2007

ANNUAL REPORT

L&T

LASSILA & TIKANOJA

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 2007 amounted to EUR 554.6 million and it employed 9,387 people at the end of the year. The company's shares are quoted on the OMX Nordic 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.

L&T 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.

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 2007

EUR 279.8 million

Operating profit 2007

EUR 35.0 million

EVA 2007

EUR 16.8 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. Maintenance of technical systems 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 maintenance of technical systems

Net sales 2007

EUR 204.1 million

Operating profit 2007

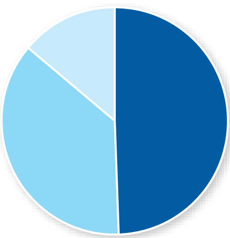
EUR 11.0 million

EVA 2007

EUR 7.2 million

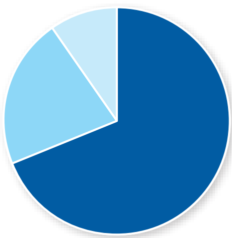
Net sales by division

Total EUR 554.6 million



Operating profit by division

Total EUR 48.8 million



Industrial Services

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

Hazardous waste services provides customised collection, sorting and processing services for its customers. In L&T's own processing plants the collected waste is processed to products, semi-finished products and recovered fuel for industry.

Industrial solutions produces cleaning and environmental management solutions for industry. The solutions are such as cleaning and operating of industrial process equipment and plants, the processing and recovery of industrial by-products and material efficiency solutions.

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

L&T's wastewater services maintains wells, engages in the imaging and cleaning of sewer networks, as well as the maintenance and operation of wastewater systems.

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

Net sales 2007
EUR 75.5 million

Operating profit 2007
EUR 4.8 million

EVA 2007
EUR -0.4 million

L&T's operating area

Finland
All L&T services

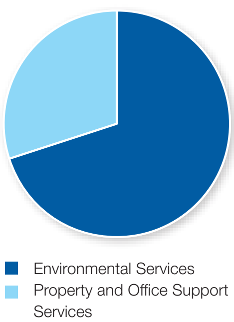
Sweden
Cleaning and office support services

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

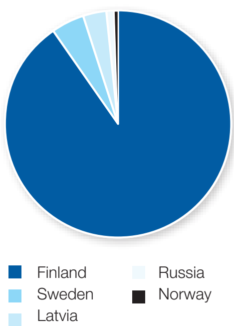
Russia
Waste management and recycling services
Cleaning and office support services, maintenance of outdoor areas

Norway
Hygiene services for the food industry

EVA by division
Total EUR 23.0 million



Net sales by country
Total EUR 554.6 million



Review by the President and CEO

"The company is starting the year 2008 from a strengthened position. We are building new recycling capacity and pellet plants, as well as focusing on organic growth in all business operations. The objective is to continue a profitable increase in net sales also in the current year, meeting or exceeding the long-term target of more than 10 per cent, while creating prerequisites for future growth."

Year 2007

Lassila & Tikanoja's net sales increased in 2007 by more than 27 per cent to EUR 555 million. Most of the growth originated from acquisitions but strong organic growth continued as well. L&T further improved its market positions. L&T Biowatti, which operates in the market for renewable wood-based fuels and raw materials, became a new business area through L&T's acquisition of a majority holding in February.

L&T operates in a growing market. Our objective is to outperform market growth and exceed an annual growth rate of 10 per cent. We were successful again. Organic growth last year came to 7.5 per cent, which outperformed market growth. Successful long-term product development, marketing, sales and continuous improvement in customer satisfaction have enabled good organic growth.

Strong demand for L&T's services continued throughout the year. The competitive situation remained tight, and there were no substantial changes in the competitor scene during the year.

Profit for the period declined on the previous year due to non-recurring items but operating profit excluding non-recurring and imputed items increased clearly. The performance of Property and Office Support Services improved in particular even though operations outside Finland still generated a loss.

During 2007, Environmental Services continued to increase its recycling plant capacity, improved the supply capacity of L&T Biowatti and dissolved the joint holding of the unprofitable company Salvor. Property and Office Support Services managed to improve the productivity of operations in Finland. Operations in Sweden were expanded through an acquisition, and in Russia and Latvia through organic growth. The market for Industrial Services was healthy, and L&T's market position strengthened as partnership agreements with major customers became more common.

L&T's market will grow far into the future

L&T aims to be a profitable and competitive investment. The achievement of this target is affected by the markets in which the company operates. All of L&T's operating markets in Finland and elsewhere are growing faster than the corresponding gross domestic products. L&T's markets can also be considered non-cyclic even though we are naturally not completely immune against larger fluctuations of the economy. The growth factors in these markets are easy to understand and fairly easy to predict. In my opinion, these growth factors have strengthened during the past year and continue to gain strength.

The most significant growth factors for environmental business operations have included statutory environmental protection and a change in environmental attitudes. Beside these traditional growth factors, global warming and increases in raw material prices have introduced requirements for energy and material efficiency, which are reflected as increased use of renewable energy and an increased degree of recycling, for example.

L&T commissioned VTT Technical Research Centre of Finland to calculate its “carbon balance”. According to VTT’s report, L&T’s operations resulted in a reduction of approximately 2.1 million tonnes of greenhouse gas emissions in 2006, corresponding to approximately three per cent of Finland’s total greenhouse gas emissions. It is clear that L&T belongs to enterprises that will gain business opportunities from global warming. In practice, this refers to the same kind of business that we have carried on until now – that is, processing waste materials and various by-products into recycled materials and biofuels.

Property and Office Support services and part of Industrial Services can be considered to belong to the support services market. This market is characterised by customers focusing on their core business and outsourcing support services to specialised enterprises. The degree of outsourcing in industrial production is increasing, particularly in the forest industry where several outsourcing agreements were signed during the past year. Major customers require a versatile service offering and far-reaching partnership in which operations are continuously developed. L&T as an extensive service provider has a good position in this respect.

On the other hand, the development of outsourcing in the municipal sector was modest in relation to the potential. For example, the degree of outsourcing of cleaning services in Finland is less than 20 per cent, compared to clearly over 60 per cent in the old EU countries. However, it is expected that the rate of outsourcing will accelerate also in Finland as the baby boom generation reaches retirement age over the next few years and municipalities focus on their core functions.

Social responsibility as a part of business

The ethicality of investments has recently become a significant theme for discussion and criterion for investing. L&T aims to be a good corporate citizen. In practice, we focus on environmental issues and the working capacity of our personnel.

Through its business, L&T is able to truly and very extensively reduce and remedy man-made damage to the environment. This is also clearly evident from our “carbon balance”. We aim to be particularly aware of the environment in our own environmental activities and are constantly setting new targets for ourselves to reduce environmental burdens.

L&T operates in very labour-intensive sectors. The company has a good image as an employer, and the availability of personnel has been good so far. In order to ensure the availability and sufficiency of competent personnel also in the future, we have initiated several projects to improve the efficiency of recruitment and maintain working capacity. Activities to maintain working capacity improve the well-being of L&T employees while boosting the company’s competitive ability and service ability. Reductions in sickness-related absence and disability pensions are another important target.

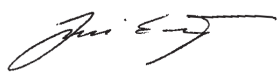
The management of working capacity is supported by the Sirius programme, one component of which is a joint sickness fund between the company and its employees. The Sirius programme is exceptional in the respect that the activities and results can also be measured in money as reductions in sickness-related absence and pension costs. Sirius gathered momentum during 2007 and the results are already visible. We have also made clear progress in reducing occupational accidents even though there is room for improvement in this area.

Strong positions for the year 2008

At the time of this writing, the global financial markets are exceptionally restless, share prices are fluctuating heavily and the EU is allocating country-specific targets for reductions in emissions. There is a lot of uncertainty in the air. The market situation does not seem particularly uncertain from L&T’s point of view but the company is starting the year 2008 from a strengthened position. We are building new recycling capacity and pellet plants, as well as focusing on organic growth in all business operations. The objective is to continue a profitable increase in net sales also in the current year, meeting or exceeding the long-term target of more than 10 per cent, while creating prerequisites for future growth.

I wish to express my thanks to all employees for their contributions last year, and to our shareholders and customers for letting us serve you and earn your respect.

In January 2008



Jari Sarjo

2007 in brief

Lassila & Tikanoja's net sales in 2007 increased by 27.2 per cent to EUR 554.6 million. The growth clearly outperforms the long-term target of exceeding 10 per cent growth. Most of the net sales increase originated from acquisitions but organic growth was also strong. This was made possible by long-term product development, successful marketing and sales, as well as improved customer satisfaction.

Net sales from Environmental Services increased substantially. L&T Biowatti, which operates in the market for renewable wood-based fuels and raw materials, became a new business area. In Property and Office Support Services, growth continued and profitability improved. Industrial Services improved its market position. Operations outside Finland were expanded in Sweden, Russia and Latvia.

Non-recurring costs burdened the earnings, compared to an earnings improvement due to non-recurring items in the previous year.

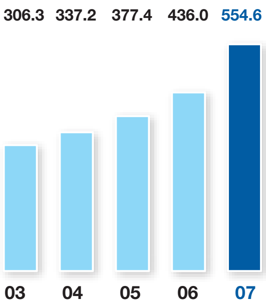
Effort was put into activities for maintaining working capacity and improving the efficiency of recruitment.

Key figures for 2007 and 2006	**2007**	**2006**	**Change %**
Net sales, EUR million	**554.6**	436.0	27.2
Operating profit, EUR million	**48.8**	50.2	-2.8
Profit before tax, EUR million	**44.5**	48.5	-8.3
Return on equity, % (ROE)	**17.0**	21.2	
Return on invested capital, % (ROI)	**17.6**	21.0	
Gearing, %	**42.7**	29.7	
Equity ratio, %	**46.6**	50.4	
Capital expenditure, EUR million	**93.2**	47.2	97.6
Total number of full-time and part-time employees at year end	**9 387**	8 328	12.7
EVA, EUR million	**23.0**	28.6	-19.6
Earnings per share, EUR (EPS)	**0.83**	0.90	-7.8
Cash flows from operating activities per share, EUR	**1.43**	1.82	-21.4
Dividend per share, EUR	**0.55***	0.55	

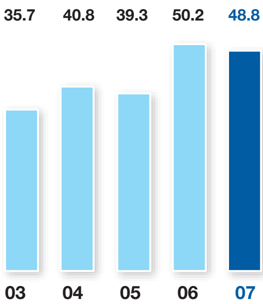
* Proposal by the Board of Directors

Calculation of the key figures is presented on pages 41 and 42.

Net sales, EUR million
2003 FAS



Operating profit, EUR million
2004 excluding revenue recognition of pension liability, 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 is an expert partner that develops its services in close cooperation with customers.

Closer to the customer

Segmenting focuses attention on the customer's characteristics

L&T has the most versatile services in its industry, and the L&T® Comprehensive Solution combines them into an extensive service package. A survey of the customer's true needs allows us to build a package that supports improving the customer's competitiveness. Extensive service packages tailored for different customer groups were successfully launched in 2007, including L&T® Office for large office premises and L&T® Shopping Centre. The special characteristics of each industry and type of property have been taken into account in the design of these concepts.

Comprehensive customer service 24/7

The expansion and development of L&T's multi-channel customer service, the Contact Centre, continued in 2007. At the end of the year, L&T's Contact Centre comprised four service points virtually interconnected through telephone technology and a call control system, as well as a few satellite points. The Control Centre responsible for accident on-call duty and fault reports from property management was linked to the Contact Centre. The combination of functions provided synergy benefits and allowed around-the-clock customer service covering all of Finland.

The telephone service L&T Info was launched as a new service for customers and other interest groups to easily reach the correct contacts within L&T's extensive organisation. The Contact Centre also coordinates L&T's online services. The use of the Internet-based service channel that was opened a couple of years ago doubled in 2007 compared to the previous year.

The direction, volume and quality of sales improved

The sales process was developed in 2007 and resources were increased with consideration. Furthermore, the development of corporate sales organisations continued through a long-term training programme. High-quality sales work, correctly directed efforts and successful sales to major customers ensured that the targets for new sales were exceeded.

The task of the Telemarketing unit is to survey the needs of potential customers, manage after-sales marketing, provide support for other sales functions and in the future, complete sales processes in a more independent role. The operations were expanded to cover almost all of L&T's services and customer segments in 2007. About a hundred different projects were completed, including the first international sales projects. The unit's resources were doubled during the latter half of the year.

The building of local sales organisations and training sales personnel for L&T's sales procedures continued in new operating areas outside Finland. Building recognition for the L&T brand continued in all countries through campaigns targeted at specific groups and media communications.

Everything can be done better than before

L&T reforms its operations in accordance with the needs of its customers and its strategic targets. 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. In addition to the customer relationship and service production processes, support processes are also reformed.

Strategy, operating policy, operating principles and management system create the foundation for reformation. Development work results in changes that may comprise the introduction of completely new operating models or a multitude of minor improvements. Some of the development work is centralised, some is distributed to the level of business units and working groups. Reform projects in 2007 were carried out in Finland under the theme "Faster and Less Expensive" and in Latvia under the theme "Let's do it".

Internal and external assessments are used to identify best practices and areas for improvement. Assessments are also carried out regularly together with customers.

Certified operations

In its operations, L&T observes the principles of the ISO 9001 quality management standard, the ISO 14001 environmental management standard and the OHSAS 18001 occupational health and safety management standard. L&T's management system is certified in accordance with these standards. L&T's management system was reformed in 2007 with regard to practices applicable to the entire company.

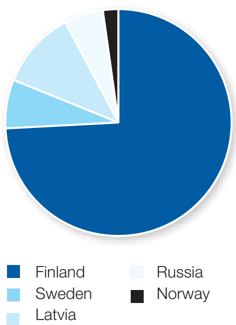
Furthermore, L&T's service production has received 18 quality certificates, 17 environmental certificates and 15 occupational safety certificates in Finland, Sweden and Latvia, as well as a food safety management system certificate according to ISO 22000.

Personnel

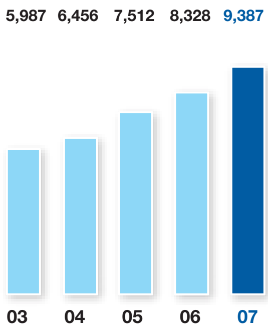
The number of personnel increased by 12.7 per cent in 2007 as a consequence of business growth. At the end of the year, the total number of L&T employees working full-time and part-time was 9,387 people (8,328 in 2006). 2,401 (1,822) of them worked outside Finland. The average number of personnel in 2007 converted to full-time equivalents was 7,819 (6,775).

L&T's service visible to the customer is a result of work done by competent personnel. L&T ensures the competence of its personnel through systematic training and versatile competence development. Particular attention is paid to customer service and leadership skills in addition to professional expertise.

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



L&T's business operations and competitive advantage are based on its highly skilled and motivated personnel. The crucial objectives of Human Resource management have been specified as securing the availability of personnel (quantity, quality, permanence), creating uniform and efficient HR processes, and minimising costs arising from work disability. The actualisation of efficient and functional HR processes was more clearly made the responsibility of the Human Resource Development (HRD) unit in 2007.

Recruitment and orientation

The management of the recruitment process was centralised in the HRD unit in 2007. Recruitment is now carried out more professionally, and new services for internal use are produced in order to recruit, evaluate and orientate skilled employees. A new electronic recruitment information system was introduced during the year that facilitates finding a suitable employee, rapid response and better consideration of the applicant's viewpoint.

The recruitment of personnel in the Helsinki and Tampere regions was centralised in Career and Recruitment Centres at which L&T's recruiters are in charge of recruiting employees, evaluating aptitude and choosing people, as well as supporting the adoption of work. The new Career and Recruitment Centre model serves all divisions.

New processes were created for recruiting clerical and administrative personnel, and operations were centralised in the HRD unit. The new Evaluation and Development Centre produces personnel evaluation services to support the choice and development of clerical and administrative personnel. L&T's personnel evaluation focuses on assessing and predicting work performance and is the domain of a certified psychologist.

The development of orientation started in 2007 with the objective of tailoring orientation programmes for different groups of personnel and paying more attention to the orientation needs of immigrants, for example. The orientation programmes introduce new employees to L&T's competence management system.

Competence management

Competence management was considered in a more strategy-oriented way with the objective of securing the achievement of L&T's growth targets through competent personnel. The concept of competence management was specified and the process described during 2007. The definition of strategic competence areas and initiation of actions derived from these started in late 2007. At the same time, a survey of information systems and partner networks supporting competence management was initiated.

The main focus in training was in ensuring and developing the skills of personnel and supervisors working directly with customers through degree-oriented programmes and short-term courses. The means of competence development were diversified by increasing work community training and coaching processes. The introduction of teamlike operations continued.

The development of an international and coherent L&T was supported through online discussion on the preconditions for true internationalisation and the prioritisation of matters. On the basis of the online discussion, decisions were made on uniform operating methods, and these were communicated to key persons in international business operations during an integration event arranged in March. The English language skills and communication facilities of key personnel were surveyed, and necessary actions to develop them were initiated.

Functionality of work communities

A survey of the functionality of work communities called HUPO was carried out in the spring of 2007 for the second time, covering all personnel in Finland. This was the first time that clerical and administrative employees in the Swedish, Latvian and Russian units were also involved. The survey analysed the competence of personnel, the preconditions for work, motivation and the practical realisation of L&T's operating principles. Response to the survey was more active than the previous time.

According to the responses, work in L&T is generally considered to be sensible, and people are comfortable with their colleagues. The results were processed at different organisational levels, and development actions were linked to the business operating plan and development process. The quantity and quality of appraisal discussions will be improved as a company-level development point, as the surveys of work community functionality have identified appraisal discussions as very significant.

The effects of development actions initiated on the basis of the HUPO survey results from the autumn of 2005 were now visible in Finland. The flow of information has improved, the communication of objectives has been more successful, and the division of responsibilities is clearer. Development has also taken place in orientation, and a more encouraging atmosphere has developed at the workplace.

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, a working capacity management programme, Sirius, was launched in 2006 with the target of reducing sickness-related absence and work disability pensions. The starting point for Sirius is that issues related to working capacity are an important part of everyday management. Uniform operating procedures have been developed for addressing problems related to working capacity, and supervisors have been trained to identify such problems as early as possible. Active relocation of disabled employees constitutes a substantial part of the Sirius programme. It has reduced disability pension costs significantly.

In order to ensure efficient occupational health care and unify the operating methods and supervision, occupational health care in Finland was centralised to a single partner in 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. The results of the programme are promising as the percentage of sickness-related absence has decreased from 7.5% at the starting point in 2005 to 5.8% in 2007.

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

L&T supports sports and other recreational activities through active staff clubs. There were 33 staff clubs operating in Finland in 2007.

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. The management of occupational safety risks is a part of everyday management and an essential part of L&T's management system. The system combines the management of occupational safety issues with occupational health and environmental ones (EHS).

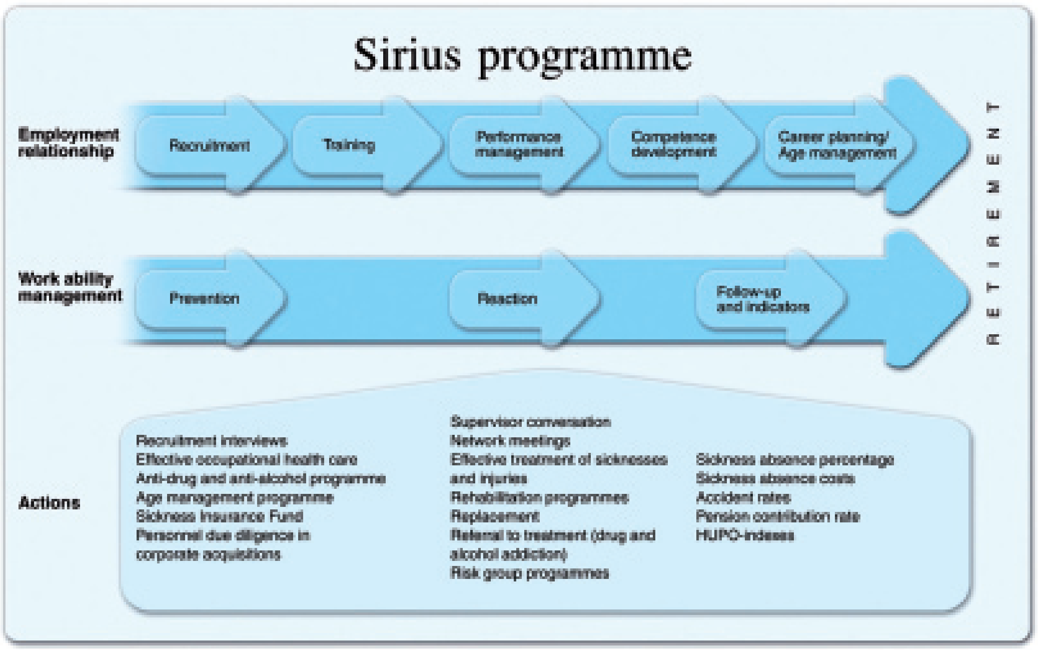
L&T's EHS objectives for 2007–2009 include the maintenance and improvement of working capacity, building a sound occupational safety culture and reducing energy consumption and emissions. Actions under the EHS programme are recorded in the operating plans for divisions and product lines, and their realisation is monitored together with other operations. The business units include their own annual EHS targets in their operating plans.

Systematic improvement of the safety culture continued in 2007. The objective is to cut the accident frequency rate in half within three years. The rate in 2007 was 41, compared to 49 in 2006. The development of the safety culture was best evident in the Industrial Services division in which the number of accidents declined by 35% on the previous year.

Employees are encouraged to report dangerous situations, and new tools are being sought for the purpose. The reporting of near miss situations was established as an operating procedure during the year, and more than 2,000 near miss situations were reported (1,400 cases in 2006). The reports serve as the foundation for proactive occupational safety work.

L&T's management system and centralised functions have received occupational safety certification in accordance with OHSAS 18001. L&T's services have received 15 occupational safety certifications.

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



The Sirius working capacity management programme aims to reduce sickness-related absence and disability pensions.

Environmental Services

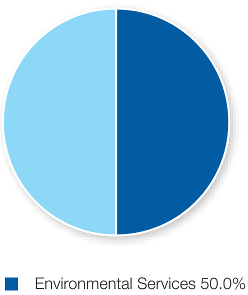
Services

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.

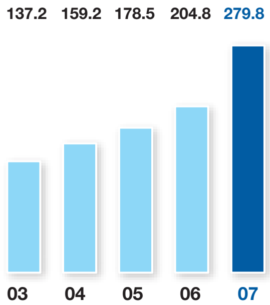
Collection services for individual premises cover the design, dimensioning, marking, cleaning and leasing of bins in addition to the collection itself. Internal transportation of waste inside premises, staff training and reporting are often included in the service. Materials collected separately include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

L&T is involved in the utilisation of renewable sources of energy, which promotes the reduction of carbon dioxide emissions. L&T Biowatti supplies electric and heating power plants with biofuel that replaces fossil fuels. L&T Biowatti procures its raw material from the forest and wood industries and wood procurement organisations.

Percentage of net sales



Net sales, EUR million
2003 FAS



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 recovery rate of collected waste and thus reduce the proportion of waste ending up at landfills. At the end of the year the company had 23 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.

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

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.

In Latvia, L&T is the market leader in waste collection and transport. In Russia, L&T is responsible for waste collection, transports and landfill management covering the entire city of Dubna, as well as waste collection and transports in Sergiev Posad.

Together with Suominen Flexible Packaging, L&T manages the collection of plastic bags at bottle recycling points in grocery shops. L&T signed a partnership agreement with Suomen Palautuspakkaus Oy for increasing the efficiency of collecting recyclable plastic bottles and cans in 2007.

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.

Climate change becoming a crucial factor in waste management and recycling

Efficient recovery of waste materials substantially reduces carbon dioxide emissions that are a burden on the atmosphere. Biofuels and recycled fuels supplied by L&T replace fossil fuels in energy production. The recycled fuel produced by Environmental Services is a 60 to 80 per cent renewable source of energy manufactured from waste originating in commerce, industry and households that is not suitable for recycling as material. The recycling of waste material saves virgin raw materials. The greatest reductions in emissions are created through the recycling of paper, board, plastic and metal.

Finland's National Waste Plan has long called for an increase in the recovery rate of waste. This objective is also crucial for the proposed new plan that will be submitted to the Government for approval in early 2008. The plan, which extends to 2016, puts particular emphasis on increasing the recovery of waste as energy, because increasing the overall recovery rate from the present approximately 40 per cent to the targeted 80 per cent will heavily depend on the success of recovery as energy. Increasing the recovery of waste as energy and the use of bioenergy also play important roles in the present Government programme.

The reform of the National Waste Plan is also intended to pave the way for an overall reform of the Waste Act. The projects to reform the Waste Act and the Waste Tax Act will substantially affect L&T's operating environment. In the beginning of June, an amendment to the Waste Act entered into force that clarifies the roles of different parties in waste management. As a consequence, municipal waste produced by commerce, industry and other business now belongs to the scope of so-called contract-based waste transport, while arranging waste management for residential properties remains the responsibility of municipalities.

Landfills that were not compliant with EU requirements had to be closed down by the end of October. The number of landfills in Finland has dropped to approximately one-tenth since the early 1990s, and transport distances have become longer.

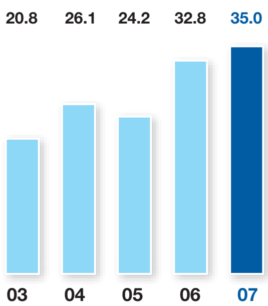
The production and use of recycled fuel have developed favourably. Climate change and increased raw material prices will further increase the significance of recycling and trade in recycled raw materials. Until now, recycling has been increased in waste management for commerce and industry, but in the upcoming years, industrial processing of household waste will also become more common, and disposal in landfills will be substantially reduced.

The need and desire for modernising waste management in Russia are continuously increasing as the nation's economy is becoming stronger and Russians are becoming increasingly conscious of the environment.

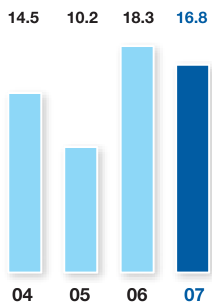
L&T's market position in Finland strengthened particularly in the supply of biofuels, in which L&T Biowatti is the market leader. L&T is also the market leader in waste man-

Operating profit, EUR million

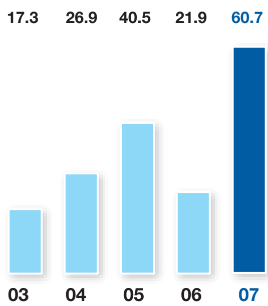
2004 excluding revenue recognition on pension liability, 2003 FAS



EVA, EUR million



Capital expenditure, EUR million



agement and recycling services, in which it has a market share of almost 30 per cent, respectively. L&T has the most extensive network of sites in Finland, and L&T Biowatti's new terminals expanded it further. L&T is the largest environmental services company in Latvia.

Year 2007

Environmental Services' net sales for 2007 amounted to EUR 279.8 million (EUR 204.8 million), an increase of 36.6%. The operating profit was EUR 35.0 million (EUR 32.8 million).

Organic growth was strong and customer loyalty was good. The profitability of waste management was burdened by proportional growth in the number of municipal contracts. The volume of recycling services increased thanks to new sales and added plant capacity. The Bajamaja rental service clearly increased its net sales and improved profitability.

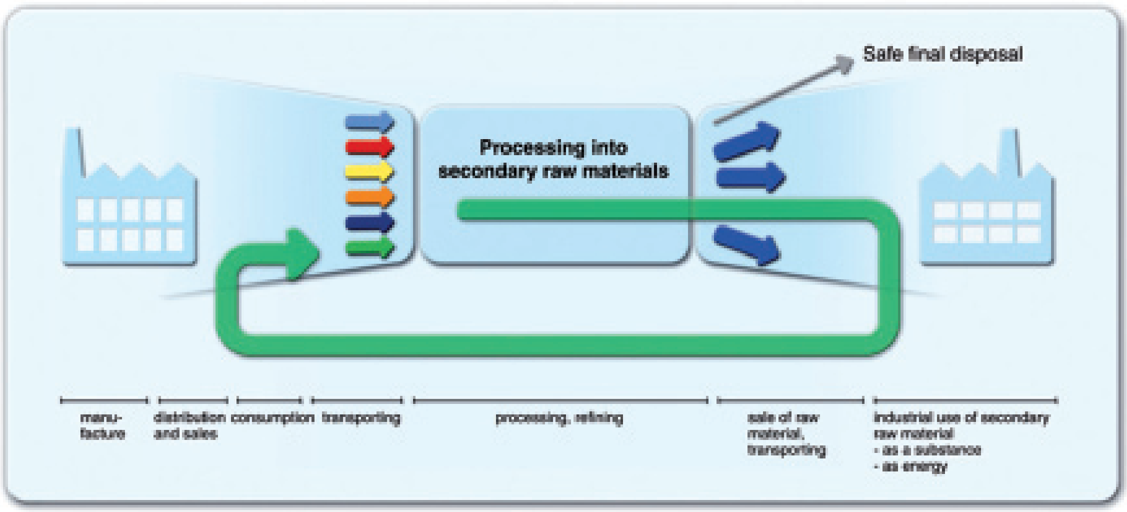
Losses on Salvor's landfill construction operations substantially weakened the earnings of recycling services. A part of Salvor's business was sold to the joint venture partner, joint holding was dissolved, and Salvor transferred to L&T's sole ownership on 1 September 2007. Salvor's remaining business was integrated into Industrial Services.

During the year, additional capacity for the recycling of waste material and by-products was built and introduced at Turku, Tampere and Valkeakoski, and a completely new recycling plant was built in Joensuu. The situation with environmental permits developed favourably even though appeals against environmental permits are slowing down plant and processing site projects to some extent. The planning and implementation of new plants and processing sites will continue in Finland as well as in Russia. The largest project is related to expanding the capacity of the Kerava plant. The first stage is expected to be completed in the latter half of 2009.

A majority holding in Biowatti Oy was acquired on 1 February 2007. L&T Biowatti is the leading bioenergy company utilising renewable sources of energy in Finland. It engages in the procurement, processing, marketing and delivery of wood-based fuels for customers. L&T Biowatti's net sales and earnings developed almost as planned. It has improved its procurement and delivery capacity through constructing new terminals and strengthening its procurement organisation. In late 2007, a decision was made to expand L&T Biowatti's operations to the production of wood pellets. A pellet factory having an annual capacity of 30,000 tonnes will be built at Suonenjoki. It is expected to be completed in late 2008.

Waste management operations in the Moscow region expanded to a new town in May with the commencement of a gradual transfer of waste management in the town of Sergiev Posad to L&T's responsibility. L&T currently has waste management operations at two locations in Russia: Dubna and Sergiev Posad. However, the operations are going to be expanded to larger cities in a controlled manner.

The net sales and earnings of environmental products improved clearly. Net sales increased in Finland as well as in other countries. Particular effort abroad was put into expanding the Russian operations.



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

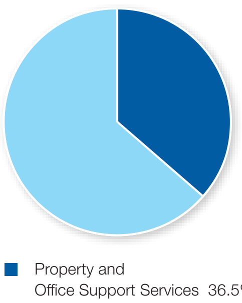
Property and Office Support Services

Services

Property services comprises 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.

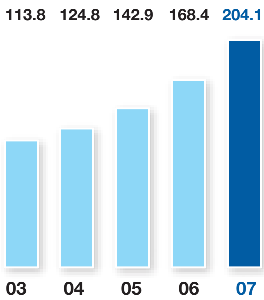
L&T provides its customers with comprehensive property maintenance services. Modern equipment used for the maintenance of outdoor areas also fulfils the requirements set by changing seasons. In addition to outdoor areas, L&T takes responsibility for general supervision of properties, technical systems and cleaning of public areas.

Percentage of net sales



Net sales, EUR million

2003 FAS



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

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. Maintenance of technical systems engages in the installation, maintenance and repair of HVAC systems, electrical systems, refrigeration systems, fire protection systems and building automation systems.

L&T puts substantial effort in the product development of services. Service concepts have been developed for shopping centres, for the food industry that requires top-class hygiene standards, for service station chains and for residential properties. The L&T® Office concept includes a wide range of support services that can be tailored for the customer. It consists of office support services, indoor services and outdoor services. The waste and recycling services belonging to the comprehensive solution are supplemented with versatile environmental management expert services.

Particular attention is paid to efficient planning and control of production, and electronic tools are utilised efficiently. Browser-based production control systems enable communication in real time and provide versatile customer reports.

The division's customers include office and commercial properties, institutional property owners, facility managers, businesses and industrial plants, as well as the public sector. Services to the municipal sector, particularly local government customers who want to purchase property management and maintenance services together with catering as a complete package, are provided with a co-operation partner. Cleaning and office support services are offered to small and medium-sized customers through the franchising model of Huomenta Toimitilapalvelut.

In addition to Finland, Property and Office Support Services has operations in Moscow, Latvia, Sweden and 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.

Growing market

Office and commercial properties and industry are the biggest customer groups in cleaning services. In property maintenance, the biggest customers are institutional property owners, facilities managers and businesses. 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. The commercial market accounts for approximately one half of the overall cleaning services and property maintenance market in Finland.

In Finland, the commercial market will grow faster than the national economy. There is a clear trend prevalent in industry: internal property management and maintenance organisations are dismantled, and partnerships providing plant-specific overall solutions are sought with support service providers. Support services for the forest industry opened up to competition in 2005. As expected, outsourcing in this sector has progressed slowly.

The outsourcing of property services has also been slow in the municipal sector. The degree of outsourcing in Finland is less than 20 per cent, compared to more than 50 per cent in Sweden and even more in the so-called old EU countries. However, Finnish municipalities will have to open support services external to their core tasks for true competition during the next few years. They will be forced to do this due to the labour shortage caused by the retirement of the baby boom generation and the financial situation of municipalities, which calls for savings and increased efficiency.

The cleaning services market is growing rapidly in Moscow and in Riga, Latvia. 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. L&T is the third largest commercial operator in cleaning and office support services in Sweden, and a leading operator in the cleaning sector in Latvia.

Year 2007

The net sales of Property and Office Support Services totalled EUR 204.1 million (EUR 168.4 million), an increase of 21.2%. The operating profit was EUR 11.0 million (EUR 8.8 million).

Organic growth continued in Finland, with net sales growing particularly in property maintenance. Additional sales to existing customers were successfully increased. Both product lines improved their profitability thanks to good management of day-to-day operations.

Kiinteistöhuolto Jauhiainen Oy and Siivouspalvelu Ta-Bu Oy were acquired in the beginning of June. Kiinteistöhuolto Jauhiainen Oy is a property maintenance company operating in the Helsinki region that posted net sales of EUR 6.5 million in 2006. Siivouspalvelu Ta-Bu Oy operates in the Helsinki and Varkaus regions. Its net sales in 2006 amounted to EUR 5.3 million. The operations of the acquired companies have been integrated into L&T's business. Skånsk All Service AB, which operates in Sweden and Norway and specialises in food hygiene services, was acquired in the beginning of the year. Its net sales in 2006 amounted to EUR 10.8 million.

The sales of a service concept developed for residential properties started in the autumn. L&T® Housing Property includes an extensive service range for outdoor and indoor work at residential properties, as well as a new service description based on service levels that makes it easier for facility managers and housing organisations to specify and acquire property maintenance services.

L&T's position as the leading supplier of cleaning services for the food industry strengthened in Finland. In addition to quality, environmental and occupational safety standards, L&T's food hygiene unit is the first Finnish service company to have received a food safety management system certificate in accordance with ISO 22000.

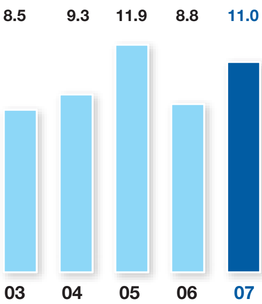
Net sales from international operations increased substantially, in Sweden as a consequence of the acquisition in January, and in Latvia and Russia through organic growth. The operations in Latvia and Russia were reorganised, including recalculations of customer sites and price increases. Sales performance has been good and an earnings improvement is expected. The division's operations abroad were still running at a loss.

The business in Sweden consists of three acquired enterprises with combined net sales of EUR 26.5 million in 2007. The focus in Sweden is still on integrating the acquired companies into one and building a sales organisation.

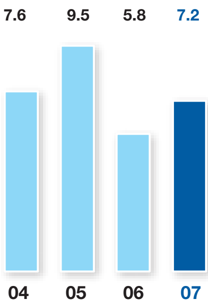
L&T provides a wide range of property and office support services that help the customer to focus on its core business. Office support services include reception services, for example.

Operating profit, EUR million

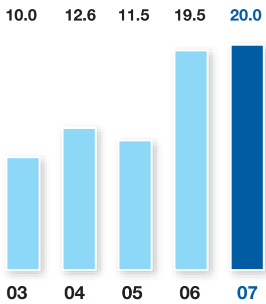
2004 excluding revenue recognition on pension liability, 2003 FAS



EVA, EUR million



Capital expenditure, EUR million



Industrial Services

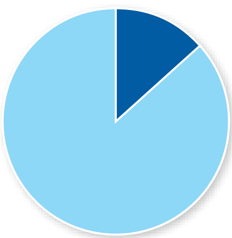
Services

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

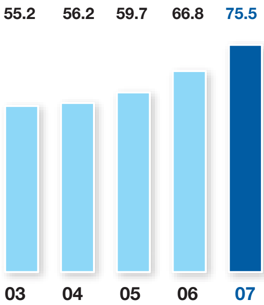
L&T's hazardous waste services cover the entire logistics chain from collection to the processing and further refinement of waste. The company has 12 regional terminals in Finland and Latvia for collecting hazardous waste from customers for pre-processing and intermediate storage.

Industrial Solutions develops comprehensive solutions for cleaning and environmental management at industrial facilities jointly with the customer. Cleaning service may include cleaning of process equipment or the transport of dry and wet materials such as sand and sludge using efficient suction equipment. In environmental management, L&T develops solutions for the processing and utilisation of industrial by-products.

Percentage of net sales



Net sales, EUR million
2003 FAS



About 10 per cent only of all hazardous waste collected by L&T ends up at disposal plants. 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 for industry. Its operations are focused on hazardous waste recovery solutions aiming at the highest possible degree of processing. Environmental damage services constitutes a new service sector offering versatile services for the processing and recovery of contaminated soil.

Industrial solutions produces cleaning and environmental management solutions for industry. 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. Industrial environmental management develops and produces internal solutions for environmental management and material efficiency at industrial plants, for example for the processing and recovery of industrial by-products.

In addition to the services it produces, industrial solutions manages comprehensive environmental management and maintenance solutions for industry that emphasise the responsibility for development and long-term commitment on the partnership principle.

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's services cover the prevention of subsequent damage, which refers to the protection, cleaning and drying of property and structures and restoring them to the state before the damage. If necessary, L&T assumes responsibility for the management of the entire damage repair site.

L&T's wastewater services focus on services related to maintaining sewer networks. L&T maintains wells, engages in the imaging and cleaning of sewer networks, as well as the maintenance and operation of wastewater systems. Sewer imaging investigates the functionality and structural condition of sewers and pipeline systems. L&T increases its role in wastewater management also through the development of recovery solutions for sewage sludge.

The Industrial Services market and its development

Industry is developing customised service solutions in which the service provider becomes integrated with the customer's processes. The change in purchasing culture affects the service producer's processes: the substance and significance of customer relationships are emphasised, continuous process development and productivity improvement are even more critical success factors, and service fees are increasingly linked to these.

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. In the field of conventional hazardous waste, L&T has shifted the focus of its operations and development from collection to environmental technology and advanced recovery and processing solutions. The increased degree of processing has become possible due to higher prices of raw materials and energy. Moving forward in the value chain also means a step from the national service market to the international market and industrial operations. Waste suitable for use as raw material for modern plants is sought globally, and the final product from the process can be sold to the market free of waste status.

The environmental norms related to the processing of contaminated soil were relieved in Finland in 2007, which caused a collapse in market prices. The price level is expected to normalise within a few years. The demand for contaminated soil cleaning services in Russia seems promising and offers opportunities for growth and development.

Among the services of industrial solutions, the market for industrial cleaning is stable and L&T is a clear market leader. The change in purchasing culture will further reinforce the position of large operators. On the other hand, the market for environmental management solutions for industry is developing rapidly. At present, industry generally takes care of processing and recovery of by-products internally but the market is opening up. Industrial plants and communities are seeking joint material efficiency solutions for managing by-products and raw materials, and L&T wants to be involved in the development and implementation of these solutions.

L&T's market share in the damage repair market has clearly improved in both fire after-cleaning and drying services. L&T's service network expands by a few sites each year. 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. Global warming causes weather disturbances, which increases the demand for damage repair services. L&T has expanded its operations to environmental damage and the cleaning of property contaminated by animal diseases, and the demand for related services is expected to grow.

Wastewater services also have a good short-term growth outlook. The maintenance requirements of ageing sewer networks are increasing continuously in Finland. Furthermore, the outsourcing of wastewater treatment and sludge management within industry and local governments will increase significantly during the next few years. The demand for services is also increasing in the Baltic states and Russia. In the next few years, L&T will further develop its service range and expand its service network in Finland and neighbouring areas.

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

Year 2007

Full-year net sales for Industrial Services stood at EUR 75.5 million (EUR 66.8 million), an increase of 12.9%. The operating profit was EUR 4.8 million (EUR 9.3 million). The division's operating profit was burdened by imputed changes in the fair values of oil derivatives (EUR -2.8 million), compared to an earnings improvement of EUR 0.7 million from corresponding changes in the previous year.

All product lines were successful in increasing their net sales and improving market share, with particular success in damage repair services. Sales of recycled fuels declined as oil suitable for re-refining was put into storage in expec-

L&T's production facilities process oil-bearing hazardous materials into recycled materials and recycled fuel for industry.

tation of the plant to be completed in 2008. Re-refining will substantially improve the value added for waste oil. A new alternative liquid fuel (ALF) was introduced to the market in the spring to replace waste oil that is routed to re-refining.

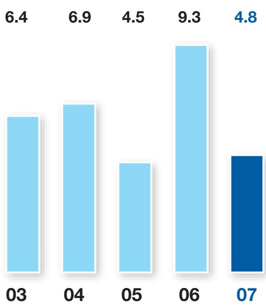
The division's growth and earnings were somewhat burdened by the lack of human and equipment resources. Insufficient number of staff increased the costs of overtime and rented labour, and not even rented resources were sufficient to fully satisfy the demand during the season. The division's operating result was in line with the targets. Wastewater services were the only product line to fall short of its targets, with production difficulties particularly in the first half of the year. Profitability for damage repair services improved.

In hazardous waste management, the construction of a plant for the joint venture L&T Recoil progressed. The general increase in construction costs and stricter safety requirements have increased the costs of construction. The construction schedule has, to some extent, proved to be too tight. The procurement of raw material exceeded the expectations, which resulted in an increase in storage costs that burden the earnings. Supply agreements have practically eliminated the raw material risk.

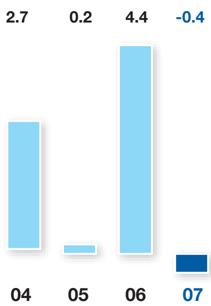
A production interruption of more than three months due to a fire at the Tuusula production plant also increased the costs of logistics and waste disposal.

Operating profit, EUR million

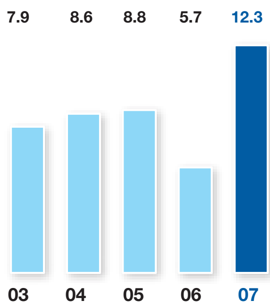
2004 excluding revenue recognition on pension liability, 2003 FAS



EVA, EUR million



Capital expenditure, EUR million



Corporate Governance statement

Lassila & Tikanoja plc complies with the Corporate Governance Recommendation for Listed Companies by OMX Nordic Exchange, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industries EK 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 four areas in Finland. Country Managing Directors are responsible for operations in each country outside Finland. Administration, marketing, product development and the management of group-level processes 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 approval 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 convened to a general meeting by a notice published in one newspaper in the company's domicile. The Board of Directors' proposals and the notice of the meeting are also announced in a stock exchange release. Prospective candidates for Board membership as well as the proposed auditors are disclosed in the notice 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 Juhani Lassila, Vice Chairman, Mr Eero Hautaniemi, Mr Lasse Kurkilahti and Ms Soili Suonoja. Biographical details on the Directors are given on page 25, and information on their holdings in the company and changes in the holdings during the year are set out on page 24.

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 2007. The average attendance rate of members was 98.2 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 Mr 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 26 and their holdings in the company shares and options on page 24.

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 2007, the following annual fees were paid: Chairman EUR 44,000, Vice Chairman EUR 29,000 and each member EUR 24,500. 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 OMX Nordic Exchange.

The members of the Board are not included in the share option plan 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 plan 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 2007, the salaries paid to the President and CEO totalled EUR 887,550, which included salaries and benefits EUR 291,540, a bonus EUR 129,360 and benefits from exercising share option rights EUR 456,650.

A written service contract has been drawn up for the President and CEO. According to the contract, the period of notice is twelve months if the company terminates his employment, and six 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 2007, EUR 27 thousand arising from this agreement was recognised in the 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.

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

Shares held by the management

Shares held by the members of the Board of Directors

	At 31 December 2007	Percentage of shares and of voting power	At 1 January 2007
Eero Hautaniemi	410		
Lasse Kurkilahti	4 557	0.01	4 182
Juhani Lassila	17 628	0.05	17 178
Evald and Hilda Nissi Foundation	2 413 584	6.22	2 413 584
Juhani Maijala	1 526 494	3.94	1 525 794
Soili Suonoja	3 419	0.01	2 989
Total	**3 966 092**	**10.23**	**3 963 727**

Shares and share options held by the Group Executives

	Shares		2005A options		2005B options	2005C options
	31 December 2007	1 January 2007	31 December 2007	1 January 2007	31 December 2007	31 December 2007
Anna-Maija Apajalahti	2 920	2 920	13 000	13 000	13 000	15 000
Kari Korpelainen	240	240	4 850	10 000	10 000	13 500
Jorma Mikkonen	720	720	10 000	10 000	10 000	15 000
Arto Nivalainen	4 800	4 800	13 000	13 000	13 000	15 000
Jari Sarjo	16 000	15 000	26 000	26 000	26 000	30 000
Sirkka Tuomola	40 000	38 400	10 000	10 000	10 000	

Insider guidelines

The Board of Directors of Lassila & Tikanoja has taken a decision that the Group observes the guidelines for insiders issued by the OMX Nordic Exchange. Additionally, it has given a complementary guideline which is 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 insiders are listed on the company's website.

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 2007, the fees paid for statutory auditing to PricewaterhouseCoopers group totalled EUR 160,244. 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 128,919.

Administrative organs

Lassila & Tikanoja plc Board of Directors

Juhani Maijala, born 1939
B.Sc. (Econ.), Master of Laws
Chairman of the Board since 2001, full-time 2001–2005, member of the Board of the former Lassila & Tikanoja plc since 1983 and Chairman 1998–2001
President and CEO of the former Lassila & Tikanoja plc 1983–1998, President of Säkkiväline Group 1993–1996, President of Tiklas 1980–1983 within the former Lassila & Tikanoja Group and CFO of the former Lassila & Tikanoja Group 1977–1980, Vice President of Palomex Oy 1975–1977
Holds 1,526,494 Lassila & Tikanoja plc shares

Juhani Lassila, born 1962
M.Sc. (Econ.), Managing Director of Agros Oy
Vice Chairman of the Board since 2007, member of the Board since 2001, member of the Board of the former Lassila & Tikanoja plc 1998–2001
Group Treasurer of Instrumentarium Corporation 1998–2004, Chairman of the Board of Directors of Evald and Hilda Nissi Foundation, member of the Board of Comptel Corporation and Suominen Corporation
Holds 17,628 Lassila & Tikanoja plc shares and exercises the controlling power in the Evald and Hilda Nissi Foundation, which holds 2,413,584 shares

Eero Hautaniemi, born 1965
M.Sc. (Econ.), President of Oriola-KD Corporation
Member of the Board since 2007
President of GE Healthcare Finland Oy 2004–2005, General Manager of the Oximetry, Supplies and Accessories Business Area of GE Healthcare IT 2003–2004 and positions in financial and business management in Instrumentarium Corporation 1990–2003
Holds 410 Lassila & Tikanoja plc shares

Lasse Kurkilahti, born 1948
B.Sc. (Econ.), Senior Advisor to the Board of Kemira Group
Member of the Board since 2001
President and CEO of Kemira Group 2001–2004, President and CEO of Elcoteq Network Corporation 2001–2004, CEO of Raisio Group 2000–2001, President and CEO of Nokian Tyres plc 1988–2000
Vice Chairman of the Board of Directors of SRV Group Plc, member of the Board of Elisa Corporation
Holds 4,557 Lassila & Tikanoja plc shares

Soili Suonoja, born 1944
Teacher of Home Economics, MBA
Member of the Board since 2001
Managing Director of Amica Group 1989–2000
Chairman of the Board of Alko Inc., member of the Board of Lännen Tehtaat plc and Itella Oyj, Vice Chairman of the Finnish Association of Professional Board Members
Holds 3,419 Lassila & Tikanoja plc shares

President and CEO

Jari Sarjo, born 1957
Master of Laws
President and CEO of Lassila & Tikanoja Group since 2001
President of Säkkiväline Group 1997–2001, Divisional Director in Säkkiväline Oy 1994–1997, Administrative Director 1987–1994, Administrative Manager 1984–1987
Holds 16,000 Lassila & Tikanoja plc shares and 40,000 2002C options, 26,000 2005A options, 26,000 2005B options and 30,000 2005C options.

The changes in the holdings of the members of the Board and the President and CEO during 2007 are listed on page 24.

Auditor

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

Lassila & Tikanoja management

Jari Sarjo

Arto Nivalainen

Anna-Maija Apajalahti

Jorma Mikkonen

Kari Korpelainen

Sirkka Tuomola

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

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

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

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

Kari Korpelainen, born 1969
M.Sc. (Econ.)
Vice President, Marketing and Sales since 2001
Marketing Manager in Säkkiväline Oy's group marketing 1997–2001, Marketing Manager for cleaning services during 1996, Product and District Manager for product sales 1994–1996

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

The holdings of Group Executives in the company as well as changes in the holdings in 2007 are listed on page 24.

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.

Report of the Board of Directors

Net sales and financial performance

Net sales of Lassila & Tikanoja increased by 27.2% and stood at EUR 554.6 million (EUR 436.0 million; EUR 377.4 million), 18.3 percentage points of this growth coming from corporate acquisitions. The operating profit totalled EUR 48.8 million (EUR 50.2 million; EUR 39.3 million). Earnings per share were EUR 0.83 (EUR 0.90; EUR 0.70).

Organic growth exceeded market growth, and the company's market position strengthened. This was primarily attributable to well-functioning product development, marketing and sales operations, as well as improved customer satisfaction. Several new service products were introduced to the market, and new outsourcing deals were signed particularly in the forest industry.

The operating profit was burdened by losses in Salvor (EUR 2.3 million), as well as imputed changes in the fair values of oil derivatives (EUR -2.8 million). In the previous year, non-recurring income of EUR 2.9 million was recognised. The operating profit excluding non-recurring and imputed items was EUR 54.3 million (EUR 47.3 million).

Net sales by division

EUR 1000	2007	2006	Change %	2005
Environmental Services	**279 845**	204 825	36.6	178 528
Property and Office Support Services	**204 141**	168 403	21.2	142 890
Industrial Services	**75 479**	66 843	12.9	59 735
Group administration and other	**10**	118		366
Inter-division net sales	**-4 862**	-4 185		-4 071
Total	**554 613**	436 004	27.2	377 448

In 2007, L&T obtained full ownership of Salvor Oy. The business operations of Salvor were reorganised and most of the operations were transferred from Environmental Services to Industrial Services. The comparison figures were adjusted accordingly.

Net sales of foreign operations by country

EUR 1000	2007	2006	2005
Sweden	**26 525**	13 299	
Latvia	**19 002**	14 128	10 726
Russia	**5 600**	2 769	1 434
Norway	**2 507**		

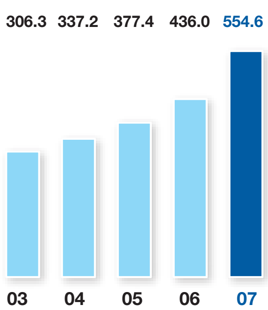
Environmental Services

Environmental Services' net sales amounted to EUR 279.8 million (EUR 204.8 million; EUR 178.6 million), an increase of 36.6%. The operating profit was EUR 35.0 million (EUR 32.8 million; EUR 24.2 million).

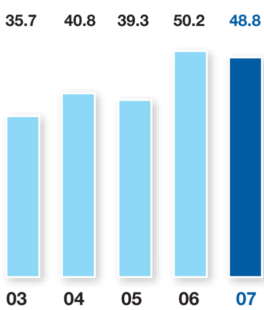
Organic growth was strong and customer loyalty was good. The profitability of waste management was burdened by proportional growth in the number of municipal contracts. The volume of recycling services increased thanks to new sales and added plant capacity. The Bajamaja rental service clearly increased its net sales and improved profitability. Losses on Salvor's landfill construction operations substantially weakened the earnings of recycling services. A part of Salvor's business was sold to the joint venture partner, joint holding was dissolved, and Salvor transferred to L&T's sole ownership on 1 September 2007. Salvor's remaining business was integrated into Industrial Services.

During the year, additional capacity for the recycling of waste material and by-products was built and introduced at Turku, Tampere and Valkeakoski, and a completely new recycling plant was built in Joensuu. The situation with environmental permits developed favourably even though appeals against environmental permits are slowing down plant and processing site projects to some extent. The planning and implementation of new plants and processing sites will continue in Finland as well as in Russia. The largest project is related to expanding the capacity of the Kerava plant. The first stage is expected to be completed in the latter half of 2009.

Net sales, EUR million
2003 FAS



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



Operating profit by division

EUR 1000	2007	%	2006	%	Change %	2005	%
Environmental Services	**34 977**	**12.5**	32 762	16.0	6.8	24 201	13.6
Property and Office Support Services	**11 005**	**5.4**	8 758	5.2	25.7	11 947	8.4
Industrial Services	**4 769**	**6.3**	9 337	14.0	-48.9	4 531	7.6
Group administration and other	**-1 976**		-672			-1 425	
Total	**48 775**	**8.8**	50 185	11.5	-2.8	39 254	10.4

A majority holding in Biowatti Oy was acquired on 1 February 2007. L&T Biowatti is the leading bioenergy company utilising renewable sources of energy in Finland. It engages in the procurement, processing, marketing and delivery of wood-based fuels for customers. L&T Biowatti's net sales and earnings developed almost as planned. It has improved its procurement and delivery capacity through constructing new terminals and strengthening its procurement organisation. In late 2007, a decision was made to expand L&T Biowatti's operations to the production of wood pellets.

Waste management operations in the Moscow region expanded to a new town in May with the commencement of a gradual transfer of waste management in the town of Sergiev Posad to L&T's responsibility. L&T currently has waste management operations at two locations in Russia: Dubna and Sergiev Posad. However, the operations are going to be expanded to larger cities in a controlled manner.

The net sales and earnings of environmental products improved clearly. Net sales increased in Finland as well as in other countries. Particular effort abroad was put into expanding the Russian operations.

Property and Office Support Services

The net sales of Property and Office Support Services totalled EUR 204.1 million (EUR 168.4 million; EUR 142.9 million), an increase of 21.2%. The operating profit was EUR 11.0 million (EUR 8.8 million; EUR 11.9 million).

Organic growth continued in Finland, with net sales growing particularly in property maintenance. Additional sales to existing customers were successfully increased. Both product lines improved their profitability thanks to good management of day-to-day operations.

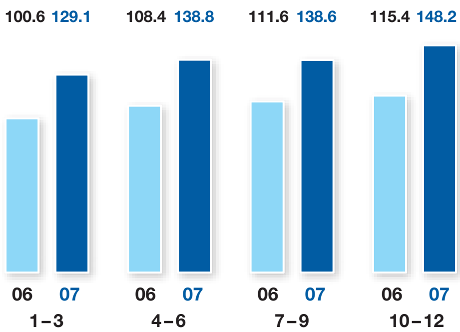
Kiinteistöhuolto Jauhiainen Oy and Siivouspalvelu Ta-Bu Oy were acquired in the beginning of June. Kiinteistöhuolto Jauhiainen Oy is a property maintenance company operating in the Helsinki region that posted net sales of EUR 6.5 million in 2006. Siivouspalvelu Ta-Bu Oy operates in the Helsinki and Varkaus regions. Its net sales in 2006 amounted to EUR 5.3 million. The operations of the acquired companies have been integrated into L&T's business. Skånsk All Service AB, which operates in Sweden and Norway and specialises in food hygiene services, was acquired in the beginning of the year. Its net sales in 2006 amounted to EUR 10.8 million.

Net sales from international operations increased substantially, in Sweden as a consequence of the acquisition in January, and in Latvia and Russia through organic growth. The operations in Latvia and Russia were reorganised, including recalculations of customer sites and price increases. Sales performance has been good and an earnings improvement is expected. The focus in Sweden is still on integrating the acquired companies into one and building a sales organisation. The division's operations abroad were still running at a loss.

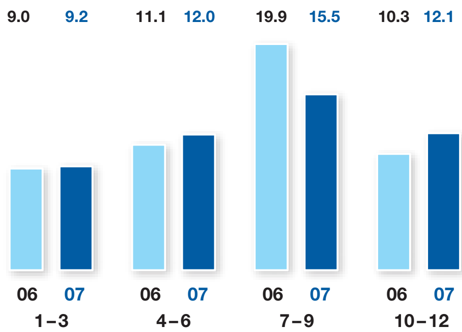
Industrial Services

The net sales for Industrial Services stood at EUR 75.5 million (EUR 66.8 million; EUR 59.7 million), an increase of 12.9%. The operating profit was EUR 4.8 million (EUR 9.3 million; EUR 4.5 million). The division's operating profit

Net sales quarterly, EUR million



Operating profit quartely, EUR million



was burdened by imputed changes in the fair values of oil derivatives (EUR -2.8 million), compared to an earnings improvement of EUR 0.7 million from corresponding changes in the previous year.

All product lines were successful in increasing their net sales and improving market share, with particular success in damage repair services. Sales of recycled fuels declined as oil suitable for re-refining was put into storage in expectation of the plant to be completed in 2008. Re-refining will substantially improve the value added for waste oil. A new alternative liquid fuel (ALF) was introduced to the market in the spring to replace waste oil that is routed to re-refining.

The division's growth and earnings were somewhat burdened by the lack of human and equipment resources. Insufficient number of staff increased the costs of overtime and rented labour, and not even rented resources were sufficient to fully satisfy the demand during the season. The division's operating result was in line with the targets. Wastewater services were the only product line to fall short of its targets, with production difficulties particularly in the first half of the year. Profitability for damage repair services improved.

In hazardous waste management, the construction of a plant for the joint venture L&T Recoil progressed. The general increase in construction costs and stricter safety requirements have increased the costs of construction. The construction schedule has, to some extent, proved to be too tight. The procurement of raw material exceeded the expectations, which resulted in an increase in storage costs that burdened the earnings. Supply agreements have practically eliminated the raw material risk. A production interruption of more than three months due to a fire at the Tuusula production plant also increased the costs of logistics and waste disposal.

Financing

At the end of the period, interest-bearing liabilities amounted to EUR 39.9 million more than a year earlier. Net interest-bearing liabilities, totalling EUR 86.4 million, increased by EUR 33.9 million. Increase in net liabilities was reduced when the shares of Ekokem Oy Ab which were sold in January 2008 were transferred from available-for-sale non-current investments into current investments and were recognised at fair value.

Net finance costs exceeded those for the previous year by EUR 2.6 million. Net finance costs increased as a result of the growth in interest-bearing liabilities and a rise in the interest rate level. The increase in liabilities was due to net cash used in investment activities, which exceeded those for the previous year by EUR 49.6 million.

Due to changes in the fair values of interest rate swaps, EUR 0.3 million was recognised in finance costs in the income statement, while EUR 0.5 million was recognised in finance income in the comparison year. Net finance costs were 0.8% of net sales and 8.9% of operating profit.

A total of EUR 0.1 million arising from the change in the fair value of interest rate swaps to which hedge accounting under IAS 39 is applied, was recognised in equity.

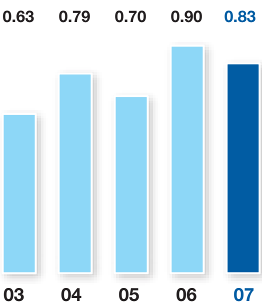
The equity ratio was 46.6% and the gearing rate 42.7. Net cash from operating activities amounted to EUR 55.4

Key figures for financing

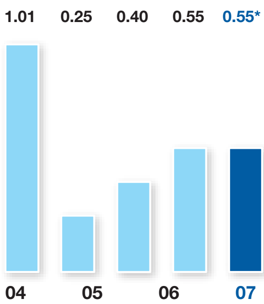
	2007	2006	2005
Interest-bearing liabilities, EUR million	**117.2**	77.3	83.7
Net interest-bearing liabilities, EUR million	**86.4**	52.5	76.5
Interest expenses, EUR million	**5.3**	3.0	3.0
Net finance costs, EUR million	**4.3**	1.7	1.8
Net finance costs, % of net sales	**0.8**	0.4	0.5
Net finance costs, % of operating profit	**8.9**	3.4	4.6
Equity ratio, %	**46.6**	50.4	49.5
Gearing, %	**42.7**	29.7	49.3
Cash flows from operating activities, EUR million	**55.4**	69.9	48.9
Change in working capital in the cash flow statement, EUR million	**-13.2**	2.5	-3.2

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

Earnings/share, EUR
2004 excluding revenue recognition of pension liability, 2003 FAS



Dividend/share, EUR



*Proposal by the Board of Directors

million, and EUR 13.2 million were tied up in the working capital. A significant portion of the increase in working capital was generated by the accumulation of stock volumes by L&T Biowatti and L&T Recoil.

Liquidity remained at a good level throughout the year.

Invested capital

EUR 1000	31 December 2007	31 December 2006	31 December 2005
Non-current assets	**319 380**	265 230	256 952
Inventories and receivables	**88 137**	62 564	50 642
Available-for-sale investments in shares	**16 800**		
Liquid assets	**14 008**	24 790	7 252
Deferred tax liability	**-29 842**	-22 350	-15 768
Trade and other payables	**-85 977**	-74 112	-58 956
Provisions	**-1 055**	-1 208	-984
Other non-interest-bearing liabilities	**-1 940**	-783	-400
Invested capital	**319 511**	254 131	238 738

Invested capital increased by EUR 65.4 million, of which EUR 53.5 million as a result of business acquisitions. The invested capital increased by EUR 14.2 million when the shares of Ekokem Oy Ab were transferred from available-for-sale non-current investments into current investments and were recognised at fair value. The amount of capital tied up in inventories was exceptionally high as L&T Biowatti increased its stock volumes with the growth in demand in 2008 in mind, and L&T Recoil accumulated raw materials stock for the re-refinery. Liquid assets amounted to EUR 10.7 million less than the previous year. The amount of liquid assets at the end of the year 2006 was exceptionally high because just before the year end L&T sold a major part of its lightweight vehicle fleet to a leasing company.

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

Capital expenditure

Capital expenditure for the year 2007 totalled EUR 93.2 million (EUR 47.2 million; EUR 60.9 million). EUR 46.6 million were spent on business acquisitions. The combined annual net sales of the acquired companies totalled EUR 90.6 million. In addition, production plants were built and machinery and equipment as well as information systems were replaced.

In 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 for Environmental Services. The acquisition became effective on 1 February 2007 after the approval of the competition authority. L&T Biowatti is the leading Finnish bio energy supplier utilising renewable energy sources, and its net sales for the year 2006 amounted to EUR 64.2 million. The remaining portion of the shares of Suomen Keräystuote Oy was purchased for recycling services within Environmental Services. Lassila & Tikanoja held already 94.5% of Suomen Keräystuote shares. In the beginning of July, L&T acquired half of the minority share in L&T Muoviportti

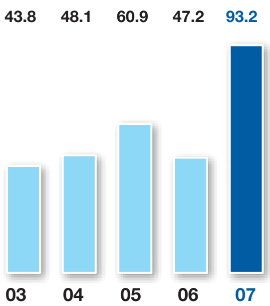
Capital expenditure by balance sheet item

EUR million	2007	2006	2005
Real estates	**9.1**	5.3	5.8
Machinery and equipment and other property, plant and equipment	**36.6**	28.7	38.6
Goodwill and intangible rights arising from business acquisitions	**41.4**	10.1	14.1
Other intangible assets	**5.9**	3.1	2.4
Other non-current assets	**0.2**		
Total	**93.2**	47.2	60.9

Capital expenditure by division

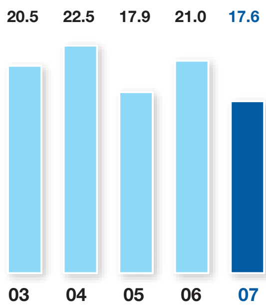
EUR million	2007	2006	2005
Environmental Services	**60.7**	22.0	40.5
Property and Office Support Services	**20.0**	19.5	11.5
Industrial Services	**12.3**	5.7	8.8
Group administration and other	**0.2**		0.1
Total	**93.2**	47.2	60.9

Capital expenditure, EUR million



ROI, %

2003 FAS



(16.5%) and for waste management the business operations of Kuljetus Kummunmäki Oy.

In the beginning of September L&T obtained the full ownership of Salvor Oy, when it acquired the remaining 50 per cent of the shares.

A Swedish cleaning services company Skånsk All Service AB together with subsidiaries Hygienutveckling AB and Hygieneutvikling A/S operating in Norway were acquired in January for Property and Office Support Services. The consolidated net sales of the group totalled EUR 10.8 million in 2006, most of which came from hygiene services for the food industry. Kiinteistöhuolto Pentti Nissinen Oy was acquired for property maintenance services. In early June, Kiinteistöhuolto Jauhiainen Oy and Siivouspalvelu Ta-Bu Oy were acquired. Kiinteistöhuolto Jauhiainen Oy specialises in property maintenance services in the Helsinki region, and its net sales for the year 2006 amounted to EUR 6.5 million. It employed 65 people. Siivouspalvelu Ta-Bu Oy is a cleaning services company operating both in the Helsinki region and in Varkaus in Central Finland. Its net sales for the year 2006 amounted to EUR 5.3 million, and it employed some 200 people.

Personnel

In 2007, the average number of employees converted into full-time equivalents was 7,819 (6,775; 5,918). At the end of the year, the total number of full-time and part-time employees was 9,387 (8,328; 7,512). Of them 2,401 (1,822; 1,222) people worked outside Finland.

The wages and salaries paid in 2007 totalled EUR 170.2 million (EUR 144.8 million; EUR 126.9 million).

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

	2007	2006	2005
Finland	**6 986**	6 506	6 290
Sweden	**649**	542	
Latvia	**1 028**	894	754
Russia	**528**	386	468
Norway	**196**		
Total	**9 387**	8 328	7 512

Product development

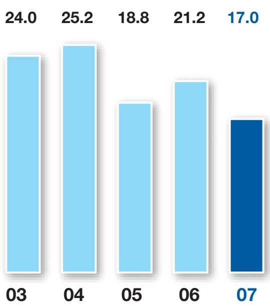
Product development is responsible for the competitiveness of L&T's service products and thus promotes the achievement of the company's growth targets. The task of centralised product development include the planning of product development operations, steering the product development process and complete designated development projects.

The costs of centrally managed product development projects came to EUR 2.4 million (EUR 2.0 million; EUR 1.4 million) which was 0.4% of net sales (0.5%; 0.4%)

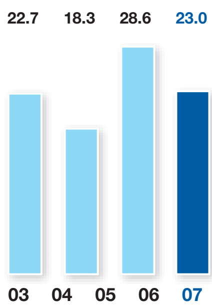
The previous year's update to the product development strategy and associated changes in operating models were clearly visible in product development operations in 2007. The strategy became a tightly integrated part of the customer relationship process, and new service products were launched almost monthly. New products were actively promoted. The positive experience shows that customers appreciate innovation when choosing a support service provider.

Service concepts were launched during the year for segments such as shopping centres, office hotels and service stations. A service was developed particularly for

ROE, %
2003 FAS



EVA, EUR million



the support service requirements of office sites in which L&T's extensive service range in property services and environmental management was supplemented by office support services supporting the operations of users, such as reception, mailing and office hostess services. The shared foundation for all of the launched services is the L&T® Comprehensive Solution model and the embedded procedures for planning, monitoring and managing a customer-specific service solution.

The L&T® Housing Property concept developed for housing organisations is also based on the customer-focused model of operation. The embedded service level model improves the comparability and transparency of property maintenance services and enables service tailored to the customer's individual needs. L&T® Expert Services for Environmental Management were implemented on the basis of L&T's strong competence in environmental management, supporting customer enterprises in planning the best solutions according to their environmental objectives. L&T® Environmental Damage Services and L&T® Major Damage Services also represent special competence. In addition to the speed and quality of service, particular attention has been paid to the ease of processes from the viewpoint of the party suffering damage.

The sensitive document destruction service for private persons that was introduced experimentally in 2006 was brought to the market under the name L&T® Confidential Material Services for Consumers. Another reform visible to consumers was the recycling point model for plastic bags introduced at bottle recycling locations in grocery shops in co-operation with Suominen Flexible Packaging.

Systematic and long-term product development will continue in 2008 in accordance with L&T's growth and distinction objectives. Customers are increasingly evaluating support services from the viewpoint of the added benefit and competitive edge that they create. This view is consistent with L&T's product development strategy aimed at promoting the competitive ability of customer enterprises and differentiation in the customer's eye. On the basis of this target, focus areas for 2008 in addition to service introductions were specified as deepening customer knowledge, product development co-operation with customers, and additional effort in operating models for the innovation stage of the product development process.

Risk management

Objectives

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

Organisation and reporting

Risk management forms an integrated part of L&T's management, monitoring and reporting system. Regular monitoring and reporting of risks take place at the group, division and product line levels, in foreign units 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.

Risk management processes at the practical level are the responsibility of a director who steers the overall risk management process, develops risk management tools, ensures the coverage and accuracy of reporting and improves general awareness of risks within the Group. Risk management is developed together with an insurance broker 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.

A risk assessment in all divisions, product lines, foreign units as well as centralised functions defined as being critical, was carried out during 2007 to assess strategic, financial, damage-related and operational risk factors. The significance of risks is assessed using a risk matrix, and contingency plans for significant risks are prepared on this basis.

Risk analysis

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

Strategic and operational risks

Risks relating to data security: If realised, risks associated with the use of information systems, such as server damage, data system break-ins and malware can cause interruptions in L&T's operations. Data systems can also hamper the company's functional efficiency as they become obsolete. Redundancy was added to servers and server rooms in 2007, and the functionality of restoration processes was tested. Several data system modernisation projects are currently underway in the company to update its systems and reduce data security risks.

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. The development of market prices for emission rights, secondary raw materials or oil products may affect the profitability of the company's business operations.

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

Operations in developing markets: L&T has business operations in Latvia and Russia, 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 continuously become more intense. In L&T there are several programmes in progress for human resource management aimed at efficient recruitment and the improvement of well-being at work through efforts focusing on continuous training, job rotation and occupational safety, among other things. L&T endeavours to maintain a good image as an employer and to be the most attractive employer in its sector.

Damage-related risks

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

Risk of fire: The manufacture of 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 makes efforts towards promoting the health of employees and managing occupational health care through the Sirius programme aimed at minimising sickness-related absence and disability pensions. As part of the Sirius programme, L&T established a sickness fund in 2007 to support the management and maintenance of working capacity.

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

Environmental factors

Environmental aspects of L&T's operations

The most important environmental aspects of L&T's operations are tightly linked to the company's business operations. L&T directs waste materials for reuse, promotes recycling, as well as collects and processes hazardous waste appropriately. L&T Biowatti is a significant supplier of CO_2-neutral biofuel.

The most significant adverse environmental impacts of our operations include the emissions and noise of vehicles used for collection and transport services, as well as the environmental risk associated with the handling of hazardous waste.

According to a survey by VTT Technical Research Centre of Finland, biofuels, recycled fuels and waste material recycling services provided by L&T reduced carbon dioxide emissions by approximately 2.1 million tonnes in 2006. The figure corresponds to almost three per cent of Finland's annual carbon dioxide emissions.

Biofuels and recycled fuels supplied by L&T replace fossil fuels in energy production. The wood-based fuels supplied by L&T Biowatti are manufactured mostly from the by-products of the forest industry and forestry. The recycled fuel produced by Environmental Services is a 60 to 80 per cent renewable source of energy manufactured from waste originating in commerce, industry and households that is not suitable for recycling as material. The recycling of waste material saves virgin raw materials. The greatest reductions in emissions are created through the recycling of paper, board, plastic and metal.

According to the survey, L&T's operations cause slightly less than 80,000 tonnes of carbon dioxide emissions. The greatest emissions originate in transports and machinery.

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

Environmental management

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

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

L&T has 90 environmental permits related to the handling and storage of waste. 13 environmental permits were received and 14 new ones applied for in 2007.

Actions in 2007

The environmental services units at Vantaa, Turku and Hämeenlinna, the hazardous waste services unit at Turku and the Food Hygiene unit were granted certification in accordance with ISO 14001.

The environmental impact assessment (EIA) procedures for L&T Recoil's waste oil re-refinery at Hamina and the waste management centre at Joutseno were completed.

A driving style guidance system was tested on waste packing lorries that also enables fuel consumption to be monitored on a driver-specific basis. The system will be introduced into use in 2008. A training programme was prepared for lorry drivers taking into account the competence requirements according to the EU Directive on the initial qualification and periodic training of drivers of certain road vehicles for the carriage of goods or passengers. The training programme also includes a course on economic driving style that will be completed by all L&T drivers.

83% of L&T's lorry engines comply with the Euro2–Euro5 standards that reduce environmental impacts. The first five garbage lorries running on natural gas were introduced during the year.

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

Changes in the Group structure

The Group acquired the entire stock of the following companies: for Property and Office Support Services Skånsk All Service AB of Sweden and its subsidiaries Hygienutveckling AB of Sweden and Hygieneutvikling A/S of Norway, Kiinteistöhuolto Pentti Nissinen Oy, Kiinteistöhuolto Jauhiainen Oy and Siivouspalvelu Ta-Bu Oy.

In December 2006 an agreement was signed on the acquisition of the majority (70%) of the shares of Biowatti Oy for Environmental Services. The acquisition became effective on 1 February 2007 after the approval by the Finnish Competition Authority.

The entire stock of Kiinteistö Oy Meritonttu was sold.

The remaining 50 per cent of the shares of Salvor Oy, the remaining 5.5 per cent of the shares of Suomen Keräystuote Oy and half of the minority holding in L&T Muoviportti (16.5%) were acquired. The transport business operations of Kuljetus Kummunmäki Ky were acquired.

EM-Business Oy, Hämeenlinnan Puhtaanapito Oy, L&T Deili Oy, L&T Development Oy, L&T Palvelu Oy, L&T Ympäristöhuolto Oy and Pahvipojat Oy were merged with Lassila & Tikanoja plc, L&T Servis was merged with Oy L&T Development Oy, A/S L&T Hoetika and SIA Evus were merged with SIA L&T Serviss (presently SIA L&T), and All Clean & Consulting Entrepreneur i Sverige AB and Skånsk All Service AB were merged with Lassila & Tikanoja Service AB.

L&T Inno LLC in St. Petersburg and L&T ReCycle LLC (presently L&T Podmoskovie LLC) in Dubna, Russia were established. Kiinteistöhuolto Roperty Oy was dissolved.

Loans, liabilities and contingent liabilities to related parties

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

Administrative organs

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

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

The Annual General Meeting of Shareholders held on 26 March 2007 confirmed the membership of the Board of Directors as five. The following Board members were re-elected to the Board until the end of the following AGM: Lasse Kurkilahti, Juhani Lassila, Juhani Maijala and Soili Suonoja. Eero Hautaniemi was elected as a new member for the same term. The former long-standing member of the Board and Vice Chairman Heikki Hakala had informed that he did not wish to stand for re-election. At its organising meeting after the Annual General Meeting, the Board re-elected Juhani Maijala Chairman and Juhani Lassila 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.

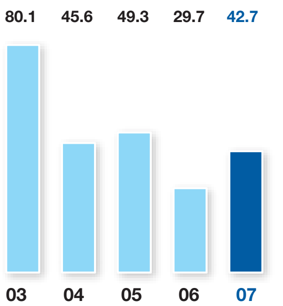
Distribution of profit

The Group's earnings per share amounted to EUR 0.83 (EUR 0.90; EUR 0.70) and cash flow from operating activities per share EUR 1.43 (EUR 1.82; EUR 1.28). The Board of Directors will propose payment of a dividend of EUR 0.55 per share (EUR 0.55; EUR 0.40) to the Annual General Meeting to be held on 1 April 2008. The amount of the dividend to be paid is EUR 21,338,280.70. The proposed dividend is 66.7% of the earnings per share (61.1%; 57.0%).

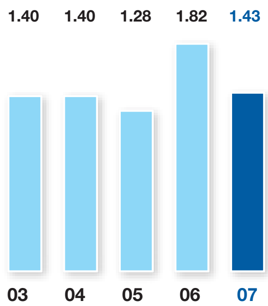
Events after the balance sheet date

On 22 January 2008, Lassila & Tikanoja sold its holding in the shares of Ekokem Oy Ab to Ilmarinen Mutual Pension Insurance Company. Lassila & Tikanoja had obtained possession of the shares over a period of several years and they no longer had any connection to the business operations of the company and were, consequently, not essential for them. A tax-free capital gain arising from the sale will be recognised in the financial statements for the first quarter of the year 2008. The positive effect of the sale on the operating profit and the profit for the period will be EUR 14.2 million.

Gearing, %
2003 FAS



Cash flows from operating activities/ share, EUR



Near-term uncertainties

Changes in the fair values of oil derivatives associated with L&T Recoil's business depend on the development of world market prices for oil, and may have a substantial effect on the operating profit of Industrial Services. The costs of procuring raw material for renewable fuels produced by L&T Biowatti have increased due to reasons such as poor forest felling conditions. The continuing mild winter will further impact the supply of wood chips. L&T Biowatti strives to mitigate the impact by strengthening its procurement resources for chips. A planned amendment to Latvian waste legislation may have adverse effects on the competition situation for waste management in Riga towards the end of 2008.

Prospects for the year 2008

The prospects for Lassila & Tikanoja's markets remain mostly good. Organic growth is expected to remain strong. Full-year net sales are expected to increase in line with the long-term target, which is more than 10%, and earnings are expected to improve clearly. Operating profit excluding non-recurring and imputed items is also expected to improve.

Environmental Services will continue to be in demand. Increased plant capacity and a versatile service offering will probably improve L&T's market position. Increasing the capacity of recycling plants and new landfills will continue along with geographical expansion in Russia.

Actions of EU climate policy will have a positive effect on the demand for L&T's renewable fuels but this will be allocated over several years. The prices for raw material and subcontracted services required by L&T Biowatti have increased strongly. The second mild winter in a row makes forest felling more difficult and increases the costs. L&T Biowatti will invest in strengthening its procurement organisation for wood chips and build one or two pellet plants that will be completed at the end of the year. Operating profit of Environmental Services is expected to increase.

The market outlook for Property and Office Support Services remains unchanged in Finland, and L&T's competitiveness is quite good. The outsourcing of support services will continue in the forest industry and the municipal market will only be opened up at a slow pace. Earnings from international operations are expected to improve but the full-year result is expected to remain slightly negative. Increasing net sales are a focal point for improving the profitability of international operations. The division's operating profit is expected to increase.

The market outlook for Industrial Services is good for the time being. Strong demand seems to continue, and L&T has managed to increase its market shares. Wastewater services and damage repair will increase their capacity and improve their service ability in Finland. The completion of L&T Recoil's re-refinery will be postponed towards the end of the year due to problems with the supply of critical components. The plant construction costs have exceeded the budget but simultaneously its recovery rate has improved in comparison to the original design level.

Operating profit for Industrial Services is expected to increase clearly provided that the world market price of crude oil will not rise substantially. Comparable operating profit excluding the effect of changes in the value of oil derivatives is also expected to increase. Imputed changes in the fair values of oil derivatives weakened the earnings by EUR 2.8 million in 2007.

Investments in 2008 will go into recycling plants, landfills, pellet plants and increases in machinery and transport capacity. Investments are expected to be smaller than in 2007. The focus is on organic growth.

Shares and shareholders

Share capital and number of shares

The registered share capital of Lassila & Tikanoja plc is EUR 19,392,187. The number of shares is 38,784,374. Each share carries one vote. There is no maximum to the number of the shares and the share capital in the Articles of Association. A share has neither a nominal value nor a book equivalent value.

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

On 4 February 2008, the Board approved the subscriptions of 12,500 new shares made pursuant to the 2005A share options. As a result of these subscriptions, the company's registered share capital will increase by EUR 6,250 to EUR 19,398,437 and the number of the shares will increase to 38,796,874 shares after the increase has been entered in the Trade Register.

Trading in shares and share options in 2007

The company's shares are quoted on the mid-cap list of the OMX Nordic 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 OMX Nordic Exchange during 2007 was 19,802,194, which is 51.2% (33.3%; 40.0%) of the average number of shares. The value of trading was EUR 467.2 million (EUR 217.6 million; EUR 224.1 million).The trading price varied between EUR 20.03 and EUR 27.96. The closing price was EUR 22.70. Market capitalisation was EUR 880.4 million (EUR 834.5 million; EUR 571.8 million) at the end of the year.

Lassila & Tikanoja's 2005A share options have been listed on the OMX Nordic Exchange in Helsinki since 2 November 2007 under trading code LAT1VEW105. Trading in the 2002C share options ended on 30 October 2007.

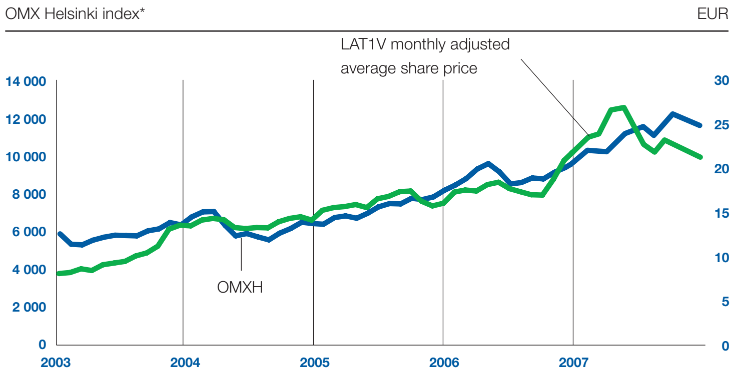
Changes in share capital and number of shares between 30 September 2001 and 31 December 2007

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**
Subscriptions pursuant to share options during 2007	128 100	256 200	19 392 187	38 784 374
31 December			**19 392 187**	**38 784 374**

* Subscription ratio before the bonus issue

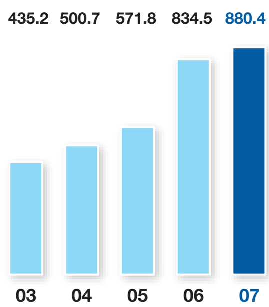
The changes in share capital and the number of the shares in 2006 and 2007 are listed in more detail in Note 24 Equity.

Adjusted share price development



*OMX Helsinki index, monthly average

Market capitalisation at year end, EUR million



Dividend policy

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

Authorisation for the Board of Directors

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

Redemption obligation

Under Article 14 of Lassila & Tikanoja plc Articles of Association, a shareholder whose holding either alone or together with other shareholders as specified in the Article reaches or exceeds 33 1/3 or 50 per cent of all shares has an obligation upon the request of other shareholders to redeem their shares or securities entitling them to shares.

Restrictions in voting power

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

Change in control

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

Terms and conditions of share subscriptions based on the share option plan

The exercise price for 2005A options is EUR 14.22, for 2005B options EUR 16.98 and for 2005C options EUR 26.87. The exercise prices will be deducted by any amount of per-share dividend, distributed after the determination of the exercise price and before the subscription of shares, which exceeds a total of 70% of the per-share earnings for the financial period for which the dividends are distributed. The exercise period for 2005A options is 2 November 2007 to 29 May 2009, for 2005B options 3 November 2008 to 31 May 2010, and for 2005C options 2 November 2009 to 31 May 2011.

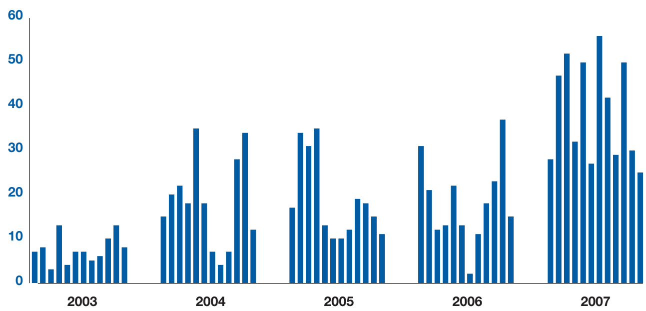
After 4 February 2008 the outstanding options issued under the share option plan 2005 entitle their holders to subscribe for a maximum of 556,000 new shares, which is 1.4% of the company's current number of shares.

Summary of share option plan 2005 at 31 December 2007

	2005A	2005B	2005C
Maximum number of options	170 000	200 000	230 000
Granted to	25 key employees	33 key employees	43 key employees
Held by L&T Advance Oy	8 000	22 000	1 500
Outstanding options	162 000	178 000	228 500
Listed since	2 November 2007		
Exercise period	2 November 2007 to 29 May 2009	3 November 2008 to 31 May 2010	2 November 2009 to 31 May 2011
Exercise price	14.22	16.98	26.87
Number of shares to which each share option entitles holder	1	1	1

Adjusted volume of shares traded

EUR million



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 25 Share-based payment. The complete terms and conditions of the share option plans are available on the company's website.

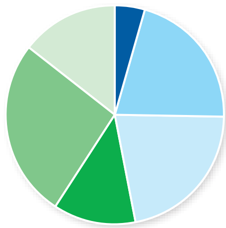
Shareholders

Lassila & Tikanoja plc had 4,985 registered shareholders at the end of 2007 (4,535; 4,935;). Nominee-registered shares and shares in direct foreign ownership accounted for 14.3% of the stock (10.9%; 8.9%).

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 3,982,092 shares in the company on 31 December 2007. They represent 10.3% of the number of shares and votes. Share options held by the President and CEO on 31 December 2007 entitle to the subscription of 82,000 shares.

Breakdown of shareholding
% of shares and 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	3 857	77.4	1 177 422	3.0
1 001-5 000	752	15.1	1 672 827	4.3
5 001-10 000	153	3.1	1 131 147	2.9
10 001-100 000	184	3.7	5 218 631	13.5
100 001-500 000	27	0.5	5 354 602	13.8
over 500 000	12	0.2	18 803 621	48.5
	4 985	100.0	33 358 250	86.0
Shares registered in a nominee's name			5 385 588	13.9
Shares not transferred to the book-entry securities system			40 536	0.1
Total			38 784 374	100.0

Breakdown of shareholding by category at year end

	Number of shareholders	Percentage	Number of shares	Percentage of shares and votes
Companies	329	6.6	1 730 081	4.5
Financial institutions and insurance companies	38	0.8	8 091 037	20.9
Public institutions	35	0.7	8 430 101	21.7
Non-profit organisations	169	3.4	4 690 938	12.1
Individuals	4 383	87.9	10 246 844	26.4
Foreign shareholders	31	0.6	169 249	0.4
	4 985	100.0	33 358 250	86.0
Shares registered in a nominee's name			5 385 588	13.9
Shares not transferred to the book-entry securities system			40 536	0.1
Total			38 784 374	100.0

Major shareholders at year end

Shareholder		Number of shares	Percentage of shares and of votes
1.	Ilmarinen Mutual Pension Insurance Company	2 994 020	7.7
2.	Evald and Hilda Nissi Foundation	2 413 584	6.2
3.	Sampo Life Insurance Company Ltd	2 171 238	5.6
4.	Tapiola Mutual Pension Insurance Company	1 974 240	5.1
5.	Varma Mutual Pension Insurance Company	1 778 560	4.6
6.	Juhani Maijala	1 526 494	3.9
7.	Mutual funds managed by OP Fund Management Company Ltd.	1 521 543	3.9
8.	Tapiola Group	1 282 161	3.3
	Tapiola General Mutual Insurance Company	674 534	1.7
	Tapiola Mutual Life Assurance Company	310 161	0.8
	Tapiola Corporate Life Insurance Company	150 106	0.4
	Tapiola Hyvinvointi Mutual Fund	105 360	0.3
	Tapiola Suomi Mutual Fund	42 000	0.1
9.	Mutual funds managed by Nordea Investment Fund Company Finland Ltd	1 103 378	2.8
10.	Heikki Bergholm	764 961	2.0
11.	Mikko Maijala	687 600	1.8
12.	Kristiina Turjanmaa	585 842	1.5
13.	The State Pension Fund	500 000	1.3
14.	Mutual funds managed by Fondita Fund Management Ltd	387 000	1.0
15.	Mutual funds managed by Glitnir Asset Management Ltd	361 749	0.9
16.	Mutual funds managed by SEB Gyllenberg Rahastoyhtiö Oy	335 787	0.9
17.	Eeva Maijala	312 500	0.8
18.	Mutual Funds managed by Aktia Fund Management Ltd	305 878	0.8
19.	Pohjola Non-Life Insurance Company Limited	295 000	0.8
20.	Mutual funds managed by Evli Fund Management Company Ltd	279 606	0.7
	Total	21 581 141	55.6

All information concerning the company's shareholders is based on the list of shareholders maintained by the Finnish Central Securities Depository Ltd as on 31 December 2007.
Current information on shares and shareholders is available on the company's website and is updated monthly.

Key figures on shares

	IFRS					FAS
	2007	2006	2005	2004**	2004	2003
Earnings/share (EPS), EUR	**0.83**	0.90	0.70	0.79	1.01	0.63
Earnings/share (EPS), diluted, EUR	**0.82**	0.90	0.70	0.78	1.01	
Equity/share, EUR	**5.21**	4.52	3.98	3.49	3.49	2.78
Dividend/share, EUR	**0.55***	0.55	0.40	0.25	0.25	1.01
Dividend/earnings, %	**66.7***	61.1	57.0	31.7	24.7	159.6
Dividend yield, %	**2.4***	2.5	2.7	1.9	1.9	8.0
P/E ratio	**27.5**	24.1	21.2	16.6	13.0	19.9
Cash flows from operating activities/share, EUR	**1.43**	1.82	1.28	1.40	1.40	1.40
Share price adjusted for issues:						
lowest, EUR	**20.03**	14.75	13.10	11.48	11.48	6.89
highest, EUR	**27.96**	22.46	16.67	14.09	14.09	13.54
average, EUR	**23.59**	16.99	14.68	12.72	12.72	8.83
at year end, EUR	**22.70**	21.66	14.90	13.13	13.13	12.62
Market capitalisation on 31 December, EUR million	**880.4**	834.5	571.8	500.7	500.7	435.2
Number of shares adjusted for issues						
average during the year	**38 670 047**	38 444 950	38 193 024	34 650 239	34 650 239	34 477 003
at year end	**38 784 374**	38 528 174	38 377 774	38 136 234	38 136 234	34 477 003
average during the year, diluted	**38 843 151**	38 600 805	38 420 755	34 870 587	34 870 587	
Adjusted number of shares traded during the year	**19 802 194**	12 807 684	15 263 446	17 264 627	17 264 627	10 365 220
as % of the average	**51.2**	33.3	40.0	49.8	49.8	30.1
Volume of shares traded, EUR 1000	**467 215**	217 562	224 128	219 558	219 558	91 556

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

Calculation of the key figures

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

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

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

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

Dividend yield, % = $\frac{\text{dividend per share}}{\text{share price at year end}}$ 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
	2007	2006	2005	2004*	2004	2003
Net sales, EUR milliom	**554.6**	436.0	377.4	337.2	337.2	306.3
Operating profit, EUR million	**48.8**	50.2	39.3	40.8	51.3	35.7
as % of net sales	**8.8**	11.5	10.4	12.1	15.2	11.7
Profit before tax, EUR million	**44.5**	48.5	37.5	37.9	48.4	31.8
as % of net sales	**8.0**	11.1	9.9	11.2	14.4	10.4
Profit for the period, EUR million	**32.2**	35.3	27.2	27.7	35.5	22.1
as % of net sales	**5.8**	8.1	7.2	8.2	10.5	7.2
Profit for the period attributable to the equity holders of the parent company, EUR million	**31.9**	34.6	26.8	27.3	35.1	21.8
as % of net sales	**5.8**	7.9	7.1	8.1	10.4	7.1
EVA, EUR million	**23.0**	28.6	18.3	22.7		19.6
Cash flows from operating activities, EUR million	**55.4**	69.9	48.9	48.4	48.4	48.2
Balance sheet total, EUR million	**438.3**	352.6	314.8	283.0	283.0	238.7
Return on equity, % (ROE)	**17.0**	21.2	18.8	25.2	32.3	24.0
Return on invested capital, % (ROI)	**17.6**	21.0	17.9	22.5	27.1	20.5
Equity ratio, %	**46.6**	50.4	49.5	48.1	48.1	40.6
Gearing, %	**42.7**	29.7	49.3	45.6	45.6	80.1
Net interest-bearing liabilities, EUR million	**86.4**	52.5	76.5	61.4	61.4	77.6
Capital expenditure, EUR million	**93.2**	47.2	60.9	48.1	48.1	43.8
as % of net sales	**16.8**	10.8	16.1	14.3	14.3	14.3
Depreciation and amortisation, EUR million	**33.4**	28.2	24.8	21.4	21.4	25.6
Average number of employees in full-time equivalents	**7 819**	6 775	5 918	5 409	5 409	4 595
Total number of full-time and part-time employees at year end	**9 387**	8 328	7 512	6 456	6 456	5 987

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

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 2006–2007: 8.75%
WACC 2003–2005: 9%

Income statement by quarter

EUR 1000	Q4/2007	Q3/2007	Q2/2007	Q1/2007	Q4/2006	Q3/2006	Q2/2006	Q1/2006
Net sales								
Environmental Services	74 788	67 915	71 744	65 398	53 765	52 696	51 420	46 945
Property and Office Support Services	54 798	51 963	48 660	48 720	44 584	41 463	41 243	41 113
Industrial Services	19 867	19 890	19 572	16 150	18 252	18 500	16 785	13 305
Group administration and other	1	3	3	3	3	19	26	70
Inter-division net sales	-1 282	-1 202	-1 220	-1 158	-1 242	-1 030	-1 044	-869
Lassila & Tikanoja	148 172	138 569	138 759	129 113	115 362	111 648	108 430	100 564
Operating profit								
Environmental Services	8 372	9 730	8 104	8 771	7 104	10 056	8 100	7 503
Property and Office Support Services	4 015	4 213	1 690	1 087	1 154	4 833	1 499	1 272
Industrial Services	180	2 133	2 595	-139	3 025	3 730	2 005	576
Group administration and other	-468	-601	-349	-558	-971	1 233	-547	-388
Lassila & Tikanoja	12 099	15 475	12 040	9 161	10 312	19 852	11 057	8 963
Operating margin								
Environmental Services	11.2	14.3	11.3	13.4	13.2	19.1	15.8	16.0
Property and Office Support Services	7.3	8.1	3.5	2.2	2.6	11.7	3.6	3.1
Industrial Services	0.9	10.7	13.3	-0.9	16.6	20.2	11.9	4.3
Lassila & Tikanoja	8.2	11.2	8.7	7.1	8.9	17.8	10.2	8.9
Finance costs, net	-1 247	-1 294	-924	-852	-366	-740	-391	-201
Share of profits of associates					18			
Profit before tax	10 852	14 181	11 116	8 309	9 964	19 112	10 666	8 762

Lassila & Tikanoja plc's financial statements for the year 2007

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

Consolidated income statement

1 January – 31 December EUR 1000	2007	%	2006	%	Note
Net sales	**554 613**	**100.0**	436 004	100.0	1
Cost of sales	**-478 151**	**-86.2**	-367 968	-84.4	
Gross profit	**76 462**	**13.8**	68 036	15.6	
Other operating income	**3 834**	**0.7**	4 702	1.1	6
Selling and marketing costs	**-14 616**	**-2.6**	-12 844	-2.9	
Administrative expenses	**-11 614**	**-2.1**	-8 660	-2.0	
Other operating expenses	**-5 291**	**-1.0**	-1 049	-0.2	6
Operating profit	**48 775**	**8.8**	50 185	11.5	3, 5
Finance income	**1 661**	**0.3**	1 509	0.3	8
Finance costs	**-5 978**	**-1.1**	-3 208	-0.7	8
Share of profit of associates			18		16
Profit before income tax	**44 458**	**8.0**	48 504	11.1	
Income tax expense	**-12 291**	**-2.2**	-13 249	-3.0	9
Profit for the period	**32 167**	**5.8**	35 255	8.1	
Attributable to:					
Equity holders of the company	**31 909**		34 613		
Minority interest	**258**		642		
Earnings per share for profit attributable to the equity holders of the company:					
Earnings per share, EUR	**0.83**		0.90		10
Earnings per share, EUR - diluted	**0.82**		0.90		

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

Consolidated balance sheet

31 December EUR 1000	2007	%	2006	%	Note
ASSETS					
Non-current assets					
Intangible assets					12
Goodwill	**119 946**		106 611		
Intangible assets arising from acquisitions	**30 600**		9 893		
Other intangible assets	**11 571**		7 903		
	162 117	**37.0**	124 407	35.3	
Property, plant and equipment					14
Land	**3 532**		3 215		
Buildings and constructions	**39 594**		38 239		
Machinery and equipment	**103 832**		90 397		
Other	**82**		174		
Prepayments and construction in progress	**4 830**		2 013		
	151 870	**34.6**	134 038	38.0	
Other non-current assets					
Investments in associates			3		16
Available-for-sale investments	**410**		2 954		18, 31
Finance lease receivables	**3 823**		3 174		19, 31
Deferred income tax assets	**924**		425		9
Other receivables	**236**		229		31
	5 393	**1.2**	6 785	1.9	
Total non-current assets	**319 380**	**72.8**	265 230	75.2	
Current assets					
Inventories	**14 350**		4 315		20
Trade and other receivables	**71 824**		54 561		21, 31
Derivative receivables	**1 189**		3 533		31, 32
Prepayments	**774**		155		31
Available-for-sale investments	**21 287**		13 955		22, 31
Cash and cash equivalents	**9 521**		10 835		23, 31
Total current assets	**118 945**	**27.2**	87 354	24.8	
Total assets	**438 325**	**100.0**	352 584	100.0	

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

31 December EUR 1000	2007	%	2006	%	Note
EQUITY AND LIABILITIES					
Equity					
Equity attributable to equity holders of the company					24
Share capital	**19 392**		19 264		
Share premium reserve	**50 474**		47 666		
Other reserves	**14 055**		326		
Retained earnings	**86 327**		72 291		
Profit for the period	**31 909**		34 613		
	202 157	**46.2**	174 160	49.4	
Minority interest	**187**		2 709	0.8	
Total equity	**202 344**	**46.2**	176 869	50.2	
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	**29 842**		22 350		9
Retirement benefit obligations	**542**		352		26
Provisions	**953**		936		27
Interest-bearing borrowings	**81 411**		59 031		28, 31
Other liabilities	**500**		431		29, 31
	113 248	**25.8**	83 100	23.6	
Current liabilities					
Interest-bearing borrowings	**35 757**		18 231		28, 31
Trade and other payables	**85 183**		73 174		30, 31
Derivative liabilities	**897**				31, 32
Tax liabilities	**794**		938		
Provisions	**102**		272		27
	122 733	**28.0**	92 615	26.3	
Total liabilities	**235 981**	**53.8**	175 715	49.8	
Total equity and liabilities	**438 325**	**100.0**	352 584	100.0	

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

Consolidated cash flow statement

EUR 1000	2007	2006	Note
Cash flows from operating activities			
Profit for the period	**32 167**	35 255	
Adjustments	**52 128**	39 930	34
Net cash generated from operating activities before change in working capital	**84 295**	75 185	
Change in working capital			
Change in trade and other receivables	**-4 903**	-7 654	
Change in inventories	**-6 824**	541	
Change in trade and other payables	**-1 450**	9 585	
Change in working capital	**-13 177**	2 472	
Interest paid	**-5 104**	-2 925	
Interest received	**1 460**	938	
Income tax paid	**-12 041**	-5 776	
Net cash generated from operating activities	**55 433**	69 894	
Cash flows from investing activities			
Acquisitions of subsidiaries and businesses, net of cash acquired	**-37 050**	-10 658	2
Proceeds from subsidiaries and businesses, net of sold cash	**1 878**		34
Purchases of property, plant and equipment and intangible assets	**-49 109**	-34 878	
Proceeds from sale of property, plant and equipment and intangible assets	**2 261**	13 727	
Acquisition of available-for-sale investments	**-147**		
Change in other non-current receivables	**1**	-7	
Proceeds from sale of available-for-sale investments	**1 098**	353	
Dividends received from investments	**4**	9	
Net cash used in investment activities	**-81 064**	-31 454	
Cash flows from financing activities			
Proceeds from share issue	**2 936**	1 018	24
Changes in short-term borrowings	**23 011**	-14 525	
Proceeds from long-term borrowings	**50 302**	15 000	
Repayments of long-term borrowings	**-39 909**	-7 041	
Dividends paid	**-21 360**	-15 339	
Net cash generated from financing activities	**14 980**	-20 887	
Net change in liquid assets	**-10 651**	17 553	
Liquid assets at beginning of period	**24 790**	7 252	
Effect of changes in foreign exchange rates	**-131**	-15	
Liquid assets at end of period	**14 008**	24 790	

Liquid assets

EUR 1000	2007	2006
Cash	**9 521**	10 835
Certificates of deposit and commercial papers	**4 487**	13 955
Total	**14 008**	24 790

The notes are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

EUR 1000	Share capital	Share premium reserve	Translation difference reserve	Revaluation reserves	Retained earnings	Equity attributable to equity holders of the company	Minority interest	Total equity
Equity at 1 January 2006	**19 189**	**46 606**	**-180**	**1**	**87 250**	**152 866**	**2 166**	**155 032**
Hedging reserve, change in fair value				384		384		384
Current available-for-sale investments, change in fair value				10		10		10
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**
Equity at 1 January 2007	**19 264**	**47 666**	**-69**	**395**	**106 904**	**174 160**	**2 709**	**176 869**
Hedging reserve, change in fair value				136		136		136
Current available-for-sale investments, change in fair value				14 230		14 230		14 230
Translation differences			-637			-637	-1	-638
Items recognised directly in equity			-637	14 366		13 729	-1	13 728
Profit for the period					31 909	31 909	258	32 167
Total recognised income and expenses			**-637**	**14 366**	**31 909**	**45 638**	**257**	**45 895**
Share option remuneration								
Subscriptions pursuant to 2002 options	128	2 808				2 936		2 936
Remuneration expense of share options					613	613		613
Dividends paid					-21 190	-21 190	-180	-21 370
Purchase of a minority							-2 599	-2 599
Equity at 31 December 2007	**19 392**	**50 474**	**-706**	**14 761**	**118 236**	**202 157**	**187**	**202 344**

More information on equity is shown in Note 24 Equity, and on taxes recognised in equity in Note 9 Income taxes.

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

Notes to the consolidated financial statements

General information

Lassila & 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, Russia and Norway.

The Lassila & Tikanoja share is quoted on the OMX Nordic Exchange in Helsinki.

These consolidated financial statements have been approved for issue by the Board of Directors of Lassila & Tikanoja plc on 4 February 2008.

Summary of significant accounting policies

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

Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards, with application of the IFRS and IAS standards as well as IFRIC and SIC interpretations that were effective on 31 December 2007. 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.

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 the 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. The first-time adoption standard is applied to these acquisitions, and the acquisitions have not been restated in preparation of the opening IFRS balance sheet (1 January 2004).

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

Business combinations between entities under shared control are treated using the purchase method because such acquisitions do not belong to the scope of application of IFRS 3 Business Combinations. With regard to the acquisition of minority interests, the difference between the acquisition cost and the acquired equity is recognised as goodwill. In 2007 these included the acquisitions of minority interests in L&T Muoviportti Oy and Suomen Keräystuote Oy.

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. The Group did not have any associates at the end of the period. Suomen Keräystuote Oy was transformed into a subsidiary in 2006.

Foreign currency translation

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

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

Construction contracts

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

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

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

Research and development

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

Goodwill and other intangible assets

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

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

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 or 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. 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 on goodwill is not reversed. Intangible assets under construction are software projects that cannot be tested for impairment as they do not generate separate cash flow. There is no need for impairment if it is stated at the end of the financial period that the projects will be completed and the software will be brought to use.

Leases

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

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

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

Financial instruments

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

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

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

Available-for-sale investments include shares as well as certificates of deposit and commercial papers. By definition, the group includes financial assets that do not belong to actual business and are not in production use on the one hand, and financial assets that can be sold to obtain working capital for business operations on the other hand. The financial instruments in this category, excluding unlisted shares, are measured at fair value. Unless their fair value cannot be measured reliably, 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. 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 considering tax effects 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, forward contracts to hedge the loans granted to foreign subsidiaries against currency risk as well as crude oil put options and future contracts purchased to hedge the sales price risk associated with the upcoming base oil production of a re-refinery under construction for the joint venture L&T Recoil. 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 and forward contracts are based on that day's market prices. The fair values of the options at balance sheet date are determined by using option pricing models. Any gains and losses arising from fair valuation are accounted for in the manner determined by the purpose of the derivative financial instrument.

All interest rate hedges and currency hedges meet the criteria set for efficient hedging in the Group's risk management policy. Hedge accounting in accordance with IAS 39 is not applied to currency forward contracts and some interest rate swaps for the time being, but changes in the fair values of these items are recognised in the income statement as finance income or costs. Neither does L&T apply hedge accounting to oil hedges made in the name of the joint venture and any changes in the fair values 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. Positive fair values of all derivatives are recognised in derivative receivables of balance sheet. Any negative fair values of derivatives are recognised correspondingly in derivative liabilities. All fair values of derivatives are included in current assets or liabilities.

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 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.

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

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

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

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

Employee benefits
Retirement benefit obligations

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

L&T operates some minor defined benefit plans originating from business acquisitions. Some of these defined benefit pension plans are the Group's own responsibilities while some are covered by pension insurance. The obligations have been calculated for each plan separately using the projected unit credit method. Pension costs are recognised in the income statement over employees' periods of service in accordance with actuarial calculations. The discount rate used for determining the present value of a retirement benefit obligation is based on the swap interest rate curve plus a risk premium of 0.2% and the estimated duration of the retirement benefit 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 retirement benefit 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 retirement benefit obligations and 10% of the fair value of plan assets is recognised in the income statement over the expected remaining working lives of the persons participating in the scheme.

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

Share-based payment

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

Non-market vesting conditions are not taken into account in the determination of the fair value of benefits granted. The rate of rejection of options is expected to be 0% on the grant date. The 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 contaminated soil processing site and a provision for onerous lease agreements.

Borrowing costs
Borrowing costs are in general recognised as expenses in the period in which they arise, excluding transaction costs directly attributable to the issue of a financial liability. They are included in the historical cost of the liability and are recognised as interest expense during the expected life of the liability applying the effective interest method. Furthermore, finance costs associated with the construction of the L&T Recoil's re-refinery are capitalised as part of the acquisition cost of the investment and depreciated over the useful life of the asset. L&T Recoil will not generate any net sales before the re-refinery is completed.

Government grants
Government grants or other grants relating to actual costs are recognised in the income statement when the group complies with the conditions attached to them and there is reasonable assurance to that the grants will be received. They are presented in other operating income. Government grants directly associated with the recruitment of personnel, such as employment grants,

apprenticeship grants and the like, are recognised as reductions in personnel expenses. Grants for acquisition of property, plant and equipment are recognised as deductions of historical cost. The grant is recognised as revenue over the life of a depreciable asset by way of a reduced depreciation charge.

Income taxes

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

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

Critical judgments in applying the Group's accounting policies

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

Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS require the management to make such estimates and assumptions that affect the carrying amounts at the balance sheet date for assets and liabilities and the amounts of revenues and expenses. Judgements 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.

Fair value measurement of assets and liabilities acquired in business combinations

Assets and liabilities acquired in business combinations are measured at fair value according to IFRS 3. Whenever possible, the management uses available market values when determining the fair values. When this is not possible, the measurement is based on the historical revenues from the asset 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 of assets" under the accounting policies.

Goodwill impairment testing

In testing of goodwill for impairment, the recoverable amounts of the cash generating units to which the goodwill belongs are determined on the basis of value-in-use calculations. These calculations require the judgment by the management. Though the assumptions used are appropriate according to the management's judgment, the estimated cash flows may differ fundamentally from those realised in the future (Note 13 Goodwill impairment tests).

Application of new or amended IFRS standards

Amendments to standards valid as of the beginning of 2007:

- IFRS 7 Financial Instruments: Disclosures. 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.
- IAS 1 (Amendment) Presentation of Financial Statements, Capital Disclosures. The amendment entered into force on 1 January 2007 but the Group already applied it in the financial statements of 31 December 2006.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies. 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. 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. The interpretation has had no effect on the processing of L&T's current option plan in financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives. The interpretation clarifies certain aspects of embedded derivatives in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The interpretation has no significance to the Group.
- IFRIC 10 Interim Financial Reporting and Impairment. 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 interpretation has had no effect on the Group's financial statements.
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions. The interpretation clarifies the application of the standard IFRS 2 Share-based Payment when an arrangement concerns an entity's own equity instruments or the instruments of its parent entity and the entity purchases the instruments. Furthermore, the interpretation provides guidelines for the application of the standard to the individual financial statements of a subsidiary. The interpretation has no effect on the processing of L&T's current option plan in the financial statements.

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

- IFRS 8 Operating Segments (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.

- IAS 23 (Amendment) Borrowing Costs (valid for financial periods starting after 1 January 2009, EU approval pending). The standard requires that the acquisition cost of an asset fulfilling certain preconditions, such as a production facility, shall include borrowing costs immediately arising from the acquisition, construction or manufacture of the asset. The Group has previously recognised borrowing costs as expenses in the financial period during which they have been incurred. Finance costs associated with the construction of the L&T Recoil re-refinery are an exception and are capitalised as part of the acquisition cost of the investment. After the adoption of the standard, the Group's finance costs during the construction of recycling plants, for example, will be reduced, and depreciation after completion will increase.
- IAS 1 (Amendment) Presentation of Financial Statements (valid for financial periods starting after 1 January 2009, EU approval pending). The revised standard will change the presentation of financial statement calculations related to the income statement and the statement of changes in equity.
- IFRIC 12 Service Concession Arrangements (valid for financial periods starting after 1 January 2008, EU approval pending). The interpretation determines accounting principles for infrastructure (e.g. roads, bridges, hospitals) built or acquired for the supply of public services. The Group has no agreements for which this interpretation should be applied and the interpretation has no effect on the Groups's financial statements.
- IFRIC 13 Customer Loyalty Programmes (valid for financial periods starting after 1 January 2008, EU approval pending) clarifies the accounting practices for customer loyalty programmes. The adoption of the standard does not affect the Group's accounting policies because the Group does not have any customer loyalty programmes.
- IFRIC 14 IAS19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (valid for financial periods starting after 1 January 2008, EU approval pending). The interpretation applies to post-employment defined benefit plans according to IAS 19 and other long-term defined benefit plans for employees when the plan associates a minimum funding requirement. The Group has a few individual defined benefit pension plans but they do not have a minimum funding requirement. According to the management's current understanding, the interpretation has no effect on the consolidated financial statements.
- IFRS 3 (Amendment) Business combinations and IAS 27 (Amendment) Consolidated and separate financial statements (valid for financial periods starting after 1 July 2009, EU approval pending). In January 2008 amendments to the standards were issued. The most significant amendments for L&T cover the treatment of business combinations carried out after the adoption of the amended standards and the recognition of changes in interests in the consolidated financial statements. The management is in process to assess impacts on the financial statements.
- IFRS 2 (Amendment) Share-based Payment (valid for financial periods starting after 1 January 2009, EU approval pending). The amendment considers vesting conditions and reversals but it has no effect on the processing of L&T's current option plan in the financial statements.

1. Segment reporting

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

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

The Group is organised into the following business segments:

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

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

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

Group administration and other consists of external income from leasing out a property sold, 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 of available-for-sale investments.

Non-allocated assets consist of liquid assets, receivables of interest rate and foreign currency derivatives and accrued interest receivables, accrued other finance income and tax receivables. In 2007, tax receivables amounted to EUR 1,004 thousand (EUR 834 thousand). Non-allocated liabilities consist of interest-bearing debt, liabilities of interest rate and foreign currency derivatives and accrued interest and other financing liabilities and tax liabilities. In 2007, tax liabilities amounted to EUR 30,635 thousand euros (EUR 23,288 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.

Group

1.1. Business segments

2007

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

2006

EUR 1000	Environmental Services	Property and Office Support Services	Industrial Services	Group administration and other	Eliminations	Group
Net sales						
External net sales	203 341	166 560	65 985	118		436 004
Inter-division net sales	1 484	1 843	858		-4 185	
Total net sales	204 825	168 403	66 843	118	-4 185	436 004
Operating profit	32 762	8 758	9 337	-672		50 185
Operating margin, %	16.0	5.2	14.0			11.5
Share of profit of associate (Note 16)	18					18
Finance income and costs (Note 8)						-1 699
Profit before tax						48 504
Income tax expense (Note 9.1)						-13 249
Profit for the period						35 255
Assets						
Assets of the division	196 994	59 394	66 386	2 804		325 578
Non-allocated assets						27 006
Total assets						352 584
Shares in associates	3					3
Liabilities						
Liabilities of the division	33 455	29 708	10 300	1 084		74 547
Non-allocated liabilities						101 168
Total liabilities						175 715
Capital expenditure						
(Notes 12 and 14)	21 940	19 472	5 696	54		47 162
Depreciation and amortisation						
(Note 5)	15 671	7 067	5 127	83		27 948
Impairment losses						
(Notes 5 and 12)		207				207
Total depreciation, amortisation and impairment losses	15 671	7 274	5 127	83		28 155
Other expenses of no-cash transactions						
Share option remuneration				396		396
Retirement benefit obligationss	97	29	1	69		196
Provisions	42		-10	448		480
Total	129	29	1	913		1 072

In 2007, L&T obtained full ownership of Salvor Oy. The business operations of Salvor were reorganised and most of the operations were transferred from Environmental Services into Industrial Services. The comparison figures were adjusted accordingly.

1.2. Geographical segments

EUR 1000	2007	2006
Net sales		
Finland	**493 464**	399 502
Other countries	**61 149**	36 502
Total	**554 613**	436 004
Assets		
Finland	**366 367**	296 512
Other countries	**41 246**	29 066
Non-allocated assets	**30 712**	27 006
Total	**438 325**	352 584
Capital expenditure		
Finland	**81 004**	32 524
Other countries	**12 183**	14 638
Total	**93 187**	47 162

Group

2. Business acquisitions

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

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

In addition to the skills of the personnel of the acquired businesses, goodwill arising from business combinations comprises other intangible items that cannot be identified separately in accordance with IAS 38. These unidentified items include the potential for gaining new customers in the acquired businesses and the opportunities for developing new products and services, as well as the regionally strong position of an acquired business. These items do not fulfil the IAS 38 identification criteria in any way. The items cannot be separated from each other, they are not based on any agreement or legal right and their value cannot be determined reliably. All business combinations also create synergy benefits that consist primarily of savings in fixed production costs. Negative goodwill generated by the acquisition of Salvor Oy was recognised as income. Negative goodwill was generated, because deferred tax liabilities related to confirmed losses from prior periods were taken into account in the equity at the time of acquisition.

Changes in goodwill arising from acquisitions or acquisition costs may arise on the basis of terms and conditions related to the acquisition price in the deeds of sale. In many acquisitions a small portion of the acquisition price is contingent on future events (less than 12 months). Acquisition price adjustments, including also attorney's and consultants' fees attributable to a business combination, are recognised in goodwill within 12 months from the acquisition date. Such adjustments related to the businesses acquired in 2007 will probably still be made. Except these adjustments and the purchase of the minority holding of Biowatti described below, the allocation calculations are final.

The consolidated net sales for the year 2007 would have been EUR 570.2 million and the consolidated profit for the period EUR 32.4 million if all the acquisitions had been made on 1 January. The realised net sales of the acquired businesses have been added to the consolidated net sales, and their realised profits and losses have been added to the consolidated profit in accordance with interim accounts at the time of acquisition. Profit for the period is stated less the current amortisation on intangible assets and depreciation charges on property, plant and equipment. Synergy benefits have not been accounted for.

The aggregate net sales of the acquired companies in 2007 totalled EUR 90.6 million.

2007

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

On 18 December 2006, an agreement was signed on the acquisition of the majority (70%) of the shares of Biowatti Oy from the acting management of the company. L&T also made a commitment to redeem the remaining thirty percent of the shares by the beginning of the year 2012. The acquisition price for the seventy percent portion was EUR 30.9 million, and it was paid in cash. No interest-bearing liabilities were transferred in the acquisition. The acquisition became effective on 1 February 2007 after the approval of the competition authority. L&T Biowatti became a cash-generating unit within the Environmental Services division.

In the consolidated financial statements the whole acquisition price (100%) was recognised as acquisition cost. No minority interest was separated from the profit or equity, but the estimated purchase price of the remaining 30 percent, discounted to the value at the acquisition date (approximately EUR 5,806 thousand), was recognised as interest-bearing non-current liability. The final price of the 30 percent portion will be determined based on the future earnings of L&T Biowatti. The estimate is assessed annually as of 31 December, or whenever any indication exists. If the estimate needs to be revised, the cost of the combination will be adjusted accordingly and the amounts of goodwill and interest-bearing liabilities will be changed.

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

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

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

Other business combinations in aggregate

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

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

The operations of Kuljetus Kummunmäki Oy were acquired for waste management within Environmental Services on 1 July 2007. On 1 September 2007, 50% of Salvor Oy, in which L&T already had a holding of 50%, were acquired to recycling services within Environmental Services.

Acquisitions for Property and Office Support Services included the cleaning services group Skånsk All Service AB on 1 February 2007 and Siivouspalvelu Ta-Bu Oy on 31 May 2007, while Kiinteistöhuolto Pentti Nissinen Oy was acquired for property management on 1 February 2007 and Kiinteistöhuolto Jauhiainen Oy on 31 May 2007.

The figures for these acquired businesses are stated in aggregate, because none of them is of material importance. Fair values have been determined as of the time the acquisition was realised. No business operations have been divested as a consequence of any acquisition. All acquisitions have been paid for in cash. Individual purchase prices have not been itemised because none of them is of material importance when considered separately. All share acquisitions have resulted in a holding of 100% of voting power.

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

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

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

On 1 January 2008, the cleaning services business operations of Siivoset Oy were acquired into Property and Office Support Services (net sales EUR 0.1 million).

2006

EUR 1000	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	

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

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

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 or acquisition costs may arise on the basis of terms and conditions related to the sales price in the deeds of sale. 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. Sales 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 and amortisation on intangible assets 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.

3. Employee benefit expenses

EUR 1000	2007	2006
Wages and salaries	170 204	144 824
Pension costs		
Defined contribution plans	24 766	22 106
Defined benefit plans	227	196
Share-based payment	613	396
Other personnel expenses	17 667	13 042
Total	213 477	180 564
Defined benefit plan costs by function		
Cost of sales	20	30
Sales and marketing	133	97
Administration	74	69
Total	227	196

Details on granted share options are shown in Note 25 Share-based payment.
The employee benefits of the top management are shown in note 35 Related party transactions.
Details on the balance sheet items of defined benefit pension plans are shown in Note 26 Retirement benefit obligations.

Average personnel converted into full-time equivalents

	2007	2006
Clerical personnel	1 299	1 124
Workers	6 520	5 651
Total	7 819	6 775
Finland	5 740	5 115
Other countries	2 079	1 660
Total	7 819	6 775

4. Construction contracts

EUR 1000	2007	2006
The amount of contract revenue recognised as revenue in the period	4 731	5 689
The aggregate amount of costs incurred and recognised profits for contracts in progress less recognised losses	100	4 418
The gross amount due from customers in accrued liabilities	120	363
The gross amount due to customers in the advances received		1 134

Receiving of contaminated soil is not treated as a construction contract, as it is not yet possible to estimate the outcome of the contracts reliably. In accordance with the prudence principle, revenues will not be recognised before final disposal of the contaminated soil. The costs of these construction contracts are recognised as expenses in the period they have incurred.

5. Depreciation and amortisation

Depreciation and amortisation by function

EUR 1000	Intangible assets	Property, plant and equipment	Total
2007			
Depreciation and amortisation			
On cost of sales	7 350	24 950	32 300
On sales and marketing	44	318	362
On administration	527	243	770
Total depreciation and amortisation	7 921	25 511	33 432
2006			
Depreciation and amortisation			
On cost of sales	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 sales	207		207
Total depreciation, amortisation and impairment	3 464	24 691	28 155

Recognition of impairment losses is described on Note 12 Intangible assets.

6. Other operating income and expenses

EUR 1000	2007	2006
Other operating income		
Gains on sales of property, plant and equipment	**652**	1 033
Gains on sales of buildings and land	**105**	1 893
Gains on sale of businesses	**377**	
Revenue recognition of negative goodwill	**868**	
Lease income	**134**	82
Reversals of impairment losses on trade receivables	**99**	71
Reimbursements and government grants	**631**	225
Change in fair value of oil derivatives		726
Gain on sale of oil derivatives	**101**	
Other	**867**	672
Total	**3 834**	4 702
Other operating expenses		
Losses on disposals and scrapping of property, plant and epuipment	**212**	207
Impairment losses on trade receivables	**531**	517
Change in fair value of oil derivatives	**2 947**	
Losses on sale of businesses	**868**	
Other	**733**	325
Total	**5 291**	1 049

7. Research and development expenses

EUR 2.4 million (EUR 2.0 million) research and development expenses arising from centralised development projects are included in the income statement.

8. Finance income and costs

EUR 1000	2007	2006
Finance income		
Dividend income on available-for-sale investments	**4**	9
Interest income on available-for-sale investments	**234**	182
Interest income on loans and other receivables	**736**	635
Interest income on interest rate swaps	**636**	146
Changes in fair values of financial assets and liabilities at fair value through profit or loss (excl. interest rate swaps under hedge accounting)		489
Foreign exchange gains	**51**	48
Total finance income	**1 661**	1 509
Finance costs		
Interest expenses on borrowings measured at amortised cost	**-5 265**	-2 935
Interest expenses on interest rate swaps		-110
Changes in fair values of financial assets and liabilities at fair value through profit or loss (excl. interest rate swaps under hedge accounting)	**-332**	
Losses on sale of available-for-sale investments	**-3**	-12
Other finance expenses	**-378**	-151
Total finance costs	**-5 978**	-3 208

Exchange rate differences apply to financing. Exchange rate differences arising from sales amounting to EUR 6 thousand (EUR 4 thousand) have been recognised as adjustment items for net sales. Exchange rate differences arising from purchases totalling EUR 22 thousand (EUR 7 thousand) have been recognised as adjustment items for cost of sales. A gain of EUR 14,246 thousand (EUR 14 thousand) on available-for-sale investments was recognised in the revaluation reserve.

9. Income taxes

9.1. Income tax in the income statement

EUR 1000	2007	2006
Income tax on taxable profit		
Income tax for the period	**-12 247**	-11 095
Income tax for previous periods	**121**	3 151
Deferred income tax	**-165**	-5 305
Total	**-12 291**	-13 249

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

EUR 1000	2007	2006
Income tax at Finnish tax rate on consolidated profit before tax	**-11 559**	-12 611
Different tax rates and losses of foreign subsidiaries	**-620**	-597
Expenses not deductible for tax purposes	**-334**	-294
Tax-free income	**94**	68
Income tax for previous periods*	**121**	3 151
Transfer of tax on depreciation on dissolution losses for previous periods to deferred tax liability*		-2 940
Other items	**7**	-26
Total	**-12 291**	-13 249

* In 2006, Tax Office for Major Corporations returned tax 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.

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

EUR 1000	At 1 January	Recognised in income statement	Recognised in equity	Exchange differences	Acquired/sold businesses	At 31 December
2007						
Deferred tax assets						
Pension benefits	95	46				141
Provisions	216	38				254
Fair value adjustments		280				280
Revenue recognition	390	-287				103
Deferred depreciation	137	-106				31
Losses of joint ventures	426	-317				109
Losses of subsidiaries		1 308				1 308
Other tax deductible temporary differences	167	111	175	-4	-7	442
Total	1 431	1 073	175	-4	-7	2 668
Deferred tax liabilities						
Depreciation differences	-22 504	-1 750	181	12	-7 121	-31 182
Fair value adjustments	-501	565	-64			
Finance lease agreements	-351	-53				-404
Total	-23 356	-1 238	117	12	-7 121	-31 586
Net deferred tax liability	-21 925	-165	292	8	-7 128	-28 918
2006						
Deferred tax assets						
Pension benefits	46	49				95
Provisions	163	53				216
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	1 067	428	-64			1 431
Deferred tax liabilities						
Depreciation differences	-16 173	-5 371			-960	-22 504
Fair value adjustments	-62	-299	-140			-501
Finance lease agreements	-288	-63				-351
Total	-16 523	-5 733	-140		-960	-23 356
Net deferred tax liability	-15 456	-5 305	-204		-960	-21 925

9.3. Deferred tax in balance sheet

EUR 1000	2007	2006
Deferred tax assets	**924**	425
Deferred tax liabilities	**-29 842**	-22 350
Net deferred tax liabilities	**-28 918**	-21 925

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

In 2007 deferred tax assets amounting to EUR 999 thousand (EUR 626 thousand) in respect of losses of subsidiaries were not recognised in the financial statements, because the realisation of the related tax benefit is not probable.

Deferred tax assets of EUR 686 thousand (EUR 426 thousand) in respect of losses of subsidiaries have been recognised in the balance sheet. The recognition is based on the estimated realisation of the related tax benefit through future taxable income.

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

10. Earnings per share

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

EUR 1000	2007	2006
Profit attributable to the equity holders of the company	**31 909**	34 613
Adjusted average number of shares during the period, 1,000 shares	**38 670**	38 445
Earnings per share, EUR	**0.83**	0.90

Diluted earnings per share are calculated by adjusting the average number of shares outstanding to assume conversion of all diluting potential shares. In 2007 earnings per share are diluted by 2002C, 2005A and 2005B options and in 2006 by 2002B options in addition to 2002C, 2005A and 2005B options. The options have a diluting effect, when the exercise price with an option is lower than the market value of the company share. The diluting effect is the number of shares that the company has to issue gratuitously because the funds received from the exercised options do not cover the fair value of the shares. The fair value of the company's share is determined as the average market price of the share during the period.

EUR 1000	2007	2006
Profit attributable to the equity holders of the company	**31 909**	34 613
Adjusted average number of shares during the period, 1,000 shares	**38 670**	38 445
Effect of share options, 1,000 shares	**173**	156
Adjusted average number of shares during the period, 1,000 shares - diluted	**38 843**	38 601
Earnings per share, EUR - diluted	**0.82**	0.90

11. Dividend per share

At the Annual General Meeting on 1 April 2008, a dividend of EUR 0.55 will be proposed by the Board of Directors, corresponding to total dividends of EUR 21,338,280.70. This dividend payable is not reflected in the financial statements. The dividend per share paid in 2007 was EUR 0.55.

12. Intangible assets

2007

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

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

In June 2007, a component of an entity of Salvor Oy, at that time a joint venture, was sold. Goodwill and intangible assets associated with the operation disposed of were measured in accordance with IAS 36.86 on the basis of the relative values of the operations disposed of and the portion of the unit retained. When determining the gain or loss on disposal they were included in the carrying amount of the operation disposed of. Consequently, the goodwill and the intangible assets arising from acquisitions allocated to the component of an entity disposed of were recognised as losses on sale of businesses in other operating expenses. Another component of an entity sold in September was treated respectively, and the gain on sale of businesses was recognised in other operating income.

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

2006

EUR 1000							
Opening net book amount	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
Exchange differences			209	63			272
Transfers between items					2 085	-2 085	
Closing net book amount	1 419	8 806	106 611	14 226	4 616	1 086	136 764
Accumulated amortisation at 1 January 2007		-6 398		-1 758	-722		-8 878
Accumulated amortisation on disposals and transfers		-2					-2
Amortisation charge	-2	-525		-2 355	-375		-3 257
Impairment charges				-207			-207
Exchange differences				-13			-13
Accumulated amortisation and impairment at 31 December 2006	-2	-6 925		-4 333	-1 097		-12 357
Net book amount at 31 December 2006	1 417	1 881	106 611	9 893	3 519	1 086	124 407

Contractual commitments concerning acquisition of intangible assets totalled EUR 150 thousand.

Customer relationships were tested for impairment on 1 October 2006, 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 were 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 were the same as those used for determining the fair value of customer relationships on 4 January 2006, but they were updated to correspond to the testing date.

13. Goodwill impairment tests

Goodwill allocation

L&T's divisions are divided into product lines that form the cash generating units. The Latvian/Baltic and Swedish business operations also form cash generating units. For the purpose of impairment testing, goodwill is allocated to the cash generating units.

Allocation of book values of goodwill

EUR 1000	2007	2006
Waste management services	**43 859**	43 859
Recycling services	**18 560**	19 556
L&T Biowatti	**7 762**	
Cleaning services	**10 443**	16 770
Hazardous waste services	**10 007**	9 640
Sweden	**11 253**	
Total	**101 884**	89 825
Units for which the amount of goodwill allocated is not significant in proportion to the balance sheet value of the Group	**18 062**	16 786
Total	**119 946**	106 611

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 of the cash generating units vary between -2.8% and 29.3% (-8.7% and 34.5%). Beyond that period, upkeep investments and a residual growth rate generally equivalent to the inflation rate have been estimated for the cash flows. The rate is 3%, except in Latvia 8.5%. The residual growth rate for recycling is 4% and for hazardous waste management 4.5%. The EBITDA percentages for the future have been determined on a conservative basis. Their values are based on actual development, and no substantial changes are expected to occur during the estimate period.

The value of use has been determined using the Discounted Cash Flow method. The calculation components for the cost of capital are risk-free return rate (10-year government bond), market risk premium, illiquidity premium on unlisted companies, industry beta, cost of debt and capital structure. The industry beta, cost of debt and cost structure of the capital have been calculated for each cash generating unit on the basis of the key figures of peer group companies determined by the management. The peer group companies are listed companies operating in the same business sectors as L&T. Based on these factors, the discount rate used in the impairment tests is pre-tax return on equity (WACC) as follows: waste management 10.2% (9.7%), recycling services 9.8% (9.1%), L&T Biowatti 10,0%, cleaning services 11.2% (9.5%), hazardous waste services 9.7% (9.7%) and Sweden 10.7%. The interest rate for other cash-generating units varies between 11.5% and 14.1% (8.3% and 10.5%).

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

No impairment losses on goodwill were recognised. Salvor Oy sold a component of an entity in June 2007. Goodwill value and intangible assets associated with the component of an entity disposed of were measured in accordance with IAS 36.86 on the basis of the relative values of the operations disposed of and the portion of the unit retained. When determining the gain or loss on disposal they were included in the carrying amount of the operation disposed of. Consequently, the goodwill and the intangible assets from acquisitions allocated to the component of an entity disposed of were recognised as losses on sale of businesses in other operating expenses.

Another component of an entity sold in 2007 was treated respectively and the gain on sale was recognised in the other operating income. L&T's 50% share of Salvor's intangible assets was allocated to the cash generating unit of recycling services. When L&T purchased the remaining 50% of Salvor's shares on 1 September 2007 these intangible assets were transferred to the cash generating units of Industrial Services: Environmental damage services business to the hazardous waste services and treatment of industrial by-products to the industrial solutions.

In 2006 the goodwill of the Swedish sub group was tested for impairment as a part of the cash generating unit of cleaning services. In 2007 it was tested for impairment as a separate cash generating unit as the goodwill has grown considerably as a consequense of business acquisitions.

Sensitivity analysis of impairment testing

Principal assumptions	Share of goodwill	Required change	Required change in the most critical CGU
2007			
Residual EBITDA percentage	77%	≥ -50%	-18%
WACC (before tax)	75%	≥ 99%	34%
2006			
Residual EBITDA percentage	87%	≥ -50%	-23%
WACC (before tax)	97%	≥ 99%	46%

In 50% of the cash generating units and 75% of the consolidated goodwill (88% and 97%), the change in the interest rate would have to be 99% or more to make the value in use equal to the book value. In 50% of the cash generating units and 77% of the consolidated goodwill (63% and 87%), 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 34% (46%) and the residual EBITDA percentage would have to decrease by 18% (23%) to make the value in use equal to the book value. Recognition of impairment loss would require even greater changes in the critical variables.

14. Property, plant and equipment

2007

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

Assets acquired under finance lease arrangements included in machinery and equipment

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

Contractual commitments related to property, plant and equipment totalled EUR 8,646 thousand.
No impairment losses on property, plant and equipment were recognised.

2006

EUR 1000	Land	Buildings and constructions	Machinery and equipment	Other	Advance payments and construction in progress	Total
Opening net book amount	4 824	53 392	185 111	124	2 849	246 300
Exchange 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	
Closing net book amount	3 215	55 366	198 055	263	2 013	258 912
Accumulated depreciation at 1 January 2006		-15 651	-95 165	-80		-110 896
Exchange differences			16			16
Accumulated depreciation on disposals and transfers		2 228	8 469			10 697
Depreciation charges		-3 704	-20 978	-9		-24 691
Accumulated depreciation at 31 December 2005		-17 127	-107 658	-89		-124 874
Net book amount at 31 December 2006	3 215	38 239	90 397	174	2 013	134 038

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

EUR 1000	Buildings and constructions	Machinery and equipment	Total
Opening net book amount	360	1 184	1 544
Additions		117	117
Disposals		-205	-205
Closing net book amount	360	1 096	1 456
Accumulated depreciation at 1 January 2006	-21	-366	-387
Depreciation charges	-18	-197	-215
Accumulated depreciation at 31 December 2006	-39	-563	-602
Net book amount at 31 December 2006	321	533	854

Contractual commitments related to property, plant and equipment totalled EUR 7,199 thousand. No impairment losses on property, plant and equipment were recognised.

The depreciation periods applicable for some groups of heavy machinery were 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 was recognised as a decrease in acquisition costs.

15. Joint ventures

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

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

EUR 1000	2007	2006
Non-current assets	4 213	4 503
Current assets	2 192	5 512
Non-current liablities		-394
Current liabilities	-5 485	-3 787
Net assets	920	5 834
Revenues*	4 110	7 034
Expenses*	-8 171	-6 962
Profit/Loss for the period	-4 061	72

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

	2007	2006
Average personnel in joint ventures	68	50

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

16. Investments in associates

EUR 1000	2007	2006
Cost at 1 January	3	129
Additions		143
Disposals	-3	-306
Cost at 31 December		-34
Capital adjustment at 1 January		209
Disposals		-190
Share of profit of an associate		18
Capital adjustment at 31 December		37
Total carrying amount		3

In 2006 the majority of the shares of Suomen Keräystuote Oy was acquired and the company, having been an associate, became a subsidiary. In 2007 Rodnik Ltd was sold.

17. Investments in subsidiaries

	Group holding of shares and votes %
Kanta-Hämeen Ympäristöyhtiö Oy, Helsinki	100.0
Kiinteistö Oy Vantaan Valimotie 33, Helsinki	100.0
Kiinteistöhuolto Aarappu Oy, in voluntary liquidation, Helsinki	100.0
Lassila & Tikanoja Service AB, Stockholm, Sweden	100.0
Lassila & Tikanoja Services Oü, Tallin, Estonia	100.0
L&T Advance Oy, Helsinki	100.0
L&T Biowatti Oy, Helsinki	70.0
L&T Hankinta Ky, Helsinki	100.0
L&T Hygienutveckling AB, Kävlinge, Sweden	100.0
L&T Hygieneutvikling AS, Brumunddal, Norway	100.0
L&T Improvement Oy, Helsinki	100.0
L&T Inno LLC, St. Petersburg, Russia	100.0
L&T Kalusto Oy, Helsinki	100.0
L&T Muoviportti Oy, Merikarvia	83.3
L&T Podmoskovie LLC, Dubna, Russia	100.0
L&T Relations Oy, Helsinki	100.0
L&T Services LLC, Moscow, Russia	100.0
L&T Toimi Oy, Helsinki	100.0
L&T Viwaplast Oy, Valkeakoski	83.3
Salvor Oy, Helsinki	100.0
SIA L&T, Riika, Latvia	100.0
Siivouspalvelu Ta-Bu Oy, Helsinki	100.0
Suomen Keräystuote Oy, Tampere	100.0
The Russian-Finnish Company Ecosystem LLC, Dubna, Russia	74.0

18. Non-current available-for-sale investments

EUR 1000	2007	2006
Carrying amount at 1 January	**2 954**	3 029
Additions	**35**	7
Business acquisitions	**139**	313
Disposals	**-179**	-395
Transfers between items	**-2 539**	
Carrying amount at 31 December	**410**	2 954

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

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

19. Finance lease receivables

EUR 1000	2007	2006
Maturity of minimum lease payments		
Not later than one year	**1 635**	1 420
Later than one year and not later than five years	**4 288**	3 637
Later than five years	**304**	170
Gross investment in finance lease agreements	**6 227**	5 227
Maturity of present value of minimum lease payments		
Not later than one year	**1 564**	1 356
Later than one year and not later than five years	**3 615**	3 054
Later than five years	**208**	120
Total present value of minimum lease payments	**5 387**	4 530
Unearned finance income	**840**	697
Gross investment in finance lease agreements	**6 227**	5 227

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

20. Inventories

EUR 1000	2007	2006
Raw materials and consumables	**6 017**	1 087
Finished goods	**7 228**	1 928
Other inventories	**1 105**	1 300
Total	**14 350**	4 315

Write-downs recognised in 2007 amounted to EUR 1.1 million (EUR 0.2 million).

21. Trade and other receivables

EUR 1000	2007	2006
Trade receivables	**62 044**	48 909
Current finance lease receivables	**1 564**	1 356
Loan receivables	**135**	115
Accruals	**6 660**	2 807
Tax receivables	**80**	409
Other receivables	**1 341**	965
Total	**71 824**	54 561
Accruals include the following:		
Interest	**229**	27
Employees' health care compensation	**1 811**	949
Statutory pension insurances	**883**	634
Insurances	**412**	22
Indirect tax	**1 425**	90
Other	**1 900**	1 085
Total	**6 660**	2 807

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

22. Current available-for-sale investments

EUR 1000	2007	2006
Certificates of deposit and commercial papers	**4 487**	13 955
Unlisted shares	**16 800**	
Total	**21 287**	13 955

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

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

23. Cash and cash equivalents

EUR 1000	2007	2006
Cash on hand and in banks	**5 521**	5 035
Short-term deposits	**4 000**	5 800
Total	**9 521**	10 835

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

24. Equity

Share capital and share premium fund

EUR 1000	Number of shares in 1,000 shares	Share capital	Share premium fund	Total
At 1 January 2007	38 528	19 264	47 666	66 930
At 14 February 2007 Subscription pursuant to 2002C options	21	11	236	247
At 15 May 2007 Subscription pursuant to 2002C options	166	83	1 823	1 906
At 9 August 2007 Subscription pursuant to 2002C options	36	18	390	408
At 15 November 2007 Subscription pursuant to 2002C options	33	16	359	375
At 31 December 2007	38 784	19 392	50 474	69 866
At 1 January 2006	38 378	19 189	46 606	65 795
At 16 February 2006 Subscription pursuant to 2002B options	10	5	63	68
At 12 May 2006 Subscription pursuant to 2002B options	26	13	172	185
At 4 August 2006 Subscription pursuant to 2002B and 2002C options	97	49	715	764
At 16 November 2006 Subscription pursuant to 2002B options	17	8	110	118
At 31 December 2006	38 528	19 264	47 666	66 930

There is no maximum to the number of the shares and the share capital in the Articles of Association. A share has neither a nominal value nor a book equivalent value.

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 reserve for changes in fair values of available-for-sale investments and a hedging reserve 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 L&T's operations and maintain an optimal capital structure to enable investments, taking the cost of capital into account.

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

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

EUR 1000	2007	2006
Equity in the consolidated balance sheet	**202 344**	176 859
Balance sheet total	**438 325**	352 584
Current advances received	**-3 632**	-1 948
Non-current advances received	**-114**	-49
	434 579	350 587
Equity ratio, %	**46.6%**	50.4%

The equity ratio has remained at a high level in spite of a significant growth in the balance sheet total. The gross capital expenditure totalled EUR 93.2 million and assets were tied up in working capital. As a result of the acquisition of L&T Biowatti the equity ratio declined at the acquisition date in the beginning of February by around 6 percentage points. The change in the fair value of available-for-sale investments recognised at the end of the financial year 2007 (EUR 14.2 million) improved the equity ratio by 1.8 percentage points. The amount of net cash generated from operating activities declined slightly from the good level of the previous year.

25. Share-based payment

The Group has a share option plan granted in 2005, divided in series A, B and C. The subscription period for the series C options under the option plan granted in 2002 ended on 30 October 2007. Expenses arising from fair values of options are recognised as expenses on a straight-line basis during the vesting periods. The fair values are measured using the Black-Scholes option pricing model.

Outstanding option rights

Option	Exercise period	Exercise price EUR/share	Number of shares to be subscribed for at 31 Dec. 2007	Number of shares to be subscribed for at 31 Dec. 2006	End of vesting period
2002C	2.5.2006-30.10.2007	11.46		256 300	ended
2005A	2.11.2007-29.5.2009	14.22	162 000	162 000	2.11.2007
2005B	3.11.2008-31.5.2010	16.98	178 000	193 000	3.11.2008
2005C	2.11.2009-31.5.2011	26.87	228 500		2.11.2009
Total			568 500	611 300	

Amounts and average exercise prices of outstanding option rights

	2007 Weighted average exercise price EUR/share	Number of options	2006 Weighted average exercise price EUR/share	Number of options
Beginning of year	13.93	611 300	11.25	576 900
New options granted	26.87	230 000	16.98	200 000
Forfeited options	17.88	-16 500	15.36	-15 000
Exercised options	11.46	-256 200*	7.54	-150 400*
Expired options	11.46	-100	7.02	-200
End of year	20.17	568 500	13.93	611 300
Options exercisable at year end	14.22	162 000	11.46	256 300

* In 2007, 2002C options were exercised to subscribe for 256,200 shares. In 2006, 2002B options were exercised to subscribe for 132,700 shares and 2002C options to subscribe for 17,700 shares.

The weighted average share price of the exercise dates of shares subscribed for pursuant to share options in 2007 was EUR 25.81 (EUR 16.27). The proceeds from the subscriptions totalled EUR 2,936 thousand, of which EUR 128 thousand was recognised in share capital and EUR 2,808 thousand in share premium reserve (total EUR 1,134 thousand, of which EUR 75 thousand was recognised in share capital and EUR 1,059 thousand in share premium reserve). Changes in equity are presented in Note 24 Equity.

Parameters used in the Black-Scholes option pricing model

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

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

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

Option 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.

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.

After the subscription period the subscription rights that have not been exercised will expire with no value.

Pursuant to share options outstanding on 31 December 2007, a maximum of 568,500 new shares may be subscribed for, which is 1.5% of the current number of shares. As a result of these subscriptions, the share capital may increase by a maximum of EUR 284,250.

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 were granted to 28 persons.

The 2002A options were listed on the OMX Nordic Exchange between 3 May 2004 and 24 October 2005, 2002B options between 2 May 2005 and 30 October 2006 and 2002C options between 2 May 2006 and 30 October 2007.

In 2007, a total of 256,200 shares were subscribed for pursuant to share options issued in 2002. The share capital was increased correspondingly by EUR 128,200. In 2006, a total of 150,400 shares were subscribed for and 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. At the beginning of the exercise period, 25 key persons held 162,000 2005A options. A total of 170,000 2005A options were issued, but 8,000 options are held by L&T Advance Oy, a wholly-owned subsidiary of Lassila & Tikanoja plc, and these options will not be exercised. 33 key persons hold 178,000 2005B options and 43 key persons hold 228,500 2005C options. L&T Advance Oy holds 22,000 2005B options and 1,500 2005C options.

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

2005A options have been listed on the OMX Nordic Exchange since 2 November 2007.

Group

26. Retirement benefit obligations

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

EUR 1 000	2007	2006
The amounts recognised in the balance sheet:		
Present value of funded obligations	**565**	234
Fair value of plan assets	**-475**	-194
	90	40
Present value of unfunded obligations	**422**	326
Unrecognised actuarial gain (+) and loss (-)	**30**	-14
Closing net liability	**542**	352
Changes in present value of obligation		
Opening defined benefit obligation	**560**	418
Current service cost	**202**	173
Interest cost	**31**	27
Actuarial gain (-) and loss (+) on obligation	**209**	-43
Benefits paid	**-15**	-15
Closing present value of obligation	**987**	560
Changes in fair value of plan assets		
Opening fair value of plan assets	**194**	191
Expected return on plan assets	**8**	9
Employee contributions	**37**	20
Actuarial gain (+) and loss (-) on plan assets	**251**	-11
Benefits paid	**-15**	-15
Closing fair value of plan assets	**475**	194
Movements in the net liability recognised in the balance sheet		
Opening net liability	**352**	176
Expense recognised in the income statement	**227**	196
Contributions paid	**-37**	-20
Closing net liability	**542**	352
The amounts recognised in the income statement are as follows:		
Current service cost	**202**	173
Interest cost	**31**	27
Expected return on plan assets	**-8**	-9
Actuarial gain (-) and loss (+) recognised	**2**	5
Total	**227**	196

The return on plan assets was EUR 259 thousand in 2007 (EUR -2 thousand).

Expected contributions to post-employment benefit plans for the year 2008 are EUR 32 thousand.

EUR 1000	2007	2006	2005
The amounts for the period and for two preceding periods are as follows:			
Present value of obligation	**987**	560	418
Fair value of plan assets	**-475**	-194	-191
Deficit	**512**	366	227
Actuarial gain (+) / loss (-) on plan assets due to experience adjustments	**251**	-11	-144
Actuarial gain (+) / loss (-) on obligation due to experience adjustments	**-265**	16	155
The principal actuarial assumptions used			
Discount rate	**4.9%**	4.2%	
Expected rate of inflation	**2.0%**	2.0%	
Expected rate of return on plan assets	**4.0%**	4.2%	
Rate of salary increase	**4.5%**	4.5%	

27. Provisions

EUR 1000	Environ-mental provisions	Other provisions	Total
Provisions at 1 January 2007	748	460	1 208
Additional provisions	190		190
Used during the year		-358	-358
Effect of discounting	15		15
Provisions at 31 December 2007	953	102	1 055

EUR 1000	2007	2006
Non-current provisions	**953**	936
Current provisions	**102**	272
Total	**1 055**	1 208

The environmental provisions covers the following obligations:

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

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

The Group has one non-cancellable lease 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 site restoration provision for the landfill in Kerava has been divided into two parts. Future expenditure has been measured at the price level of the time of calculation adjusted by an annual inflation rate of 2% to 3%, because the cost level will be higher at the moment when the provision will be used than during the construction of the landfill. The expenditure adjusted by inflation has been discounted to the date of construction of the landfill. The interest rate used is the yield expectation of a risk-free five-year government bond at the time of construction plus L&T's loan margin at the time in question. This part arising from the construction of the landfill is recognised at present value in the balance sheet as a part of the cost of the site and it is depreciated 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 restoration provision of the processing and final disposal site of contaminated soil in Varkaus.

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 present 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 1 to 5 years from now.

28. Interest-bearing borrowings

EUR 1000	2007 Carrying amount	2006 Carrying amount
Non-current		
Bank borrowings	**73 108**	58 368
Finance lease liabilities	**461**	663
Other borrowings	**7 842**	
Total	**81 411**	59 031
Current		
Repayments of long-term borrowings	**15 554**	16 929
Repayments of finance lease liabilities	**224**	270
Short-term borrowings	**3 700**	
Commercial papers	**15 927**	
Other interest-bearing liabilities	**352**	1 032
Total	**35 757**	18 231

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

Repricing date or maturity date of long-term borrowings

EUR 1000	2008	2009	2010	2011	2012	2013 and later	Total
Bank borrowings	15 554	24 684	9 672	9 672	9 672	19 408	88 662
Finance lease liabilities	224	407	54				685
Total	15 778	25 091	9 726	9 672	9 672	19 408	89 347

The average duration of long-term borrowings at 31 December 2007 was 2.7 years (1.9 years) and the weighted average of effective interest rates 5.148% (4.124%).

The loan agreements include equity ratio and interest cover covenants and other normal terms which restrict giving of collaterals to other financiers and discontinuation or disposal of present business. The breaching of the terms will entitle the borrowers to call in the loans immediately. The terms have not been even close to breaching during 2007.

Finance lease liabilities

EUR 1000	2007	2006
Maturity of minimum lease payments		
Not later than one year	**233**	281
Later than one year and not later than five years	**504**	747
Total minimum lease payments	**737**	1 028
Maturity of present values of minimum lease payments		
Not later than one year	**224**	270
Later than one year and not later than five years	**461**	663
Total present value of minimum lease payments	**685**	933
Future finance costs	**52**	95
Total finance lease liabilities	**737**	1 028

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.

29. Other non-current liabilities

EUR 1000	2007	2006
Accrued expenses and deferred income	**201**	208
Advances received	**114**	49
Other non-interest-bearing liabilities	**185**	174
Total	**500**	431

30. Trade and other current payables

EUR 1000	2007	2006
Advances received	**3 632**	1 948
Trade payables	**23 401**	18 075
Other current non-interest bearing liabilities	**16 430**	17 675
Accrued expenses and deferred income	**41 720**	35 476
Total	**85 183**	73 174
Accrued expenses and deferred income		
Liabilities related to personnel expenses	**33 686**	26 414
Waste charges	**3 620**	2 467
Interest liabilities	**1 523**	620
Other accrued expenses	**2 891**	5 975
Total	**41 720**	35 476

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

31. Financial assets and liabilities by measurement categories

2007

EUR 1000	Financial assets/liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Derivatives under hedge accounting	Carrying amounts by balance sheet item	Fair values by balance sheet item
Non-current financial assets							
Available-for-sale investments			410			410	410
Finance lease receivables		3 823				3 823	3 827
Other receivables		236				236	236
Current financial assets							
Trade and other receivables		71 824				71 824	71 824
Derivative receivables	486				703	1 189	1 189
Prepayments		774				774	774
Available-for-sale investments			21 287			21 287	21 287
Cash and cash equivalents		9 521				9 521	9 521
Total financial assets	486	86 178	21 697		703	109 064	109 068
Non-current financial liabilities							
Borrowings				81 411		81 411	81 380
Other liabilities				500		500	500
Current financial liabilities							
Borrowings				35 757		35 757	35 757
Trade and other payables				85 183		85 183	85 183
Derivative liabilities	897					897	897
Total financial liabilities	897			202 851		203 748	203 717

2006

EUR 1000	Financial assets/liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Derivatives under hedge accounting	Carrying amounts by balance sheet item	Fair values by balance sheet item
Non-current financial assets							
Available-for-sale investments			2 954			2 954	2 954
Finance lease receivables		3 174				3 174	3 223
Other receivables		229				229	229
Current financial assets							
Trade and other receivables		54 561				54 561	54 561
Derivative receivables	3 014				519	3 533	3 533
Prepayments		155				155	155
Available-for-sale investments			13 955			13 955	13 955
Cash and cash equivalents		10 835				10 835	10 835
Total financial assets	3 014	68 954	16 909		519	89 396	89 445
Non-current financial liabilities							
Borrowings				59 031		59 031	59 017
Other liabilities				431		431	431
Current financial liabilities							
Borrowings				18 231		18 231	18 231
Trade and other payables				73 174		73 174	73 174
Total financial liabilities				150 867		150 867	150 853

Principles for determining fair values of financial assets and liabilities

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

Derivatives
Fair values of foreign currency forward contracts are measured at market prices for contracts of similar maturity at the balance sheet date. Fair values of interest rate swaps are valued using a technique based on present value of future cash flows, which is supported by market interest rates at the balance sheet date. Fair values of oil futures are based on market prices at the balance sheet date. Fair values of oil put options are determined on the basis of a generally used valuation model. Fair values describe the prices that the Group would gain or should pay, if the derivative financial instruments were cancelled at the balance sheet date.

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

Finance lease liabilities
Fair value of finance lease liabilities is calculated by discounting future cash flows. The discount rate is defined to be the interest rate with which the Group could enter into an equivalent lease contract at the balance sheet date.

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

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

32. Derivative financial instruments

Interest rate derivatives

	2007		2006	
EUR 1000	Nominal value	Fair value	Nominal value	Fair value
Maturity of interest rate swaps held for trading				
Not later than one year	7 500		13 500	
Later than one year and not later than five years	15 000		30 500	
Total	22 500	394	44 000	726

Interest rate swaps were entered into in order to hedge against cash flow interest rate risk associated with floating rate borrowings. Hedge accounting under IAS 39 has not been applied but the changes in fair values have been recognised in finance income and costs.

EUR 1000	Nominal value	Fair value	Nominal value	Fair value
Maturity of interest rate swaps under hedge accounting				
Not later than one year	3 029		1 429	
Later than one year and not later than five years	18 514		5 714	
Later than five years	12 028		7 857	
Total	33 571	703	15 000	519

Interest rate swaps were entered into in order to hedge against cash flow interest rate risk associated with floating rate borrowings. Hedge accounting under IAS 39 has been applied to these items. The hedges have been effective and the changes in their fair values have been fully recognised in the equity hedging reserve (revaluation reserve).

Foreign currency derivatives

EUR 1000	Nominal value	Fair value
Maturity of forward contracts held for trading		
Not later than one year	2 184	7

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

Oil derivatives

	Quantity 1000bbl	Fair value EUR 1000	Quantity 1000bbl	Fair value EUR 1000
Maturity of crude oil put options held for trading				
Not later than one year	182			
Later than one year and not later than five years	226		453	
Total	408	83	453	2 288

	Quantity 1000bbl	Fair value EUR 1000
Maturity of sold crude oil futures held for trading		
Not later than one year	42	-897

Oil derivatives were entered into in order to hedge against the base oil price risk associated with the re-refinery under construction for the joint venture L&T Recoil. Hedge accounting under IAS 39 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, foreign currency forward contracts and crude oil futures are based on market prices at the balance sheet date. The fair values of the crude oil put options were determined on the basis of a generally used valuation model.

33. Operating leases

EUR 1000	2007	2006
Maturity of minimum lease payments of non-cancellable operating leases		
Not later than one year	**7 424**	6 107
Later than one year and not later than five years	**15 611**	12 742
Later than five years	**3 905**	3 614
Total minimum lease payments	**26 940**	22 463

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

The income statement of 2007 includes lease expenses arising from other leases EUR 11,367 thousand (EUR 8,581 thousand).

34. Notes to the cash flow statement

EUR 1000	2007	2006
Adjustments to cash flows from operating activities		
Taxes	**12 291**	13 249
Depreciation, amortisation and impairment	**33 432**	28 155
Imputed changes in the fair values of oil derivatives	**2 947**	-726
Finance income and costs	**4 317**	1 699
Share of profit from associates		18
Profit/loss on sales of equipment	**-525**	-2 724
Provisions	**-27**	458
Other	**-307**	-199
Total	**52 128**	39 930

Effect of subsidiaries and businesses sold during the period on the Group's financial position

EUR 1000	2007	2006
Property, plant and equipment	**1 053**	
Goodwill and other intangible assets	**951**	
Inventories	**391**	
Total assets and liabilities	**2 395**	
Received in cash	**1 878**	
Cash and cash equivalents in entities disposed of		
Net cash flow arising from disposals	**1 878**	

In April 2007 Kiinteistö Oy Meritonttu was sold. Neither goodwill nor intangible assets had been allocated to this company.

In June 2007 a component of an entity of Salvor Oy, at that time a joint venture, was sold. The goodwill and intangible assets associated with the entity disposed of were measured in accordance with IAS 36.86 on the basis of the relative values of the operations disposed of and the portion of the unit retained. When determining the gain or loss on disposal they were included in the carrying amount of the operation disposed of. Consequently, goodwill and intangible assets from acquisitions allocated to the component of an entity disposed of were recognised as losses on disposals in other operating expenses.

Another component of an entity that was sold in September 2007 was treated respectively, and the gain of disposal was recognised in other operating income.

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

35. Related-party transactions

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

EUR 1000	2007	2006
Transactions and balances with joint ventures		
Sales	**1 851**	1 591
Purchases	**247**	556
Long-term receivables		
Capital loan receivables	**2 646**	3 296
Current receivables		
Trade receivables	**110**	28
Current liabilities		
Trade payables		84

The interest rate of the joint venture L&T Recoil Oy's subordinated loans of EUR 1,296 thousand and of EUR 1,350 thousand was 6.753% p.a. on 31 December 2007. The first payments of interest of both loans will be made on 31 October 2008 if the joint venture has any distributable assets in its balance sheet.

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

The parent company of the Group has provided absolute guarantee for L&T Recoil Oy's credit limits amounting to EUR 24,500 thousand. The guarantee covers 50% of the amount of the credit limits in use.

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

The Group's share of investment commitments of the joint ventures was EUR 8,584 thousand on 31 December 2007. (At 31 December 2006 the joint ventures did not have any investments commitments.)

EUR 1000	2007	2006
Transactions and balances with associates		
Sales		1 074
Purchases		21

Suomen Keräystuote Oy became a subsidiary in 2006.
Transactions with associates and joint ventures are carried out at fair market prices.

EUR 1000	2007	2006
Employee benefits of top management		
Salaries and other short-term employee benefits	**1 444**	1 077
Post-employment benefits	**27**	78
Share-based payment (share options)	**1 480**	701
Total	**2 951**	1 856

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

An expense of EUR 271 thousand (EUR 214 thousand) was recognised in the income as the top managements' share of the share-based payment.

EUR 1000	2007	2006
Salaries and remunerations paid to members of the Board of Directors and President and CEO		
Juhani Maijala, Chairman	**44**	42
Juhani Lassila, Vice Chairman	**29**	23
Eero Hautaniemi	**25**	
Lasse Kurkilahti	**25**	23
Soili Suonoja	**25**	23
Heikki Hakala, former Vice Chairman		28
Jari Sarjo, President and CEO	**878**	325

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 2007, an expense of EUR 27 thousand arising from that contract was recognised in the income statement (EUR 36 thousand). The amount of the pension is less than the full amount of pension under the Employees' 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 88,500 2005C options in 2007 (94,000 2005B options in 2006). At 31 December 2007, the President and CEO and the Group Executives held a total of 247,350 options, of which 76,850 were exercisable (at 31 December 2006 329,300 options, of which 141,300 were exercisable).

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

36. Contingent liabilities

EUR 1000	2007	2006
Collaterals for own commitments		
Real estate mortgages	**10 114**	10 484
Company mortgages	**15 000**	12 778
Other securities	**182**	197
Bank guarantees required for environmental permits	**4 309**	2 026

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

37. Financial risk management

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

Financial risk management is controlled by a financing group consisting of the President and CEO, CFO and Finance Director. The financing group reviews reports of financial risks monthly and approves the actions required on this basis. The Group's financing is handled centrally at the Group's financial administration managed by the CFO. Transactions related to financial risk management, with the exception of oil derivatives in the name of the joint venture L&T Recoil, are also carried out by Group's financial administration. L&T Recoil's Board of Directors decides on the management of oil price risks in the company. Oil derivative contracts in accordance with the decisions will be entered into by the other owner of the joint venture, the shareholders of which engage in international oil trade and oil product refining.

Foreign exchange risk

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

Transaction risk

The business operations of L&T's foreign subsidiaries are carried out almost completely in their functional currency. Financing for subsidiaries is generally provided through intra-Group loans that are also denominated in the functional currency of each subsidiary. Loans other than those included in the net investment are hedged by forward exchange contracts. Group companies operating in Finland use the euro as the invoicing currency for sales almost exclusively, while minor amounts of purchases are also invoiced in Swedish kronor (less than EUR 0.6 million in 2007). Loans taken out by L&T are denominated in euros, apart from three minor loans taken out by the Latvian subsidiary in Latvian lats.

Translation risk

L&T's exposure to translation risk consists of net investments in foreign subsidiaries, which include invested capital and loans for which settlement is neither planned nor likely in the foreseeable future. The translation exposure is not hedged. Changes in exchange rates in 2007 resulted in translation differences of EUR -812 thousand (EUR 175 thousand) in equity. Net investments by currency are presented in the table below.

Translation exposure of net investments

EUR 1000	2007	2006
SEK	**13 170**	8 573
LVL	**11 398**	10 660
RUB	**3 248**	2 103
Total	**27 816**	21 336

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. There is no substantial price risk related to the unlisted shares owned by L&T.

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 1.2 million. No derivatives have been used to hedge against this raw material price risk. L&T manages the raw material price risk for Environmental Products through fixing sales prices for a period not exceeding the period for which the suppliers' purchase prices are valid.

The joint venture L&T Recoil is building a re-refinery due to start in the end of 2008. 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 and futures.

Interest rate risk

The most significant interest rate 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. In addition, an interest rate cap is included in one loan agreement. 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 risk management policy, but L&T has not applied hedge accounting under IAS 39 to interest rate swaps made before transition to IFRS.

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

Repricing date or maturity date of long-term borrowings (including interest-rate swaps)

31.12.2007	2008	2009	2010	2011	2012	2013 and later	Total
Bank borrowings	43 120	19 629	4 629	4 628	4 628	12 028	88 662
Finance lease liabilities	224	407	54				
Total	43 344	20 036	4 683	4 628	4 628	12 028	685
Effect of interest rate swaps	45 542	-19 629	-4 629	-4 628	-4 628	-12 028	89 347
Total excluding interest rate swaps	88 886	407	54				89 347

31.12.2006	2007	2008	2009	2010	2011	2012 and later	Total
Bank borrowings	31 226	16 929	16 429	1 429	1 429	7 855	75 297
Finance lease liabilities	270	224	387	52			933
Total	31 496	17 153	16 816	1 481	1 429	7 855	76 230
Effect of interest rate swaps	44 071	-16 929	-16 429	-1 429	-1 429	-7 855	
Total excluding interest rate swaps	75 567	224	387	52			76 230

Credit and counterparty risk

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

L&T has a wide customer base comprising businesses, industrial plants, office and commercial properties, institutional property owners, housing corporations, public sector and households. Its accounts receivable consist mostly of a high number of relatively small receivables and there are no significant concentrations of credit risk. L&T has credit control guidelines to ensure that services and products are sold only to customers with an appropriate credit standing or, if a customer's creditworthiness is inadequate, prepayment is required. Most customer relationships are based on long-term service contracts, and customers are not generally required to provide collateral. 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. 89% of net sales came from Finland in 2007. The proportion of impairment losses on trade receivables has been very small in the last few years (less than 0.2% of net sales). The Group's maximum exposure to credit risk is the carrying amount of financial assets at 31 December 2007.

Analysis of trade receivables by age

EUR 1000	2007	2006
Trade receivables past due	**52 611**	43 502
Trade receivables past due 1-90 days	**7 914**	4 884
Trade receivables past due 91-180 days	**992**	287
Trade receivables past due 181-365 days	**527**	236
Total	**62 044**	48 909

Credit risk related to financial assets

EUR 1000	2007 Carrying amount	2006 Carrying amount
Non-current available-for-sale investments	**410**	2 954
Non-current finance lease receivables	**3 823**	3 174
Other non-current receivables	**236**	229
Trade and other current receivables	**71 824**	54 561
Derivative receivables	**1 189**	3 533
Prepayments	**774**	155
Current available-for-sale investments	**21 287**	13 955
Cash and cash equivalents	**9 521**	10 835
Total	**109 064**	89 396

Financial assets are not collateralised, and they do not include any significant concentrations of credit risk. The maximum exposure to credit risk is the carrying amount of the financial assets.

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. The netting of the Finnish Group companies' liquidity is done using Group bank accounts, and the Group's financial management is responsible for investing any excess liquidity. To ascertain the availability of funding, L&T uses several banks in its financial operations. Refinancing risk is managed by a broad-based maturity profile of loans.

To meet any temporary need for cash arising from cash flow fluctuations, L&T has credit limits for short-term loans (totalling EUR 29.3 million), current accounts with overdraft facilities (totalling EUR 4.7 million) and a commercial paper programme (EUR 50 million). At 31 December 2007, the Group's liquid assets and investments amounted to EUR 30.8 million. EUR 4 million of the short-term credit limits and EUR 15.9 million of the commercial paper programme were in use.

Maturity of financial liabilities

31 December 2007

EUR 1000	Carrying amount	Contractual cash flows	2008	2009	2010	2011	2012	2013 and later
Bank borrowings	88 662	102 306	19 781	27 872	12 057	11 558	11 061	19 977
Finance lease liabilities	685	737	230	446	61			
Other long-term borrowings	7 842	9 109			2001	7 108		
Other non-current liabilities	500	515		215	300			
Commercial papers	15 927	16 000	16 000					
Other short-term borrowings	4 052	4 154	4 154					
Derivative liabilities	897	897	897					
Trade and other payables	85 183	85 183	85 183					
Total	203 748	218 901	126 245	28 533	14 419	18 666	11 061	19 977

31 December 2006

EUR 1000	Carrying amount	Contractual cash flows	2007	2008	2009	2010	2011	2012 and later
Bank borrowings	75 297	82 024	19 670	31 279	17 626	2 248	2 181	9 020
Finance lease liabilities	933	1 028	281	245	441	61		
Other non-current liabilities	431	456		156	100	200		
Other short-term borrowings	1 032	1037	1 037					
Trade and other payables	73 174	73 174	73 174					
Total	150 867	157 660	94 162	31 680	18 167	2 509	2 181	9 020

Structure of interest-bearing liabilities

EUR 1000	In use at 31 December 2007	Undrawn at 31 December 2007	Total	In use at 31 December 2006	Undrawn at 31 December 2006	Total
Bank borrowings	88 662		88 662	75 297		75 297
Finance lease liabilities	685		685	933		933
Committed credit facility		10 000	10 000		10 000	10 000
Non-committed credit facility	3 700	15 550	19 250		8 000	8 000
Commercial paper programme	15 927	34 073	50 000		50 000	50 000
Overdraft facilities	347	4 371	4 718	973	2 100	3 073
Other	7 847		7 847	59		59
Total	117 168	63 994	181 162	77 262	70 100	147 362

Sensitivity for market risks arising from financial instruments
The following sensitivity analysis required by IFRS 7 aims to illustrate the sensitivity of the Group's profit for the period and equity to changes in the interest rate level, foreign exchange rates and oil prices with regard to financial instruments in the balance sheet on 31 December 2007 (31 December 2006), including financial assets and liabilities as well as derivative contracts. Changes in the fair value of derivative contracts under hedge accounting are assumed to be allocated entirely to equity, while changes in the fair value of other derivative contracts are assumed to be allocated entirely to the income statement.

The following assumptions have been used in calculating sensitivity to changes in the exchange rates of currencies to which the company is exposed:
- The change in the exchange rate between the euro and each currency is assumed to be 10%.
- The exposure underlying the calculation only includes net investments in foreign subsidiaries and foreign exchange loans not included in the net investment, as well as related derivative contracts, because other items in foreign currency are minor.

The following assumptions have been used in calculating sensitivity to changes in the interest rate level:
- The change in the interest rate level is assumed to be +/- one percentage point.
- The exposure underlying the calculation includes interest-bearing financial liabilities and receivables, as well as interest rate swaps.

The following assumptions have been used in calculating sensitivity to changes in the price of oil:
- The change in the price of crude oil is assumed to be +/-10%.
- The calculation accounts for the sensitivity associated with derivative contracts.

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

EUR million	2007 Income Statement	2007 Equity	2006 Income Statement	2006 Equity
+1% change in market interest rate		**0.7**	0.4	0.4
-1% change in market interest rate	**0.2**	**-0.8**	-0.4	-0.4
+/-10% change in the foreign exchange rates to which L&T has exposure for		**+/-2.8**		+/-2.1
+10% change in oil price	**-0.3**		-0.8	
-10% change in oil price	**0.4**		0.7	

A rise of one percentage point in the interest rate would have decreased the amount of net finance cost for 2006, as a positive change in the fair value of non-hedging interest rate swaps would have exceeded the effect of an interest rate rise on interest expenses of floating rate loans. Correspondingly, a decrease of one percentage point in the interest rate would have increased the amount of net finance cost.

38. Disputes and litigation

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

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

Financial statements of the parent company, FAS

Income statement

EUR 1000	2007	2006	Note
Net sales	388 153	342 373	1
Cost of goods sold	-327 013	-288 384	
Gross profit	61 140	53 989	
Sales and marketing expenses	-12 521	-10 594	
Administration expenses	-7 250	-6 345	
Other operating income	3 118	5 091	4
Other operating expenses	-550	-713	4
Operating profit before goodwill amortisation	43 937	41 428	2, 3
Goodwill amortisation	-8 849	-10 687	
Operating profit	35 088	30 741	
Financial income and costs	428	74	5
Profit before extraordinary items	35 516	30 815	
Extraordinary items	-2 632	73	6
Profit before appropriations and income taxes	32 884	30 888	
Appropriations			
Increase/decrease in accumulated depreciation	325	-46	
Income tax	-8 606	-6 193	7
Profit for the period	24 603	24 649	

Statement of changes in financial position

EUR 1000	2007	2006
Operations		
Operating profit	35 088	30 741
Adjustments:		
Depreciation and amortisation	12 535	14 511
Other adjustments	-452	-3 654
Cash flow before change in working capital	47 171	41 598
Change in working capital		
Increase/decrease in current non-interest-bearing receivables	-5 638	-4 883
Increase/decrease in inventories	-472	667
Increase/decrease in current non-interest-bearing liabilities	7 570	3 197
Cash flow from operations before financial income/ expenses and tax	48 631	40 579
Interest expenses and other financial expenses	-8 890	-6 661
Interest income from operations	8 939	6 635
Direct taxes paid	-8 091	-3 847
Cash flow from operations	40 589	36 706
Investments		
Investments in Group companies	-32 182	-611
Sale of Group companies	429	
Investments in tangible and intangible assets	-4 611	-5 335
Proceeds from sale of tangible and intangible assets	403	8 127
Investments in other assets	-1 397	-1 173
Proceeds from sale of other assets	6	60
Dividends received from investments	665	286
Cash flow from investing activities	-36 687	1 354
Financing		
Proceeds from share issue	2 936	1 134
Group contribution paid	-3 185	-4 753
Group contribution received	3 258	4 897
Proceeds from/repayments of short-term borrowings	15 926	-15 462
Proceeds from/repayments of current liabilities to Group companies	-25 540	154
Proceeds from long-term loans	50 000	15 000
Repayments of long-term loans	-36 873	-8 408
Dividends paid	-21 180	-15 339
Cash flow from financing activities	-14 658	-22 777
Changes in cash and cash equivalents	-10 756	15 283
Cash and cash equivalents at 1 January	20 488	5 205
Cash and cash equivalents at 31 December	9 732	20 488

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

Balance sheet

EUR 1000	2007	2006	Note
ASSETS			
Fixed assets			
Intangible assets			8
Intangible rights	342	299	
Goodwill	20 845	26 610	
Other capitalised expenditure	95	119	
	21 282	27 028	
Tangible assets			9
Land	2 710	2 519	
Buildings and constructions	28 331	26 718	
Machinery and equipment	5 111	4 250	
Other tangible assets	47	47	
Advance payments and construction in progress	646	618	
	36 845	34 152	
Financial assets			10
Shares in Group companies	54 576	20 808	
Shares in joint ventures	508	3 008	
Capital loan receivables from Group companies	2 000		
Capital loan receivables from joint ventures	2 646	3 296	
Capital loan receivables from others	115		
Other shares and holdings	2 744	2 685	
	62 589	29 797	
Total fixed assets	120 716	90 977	
Current assets			
Inventories			
Raw materials and consumables	530	416	
Finished products/goods	2 368	1 821	
Other inventories	335	476	
	3 233	2 713	
Non-current receivables			
Loan receivables	1	1	
Current receivables			11
Receivables from Group companies	108 867	90 009	
Receivables from joint ventures	110	28	
Trade receivables	44 618	40 957	
Other receivables	874	379	
Prepaid expenses and accrued income	4 011	1 594	
	158 480	132 967	
Cash and cash equivalents	9 732	20 488	
Total current assets	171 446	156 169	
Total assets	292 162	247 146	

EUR 1000	2007	2006	Note
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			12
Share capital	19 392	19 264	
Share premium account	50 474	47 666	
Retained earnings	19 710	16 251	
Profit for the period	24 603	24 649	
Total shareholders' equity	114 179	107 830	
Appropriations			
Depreciation difference	3 422	3 176	
Obligatory provisions			13
Non-current	1 255	1 150	
Current	205	375	
	1 460	1 525	
Liabilities			14
Non-current			
Loans from financial institutions	70 927	56 072	
Accrued income	108	48	
Other liabilities	200	200	
	71 235	56 320	
Current			
Commercial papers	15 927		
Loans from financial institutions	15 144	16 929	
Advances received	75	1	
Trade payables	14 390	12 976	
Liabilities to Group companies	9 072	9 354	
Liabilities to joint ventures		84	
Other liabilities	14 095	12 082	
Accruals and deferred expenses	33 163	26 869	
	101 866	78 295	
Total liabilities	174 561	136 140	
Total shareholders' equity and liabilities	292 162	247 146	

Financial statements of the parent company, FAS

Notes to the financial statements of the parent company

Principles for prepairing 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	6–8 years
Machinery and equipment	4–10 years
Goodwill	5–10 years
Intangible rights and other capitalised expenditure	5–10 years

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

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

Investments are measured at cost.

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

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

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

Net sales
Sales are stated net of indirect sales taxes, discounts and exchange rate differences. Sales freights and other costs incurred in sales and deliveries are recognised as either 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 1000	2007	%	2006	%
Net sales by division				
Environmental Services	171 520	44.2	159 291	46.5
Property and Office Support Services	146 655	37.8	121 584	35.5
Industrial Services	69 969	18.0	61 382	17.9
Group administration and other	9		116	0.1
Total	388 153	100.0	342 373	100.0
Net sales by market				
Finland	381 942	98.4	337 680	98.6
Other countries	6 211	1.6	4 693	1.4
Total	388 153	100.0	342 373	100.0

2. Personnel and administrative bodies

	2007	2006
Average personnel		
Clerical personnel	976	851
Workers	4 331	3 656
Total	5 307	4 507

EUR 1000	2007	2006
Personnel expenses		
Salaries and bonuses	135 879	115 985
Pension expenditure	21 866	19 180
Other salary-related expenses	9 704	8 789
Total	167 449	143 954

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

3. Depreciation and amortisation

EUR 1000	2007	2006
Depreciation and amortisation by function		
Cost of goods sold	3 645	3 797
Sales and marketing	22	8
Administration	19	19
Goodwill	8 849	10 687
Total	12 535	14 511

Depreciation and amortisation are itemised under intangible and tangible assets.

4. Other operating income and expenses

EUR 1000	2007	2006
Other operating income		
From Group companies		
Compensation for administration costs	302	290
From others		
Merger profit	544	
Profit on sale of real estates		3 693
Profit on sale of shares	225	14
Profit on sale of other fixed assets	175	389
Government grants	157	225
Rents	157	42
Recovery of bad debt	98	69
Low-wage support	833	
Other operating income	627	369
Total	3 118	5 091
Other operating expenses		
To others		
Losses on sale of fixed assets	4	9
Losses on sale of shares		19
Bad debt	388	473
Other	158	212
Total	550	713

5. Financial income and costs

EUR 1000	2007	2006
Dividend income	362	11
Other interest and financial income	9 392	6 929
Other interest and financial costs	-9 326	-6 866
Total financial income and costs	428	74
Financial income and costs include:		
Dividend income		
from Group companies	360	8
from others	2	3
Interest income		
from Group companies	8 373	6 383
from others	1 017	546
Interest costs		
to Group companies	4 614	3 913
to others	4 639	2 909

6. Extraordinary items

EUR 1000	2007	2006
Extraordinary income		
Group contribution received	2 042	3 258
Extraordinary expenses		
Group contribution paid	-4 674	-3 185
Total extraordinary income and expenses	-2 632	73

7. Income taxes

EUR 1000	2007	2006
Inxome taxes on operations for the financial year	8 635	8 936
Income taxes for previous periods	-29	-2 743
Total	8 606	6 193
Deferred tax liabilities/receivables		
From depreciation differences	-900	-846
From other matching differences	380	424
Total	-520	-422

8. Intangible assets

EUR 1000	Intangible rights	Goodwill	Other capitalised expenditure	Total
Cost at 1 January	1 575	102 813	234	104 622
Additions	69	5 988		6 057
Disposals	-17			-17
Cost at 31 December	1 627	108 801	234	110 662
Accumulated depreciation at 1 January	-1 276	-76 203	-115	-77 594
Accumulated depreciation on disposals and transfers	1	-2 904		-2 903
Depreciation during the period	-10	-8 849	-24	-8 883
Accumulated depreciation at 31 December	-1 285	-87 956	-139	-89 380
Total book value	342	20 845	95	21 282

9. Tangible assets

EUR 1000	Land	Buildings	Machinery and equipment	Other	Advance payments and construction in progress	Total
Cost at 1 January	2 519	39 840	30 900	132	618	74 009
Additions	229	2 624	3 178		2 548	8 579
Disposals			-1 580			-1 580
Transfers between items	-38	2 008	550		-2 520	
Cost at 31 December	2 710	44 472	33 048	132	646	81 008
Accumulated depreciation at 1 January		-13 122	-26 650	-85		-39 857
Accumulated depreciation on disposals and transfers		-468	-186			-654
Depreciation during the period		-2 551	-1 101			-3 652
Accumulated depreciation at 31 December		-16 141	-27 937	-85		-44 163
Total book value	2 710	28 331	5 111	47	646	36 845

10. Investments

EUR 1000	Shares in Group companies	Holdings in joint ventures	Capital loan receivables*)	Other shares and holdings	Total
Cost at 1 January	20 808	3 008	3 296	2 685	29 797
Additions	31 608		1 465	67	33 140
Disposals	-340			-8	-348
Transfers between items	2 500	-2 500			
Cost at 31 December	54 576	508	4 761	2 744	62 589
Total book value	54 576	508	4 761	2 744	62 589

*) Capital loan receivables include:	
Capital loan receivables	
From Group companies	2 000
From joint ventures	2 646
From others	115

Financial statements of the parent company, FAS

Group companies

	Holding of shares and votes, %
Kanta-Hämeen Ympäristöyhtiö Oy, Helsinki	100.0
Kiinteistö Oy Vantaan Valimotie 33, Helsinki	100.0
L&T Advance Oy, Helsinki	100.0
L&T Biowatti Oy, Helsinki	70.0
L&T Improvement Oy, Helsinki	100.0
L&T Kalusto Oy, Helsinki	100.0
L&T Muoviportti Oy, Merikarvia	83.3
L&T Relations Oy, Helsinki	99.0
L&T Toimi Oy, Helsinki	100.0
Salvor Oy, Helsinki	100.0
Suomen Keräystuote Oy, Helsinki	100.0
Joint ventures	
Blue Service Partners Oy, Helsinki	50.0
L&T Recoil Oy, Helsinki	50.0

11. Receivables

EUR 1000	2007	2006
From Group companies		
Loan receivables	108 268	89 547
Trade receivables	599	462
Total	108 867	90 009
From joint ventures		
Trade receivables	110	28
Total	110	28
Prepaid expenses and accrued income		
Interests	168	19
Employees' health care compensation	1 775	851
Statutory personnel insurance	689	355
Insurances	941	60
Other	438	309
Total	4 011	1 594

12. Shareholders' equity

EUR 1000	2007	2006
Share capital at 1 January	19 264	19 189
Subscription with 2002 options	128	75
Share capital at 31 December	19 392	19 264
Share premium at 1 January	47 666	46 606
Subscription with 2002 options	2 808	1 060
Share premium at 31 December	50 474	47 666
Retained earnings at 1 January	40 900	34 865
Dividend	-21 202	-15 356
Out-dated dividend	12	
Reversal of revaluations		-3 258
Retained earnings at 31 December	19 710	16 251
Profit for the period	24 603	24 649
Shareholders' equity at 31 December	114 179	107 830
Distributable assets		
Retained earnings	19 710	16 251
Profit for the period	24 603	24 649
Total distributable assets	44 313	40 900

13. Obligatory provisions

EUR 1000	2007	2006
Environmental provision	561	457
Lease provision	102	460
Pension liabilities	493	297
Screened construction waste	304	311
Total	1 460	1 525

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

14. Liabilities

EUR 1000	2008*	2009	2010	2011	20121	2013 and later
Repayments of non-current liabilities in coming years						
Loans from financial institutions	15 144	24 245	9 244	9 244	9 244	18 950

* In the balance sheet under current liabilities

	2007	2006
Non-interest-bearing liabilities		
Non-current	308	248
Current	62 089	52 142
Total	62 397	52 390
Liabilities to Group companies		
Current interest-bearing liabilities	8 809	9 328
Current non-interest-bearing liabilities	263	26
Total	9 072	9 354
Liabilities to joint ventures		
Current non-interest-bearing liabilities		84
Total		84
Accruals and deferred expenses		
Personnel expenses	26 364	21 966
Interests	1 053	617
Waste charges	1 359	1 096
Other matched expenses	4 387	3 190
Total	33 163	26 869

15. Contingent liabilities

EUR 1000	2007	2006
For other own commitments than borrowings		
Real estate mortgages	114	114
Other securities	127	112
For other own commitments		
Leasing liabilities		
Falling due next year	2 362	2 614
Falling due in subsequent years	3 433	4 538
Total	5 795	7 152
For Group companies		
Guarantees	6 594	3 521
For joint ventures		
Guarantees	4 047	
Bank guarantees required for environmental permits	3 000	1 741

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

16. Derivative contracts

EUR 1000	2007	2006
Interest rate swaps		
Nominal value	56 071	59 000
Fair value	1 097	1 245

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

Proposal for the distribution of profit

According to the financial statements, Lassila & Tikanoja plc's distributable assets amount to EUR 44,312,723.09, of which EUR 24,602,737.17 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 38,796,874 shares, totalling	EUR 21,338,280.70
To be retained and carried forward	EUR 22,974,442.39
Total	EUR 44,312,723.09

In accordance with the resolution of the Board of Directors, the record date is 4 April 2008. The Board of Directors proposes to the Annual General Meeting that the dividend be paid on 11 April 2008.

Signatures to the report of the Board of Directors and the financial statements for the year 2007

Helsinki, 4 February 2008

Juhani Maijala	Juhani Lassila
Eero Hautaniemi	Lasse Kurkilahti
Soili Suonoja	Jari Sarjo President and CEO

Auditor’s report

To the shareholders of Lassila & Tikanoja plc

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Lassila & Tikanoja plc for the period 1.1. – 31.12.2007. 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 2008

PricewaterhouseCoopers Oy
Authorised Public Accountants

Heikki Lassila
Authorised Public Accountant

Information for investors

Stock exchange releases in 2007

Stock exchange releases disclosed by Lassila & Tikanoja in 2007

Date	Title
18 January 2007	Competition Authority approves acquisition of Biowatti
6 February 2007	Financial statements release 1 January - 31 December 2006
6 February 2007	Shares subscribed for pursuant to share options
1 March 2007	Notice of Annual General Meeting of Shareholders
6 March 2007	Annual report and annual summary 2006 published
26 March 2007	Resolutions by Annual General Meeting and organisation of the Board
4 May 2007	Interim report 1 January - 31 March 2007
4 May 2007	Shares subscribed pursuant to share options
23 July 2007	Lassila & Tikanoja's full-year result to be lower than anticipated
31 July 2007	Interim Report 1 January - 30 June 2007
31 July 2007	Shares subscribed for pursuant to share options
14 September 2007	Lassila & Tikanoja applies for listing of 2005A share options
24 October 2007	Interim Report 1 January - 30 September 2007
31 October 2007	Lassila & Tikanoja 2005A stock options to be listed on 2 November
8 November 2007	Lassila & Tikanoja: shares subscribed for pursuant to share options
8 November 2007	Lassila & Tikanoja's financial information and AGM in 2008
13 November 2007	Lassila & Tikanoja: Share subscription schedule for 2008

All Lassila & Tikanoja stock exchange releases since 2002 are available on the company's website.

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

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 Keijo Keränen, Investor Relations Manager.

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's Internet pages 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 OMX Nordic 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	38,796 874

2005A share option

Trading code	LAT1VEW105
ISIN code	FI0009618375
Date of listing	2 November 2007
Exchange ratio	1 (LAT1VEW105) : 1 (LAT1V)
Number of options	149,500

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
Glitnir Bank
Handelsbanken
Kaupthing Bank
Landsbanki, Helsinki
Nordea
SEB Enskilda
Cazenove, London
Merrill Lynch, Edinburgh

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

Annual General Meeting

The Annual General Meeting of Lassila & Tikanoja plc will be held on Tuesday 1 April 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 on 20 March 2008 are entitled to attend the Annual General Meeting.

Shareholders wishing to attend the Annual General Meeting must notify the company no later than on Tuesday 25 March 2008 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 2007 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 (FCSD) on the record date.

General Meeting of Shareholders	1 April 2008
Ex-date	2 April 2008
Record date	4 April 2008
Payment of dividend	11 April 2008

Financial Information in 2008

The interim report for the period between 1 January and 31 March will be published on 29 April 2008 at 8 a.m.
The interim report for the period between 1 January and 30 June will be published on 29 July 2008 at 8 a.m.
The interim report for the period between 1 January and 30 September will be published on 28 October 2008 at 8 a.m.

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 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

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