 requirements associated with problems observed by businesses as they adjust their financial statements in accordance with IAS 29 in the first year when they realise that their operating currency is that of a hyperinflationary economy. Because no L&T Group company currently has an operating currency based in a hyperinflationary economy, the adoption of IFRIC 7 is insignificant for the Group.
- IFRIC 8 Scope of IFRS 2 (valid for financial periods starting after 1 May 2006) The interpretation clarifies that the standard IFRS 2 Share-Based Payment is applicable to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. According to the management's assessment, the interpretation has no effect on the processing of L&T's current option plans in financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives (valid for financial periods starting after 1 June 2006). The interpretation clarifies certain aspects of embedded derivatives in accordance with IAS 39 Financial Instruments: Recognition and Measurement. According to the management's current understanding, this interpretation will not have any effect on the Group's upcoming financial statements.
- IFRIC 10 Interim Financial Reporting and Impairment (valid for financial periods starting after 1 November 2006, EU approval pending). The interpretation disallows the reversal of impairment loss recognised in an interim report for goodwill, equity investments or financial assets carried at cost on a subsequent balance sheet date. The Group will adopt the interpretation in 2007, but it is not expected to have any effect on the Group's financial statements.

Standards and interpretations that are not yet effective and lack EU approval

- IFRS 8 Operating Segments (valid for financial periods starting after 1 January 2009). The standard will replace the current Segment Reporting standard (IAS 14) and requires that reporting be done from the management's viewpoint. According to the management's current understanding, the adoption of the standard does not impose any significant changes on the Group's accounting policies or segment reporting as the current segment reporting is based also on figures reported to the Group's Board of Directors. However, the adoption of the standard will result in added notes to upcoming financial statements.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (valid for financial periods starting after 1 March 2007; EU approval pending). The interpretation clarifies the application of the standard IFRS 2 Share-Based Payments when an arrangement concerns an entity's own equity instruments or the instruments of its parent entity and the entity purchases the instruments. Furthermore, the interpretation provides guidelines for the application of the standard to the individual financial statements of a subsidiary. The interpretation has no effect on the processing of L&T's current option plans in financial statements.
- IFRIC 12 – Service Concession Arrangements (valid for financial periods starting after 1 January 2008). The interpretation determines accounting principles for infrastructure (e.g. roads, bridges, hospitals) built or acquired for the supply of public services. Presently the Group owns no infrastructure for which this interpretation should be applied.

Financial risk management

The principles for L&T's financial risk management are defined in the financial policy approved by the Board of Directors. The CFO is responsible for financial risk management. The purpose of financial risk management is to hedge against any significant financial risks and strive to reduce the effects of the fluctuations in the financial market on the Group's result. Financing and financial risk management have been centralised. Subsidiaries are mostly financed through intra-Group loans. The netting of the Finnish Group companies' liquidity is done using Group accounts, and the Group's financial management is responsible for investing any excess liquidity.

Foreign exchange risk

All loans taken out by L&T are denominated in euros, apart from three minor loans taken out by the Latvian subsidiary. L&T's main invoicing currency is the euro. In 2006, in approximately 6.9 of the net sales the invoicing currency was other than the euro. The net investments in subsidiaries are not hedged presently. 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 of investments

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

Commodity risk

The profitability of the Environmental Services division is affected by the world market price of crude oil. Its fluctuations are reflected in the price of fuel used in waste management transports as well as in the purchase prices of Environmental Products through oil-based raw materials. In waste management, some customer contracts specify such invoicing periods and contract terms that the sales prices cannot be raised monthly. This means that the rise in fuel prices is passed on to the prices of the services with a delay. A rise of EUR 0.10 in the price per litre of diesel fuel increases L&T's annual costs by approximately EUR 1.1 million. No derivatives have been used to hedge against this raw material price risk. L&T manages the raw material price risk for Environmental Products through fixing sales prices for a period not exceeding the period for which the suppliers' purchase prices are valid.

The joint venture L&T Recoil currently is building a re-refinery. Once completed, the plant will produce base oil. Its long-term price development correlates with the price development of crude oil. The price risk associated with crude oil has been hedged with crude oil put options.

Interest rate risk

The most significant interest risk of L&T relates to borrowings, which are tied to variable interest rates and create cash flows that vary with the interest rate level. As the demand for L&T's services or their prices are not significantly dependent on fluctuations in economic trends, L&T tries to keep interest costs as steady as possible. On account of this, a major portion of the cash flow associated with variable-rate borrowings is hedged against interest rate risk by interest rate swaps. Therefore changes in the interest rate level will not impact interest costs in full. All interest rate swaps are hedges in accordance with the Group's financial risk management policy, but at present L&T does not apply hedge accounting under IAS 39 to all interest rate swaps.

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 invests in relatively short-term instruments.

If the amounts of borrowings and current available-for-sale investments were to remain at the level of the balance sheet at 31 December 2006 and the interest rate level increased by one percentage point, the Group's annual interest expenses would increase by approximately EUR 0.8 million. If the effect of interest rate swaps effective at 31 December 2006 is taken into account, net interest expenses would increase by approximately EUR 0.2 million excluding the effect of changes in fair values.

Credit risk

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

L&T has a wide customer base, its accounts receivable consist mostly of a high number of relatively small receivables and there are no significant concentrations of credit risk. L&T has credit control guidelines to ensure that services and products are sold only to customers with an appropriate credit standing. Most customer relationships are based on long-term service contracts, and customers are not generally required to provide collateral. The credit risk related to accounts receivable is managed by efficient collection operations. With regard to Finnish accounts receivable, this is managed centrally by financial management. The foreign subsidiaries manage the collection of their accounts receivable locally. 90.9% of net sales came from Finland in 2006. The proportion of impairment losses on trade receivables has been very small in the last few years (less than 0.2% of net sales). However, the credit risk will grow in the future with the expansion of operations abroad. The maximum amount of the credit risk is the carrying amount of financial assets at 31 December 2006.

Liquidity risk

Liquidity risk management ensures that L&T continuously will be able to answer for its financial obligations associated with operations at the lowest possible cost. L&T seeks to maintain good liquidity through efficient cash management and by investing in money market instruments which can be realised quickly. The liquidity situation is monitored in real time and predicted using cash flow forecasts. To ascertain the availability of funding, L&T uses several banks in its financial operations. To meet any temporary need for cash arising from cash flow fluctuations, L&T has credit limits for short-term loans (totalling EUR 18 million), current accounts with overdraft facilities (totalling EUR 2.9 million) and a commercial paper programme (EUR 50 million).

EUR 1.0 million of the overdraft facilities were in use, and the short-term credit limits and the commercial paper programme were completely unused. At 31 December 2006 the amount of the Group's liquid assets was EUR 24.8 million. The extraordinarily high amount of liquid assets at year end was attributable very positive cash flow from operations during the fourth quarter, as well an arrangement carried out just before year end, through which most of the light vehicles in use were sold to a leasing company.

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 and Office Support 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 leasing out a property sold during 2006, 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 2006, tax receivables amounted to EUR 834 thousand (EUR 1,820 thousand). Non-allocated liabilities consist interest-bearing debt and accrued interest and other financing liabilities and tax liabilities. In 2006, tax liabilities amounted to EUR 23,288 thousand euros (EUR 15,768 thousand).

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

1.1. Business segments

2006

EUR 1 000	Environmental Services	Property and Office Support Services	Industrial Services	Group administration and other	Eliminations	Group
Net sales						
External net sales	205 768	166 560	63 558	118		436 004
Inter-division net sales	1 484	1 843	858		-4 185	0
Total net sales	207 252	168 403	64 416	118	-4 185	436 004
Operating profit	32 498	8 758	9 601	-672		50 185
Operating margin	15.7	5.2	14.9			11.5
Share of profit of associate (Note 15)	18					18
Finance income and costs (Note 7)						-1 699
Profit before tax						48 504
Income tax expense (Note 8.1)						-13 249
Profit for the period						35 255
Assets						
Assets of the division	199 872	59 394	63 508	2 804		325 578
Non-allocated assets						27 006
Total assets						352 584
Shares in associates	3					3
Liabilities						
Liabilities of the division	33 388	29 708	10 367	1 084		74 547
Non-allocated liabilities						101 168
Total liabilities						175 715
Capital expenditure (Notes 11 and 13)	21 940	19 472	5 696	54		47 162
Depreciation and amortisation (Note 4)	16 002	7 067	4 796	83		27 948
Impairment losses		207				207
Total	16 002	7 274	4 796	83		28 155
Other expenses of no-cash transactions						
Share option remuneration				397		397
Pension obligations	97	29	1	69		196
Provisions	32			448		480
Total	129	29	1	914		1 073

2005

EUR 1 000	Environ-mental Services	Property and Office Support 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 margin	13.3	8.4	8.2			10.4
Share of profit of associate (Note 15)	27					27
Finance income and costs (Note 8)						-1 801
Profit before tax						37 480
Income tax expense (Note 8.1)						-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
Capital expenditure (Notes 11 and 13)	40 542	11 471	8 785	54		60 852
Depreciation and amortisation (Note 4)	13 567	5 674	5 422	111		24 774
Other expenses of no-cash transactions						
Share option remuneration				448		448
Pension obligationss	64	-18	33	48		127
Provisions	170			-60		110
Total	234	-18	33	436		685

1.2. Geographical segments

EUR 1 000	2006	2005
Net sales		
Finland	**399 502**	358 296
Other countries	**36 502**	19 152
Total	**436 004**	377 448
Assets		
Finland	**296 512**	291 862
Other countries	**29 066**	13 520
Non-allocated assets	**27 006**	9 464
Total	**352 584**	314 846
Capital expenditure		
Finland	**32 524**	56 416
Other countries	**14 638**	4 436
Total	**47 162**	60 852

2. Business acquisitions

2006

EUR 1 000	Fair values used in consolidation	Carrying amounts before consolidation
Property, plant and equipment	3 260	3 213
Customer contracts	1 870	
Agreements on prohibition of competition	448	
Other intangible assets arising from business acquisitions	231	
Other intangible assets	375	367
Inventories	117	101
Trade and other receivables	4 057	4 057
Cash and cash equivalents	3 200	3 200
Total assets	13 558	10 938
Deferred tax liabilities	-913	-262
Interest-bearing long-term liabilities	-186	-186
Trade and other payables	-5 778	-5 779
Total liabilities	-6 877	-6 227
Net assets	6 681	4 711
Goodwill arising from acquisitions	7 282	
Recognition of negative goodwill	-105	
Acquisition cost	13 858	
Acquisition cost	13 858	
Cash and cash equivalents at acquisition date	-3 200	
Cash flow effect of acquisitions	10 658	

Foreign business acquisitions have been translated into euros at the exchange rate of the acquisition date.

Hämeenlinnan Puhtaanapito Oy was acquired on 1 March 2006. 63% of the business concerns waste management within Environmental Services, 12% recycling services, 21% hazardous waste management within Industrial Services and 4% wastewater services. Furthermore, the toilet rental operations of WeeCee Finland Oy were acquired for waste management on 21 April. 66.7% of Suomen Keräystuote Oy was acquired for recycling services. Control over the company passed to Lassila & Tikanoja on 21 April. Prior to that, Lassila & Tikanoja held 27.8% of Suomen Keräystuote.

The following acquisitions were made for Property and Office Support Services: the Swedish cleaning service companies Allied Service Partners Holding AB (ASP) on 4 January and All Clean & Consulting Entrepreneur i Sverige AB (Accent) on 9 October, as well as the Latvian company SIA Evus, engaged in cleaning operations on 1 August. Acquisitions for property maintenance within Property and Office Support Services included the property maintenance operations of Kempeleen Kiinteistöhuolto Oy on 1 February, the business operations of Kiimingin Kiinteistöpalvelut Oy on 1 September and the property maintenance and cleaning operations of Sisä-Suomen Kiinteistöapu Oy LKV on 2 October.

The figures for the acquired businesses are stated as a sum total, because none of them is of material importance. Fair values have been determined as of the time the acquisition was realised. No business operations have been divested as a consequence of any acquisition. All acquisitions have been paid for in cash. Individual purchase prices have not been itemised because none of them is of material importance when considered separately. All share acquisitions resulted in a holding of 100% of voting power, with the exception of Suomen Keräystuote Oy, in which Lassila & Tikanoja's holding as of 31 December 2006 was 94.5%.

All property, plant and equipment acquired has been measured at fair value on the basis of the market prices of similar assets, taking into account the age of the assets, wear and tear and similar factors. Tangible assets shall be depreciated over their useful life according to the management's estimate, taking into account the depreciation principles observed within Lassila & Tikanoja Group.

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

In addition to the skills of the personnel of the acquired businesses, goodwill arising from business combinations comprises other intangible items that cannot be identified separately in accordance with IAS 38. These unidentified items include the potential for gaining new customers vested in the acquired businesses and the opportunities for developing new products and services, as well as the regionally strong position of an acquired business. These items do not fulfil the IAS 38 identification criteria in any way. The items cannot be separated from each other, they are not based on any agreement or legal right and their value cannot be determined reliably. All business combinations also create synergy benefits that consist primarily of savings in fixed production costs.

The negative goodwill arising from the acquisition of shares in Suomen Keräystuote Oy has been recognised in other operating income. The decision to recognise negative goodwill was made because the acquired shareholders' equity exceeded the value of the shares purchased. A majority of the shares purchased were transferred to Lassila & Tikanoja's control through a separate purchase concluded in connection with the acquisition of Hämeenlinnan Puhtaanapito Oy. The rest of the shares were subsequently purchased from several shareholders as individual lots.

Changes in goodwill arising from acquisitions/acquisition costs may arise on the basis of terms and conditions related to the acquisition price in the deeds of sale. Changes in acquisition price shall be recognised in goodwill within 12 months of the acquisition. In many acquisitions a small portion of the acquisition price depends on forthcoming (less than 12 months) future events. Except these portions, the allocation calculations are final. When a business combination agreement provides for an adjustment to the cost of combination contingent on future events, the amount of that adjustment is included in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably. Purchase price adjustments based on future events that are to be carried out more than 12 months after the time of acquisition are recognised in the balance sheet at the time of acquisition as a liability adjusted for inflation. One of the agreements of the year 2006 provides for such adjustment. If the future events do not occur or the estimate needs to be revised, the cost of the business combination is adjusted accordingly and the amount of the goodwill is changed.

The combined net sales of the acquired companies totalled EUR 29 million. The largest acquired companies by annual net sales were the ASP group (EUR 10.6 million), All Clean & Consulting Entrepreneur i Sverige AB (EUR 9.6 million) and Hämeenlinnan Puhtaanapito (EUR 4.4 million).

In 2006 the consolidated net sales would have been EUR 446 million and the consolidated operating profit EUR 35 million if all the acquisitions had been made on 1 January. The realised net sales of the acquired businesses have been added to the consolidated net sales, and their realised profits and losses have been added to the consolidated operating profit in accordance with interim accounts at the time of acquisition. Profit for the period is stated less the current amortisation on intangible assets and depreciation on property, plant and equipment and measured at fair value in consolidation. Synergy benefits have not been accounted for.

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

On 18 December 2006, an agreement was signed on the acquisition of the majority (70%) of the shares of Biowatti Oy from the acting management of the company. L&T also made a commitment to redeem the remaining thirty percent of the shares by the end of the year 2011. The acquisition price for the seventy percent portion was EUR 30.4 million. No interest-bearing liabilities were transferred in the acquisition. The acquisition was subject to approval of the competition authority. The acquisition became effective on 1 February 2007.

In the consolidated financial statements the whole acquisition price (100%) will be recognised as acquisition cost. No minority interest is separated from the profit or equity, but the estimated acquisition price of the remaining 30 percent (approximately EUR 6 million) is recognised as interest-bearing non-current liability. The final price of the 30 percent portion will be determined based on the future earnings of Biowatti. The estimate is assessed annually as of 31 December, or whenever any indication exists. If the estimate needs to be revised, the cost of the combination is adjusted accordingly and the amounts of goodwill and interest-bearing liabilities are changed.

Biowatti is the leading Finnish bio energy supplier utilising renewable energy sources, operating in the procurement, processing, marketing and delivery of bio fuels. The main products are by-products of forest and wood processing industries and logging chips. Biowatti's net sales in 2006 amounted to EUR 64.2 million. Biowatti employs 38 people.

L&T Biowatti will be a cash-generating unit within the Environmental Services division.

On 4 January 2007 L&T acquired the Swedish company Skånsk All Service AB including subsidiaries Hygienutveckling AB and Hygienutvikling A/S operating in Norway. In 2006, the total net sales of the Skånsk All Service group amounted to some EUR 10 million, more than majority of which was comprised of hygiene services for the food industry. The companies employ a total of some 300 persons. The final acquisition price will be determined on the basis of the operating profit of the acquired companies for the year 2006. The final price is estimated to be about EUR 7.9 million.

2005

EUR 1 000	**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 arising 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	0
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 waste management within Environmental 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. The secure destruction operations of Recall Finland Oy were acquired to recycling services on 1 December.

The following acquisitions were made for Property Services: for property maintenance on 1 July Tammelan Huolto Oy, for 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. Within Industrial Services, Kaakon Teollisuuspalvelut Oy was acquired for industrial cleaning on 1 February, and the hazardous waste management operations of Säiliö Cistern Puts Oy were acquired for hazardous waste services on 1 September.

The figures for the acquired business operations are stated as a sum total, because none of them is of material importance. All acquisitions have been paid for in cash. All share acquisitions have resulted in a holding of 100% of voting power.

All property, plants and equipment acquired has been measured at fair value on the basis of the market prices of similar assets, taking into account the age of the assets, wear and tear and similar factors. Tangible assets shall be depreciated over their economic life according to the management's estimate, taking into account the depreciation principles observed within Lassila & Tikanoja Group.

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

In addition to differences between book values and fair values, deferred tax liabilities and the skills of the personnel of the acquired businesses, the goodwill arising from business combinations consists of other intangible items that cannot be identified separately in accordance with IAS 38. These unidentified items include the potential for gaining new customers vested in the acquired businesses and the opportunities for developing new products and services, as well as the regionally strong position of an acquired business. All business combinations also create synergy benefits that consist primarily of cost savings in production.

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

In 2005 the consolidated net sales would have been EUR 383.5 million and the consolidated 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 consolidated net sales, and their realised profits and losses have been added to the consolidated operating profit in accordance with interim accounts at the time of acquisition. Profit for the period is stated less the current depreciation and amortisation on intangible and tangible assets measured at fair value in consolidation. Synergy benefits have not been accounted for.

The allocation calculations for the year 2005 have been recognised at final values.

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

3. Employee benefit expenses

EUR 1 000	2006	2005
Wages and salaries	**144 824**	126 944
Pension costs		
Defined contribution plans	**22 106**	20 304
Defined benefit plans	**196**	-985
Share-based payment	**397**	448
Other personnel expenses	**13 041**	9 371
Total	**180 564**	156 082
Defined benefit plan costs by function		
Cost of goods sold	**30**	-1 033
Sales and marketing	**97**	48
Administration	**69**	
Total	**196**	-985

Details on granted options are shown in Note 24 Share-based payment.
The employee benefits of the top management are shown in note 33 Related party transactions.
Details on the balance sheet items of defined benefit pension plans are shown in Note 25 Retirement benefit obligations.

Average personnel converted into full-time equivalents

	2006	2005
Clerical personnel	**1 342**	997
Workers	**5 433**	4 921
Total	**6 775**	5 918
Finland	**5 115**	5 052
Other countries	**1 660**	866
Total	**6 775**	5 918

4. Depreciation and amortisation

Depreciation and amortisation by function

EUR 1 000	Intangible assets	Property, plant and equipment	Total
2006			
Depreciation and amortisation			
On cost of goods sold	2 919	23 993	26 912
On sales and marketing	33	387	420
On administration	305	311	616
Total depreciation and amortisation	3 257	24 691	27 948
Impairment losses			
On cost of goods sold	207		207
Total depreciation and amortisation	3 464	24 691	28 155

Recognition of impairment loss is described in Note 11 Intangible assets.

EUR 1 000	Intangible assets	Property, plant and equipment	Total
2005			
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

Depreciation and amortisation are itemised in Note 11 Intangible assets and in Note 13 Property, plant and equipment.

5. Other operating income and expenses

EUR 1 000	2006	2005
Other operating income		
Gains on sales of property, plant and equipment	1 033	906
Gains on sales of buildings and land	1 893	
Lease income	82	27
Reversals of impairment losses on trade receivables	71	57
Reimbursements and government grants	225	336
Change in value of commodity derivatives	726	
Other	672	504
Total	4 702	1 830
Other operating expenses		
Losses on disposals and scrapping of property, plant and epuipment	207	118
Impairment losses on trade receivables	517	300
Other	325	258
Total	1 049	676

6. Research and development expenses

EUR 2.0 million (EUR 1.0 million) research and development expenses arising from centralised development projects are included in the income statement.

7. Finance income and costs

EUR 1 000	2006	2005
Finance income		
Interest income	513	449
Dividend income	9	7
Exchange rate gains	65	68
Other finance income	450	86
Change in fair value of derivative instruments	489	821
Total finance income	1 526	1 431
Finance costs		
Interest expenses	-3 045	-3 011
Other finance expenses	-151	-108
Exchange rate losses	-17	-110
Losses on sales of available -for-sale investments	-12	-3
Total finance costs	-3 225	-3 232

Exchange rate differences apply to financing. Exchange rate differences arising from sales amounting to EUR 4 thousand (EUR 9 thousand) have been recognised as adjustment items for net sales. Exchange rate differences arising from purchases totalling EUR 7 thousand (EUR 15 thousand) have been recognised as adjustment items for cost of sales.

8. Income taxes

8.1. Income taxes in the income statement

EUR 1 000	2006	2005
Income taxes on taxable profit		
Income taxes for the period	-11 095	-7 016
Income taxes for previous periods	3 151	-21
Deferred income taxes	-5 305	-3 213
Total	-13 249	-10 250

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

Income taxes at Finnish tax rate on consolidated profit before tax	-12 611	-9 745
Different tax rates and losses of foreign subsidiaries	-597	-244
Non-deductible expenses	-294	-270
Tax-free income	68	
Income taxes for previous periods*	3 151	-21
Transfer of taxes on depreciation on dissolution losses for previous periods to deferred tax liability	-2 940	
Other items	-26	30
Total	-13 249	-10 250

* Tax Office for Major Corporations returned taxes for the years 2000-2005 relating to the dissolution loss arising from the dissolution of Säkkiväline Ympäristöpalvelut Oy. The tax was recognised in deferred tax liabilities.

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

2006

EUR 1 000	At 1 January 2006	Recognised in income statement	Recognised in equity	Business acquisitions	At 31 December 2006
Deferred tax assets					
Pension benefits	46	49			95
Provisions	163	53			216
Fair value adjustments	-62	-299	-140		-501
Revenue recognition	280	110			390
Deferred depreciation	88	49			137
Losses of associates	263	163			426
Other tax deductible temporary differences	227	4	-64		167
Total	1 005	129	-204		930
Deferred tax liabilities					
Depreciation differences	-16 173	-5 371		-960	-22 504
Finance lease agreements	-288	-63			-351
Total	-16 461	-5 434	0	-960	-22 855
Net deferred tax liability	-15 456	-5 305	-204	-960	-21 925

2005

EUR 1 000	At 1 January 2005	Recognised in income statement	Recognised in equity	Business 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
Deferred depreciation	130	-42			88
Losses of associates	72	191			263
Other tax deductible temporary differences	294	-65	-2		227
Total	1 356	-349	-2	0	1 005
Deferred tax liabilities					
Depreciation differences	-11 525	-2 937		-1 711	-16 173
Fair value adjustments	-4		4		0
Finance leases	-294	6			-288
Other taxable temporary differences	-67	67			0
Total	-11 890	-2 864	4	-1 711	-16 461
Net deferred tax liability	-10 534	-3 213	2	-1 711	-15 456

8.3. Deferred taxes in balance sheet

EUR 1 000	2006	2005
Deferred tax assets	**425**	312
Deferred tax liabilities	**-22 350**	-15 768
Net deferred tax liabilities	**-21 925**	-15 456

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 626 thousand (EUR 212 thousand) in respect of losses of Group companies have not been recognised in the financial statements, because the realisation of the related tax benefit is not probable.

Deferred tax assets of EUR 426 thousand (EUR 263 thousand) in respect of losses of subsidiaries are recognised in the balance sheet. The recognition is based on the estimated realisation of the related tax benefit through future taxable income.

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

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 1 000	2006	2005
Profit attributable to the equity holders of the parent	**34 613**	26 822
Adjusted average number of shares during the period, 1,000 shares	**38 445**	38 193
Earnings per share, EUR	**0.90**	0.70

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, 2005A and 2005B 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 1 000	2006	2005
Profit attributable to the equity holders of the parent	**34 613**	26 822
Adjusted average number of shares during the period, 1,000 shares	**38 445**	38 193
Effect of share options, 1,000 shares	**156**	228
Adjusted average number of shares during the period, 1,000 shares - diluted	**38 601**	38 421
Earnings per share, EUR - diluted	**0.90**	0.70

10. Dividend per share

At the Annual General Meeting on 26 March 2007, a dividend of EUR 0.55 is proposed by the Board of Directors, corresponding to total dividends of EUR 21,202,345.45. This dividend payable is not reflected in the financial statements. The dividend per share paid in 2006 was EUR 0.40.

11. Intangible assets

2006

EUR 1 000	Internally generated intangible assets	Intangible rights	Goodwill	Intangible assets arising from acquisitions	Other intangible assets	Advance payments	Total
Cost at 1 January 2006	548	8 177	99 120	11 617	2 415	1 873	123 750
Additions	871	664			183	1 298	3 016
Business acquisitions		57	7 282	2 546			9 885
Disposals		-92			-67		-159
Translation differences			209	63			272
Transfers between items					2 085	-2 085	
Cost at 31 December 2006	1 419	8 806	106 611	14 226	4 616	1 086	136 764
Accumulated amortisation at 1 January 2006		-6 398		-1 758	-722		-8 878
Accumulated amortisation on disposals and transfers		-2					-2
Amortisation during the period	-2	-525		-2 355	-375		-3 257
Impairment losses				-207			-207
Translation differences				-13			-13
Accumulated amortisation and impairment losses at 31 December 2006	-2	-6 925		-4 333	-1 097		-12 357
Net book value at 31 December 2006	1 417	1 881	106 611	9 893	3 519	1 086	124 407

Foreign business acquisitions have been translated into euros at the exchange rate of the acquisition date.
Contractual commitments concerning acquisition of intangible assets totalled EUR 0.2 million.

Customer relationships were tested for impairment on 1 October, which resulted in a write-down of EUR 207 thousand. The impairment test was carried out on the basis of external references and concerned the customer relationships item arising from the acquisition of the ASP group. In connection with impairment testing, recoverable amounts have been estimated on the basis of the MEEM method. Future cash flows are based on the realised renewal rate of customer agreements determined by management in 2006 and 2007, as well as the future development of net sales and EBITDA percentages resulting from this. The cash flows have been determined separately for four years. The discount rate is WACC before taxes, which amounts to 12.3%. The components of WACC calculation are the same as those used for determining the fair value of customer relationships on 4 January 2006, but they have been updated to correspond to the testing date.

2005

EUR 1 000	Internally generated intangible assets	Intangible rights	Goodwill	Intangible assets arising from acquisitions	Other intangible assets	Advance payments	Total
Cost at 1 January 2005		7 949	92 005	4 640	2 500	60	107 154
Translation differences	548	705			642	532	2 427
Additions			7 115	6 977			14 092
Disposals		-505				-60	-565
Transfers between items		28			-727	1 341	642
Cost at 31 December 2005	548	8 177	99 120	11 617	2 415	1 873	123 750
Accumulated amortisation 1 January 2005		-6 240		-416	-364		-7 020
Accumulated amortisation on disposals and transfers		421					421
Amortisation during the period		-579		-1 342	-358		-2 279
Accumulated amortisation at 31 December 2005		-6 398		-1 758	-722		-8 878
Net book value at 31 December 2005	548	1 779	99 120	9 859	1 693	1 873	114 872

Contractual commitments concerning acquisition of intangible assets totalled EUR 0.6 million.
Additions in intangible rights consist mainly of intangible assets resulting from business combinations and software licences.
Additions in other intangible assets result from the construction of information systems.

12. Goodwill impairment tests

Goodwill allocation

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. For the purpose of impairment testing, goodwill is allocated to cash-generating units.

Allocation of book values of goodwill

EUR 1 000	2006	2005
Waste management services	**43 859**	43 788
Recycling services	**19 556**	19 444
Cleaning services	**16 770**	9 812
Hazardous waste services	**9 640**	9 590
Total	**89 825**	82 634
Units for which the amount of goodwill allocated is not significant	**16 786**	16 486
Total	**106 611**	99120

Impairment tests

In estimation of the recoverable amounts, both an asset's value in use and its fair value less cost to sell are used, the approaches being equivalent. Future cash flows are based on annual estimates of income statements and upkeep investments made by the management in connection with the budgeting process for a five-year period. The management bases its estimates on actual development and the management's opinion on the outlook of the industry (general market development and profitability specific to product line, pricing, municipalisation decisions, personnel costs and raw material costs). Approved investment decisions are taken into account in the growth estimates. In these estimates, the percentages of net sales growth vary between -8.7 and 34.5% (3.5 and 27.4%) depending on the cash-generating unit. Beyond that period, a residual growth rate of 2 to 3% and upkeep investments have been estimated for the cash flows. The EBITDA percentages for the future have been determined on a conservative basis. Their values are based on actual development, and no substantial changes are expected to occur during the estimate period.

The value of use has been determined using the Discounted Cash Flow method. The calculation components for the cost of capital are risk-free return rate (10-year government bond), market risk premium, illiquidity premium on unlisted companies, industry beta, cost of debt and capital structure. The industry beta, cost of debt and cost structure of the capital have been calculated for each cash-generating unit on the basis of the key figures of peer group companies determined by the management. The peer group companies are listed companies operating in the same business sectors as L&T. Based on these factors, the discount rate used in the impairment tests is pre-tax return on equity (WACC) as follows: waste management 9.7% (9.9%), recycling services 9.1% (9.4%), cleaning services 9.5% (9.6%) and hazardous waste services 9.7% (9.7%). The interest rate for other cash-generating units varies between 8.3 and 10.5% (9.3 and 10.3%).

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

No impairment losses on goodwill have been recognised.

Sensitivity analysis of impairment testing

Principal assumptions	Share of goodwill	Required change	Required change in the most critical CGU
Residual EBITDA percentage	87%	≥ -50%	-23%
WACC (before taxes)	97%	≥ 99%	46%

In 88% of the cash-generating units (97% of consolidated goodwill), the change in interest rate would have to be 99% or more to make the value in use equal to the book value. In 63% of the cash-generating units (87% of consolidated goodwill), the residual EBITDA percentage would have to decrease by 50% or more to make the value in use equal to the book value. In the most critical cash-generating unit, the interest rate would have to increase by 46% and the residual EBITDA percentage would have to decrease by 23% to make the value in use equal to the book value. Recognition of impairment loss would require even greater changes in the critical variables.

13. Property, plant and equipment

2006

EUR 1 000	**Land**	**Buildings and constructions**	**Machinery and equipment**	**Other**	**Advance payments and construction in progress**	**Total**
Cost at 1 January 2006	4 824	53 392	185 111	124	2 849	246 300
Translation differences		-4	-24		-2	-30
Additions	46	2 501	23 531	73	4 526	30 677
Business acquisitions	30	1 301	1 864	66		3 261
Disposals	-1 685	-3 078	-16 407		-126	-21 296
Transfers between items		1 254	3 980		-5 234	0
Cost at 31 December 2006	3 215	55 366	198 055	263	2 013	258 912
Accumulated depreciation at 1 January 2006		-15 651	-95 165	-80		-110 896
Translation differences			16			16
Accumulated depreciation on disposals and transfers		2 228	8 469			10 697
Depreciation during the period		-3 704	-20 978	-9		-24 691
Accumulated depreciation at 31 December 2006		-17 127	-107 658	-89		-124 874
Net book value at 31 December 2006	3 215	38 239	90 397	174	2 013	134 038

Assets acquired under finance lease arrangements included in machinery and equipment

EUR 1 000	**Buildings and constructions**	**Machinery and equipment**	**Total**
Cost at 1 January 2006	360	1 184	1 544
Additions		117	117
Disposals		-205	-205
Cost at 31 December 2006	360	1 096	1 456
Accumulated depreciation at 1 January 2006	-21	-366	-387
Depreciation during the period	-18	-197	-215
Accumulated depreciation at 31 December 2006	-39	-563	-602
Net book value at 31 December 2006	321	533	854

Contractual commitments related to property, plant and equipment totalled EUR 7.2 million. No impairment losses on property, plant and equipment have been recognised.
The depreciation periods applicable for some groups of heavy machinery have been extended as of the beginning of 2006. The change has an approximate annual earnings effect of EUR 0.8 million.
The Group received EUR 155 thousand as investment subsidy for the acquisition of machinery and equipment and the enlargement of production facilities. The subsidy has been recognised as a decrease in acquisition costs.

2005

EUR 1 000	**Land**	**Buildings and constructions**	**Machinery and equipment**	**Other**	**Advance payments and construction in progress**	**Total**
Cost at 1January 2005	4 719	46 960	152 861	128	3 868	208 536
Translation differences			14			14
Business acquisitions	90	1 073	20 165		18 164	39 492
Additions	15	518	4 309			4 842
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
Exchange 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 property, plant and equipment

EUR 1 000	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

Contractual commitments related to property, plant and equipment totalled EUR 5.1 million.
No impairment losses on property, plant and equipment have been recognised.

14. Joint ventures

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

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

EUR 1 000	2006	2005
Non-current assets	**4 503**	4 627
Current assets	**5 512**	1 699
Non-current liablities	**-394**	-191
Current liabilities	**-3 787**	-1 709
Net assets	**5 834**	4 426
Revenues	**7 034**	4 228
Expenses	**-6 962**	-4 798
Profit/Loss for the period	**72**	-570
Average personnel in joint ventures	**50**	32

More details on joint ventures are shown in note 33 Related-party transactions.

15. Investments in associates

EUR 1 000	2006	2005
Cost at 1 January	**129**	140
Additions	**143**	
Disposals	**-306**	-16
Transfers between items		5
Cost at 31 December	**-34**	129
Capital adjustment at 1 January	**209**	182
Disposals	**-190**	
Share of profit of an associate	**18**	27
Capital adjustment at 31 December	**37**	209
Total carrying amount	**3**	338

Associates

EUR 1 000	% interest held	Assets	Liabilities	Net sales	Profit
2006					
Rodnik Ltd, St. Petersburg, Russia	35	234	21	234 *	-24 *
Re Plast Oü, Rapla, Estonia	33.3				
2005					
Suomen Keräystuote Oy, Tampere	27.8	2 161	866	6 947	71
Rodnik Ltd, St. Petersburg, Russia	35	261	48	424	-23
Re Plast Oü, Rapla, Estonia	33.3				

During 2006, the majority of the shares of Suomen Keräystuote Oy was acquired, and the company, being previously an associate, became a group company.
The balance sheet total of Re Plast Oü does not exceed EUR 10 thousand.
* Net sales and profit for 9 months

16. Investments in Group companies

	Group holding of shares and votes %
All Clean & Consulting Entrepreneur i Sverige AB, Stockholm, Sweden	100.0
EM-business Oy, Helsinki	100.0
SIA Evus, Riika, Latvia	100.0
Hämeenlinnan Puhtaanapito 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
A/S L&T Hoetika, Riga, Latvia	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
SIA L&T Serviss, Riga, Latvia	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
Suomen Keräystuote Oy, Tampere	94.5
The Russian-Finnish Company Ecosystem LLC, Dubna, Russia	74.0

17. Non-current available-for-sale investments

EUR 1 000	2006	2005
Carrying amount at 1 January	**3 029**	3 121
Additions	**7**	
Business acquisitions	**313**	
Disposals	**-395**	-87
Transfers between items		-5
Carrying amount at 31 December	**2 954**	3 029

Non-current available-for-sale investments include unlisted shares. The most significant investment is Ekokem Oy's shares. Their carrying amount is EUR 2,542 thousand.

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

18. Finance lease receivables

EUR 1 000	2006	2005
Maturity of minimum lease payments		
Not later than one year	**1 420**	1 165
Later than one year and not later than five years	**3 637**	3 129
Later than five years	**170**	272
Gross investment in finance lease agreements	**5 227**	4 566
Maturity of present value of minimum lease payments		
Not later than one year	**1 356**	1 114
Later than one year and not later than five years	**3 054**	2 634
Later than five years	**120**	188
Total present value of minimum lease payments	**4 530**	3 936
Unearned finance income	**697**	630
Gross investment in finance lease agreements	**5 227**	4 566

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

19. Inventories

EUR 1 000	2006	2005
Raw materials and consumables	**1 087**	959
Finished goods	**1 928**	2 385
Other inventories	**1 300**	1 400
Total	**4 315**	4 744

Write-downs recognised in 2006 amounted to EUR 0,2 million (EUR 0.2 million).

20. Trade and other receivables

EUR 1 000	2006	2005
Trade receivables	**48 909**	37 630
Finance lease receivables, short-term	**1 356**	1 114
Loan receivables	**115**	
Accruals	**2 807**	4 917
Tax receivables	**409**	1 508
Receivables based on derivative instruments	**3 533**	253
Other receivables	**965**	366
Total	**58 094**	45 788
Accruals include the following:		
Interest	**27**	1
Employees' health care compensation	**949**	1 130
Statutory pension insurances	**634**	2 032
Insurances	**22**	29
Indirect taxes	**90**	785
Other	**1 085**	940
Total	**2 807**	4 917

The receivables are not collateralised, and they do not include any significant concentrations of credit risk. Impairment losses and their reversals recognised in trade receivables are shown in Note 5 Other operating income and expenses.

21. Current available-for-sale investments

EUR 1 000	2006	2005
Certificates of deposit and commercial papers	**13 955**	3 696

Available-for-sale investments are stated in the financial statements at fair value. Changes in the fair values are recognised in revaluation reserve in equity. The weighted average of effective interest rates at 31 December 2006 was 3.65 % p.a. (2.42% p.a.) and average maturity 32 days (21 days).

22. Cash and cash equivalents

EUR 1 000	2006	2005
Cash on hand and in banks	**5 035**	2 556
Short-term deposits	**5 800**	1 000
Total	**10 835**	3 556

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

23. Equity

Share capital and share premium fund

EUR 1 000	Number of shares in 1,000 shares	Share capital	Share premium fund	Total
1 January 2006	38 378	19 189	46 606	65 795
16 February 2006 subscription pursuant to 2002B options	10	5	63	68
12 May 2006 subscription pursuant to 2002B options	26	13	172	185
4 August 2006 subscription pursuant to 2002B and 2002C options	97	49	715	764
16 November 2006 subscription pursuant to 2002B options	17	8	110	118
31 December 2006	38 528	19 264	47 666	66 930
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 2002A and 2002B options	156	78	1 073	1 151
31 December 2005	38 378	19 189	46 606	65 795

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

Revaluation reserve

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

Capital management

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

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

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

EUR 1 000	2006	2005
Equity in the consolidated balance sheet	**176 869**	155 032
Balance sheet total	**352 584**	314 846
Advances received		
Current advances received	**-1 948**	-1 145
Non-current advances received	**-49**	-207
	350 587	313 494
Equity ratio, %	**50.4%**	49.5%

Since the rights offering carried out in autumn 2004, the equity ratio has remained on a high level. Due to slow environmental permit procedures, investments in plants have not been completed as planned and their construction costs have been lower than expected. Financing from operating activities has remained on a good level.

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 option rights

Option	Exercise period	Exercise price/share	Number of shares to be subscribed for at 31 Dec. 2006	Number of shares to be subscribed for at 31 Dec. 2005	End of vesting period
2002A	2.5.2004–30.10.2005	7.86			ended
2002B	2.5.2005–30.10.2006	7.02		132 900	ended
2002C	2.5.2006–30.10.2007	11.46	256 300	274 000	ended
2005A	2.11.2007–29.5.2009	14.22	162 000	170 000	2.11.2007
2005B	3.11.2008–31.5.2010	16.98	193 000		3.11.2008
Total			611 300	576 900	

Amounts and average exercise prices of outstanding option rights

	2006 Weighted average exercise price EUR/share	Number of options	2005 Weighted average exercise price EUR/share	Number of options
At start of period	11.25	576 900	9.05	648 440
New options granted	16.98	200 000	14.22	170 000
Forfeited options	15.36	-15 000		
Exercised options	7.54	-150 400*	7.43	-241 540*
Expired options	7.02	-200		
At year end	13.93	611 300	11.25	576 900
Options exercisable at year end	11.46	256 300	7.02	132 900

* In 2006, 2002B options were exercised to subscribe for 132,700 shares and 2002C options to subscribe for 17,700 shares. In 2005, 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 share options in 2006 was EUR 16.27 (EUR 15.06). The proceeds from the subscriptions totalled EUR 1,134 thousand, of which EUR 75 thousand was recognised in share capital and EUR 1,059 thousand in share premium fund (total EUR 1,795 thousand, of which EUR 121 thousand was recognised in share capital and EUR 1,674 thousand in share premium fund). Changes in equity are presented in Note 23 Equity.

Parameters used in the Black-Scholes pricing model

	2005B	2005A	2002C*
Grant date	12 June 2006	7 June 2005	5 July 2004
Number of options granted	200,000	170,000	140,000
Share price at grant date	16.50	14.76	26.60
Exercise price	16.98	14.22	26.34
Expected volatility	27%	19%	23%
Expected vesting period	3y 354d	3y 359d	3y 117d
Vesting conditions	Employment period 2y 4m	Employment period 2y 4m	Employment period 1y 10m
Risk-free interest	3.60%	2.40%	3.20%
Expected dividends, EUR	2.10	1.11	3.11
Fair value at grant date, EUR	3.16	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.
The terms and conditions of the options do not include any exercising conditions, which should be taken into account when estimating the fair value of the options. The returning rate assumption at grant date is 0%.

* Measurement has been performed before the bonus issue, which doubled the number of the options and decreased the exercise price.

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 prices will, as per the dividend record date, be reduced by the amount of dividend which exceeds 70% of the profit per share for the financial period to which the dividend applies.

Pursuant to share options outstanding on 31 December 2006, a maximum of 611,300 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 305,650.

On 31 December 2006, a subsidiary held 230,000 options that have no yet been vested. The portion of the shares that may be subscribed for pursuant to these options is 0.6% of the current number of shares. As a result of these subscriptions, the share capital may increase by a maximum of EUR 115,000.

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, 2002B options between 2 May 2005 and 30 October 2006. The 2002C options have been listed since 2 May 2006.

In 2006, a total of 150,400 shares were subscribed for pursuant to share options issued in 2002. The share capital was increased correspondingly by EUR 75,200.

Option plan 2005

The Annual General Meeting of 2005 decided to issue 600,000 share options to key personnel of the Lassila & Tikanoja Group. 25 key persons hold 162,000 2005A options and 35 key persons hold 193,000 2005B options. L&T Advance Oy, a wholly-owned subsidiary of Lassila & Tikanoja plc, holds 8,000 2005A options, 7,000 2005B options and all 230,000 2005C options.

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

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

Since the year 2005, the disability pension part of the Finnish statutory pension system is classified as a defined contribution plan when the pension schemes are operated by insurance companies. Previously these pensions were classified as a defined benefit plan. Consequently, a liability of EUR 1.1 million recorded in the balance sheet was recognised as revenue in the income statement in 2005.

EUR 1 000	2006	2005
The amounts recognised in the balance sheet were determined as follows:		
Present value of funded obligations	**234**	225
Fair value of plan assets	**-194**	-191
Deficit	**40**	34
Present value of unfunded obligations	**326**	193
Unrecognised actuarial gains (+) and losses (-)	**-14**	-51
Net benefit pension liability in balance sheet	**352**	176
The movement in the present value of the obligation		
Obligation at beginning of year	**418**	392
Current service cost	**173**	179
Past service cost		48
Interest cost	**27**	21
Actuarial gains (-) and losses (+)	**-43**	-126
Benefits paid	**-15**	-96
Obligation at year end	**560**	418
The movement in the fair values of plan assets		
Fair values of plan assets at beginning of year	**191**	408
Expected return on plan assets	**9**	22
Employee contributions	**20**	1
Actuarial gains (+) and losses (-)	**-11**	-144
Benefits paid	**-15**	-96
Fair values of plan assets at year end	**194**	191
The movement in the liability recognised in the balance sheet		
Liability at beginning of the year	**176**	1 162
Total expense charged in the income statement	**196**	-985
Contributions paid	**-20**	-1
Liability at year end	**352**	176

EUR 1 000	2006	2005
The defined benefit pension expenses in the income statement are determined as follows:		
Current service cost	**173**	179
Interest cost	**27**	21
Expected return on plan assets	**-9**	-22
Actuarial gains (-) and losses (+)	**5**	0
Past service cost		48
Gains of curtailment		-1 211
Total	**196**	-985
The return on plan assets was EUR 2 thousand in 2006 (2005: EUR 122 thousand).		
Expected contributions to post-employment benefit plans for the year 2007 are EUR 17 thousand		
Present value of obligation	**560**	418
Fair value of plan assets	**-194**	-191
Deficit	**366**	227
Experience adjustments (gains +) of plan liabilities	**15**	143
The principal actuarial assumptions used		
Discount rate	**4.2%**	4.5%–5%
Expected return on plan assets	**4.2%**	4.5%
Expected future salary increases	**4.5%**	4.5%

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26. Provisions

EUR 1 000	Environ-mental provisions	Other provisions	Total
Provisions at 1 January 2006	984		984
Additional provisions	48	460	508
Used during year	-300		-300
Effect of discounting	16		16
Provisions at 31 December 2006	748	460	1 208

EUR 1 000	2006	2005
Non-current provisions	**936**	684
Current provisions	**272**	300
Total	**1 208**	984

The environmental provision covers the following obligations: The Group has leased a site from the City of Kerava that it uses as a landfill. The Group is responsible for site restoration at the expiry of the lease.

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

The Group has two non-cancellable leases concerning premises that the Group is unable to utilise in its operations. The Group endeavours to sublease the premises but they remain vacant for the time being.

The Group has previously held a lease on a site at which remediation in accordance with the lease contract was completed by the Group during 2006. The unused provision for remediation costs was recognised in the income statement in 2006.

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

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

The provision for onerous lease contracts covers the associated losses completely until the expiry of the leases. A discount rate of 4% has been used for the determination of their current value.

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 6 years from now.

27. Interest-bearing liabilities

EUR 1 000	2006 Carrying amount	2005 Carrying amount
Non-current		
Bank borrowings	**58 368**	58 858
Finance lease liabilities	**663**	769
Other borrowings		2
Total	**59 031**	59 629
Current		
Repayments of long-term borrowings	**16 929**	8 250
Repayments of finance lease liabilities	**270**	229
Commercial papers		15 462
Other interest-bearing liabilities	**1 032**	136
Total	**18 231**	24 077

At 31 December 2006, the fair values of bank borrowings amounted to EUR 75,282 thousand and finance lease liabilities to EUR 943 thousand. The fair values are based on discounted cash flows. The discount rate is defined to be the interest rate the Group would pay for an equivalent external loan at the balance sheet date. The interest is composed of the risk-free market interest rate and a company-based risk premium.

Long-term borrowings by maturity

EUR 1 000	In use at 31 December 2006	Undrawn at 31 December 2006	2007	2008	2009	2010	2011	2012 and later
Bank borrowings	75 297		16 929	29 519	16 817	1 816	1 816	8 400
Finance lease liabilities	933		270	224	387	52		
Committed credit limits		10 000	10 000					
Non-committed credit limits		8 000						
Commercial papers		50 000						
Overdraft facilities	973	2 100						
Other	59		59					
Total	77 262	70 100	27 258	29 743	17 204	1 868	1 816	8 400

97% of interest-bearing borrowings were in euro and 3% in Latvian lats at 31 December 2006.

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

EUR 1 000	2007	2008	2009	2010	2011	2012 and later	Total
Total long-term borrowings	31 496	17 153	16 816	1 481	1 429	7 855	76 230

The average maturity of long-term borrowings at 31 December 2006 was 1.9 years (2.0 years) and the weighted average of effective interest rates 4.124% p.a. (2.83% p.a.).

The weighted average of effective interest rates including interest rate swaps at 31 December 2006 was 3.54% p.a. (3.19% 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 2006.

Finance lease liabilities

EUR 1 000	2006	2005
Maturity of minimum lease payments		
Not later than one year	**281**	236
Later than one year and not later than five years	**747**	887
Total minimum lease payments	**1 028**	1 123
Maturity of present values of minimum lease payments		
Not later than one year	**270**	229
Later than one year and not later than five years	**663**	769
Total present value of minimum lease payments	**933**	998
Future finance costs	**95**	125
Total finance lease liabilities	**1 028**	1 123

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.

There are no finance lease liabilities with maturity later than five years.

28. Other non-current liabilities

EUR 1 000	2006	2005
Accrued expenses and deferred income	**208**	
Advances received	**49**	207
Other non-interest-bearing liabilities	**174**	17
Total	**431**	224

29. Trade and other current payables

EUR 1 000	2006	2005
Advances received	**1 948**	1 145
Trade payables	**18 075**	14 241
Other current non-interest bearing liabilities	**17 675**	13 256
Accrued expenses and deferred income	**35 476**	30 314
Total	**73 174**	58 956
Accrued expenses and deferred income		
Liabilities related to personnel expenses	**26 414**	23 607
Waste charges	**2 467**	2 380
Liabilities related to derivative instruments		16
Interest liabilities	**620**	413
Other accrued expenses	**5 975**	3 898
Total	**35 476**	30 314

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

30. Derivative financial instruments

EUR 1 000	2006 Nominal value	2006 Fair value	2005 Nominal value	2005 Fair value
Maturity of interest rate swaps				
Not later than one year	**13 500**		6 000	
Later than one year and not later than five years	**30 500**		44 000	
Total	**44 000**	**726**	50 000	237

Interest rate swaps 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 finance income and costs.

EUR 1 000	Nominal value	Fair value
Maturity of interest rate swap under hedge accounting		
Not later than one year	**1 429**	
Later than one year and not later than five years	**5 714**	
Later than five years	**7 857**	
Total	**15 000**	519

An interest rate swap was entered into in order to hedge cash flow interest rate risk associated with a floating rate loan. Hedge accounting under IAS 39 has been applied to this item. The hedge has been effective and the change in its fair value has been fully recognised in the equity hedging reserve (revaluation reserve).

	Quantity 1000 bbl	Fair value EUR 1 000
Maturity of raw oil selling options held for trading		
Later than one year and not later than five years	**453**	
Total	**453**	2 288

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

The fair values of all derivative contracts are based on market prices at the balance sheet date. The fair values of the oil options have been determined on the basis of a generally used measurement model.

31. Operating leases

EUR 1 000	2006	2005
Maturity of minimum lease payments of non-cancellable operating leases		
Not later than one year	**6 107**	2 809
Later than one year and not later than five years	**12 742**	7 016
Later than five years	**3 614**	4 357
Total minimum lease payments	**22 463**	14 182

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 priace per square meter and in general they are tied to the consumer price index. A part of a leased real estate has been subleased.

The income statement of 2006 includes lease expenses arising from other leases EUR 6,786 thousand (EUR 4,804 thousand).

32. Adjustments to the cash flow statement

EUR 1 000	2006	2005
Adjustments to cash flows from operating activities		
Taxes	**13 249**	10 250
Depreciation and impairment	**28 155**	24 774
Finance income and costs	**1 699**	1 800
Share of profit from associates	**18**	27
Profit/loss on sales of equipment	**-2 724**	-358
Provisions	**458**	-889
Other	**-199**	-344
Total	**40 656**	35 260

33. Related-party transactions

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

EUR 1 000	2006	2005
Transactions and balances with joint ventures		
Sales	**517**	1 026
Purchases	**535**	1 201
Long-term receivables		
Capital loan receivables	**3 296**	2 000
Current receivables		
Trade receivables	**28**	34
Current liabilities		
Trade payables	**84**	105

The interest rate on the joint venture Salvor Oy's EUR 2 million subordinated loan is 4.2% p.a. The first payment of interest would have been made on 30 June 2006 if the joint venture had had any distributable assets in its balance sheet. The unpaid interest is added to the principal.

The interest rate on the joint venture L&T Recoil Oy's EUR 1.296 thousand subordinated loan is 5.582% p.a. The first payment of interest will be made on 31 October 2008 if the joint venture has any distributable assets in its balance sheet.

According to a shareholder agreement, the parent company of the Group is committed to further investments in the joint venture L&T Recoil Oy through share capital and subordinated loans not exceeding EUR 2,200 thousand.

The parent company of the Group has provided absolute guarantee for L&T Recoil Oy's credit limits amounting to EUR 15,000 thousand. The guarantee covers 50% of the amount of the credit limits in use at each time.

The parent company of the Group has provided a commitment on behalf of the joint venture Salvor Oy related to the lease on a building used by Salvor Oy for the intermediate storage and processing of contaminated soil. The parent company will be liable for 50% of any environmental damage if Salvor Oy is unable to compensate for the damage itself or if the lessor does not receive compensation through insurance, for example.

The joint ventures had no investment commitments at the balance sheet date.

EUR 1 000	2006	2005
Transactions and balances with associates		
Sales	**1 074**	2 970
Purchases	**21**	150
Trade receivables		180
Trade payables		7

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

EUR 1 000	2006	2005
Employee benefits of key management		
Salaries and other short-term employee benefits	**1 077**	1 058
Post-employment benefits	**78**	57
Share options	**701**	1 036
Total	**1 856**	2 151

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

An expense of EUR 214 thousand (EUR 248 thousand) was recognised in the income as the key managements' share of the share-based payment.

EUR 1 000	2006	2005
Salaries and remunerations paid to members of the Board of Directors and President and CEO		
Juhani Maijala, Chairman	**42**	80
Heikki Hakala, Vice Chairman	**28**	26
Lasse Kurkilahti	**23**	22
Juhani Lassila	**23**	22
Soili Suonoja	**23**	22
Jari Sarjo, President and CEO	**325**	526

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 2006, an expense of EUR 36 thousand arising from that contract was recognised in the income statement (EUR 25 thousand). The amount of the pension is less than the full amount of pension under the Employeers' Pensions Act.

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

The President and CEO and the Group Executives were granted 94,000 2005B options in 2006 (94,000 2005A options in 2005. At 31 December 2006, the President and CEO and the Group Executives held a total of 235,300 options, of which 141,300 were exercisable (218,700 at 31 December 2005, of which 66,700 were exercisable).

The position of the Chairman of the Board was full-time until the Annual General Meeting held on 4 April 2005.

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

34. Contingent liabilities

EUR 1 000	2006	2005
For own borrowings		
Real estate mortgages	**10 484**	105
Company mortgages	**12 778**	500
Other securities	**197**	188
Bank guarantees required for environmental permits	**2 026**	1 969

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

Disputes and litigation

Lahti Energia Oy has summoned Lassila & Tikanoja plc for claim for damages in Lahti District Court. The amount of the claim is EUR 2,514,985.46. The company opposes both the cause and the amount of the action. The company has adequate insurance coverance for any liability for damages.

Lassila & Tikanoja is involved in three 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.

Financial statements of the parent company, FAS

Statement of income

EUR 1 000	2006	2005	Note
Net sales	342 373	323 238	1
Costs of goods sold	-288 384	-279 857	
Gross profit	53 989	43 381	
Sales and marketing expenses	-10 594	-10 589	
Administration expenses	-6 345	-6 376	
Other operating income	5 091	1 686	4
Other operating expenses	-713	-356	4
Operating profit before goodwill amortisation	41 428	27 746	2, 3
Goodwill amortisation	-10 687	-11 178	
Operating profit	30 741	16 568	
Financial income and expenses	74	-992	5
Profit before extraordinary items	30 815	15 576	
Extraordinary items	73	144	6
Profit before appropriations and income taxes	30 888	15 720	
Appropriations			
Increase in accumulated depreciation	-46	-339	
Income taxes	-6 193	-5 606	7
Profit for the period	24 649	9 775	

Statement of changes in financial position

EUR 1 000	2006	2005
Operations		
Operating profit	30 741	16 568
Adjustments:		
Depreciation and amortisation	14 511	14 954
Other adjustments	-3 654	193
Cash flow before change in working capital	41 598	31 715
Change in working capital		
Increase/decrease in current non-interest-bearing receivables	-4 883	-5 811
Increase/decrease in inventories	667	-460
Increase/decrease in current non-interest-bearing liabilities	3 197	5 124
Cash flow from operations before financial income/expenses and taxes	40 579	30 568
Interest expenses and other financial expenses	-6 661	-4 584
Interest income from operations	6 635	3 305
Direct taxes paid	-3 847	-7 536
Cash flow from operations	36 706	21 753
Investments		
Investments in Group companies	-611	-11 799
Investments in tangible and intangible assets	-5 335	-5 495
Proceeds from sale of tangible and intangible assets	8 127	289
Investments in other assets	-1 173	-222
Proceeds from sale of other assets	60	68
Dividends received from investments	286	22
Cash flow from investing activities	1 354	-17 137
Financing		
Proceeds from share issue	1 134	1 795
Group contribution paid	-4 753	-1 387
Group contribution received	4 897	3 066
Proceeds from/repayments of short-term borrowings	-15 462	15 462
Repayments of current liabilities to Group companies	154	-12 558
Proceeds from long-term loans	15 000	
Repayments of long-term loans	-8 408	-13 315
Dividends paid	-15 339	-9 525
Cash flow from financing activities	-22 777	-16 462
Changes in cash and cash equivalents	15 283	-11 846
Cash and cash equivalents at 1 January	5 205	17 051
Cash and cash equivalents at 31 December	20 488	5 205

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 1 000	2006	2005	Note
ASSETS			
Fixed assets			
Intangible assets			8
Intangible rights	299	352	
Goodwill	26 610	37 610	
Other capitalised expenditure	119	145	
	27 028	38 107	
Tangible assets			9
Land	2 519	4 167	
Buildings and constructions	26 718	29 771	
Machinery and equipment	4 250	4 754	
Other tangible assets	47	44	
Advance payments and construction in progress	618	554	
	34 152	39 290	
Financial assets			10, 11
Shares in Group companies	20 808	20 354	
Shares in participating interests	3 008	3 162	
Capital loan receivables from participating interests	3 296	2 000	12
Other shares and holdings	2 685	2 719	
	29 797	28 235	
Total fixed assets	90 977	105 632	
Current assets			
Inventories			
Raw materials and consumables	416	318	
Finished products/goods	1 821	2 351	
Other inventories	476	711	
	2 713	3 380	
Non-current receivables			
Loan receivables	1	1	
Current receivables			12
Receivables from Group companies	90 009	85 733	
Receivables from participating interests	28	34	
Trade receivables	40 957	34 937	
Other receivables	379	134	
Prepaid expenses and accrued income	1 594	4 753	
	132 967	125 591	
Cash and cash equivalents	20 488	5 205	
Total current assets	156 169	134 177	
Total assets	247 146	239 809	

EUR 1 000	2006	2005	Note
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			13
Share capital	19 264	19 189	
Share premium account	47 666	46 606	
Retained earnings	16 251	25 090	
Profit for the financial year	24 649	9 775	
Total shareholders' equity	107 830	100 660	
Appropriations			
Depreciation difference	3 176	3 130	
Obligatory provisions			14
Non-current	645	355	
Current	272	300	
	917	655	
Liabilities			15
Non-current			
Loans from financial institutions	56 072	58 000	
Accrued income	48	1	
Other liabilities	200		
Accruals and deferred expenses	505	351	
	56 825	58 352	
Current			
Commercial papers		15 462	
Loans from financial institutions	16 929	8 250	
Advances received	1	13	
Trade payables	12 976	9 852	
Liabilities to Group companies	9 354	8 063	
Liabilities to associates			
Liabilities to joint ventures	84	109	
Other liabilities	12 082	10 775	
Accruals and deferred expenses	26 972	24 488	
	78 398	77 012	
Total liabilities	136 140	136 019	
Total shareholders' equity and liabilities	247 146	239 809	

Notes to the financial statements of the parent company

Principles for preparing the financial statements

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

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

Buildings and structures	5–25 years
Vehicles	6–15 years
Machinery and equipment	4–15 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 of 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 for the dates of the transactions. Receivables and liabilities denominated in foreign currencies are translated into euros at the reference rate of the European Central Bank for the balance sheet date. Exchange rate differences are recognised in the income statement.

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

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

Research and development expenditure
Research and development expenditure is recognised as an expense.

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

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

Notes to the financial statements

1. Net sales

EUR 1 000	2006	%	2005	%
Net sales by division				
Environmental Services	159 291	46.5	143 044	44.3
Property and Office Support Services	121 584	35.5	125 024	38.6
Industrial Services	61 382	17.9	54 804	17.0
Group administration and other	116	0.1	366	0.1
Total	342 373	100.0	323 238	100.0
Net sales by market				
Finland	337 680	98.6	317 797	98.3
Other countries	4 693	1.4	5 441	1.7
Total	342 373	100.0	323 238	100.0

2. Personnel and administrative bodies

	2006	2005
Average personnel		
Clerical personnel	851	795
Workers	3 656	3 520
Total	4 507	4 315

EUR 1 000	2006	2005
Personnel expenses		
Salaries and bonuses	115 985	106 179
Pension expenditure	19 180	17 445
Other salary-related expenses	8 789	7 495
Total	143 954	131 119

Salaries, bonuses and pension benefits of the management are described in the note 33 of the consolidated financial statements, Related-party transactions. No loans were granted to the related parties of the Group companies.

3. Depreciation and amortisation

EUR 1 000	2006	2005
Depreciation and amortisation by function		
Costs of goods sold	3 797	3 739
Sales and marketing	8	15
Administration	19	22
Goodwill	10 687	11 178
Total	14 511	14 954

Depreciation and amortisation are itemised under intangible and tangible assets.

4. Other operating income and expenses

EUR 1 000	2006	2005
Other operating income		
From Group companies		
Compensation for administration costs	290	793
From others		
Profit on sale of real estates	3 693	
Profit on sale of shares	14	
Profit on sale of other fixed assets	389	216
Government grants	225	197
Rents	42	10
Recovery of bad debt	69	43
Other operating income	369	427
Total	5 091	1 686
Other operating expenses		
To others		
Losses on sale of fixed assets	9	5
Losses on sale of shares	19	4
Bad debt	473	196
Other	212	151
Total	713	356

5. Financial income and costs

EUR 1 000	2006	2005
Dividend income	11	22
Other interest and financial income	6 929	3 287
Other interest and financial costs	-6 866	-4 301
Total financial income and costs	74	-992
Financial income and costs include		
Dividend income		
from Group companies	8	
from participating interests		15
from others	3	7
Interest income		
from Group companies	6 383	3 078
from others	546	209
Interest costs		
to Group companies	3 913	1 350
to others	2 909	2 926

6. Extraordinary items

EUR 1 000	2006	2005
Extraordinary income		
Group contribution received	3 258	4 897
Extraordinary expenses		
Group contribution paid	-3 185	-4 753
Total extraordinary income and expenses	73	144

7. Income taxes

EUR 1 000	2006	2005
Inxome taxes on operations for the financial year	8 936	5 593
Income taxes for previous periods	-2 743	13
Total	6 193	5 606
Deferred tax liabilities/receivables		
From depreciation differences	-846	-814
From other matching differences	424	1 228
Total	-422	414

8. Intangible assets

EUR 1 000	Intangible rights	Goodwill	Other capitalised expenditure	Total
Cost at 1 January	2 059	103 126	242	105 427
Additions		158		158
Transfers between items	-484	-471	-8	-963
Cost at 31 December	1 575	102 813	234	104 622
Accumulated depreciation at 1 January	-1 707	-65 516	-97	-67 320
Accumulated depreciation on disposals and transfers	438		6	444
Depreciation during the period	-7	-10 687	-24	-10 718
Accumulated depreciation at 31 December	-1 276	-76 203	-115	-77 594
Total book value	299	26 610	119	27 028

9. Tangible assets

EUR 1 000	Land	Buildings	Machinery and equipment	Other	Advance payments and construction in progress	Total
Cost at 1 January	2 965	39 007	33 172	129	554	75 827
Additions	37	1 108	358	3	1 155	2 661
Disposals	-483	-1 030	-2 966			-4 479
Transfers between items		755	336		-1 091	
Cost at 31 December	2 519	39 840	30 900	132	618	74 009
Accumulated depreciation at 1 January		-11 292	-28 418	-85		-39 795
Accumulated depreciation on disposals and transfers		783	2 948			3 731
Depreciation during the period		-2 613	-1 180			-3 793
Accumulated depreciation at 31 December		-13 122	-26 650	-85		-39 857
Revaluations at 1 January	1 202	2 056				3 258
Decrease in revaluations	-1 202	-2 056				-3 258
Revaluations at 31 December						
Total book value	2 519	26 718	4 250	47	618	34 152

10. Investments

EUR 1 000	Shares in Group companies	Holdings in participating interests	Holdings in joint ventures	Capital loan receivables	Other shares and holdings	Total
Cost at 1 January	20 354	158	3 004	2 000	2 719	28 235
Additions	296		8	1 296	27	1 627
Disposals			-4		-61	-65
Transfers between items	158	-158				0
Cost at 31 December	20 808	0	3 008	3 296	2 685	29 797

11. Group companies

	Holding of shares and votes, %
EM-business Oy, Helsinki	100.0
Hämeenlinnan Puhtaanapito 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 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 Toimi Oy, Helsinki	100.0
L&T Ympäristöhuolto Oy, Helsinki	100.0
Suomen Keräystuote Oy, Tampere	57.1
Participating interests	
Blue Service Partners Oy, Helsinki	50.0
L&T Recoil Oy, Helsinki	50.0
Salvor Oy, Helsinki	50.0
Rodnik Ltd, St. Petersburg, Russia	35.0

12. Receivables

EUR 1 000	2006	2005
From Group companies		
Loan receivables	89 547	85 129
Trade receivables	462	604
Total	90 009	85 733
From participating interests		
Trade receivables	28	34
Total	28	34
Prepaid expenses and accrued income		
Interests	19	1
Employees' health care compensation	851	988
Statutory personnel insurance	355	1 314
Insurances	60	253
Direct taxes		1 942
Other	309	255
Total	1 594	4 753

13. Shareholders' equity

EUR 1 000	2006	2005
Share capital at 1 January	19 189	19 068
Subscription with 2002 options	75	121
Share capital at 31 December	19 264	19 189
Share premium at 1 January	46 606	44 932
Subscription with 2002 options	1 060	1 674
Share premium at 31 December	47 666	46 606
Retained earnings at 1 January	34 865	34 625
Dividend	-15 356	-9 535
Reversal of revaluations	-3 258	
Retained earnings at 31 December	16 251	25 090
Profit for the period	24 649	9 775
Shareholders' equity at 31 December	107 830	100 660
Distributable assets		
Retained earnings	16 251	25 090
Profit for the period	24 649	9 775
Total distributable assets	40 900	34 865

14. Obligatory provisions

EUR 1 000	2006	2005
Environmental provision	457	655
Lease provision	460	
	917	655

The obligatory provisions relate to the site restoration cost of the landfill in Kerava and to unleased premises. In 2005, the provisions also included a provision for the treatment of a contaminated site, which was completed in 2006.

15. Liabilities

EUR 1 000	2007*	2008	2009	2010	2011	2012 and later
Repayments of non-current liabilities in coming years						
Loans from financial institutions	16 929	28 929	16 429	1 429	1 429	7 855

* In the balance sheet under current liabilities

EUR 1 000	2006	2005
Non-interest-bearing liabilities		
Non-current	753	352
Current	52 142	48 615
Total	52 895	48 967
Liabilities to Group companies		
Current interest-bearing liabilities	9 328	4 685
Current non-interest-bearing liabilities	26	3 378
Total	9 354	8 063
Liabilities to participating interests		
Current non-interest-bearing liabilities	84	109
Total	84	109
Accruals and deferred expenses		
Personnel expenses	21 966	19 659
Interests	617	413
Waste charges	1 096	1 482
Other matched expenses	3 293	2 934
Total	26 972	24 488

16. Contingent liabilities

EUR 1 000	2006	2005
For other own commitments than borrowings		
Real estate mortgages	114	105
Other securities	112	99
For other own commitments		
Leasing liabilities		
Falling due next year	2 614	312
Falling due in subsequent years	4 538	591
Total	7 152	903
For Group companies		
Guarantees	3 521	1 119
Bank guarantees required for environmental permits	1 741	1 475

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 1 000	2006	2005
Interest rate swaps		
Nominal value	59 000	50 000
Fair value	1 245	237

The derivative contracts were made for hedging purposes and their fair values are based on market values at the balance sheet date.

Auditor's report

To the shareholders of Lassila & Tikanoja plc

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Lassila & Tikanoja plc for the period 1.1.–31.12.2006. The Board of Directors and the President and CEO have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors and the parent company's financial statements and administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report of the Board of Directors and 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 the administration is to examine whether 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, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's 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 disposal of distributable funds is in compliance with the Companies' Act.

Helsinki, 13 February 2007

PricewaterhouseCoopers Oy
Authorised Public Accountants

Heikki Lassila
Authorised Public Accountant

Information for investors

Stock exchange releases in 2006

Stock exchange releases and announcements disclosed by Lassila & Tikanoja in 2006.

Date	Type of disclosure	Title
8 February 2006	Stock exchange announcement	Financial statements 1 January to 31 December 2005
8 February 2006	Stock exchange announcement	Shares subscribed for pursuant to share options
28 February 2006	Stock exchange release	Notice of Annual General Meeting of Shareholders
8 March 2006	Stock exchange announcement	Annual report 2005 published
23 March 2006	Stock exchange release	Resolutions of the AGM and organisation of the Board
23 March 2006	Stock exchange release	Lassila & Tikanoja applies for listing of 2002C share options on the Helsinki Stock Exchange
10 April 2006	Stock exchange announcement	Tapiola Group's holding in Lassila & Tikanoja plc down to 4.6%
28 April 2006	Stock exchange announcement	2002C share options to be listed on 2 May 2006
3 May 2006	Stock exchange release	Interim report 1 January to 31 March 2006
3 May 2006	Stock exchange announcement	Shares subscribed for pursuant to share options
26 July 2006	Stock exchange release	Interim report 1 January to 30 June 2006
26 July 2006	Stock exchange announcement	Shares subscribed for pursuant to share options
25 October 2006	Stock exchange release	Interim report 1 January to 30 September 2006
8 November 2006	Stock exchange announcement	Shares subscribed for pursuant to share options
8 November 2006	Stock exchange announcement	Financial information and AGM in 2007
10 November 2006	Stock exchange announcement	Share subscription schedule for 2007
18 December 2006	Stock exchange release	Lassila & Tikanoja becomes leading bio fuels supplier in Finland

All Lassila & Tikanoja stock exchange releases since 2001 are available on the company website.

The information in the releases listed above information may be outdated. Up-to-date information is available on the company' website.

Investor relations

Investor relations

Objectives
The purpose of investor communications is to promote the 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's 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 both of figures and written assessments. All parties are provided with the same information at the same time in an unbiased, consistent 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. Individual investor relations and meetings are the responsibility of Jari Sarjo together with Martin Forss, Vice President of Corporate Planning and Business Development.

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 the release of the next report, and the representatives do not appear at events associated with the capital markets during that time.

Printed publications and the Internet
The Annual Report is printed in Finnish and English, and the interim report only in Finnish. The Annual Report and printed interim reports are mailed to all shareholders and persons on the mailing list maintained by the company.

All of the company's stock exchange releases can be read on the company website immediately after publication.

Contact information
www.lassila-tikanoja.com
E-mail: ir@lassila-tikanoja.fi
or firstname.lastname@lassila-tikanoja.fi

Lassila & Tikanoja plc share on the Helsinki Stock Exchange

Share

Trading code	LAT1V
ISIN code	FI0009010854
Date of listing	1 October 2001
List	Nordic list, Mid-cap companies
Sector	Industrials, Environmental and facilities services
Number of shares	38,549,719

2002C share option

Trading code	LAT1VEW302
ISIN code	FI0009607139
Date of listing	2 May 2006
Exchange ratio	1 (LAT1VEW302) : 1 (LAT1V)
Number of options	240,755

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.

ABM AMRO
Carnegie Finland Branch
Evli Bank
eQ Bank
FIM Securities
Handelsbanken
Kaupthing Bank
Nordea
OKO Bank
SEB Enskilda
Cazenove, London
Merrill Lynch, Edinburgh

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

General Meeting of Shareholders

The Annual General Meeting of Lassila & Tikanoja plc will be held on Monday 26 March 2007 at 4 p.m. in the Helsinki room of the Finlandia Hall, Mannerheimintie 13 e, Helsinki. Shareholders who are entered in the company's list of shareholders maintained by the Finnish Central Securities Depository Ltd (FCSD) on 16 March 2007 are entitled to attend the Annual General Meeting.

Shareholders wishing to attend the Annual General Meeting must notify the company no later than on Monday 19 March 2007 at 4 p.m. either by mail to Lassila & Tikanoja plc, P.O. Box 28, 00441 Helsinki, by telephone at +358 10 636 2882/Taru Määttä, by fax at +358 10 636 2899 or by e-mail at taru.maatta@lassila-tikanoja.fi. Any powers of attorney shall be delivered to the above address by the end of the registration period.

Payment of dividend

The Board of Directors proposes to the Annual General Meeting of Shareholders that a dividend of EUR 0.55 per share be paid for the 2006 financial year. The dividend determined by the Annual General Meeting of Shareholders will be paid to a shareholder registered in the company's list of shareholders maintained by the Finnish Central Securities Depository Ltd on the record date.

General Meeting of Shareholders	26 March 2007
Ex-date	27 March 2007
Record date	29 March 2007
Payment of dividend	5 April 2007

Financial Information in 2007

The interim report for the period between 1 January and 31 March will be published on 4 May 2007 at 8:00 am.
The interim report for the period between 1 January and 30 June will be published on 31 July 2007 at 8:00 am.
The interim report for the period between 1 January and 30 September will be published on 24 October 2007 at 8:00 am.

Lassila & Tikanoja's Annual Report and interim reports are published in Finnish and English. They are available for viewing and printing on the company's website www.lassila-tikanoja.com immediately after publication. The website also contains information on how readers can subscribe for an e-mail list for stock exchange releases and the mailing list for annual reports and interim reports. The annual report and interim reports will be mailed to shareholders in accordance with information in the share register maintained by the FCSD.

Changes of address

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

LASSILA & TIKANOJA PLC

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