Lassila & Tikanoja
Corporate Governance and
Financial Statements 2012

Breakdown of operating profit excluding non-recurring items

EUR million	2012	2011
Operating profit	**48.4**	25.6
Non-recurring items:		
Gain on sale of holding in L&T Recoil Oy	**-4.2**	
Impairment of hazardous waste treatment facilities	**0.5**	
Impairment of L&T Biowatti		17.1
Discontinuation of wood pellet production of L&T Biowatti		0.1
Gain on sale of eco product business	**-0.2**	
Restructuring costs	**2.9**	1.5
Operating profit excluding non-recurring items	**47.4**	44.3

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

CORPORATE GOVERNANCE

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

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

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

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

Business organisation

The business is divided into four divisions. Until 31 December 2012 the divisions were Environmental Services, Cleaning and Office Support Services, Property Maintenance and Renewable Energy Sources. From 1 January 2013, L&T's reporting segments are: Environmental Services, Industrial Services, Facility Services and Renewable Energy Sources. Vice Presidents are in charge of the divisions and report to the President and CEO.

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

General Meetings

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

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

Advance information

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

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

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

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

Minutes of General Meeting

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

General Meeting in 2012

The Annual General Meeting was held in Helsinki on 15 March 2012. The meeting was attended by shareholders representing 51.4 per cent of the votes. The members of the Board of Directors, President and CEO and principal auditor attended the meeting.

Board of Directors

Composition and term

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

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

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

Duties

The Board of Directors is responsible for the management of the company and for the proper arrangement of the company's operations as well as for the proper arrangement and supervision of the company's accounting and financial management. The Board of Directors decides upon matters, which, considering the scope and size of the operations of the company, are of major importance. The Board of Directors is also responsible for the duties specified in the Companies Act and the Articles of Association, and in other regulations.

The duties of the Board are defined in a written charter adopted by the Board in 2012, which the Board complies in addition to the Articles of Association and the Finnish laws and regulations. According to the charter, the matters handled by the Board of Directors include:

- confirming the company's goals
- deciding on the corporate strategy and confirming divisional strategies
- establishing a dividend policy and being responsible for the development of the shareholder value
- deciding on group structure and organisation
- ensuring the operation of the management system
- handling and adopting interim report, consolidated financial statements and annual report
- confirming the company's operating plan, budget and investment plan
- deciding on strategically or financially significant investments, corporate acquisitions, disposals or other arrangements as well as financing arrangements and contingent liabilities
- confirming treasury, disclosure and risk management and insurance policies as well as internal control policy
- nominating and dismissing the President and CEO and monitoring and evaluating his work
- deciding on nomination, remuneration and other financial benefits of the President and CEO's immediate subordinates.

Meeting practice

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

Minutes are prepared of Board meetings, subject to the signature of members of the Board of Directors participating in the meeting as well as the President and CEO of the company and secretary to the meeting. These minutes are kept at the company's headquarters.

At the meetings, matters are presented by the President and CEO, who is responsible for ensuring that the Board is provided with sufficient information to assess the operation and financial situation of the company. He also supervises and reports to the Board on the implementation of the Board's decisions.

Performance evaluation

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

Evaluation of independence

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

The Board of Directors in 2012

The Board of Directors comprises the following persons: Mr Heikki Bergholm, Chairman, Mr Eero Hautaniemi, Vice Chairman, Mrs Hille Korhonen, Mr Sakari Lassila and Mr Miikka Maijala. Biographical details of the Directors are given on pages 8-9, and information on their holdings in the company and changes in the holdings during the year are set out on page 7.

The Board of Directors met 12 times during 2012. The average attendance per cent of the members at the meetings was 96.7.

Key themes in Board work included directing the preparation of the new strategy, approving the strategy, supporting the work to set up an organisation in line with the strategy, guiding the divestment of non-core business functions, and improving both profitability and cash flow.

Committees

The Board has an audit committee and a remuneration committee.

Audit committee

The audit committee consists of at least three members, who all are elected annually by the Board of Directors from among its members. The members of the audit committee shall be independent of the company and at least one member shall be independent of a significant shareholder. The members of the audit committee shall have the qualifications necessary to perform the responsibilities of the audit committee, in particular, sufficient knowledge of bookkeeping, accounting and financial statements practices.

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

The duties of the audit committee include:

- monitoring the financial position and financing
- monitoring the reporting process of financial statements
- supervising the financial reporting process
- monitoring the efficiency of the company's internal control, internal audit and risk management systems
- reviewing the plans and reports of the company's internal audit
- reviewing the description of the main features of internal control and risk management systems pertaining to the financial reporting process, which is included in the company's corporate governance statement
- monitoring the statutory audit of financial statements and consolidated financial statements
- evaluating the independence of the auditing company
- evaluating the provision of non-audit services to the company to be audited by the auditing company
- preparing the proposal for the Auditor of the company
- maintaining contact with the company's auditor and reviewing the reports prepared to the committee by the Auditor
- assessment of compliance with laws and provisions.

Remuneration Committee

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

Board member meeting participation in 2012

	Board of Directors	Audit Committee	Remuneration Committee
Heikki Bergholm	12/12		6/6
Eero Hautaniemi	12/12	4/4	
Hille Korhonen	10/12		6/6
Sakari Lassila	12/12	4/4	
Miikka Maijala	12/12	4/4	

The Board of Directors met 12 times during 2012. Audit Committee met 4 times and Remuneration Committee met 6 times.

of the committee, for the term of the Board. The committee will convene at least two times a year.

The duties of the remuneration committee include:

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

Committees in 2012

Eero Hautaniemi is Chairman of the audit committee and the members are Sakari Lassila and Miikka Maijala. The audit committee met four times during 2012. The attendance per cent of the members at the meetings was 100.

Heikki Bergholm is Chairman of the remuneration committee and the member is Hille Korhonen. The committee met six times during 2012. The attendance per cent of the members at the meetings was 100.

Managing Director

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

Other Management

The Group Executive Board assists the President and CEO in the management of the company. The members of the Group Executive Board and their areas of responsibility are presented on pages 10-11, and their holdings in the company shares and options and changes in the holdings during the year are set out on page 7.

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

Risk management

Objective

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

Responsibilities

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

Principles for financial risk management are defined in the Financial Policy. Principles for insurance risk management are defined in the Risk Management and Insurance Policy.

Identification, assessment and reporting of risks

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

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

The risk management process is determined in L&T's Integrated Management System.

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

Insider guidelines

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

The insider register is maintained in the SIRE service of Euroclear Finland Ltd. Insiders with a duty to declare include members of the Board of Directors, President and CEO, the principal auditor and the Group Executive Board. Persons included in the company-specific permanent insider register based on their position include General Counsel, Chief Information Officer, Director of Corporate Relations and Responsibility, Head of Treasury and Investor Relations, Communications Manager and persons designated by them, divisional management teams, 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 General Counsel is the person responsible for insider issues.

Lassila & Tikanoja's insiders are not permitted to engage in trading with company shares during the period between the end of the financial period and the disclosure of the result.

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

Auditing

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

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

In 2012, the fees paid for statutory auditing to KPMG group totalled EUR 82,000. The fees paid to the auditing company and companies belonging to the same chain for non-audit services such as tax, IFRS and due diligence services, totalled EUR 63,000.

Description of the main features of internal control and risk management systems pertaining to Lassila & Tikanoja plc's financial reporting process in 2012

The financial reporting principles represent an essential element of L&T's Integrated Management System. The Group's financial reporting process includes both financial accounting and management accounting. The internal control and risk management systems and procedures pertaining to the financial reporting process are explained in more detail below. Their purpose is to ensure the financial reports published by the company contain essentially correct financial information.

Audit committee

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

The audit committee meets at least four times a year before the publication of interim reports and the financial statements release. In its meetings, the audit committee reviews the financial information presented by the Chief Financial Officer, as well as interim reports and financial statements releases. The auditor is also invited to attend the meetings. The audit committee is presented in more detail on page 3 and members of the audit committee are introduced on page 4.

L&T's financial reporting process

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

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

L&T's Group financial management is responsible for preparing and updating the Group accounting policies and instructions, and for preparing reporting schedules. The financial management department consolidates subsidiaries' financial statements into consolidated financial statements which include notes to the financial statements, and prepares interim reports and financial statement releases, official financial statements and the annual report.

Internal control

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

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

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

Risk management

The risks associated with financial management processes are assessed in the annual risk management process, which is part of L&T's Integrated Management System. Risks identified through risk assessment are prioritised, action plans and schedules are prepared, and persons responsible for implementing the action are named. Implementation of actions is monitored annually. Risk management process is presented on page 4 and in the Report by the Board of Directors on page 18.

Internal control

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

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

REMUNERATION STATEMENT

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

Remuneration of the Board of Directors

Decision-making process and main principles of remuneration

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

In 2012, the following annual fees were decided to be paid: Chairman EUR 46,250, Vice Chairman EUR 30,500 and each member EUR 25,750. The fees are paid so that 40% of the annual fee is in Lassila & Tikanoja's shares held by the company or, if this is not feasible, shares acquired from the markets, and 60% in cash. Shares are to be issued to Board members and, where necessary, acquired directly from the markets on behalf of Board members within the next fourteen trading days, free from restrictions on trading, from the Annual General Meeting. In addition, the Annual General Meeting decided on the following meeting fees to be paid to the participants of the board and committee meetings: Chairman of the board EUR 1,000, Vice Chairman of the board EUR 700, board member EUR 500, Chairman of the committee EUR 700 and committee member EUR 500 per meeting.

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

Remuneration of the Board of Directors in 2012

In 2012, Board of Directors met 12 times, audit committee met four times and remuneration committee met six times.

Heikki Bergholm is Chairman of the Board. Eero Hautaniemi is Vice Chairman of the Board. Eero Hautaniemi is Chairman of the audit committee and the members are Sakari Lassila and Miikka Maijala. Heikki Bergholm is Chairman of the remuneration committee and the member is Hille Korhonen.

In 2012, the fees decided by the Annual General Meeting were paid to the Board of Directors.

Remuneration of President and CEO and other management

Decision-making process and main principles of remuneration

The Board of Directors determines the salary, bonuses and other benefits of the President and CEO and the direct subordinates of the President and CEO. The Board has established a remuneration committee. The duties of the committee include among others handling and preparing questions related to management and personnel remuneration and drafting statements to the Board regarding them. The duties of the remuneration committee are presented in detail on page 3.

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

The President and CEO and the members of the Group Executive Board are included in the share option scheme and in the share-based incentive programmes directed to the key personnel of the company. The basis for the determination of the reward is decided annually by the Board of Directors. Rewards to be paid for the year 2013 will be based on the EVA result of Lassila & Tikanoja Group.

The maximum share-based payment may equal 5–11 months' salary depending on the responsibilities of the member of the Group Executive Board. The decision on the remuneration is done by the Board of Directors based on the statement drafted by the remuneration committee.

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

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

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

Service contract of President and CEO

A written service contract has been drawn up for the President and CEO. According to the contract, the period of notice is 6 months should the company terminate the contract, and 6 months should the President and CEO terminate the contract. In case the company terminates the contract the President and CEO's salary will be paid for 12 months. If the company terminates the President and CEO's employment contract, the severance pay will equal a monthly salary for twelve (12) months. The company has taken out statutory pension and accident insurance for the President and CEO.

Short-term and long-term incentive schemes

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

Share-based incentive programme 2013

Lassila & Tikanoja plc's Board of Directors decided at a meeting held on 17 December 2012 on a new share-based incentive programme to form a part of the incentive and commitment scheme for the company's key personnel.

The programme's earnings period began on 1 January 2013 and ends on 31 December 2013. Potential rewards will be paid during the year following the earnings period partly as shares and partly in cash. Potential rewards to be paid for the year 2013 will be based on the EVA result of Lassila & Tikanoja group.

No reward will be paid if a key person's employment ends before the reward payment. Any shares earned through the incentive programme shall be held for a minimum period of two years following the payment. After that, the Group Executives are still required to hold company shares with a value equal to their gross salary for six months and the other programme participants with a value equal to their gross salary for three months as long as they are employed by the company.

A maximum total of 53,300 Lassila & Tikanoja plc shares may be paid out on the basis of the programme.

The shares to be paid out as potential rewards will be transferred from the shares held by the company, and therefore the incentive programme will have no diluting effect on the share value. The programme covers 10 persons.

Remuneration paid to the members of the Board of Directors in 2012

	Annual fee*, EUR	Meeting fee, EUR	2012 total, EUR	2011 total, EUR
Heikki Bergholm	46,250	20,400**	66,650	69,750**
Eero Hautaniemi	30,500	14,700**	45,200	40,450**
Hille Korhonen	25,750	8,000	33,750	35,750
Sakari Lassila	25,750	8,500	34,250	33,750
Miikka Maijala	25,750	8,500	34,250	35,250
Matti Kavetvuo				45,300
Juhani Lassila				2,100

* 40% of the annual fee is paid in Lassila & Tikanoja's shares held by the company or, if this is not feasible, shares acquired from the markets.
** Includes a meeting fee from Board meeting of L&T Recoil until 25 June 2012 when L&T sold its share in JV to EcoStream Oy.

Shares held by the members of the Board of Directors

	At 31 December 2012	Percentage of shares and of voting power	At 1 January 2012
Heikki Bergholm	780,758	2.01%	778,807
Eero Hautaniemi	8,286	0.02%	7,000
Hille Korhonen	3,485	0.01%	2,399
Sakari Lassila	8,454	0.02%	7,368
Miikka Maijala	70,358	0.18%	69,272
Yhteensä	871,341	2.25%	864,846

Share-based incentive programme 2012

Lassila & Tikanoja plc's Board of Directors decided on 14 December 2011 on a share-based incentive programme. Rewards were based on the EVA result of Lassila & Tikanoja group without L&T Recoil.

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

Based on the programme a maximum of 65,520 shares of the company could be granted. The shares were obtained in public trading. The programme covered 22 persons.

Under the programme, 6,295 shares will be granted for 2012.

Option scheme 2008

Share options were granted to the key personnel belonging to the management determined by the Board of Directors. The subscription period for Lassila & Tikanoja 2008 option rights ended on 31 May 2012.

A total of 230,000 2008 option rights were issued. The outstanding option rights entitled to the subscription of 168,000 shares. No shares were subscribed for pursuant to the option rights and all option rights expired.

Remuneration of President and CEO and other management in 2012

In 2012 the salary on President and CEO totalled EUR 396,000 including salaries and benefits.

The salaries paid to the Group Executive Board totalled EUR 913,000 which includes salaries and benefits EUR 886,000 and bonuses EUR 27,000. The figures include salaries for the period during which the persons in question held an executive position.

Share-based payments of 2,545 shares will be paid for the Presedent and CEO and a total of 3,750 shares for other members of the Group Executive Board will be paid for the year 2012. No options were granted in 2012.

In 2012, EUR 56,000 arising from the pension agreement of the President and CEO, Jari Sarjo, was recognised in the income statement.

Shares held by the Group Executive Board

	Shares	
	31 December 2012	1 January 2012
Pekka Ojanpää	10,230	0
Ville Rantala	12,175	12,175
Kirsi Matero	0	0
Tuomas Mäkipeska *	800	-
Antti Tervo **	500	-

* Member of the Group Executive Board as of 6 February 2012
**Member of the Group Executive Board as of 14 February 2012

BOARD OF DIRECTORS

HEIKKI BERGHOLM

born 1956
M.Sc. (Eng.)

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

Work experience:
Suominen Corporation, President and CEO 2002–2006
The former Lassila & Tikanoja Group, President and CEO 1998–2001, Vice President 1997–1998, President of business units 1986–1997 and CFO 1985–1986
Industrialisation Fund of Finland Ltd, Researcher and development manager 1980–1985

Other key positions:
Forchem Oy (2007–), Lakan Betoni Oy (1986–, COB), Maillefer International Oy (2010–), MB Funds Oy (2002–), Componenta Corporation (2002–2012, COB), Kemira Oyj (2004–2007), Pohjola Group plc (2003–2005), Sponda plc (1998–2004) and Suominen Corporation Oyj (2001–2011)

Holds 780,758 Lassila & Tikanoja plc shares.

EERO HAUTANIEMI

born 1965
M.Sc. (Econ.), CEO of Oriola-KD Corporation 2006–

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

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

Other key positions:
Ecostream Oy (2012–), L&T Recoil (2010–2012), Nurminen Logistics (2009–2012)

Holds 8,286 Lassila & Tikanoja plc shares.

HILLE KORHONEN

born 1961
Licentiate of Technology, President and CEO of Alko Oy 2013–

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

Work experience:
Vice President, Operations (responsible for manufacturing, sourcing and logistics strategies) at Fiskars Corporation 2008–2012, Group Director, Operations at Iittala Group 2003–2009
Executive positions within worldwide delivery chain strategies and processes in Nokia Corporation 2000–2003, Nokia Networks 1998–2000 and Nokia Mobile Phones 1996–1997
Outokumpu Copper, positions in developing logistics and marketing 1993–1996

Other key positions:
Nokian Tyres plc (2006–), Mint of Finland Group (2008–2010)

Holds 3,485 Lassila & Tikanoja plc shares.

SAKARI LASSILA

born 1955
M.Sc. (Econ.), Managing Director and partner of Indcrea Oy and a management board member of Cupori Group Oy 2008–

Member of the Board and audit committee since 2011

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

Other key positions:
Vice Chairman of Board of Evald and Hilda Nissi Foundation (member 1987–)

Holds 8,454 Lassila & Tikanoja plc shares.

MIIKKA MAIJALA

born 1967
M.Sc. (Eng.), CEO of Clinius Ltd 2006–

Member of the Board and Member of the Audit Committee since 2010

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

Holds 70,638 Lassila & Tikanoja plc shares.

President and CEO

PEKKA OJANPÄÄ

The biographical details are listed on the next page.

The changes in the holdings of the members of the Board and the President and CEO during 2012 are listed on page 7.

Auditor

KPMG Oy Ab, Authorised Public Accountants
Principal auditor Lasse Holopainen, APA

EXECUTIVE BOARD

PEKKA OJANPÄÄ

born 1966
President and CEO since 2011

M.Sc. (Econ.)

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

Other key positions
Ilmarinen Mutual Pension Insurance Company: member of Supervisory Board (2012–), Kiinteistöpalvelut ry: member of Board of Directors

TIMO LEINONEN

born 1970
Chief Financial Officer since 23 January 2013

M.Sc. (Admin)

Ixonos Plc: CFO, Senior Vice President 2008–2013
Suomen Terveystalo Plc: Chief Financial Officer 2006–2008
Tieto-X Plc: Chief Financial Officer 2002–2006,
Tieto-X Plc: business controller 2000–2002, Interim CFO
APT Sijoitus Ltd: Financial Advisor 1999–2000
Uusimaa Regional Tax Office: Tax Auditor 1998–1999

PETRI SALERMO

born 1970
Vice President, Environmental Services since 1 January 2013

QBA

Lassila & Tikanoja plc: Business Director, Environmental Services 2009–2012, Sales Director, Environmental Services 2003–2009, Sales Manager, Environmental Services 2001–2003
Europress Oy: Sales Director 1998–2001, sales managerial positions 1995–1998

VILLE RANTALA

born 1971
Vice President, Industrial Services since 1 January 2013 and Vice President, Renewable Energy Sources since 2011

M.Sc. (Econ.)

Lassila & Tikanoja plc: CFO 2009–2013, President and CEO (acting) 13 June–31 October 2011, Managing Director of L&T Biowatti 2011–2012
Suunto Oy: Director, Finance and Business Development 2007–2009
UPM-Kymmene Corporation: Finance Director of Fine and Speciality Papers Division 2006-2007, Business Controller 2002–2006 and Controller 2000–2002
Salomon Sport Finland Oy: Finance Manager 1999–2000

PETRI MYLLYNIEMI

born 1964
Vice President, Facility Services since 7 January 2013

M.Sc. (Econ.)

ISS Palvelut Oy: Business Director, Uusimaa region customer accounts 2011–2012, Business Director, Technical Service and Building Management 2005–2011
Are Oy: Executive Vice President and Vice President, Maintenance and Service business 1999–2005, Service Manager 1995–1999, managerial and planning positions in Onninen-Termo Oy 1989–1994

KIRSI MATERO

born 1968
HR Director since 2012

M.Sc. (Econ.)

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

TUOMAS MÄKIPESKA

born 1978
Business Development Director since 6 February 2012

M.Sc. (Econ.)

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

ANTTI TERVO

born 1978
Chief Procurement Officer since 14 February 2012

M.Sc. (Econ.)

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

Changes in Group Executive Board in 2012:
As of 2 May 2012 Jorma Mikkonen, Vice President, Environmental Services, left the Group Executive Board. His new position in the company is Director, Corporate Relations and Responsibility.

As of 9 November 2012 Juha Simola, Vice President, Property Maintenance and as of 20 November 2012 Henri Turunen, Vice President, Cleaning and Office Support Services left the Group Executive Board and the company.

Petri Salermo was appointed Vice President, Environmental Services as of 1 January 2013. Ville Rantala was appointed Vice President, Industrial Services as of 1 January 2013 and will continue as Vice President, Renewable Energy Sources. Petri Myllyniemi was appointed Vice President, Facility Services as of 7 January 2013 and Timo Leinonen was appointed as CFO as of 23 January 2013.

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

The holdings of Group Executives in the company as well as changes in the holdings in 2012 are listed on page 7.

REPORT OF THE BOARD OF DIRECTORS

Net sales and financial performance

Lassila & Tikanoja's full-year net sales grew by 3.4% to 674.0 EUR million (652.1; 598.2). Operating profit was EUR 48.4 million (25.6; 40.2), representing 7.2% (3.9; 6.7) of net sales, and operating profit excluding non-recurring items was EUR 47.4 million (44.3; 45.5). Earnings per share were EUR 0.89 (0.44; 0.68).

Net sales saw year-on-year growth primarily thanks to the higher demand for wood-based fuels, the volume growth of Environmental Services and the expansion of the damage repair network. Waste and recycling volumes remained at a good level during the entire year. Demand for process cleaning services for industry fluctuated greatly in the latter half of the year.

The overall performance improvement from the comparison period could be largely attributed to the divestment of holdings in the loss-making joint venture L&T Recoil at the end of June and the higher profitability of Renewable Energy Sources. The smaller loss posted by Swedish operations also improved performance. Full-year profitability was eroded by the non-recurring compensation of about EUR 0.7 million paid in the second quarter in accordance with the collective labour agreement and the increase in subcontracting and labour costs, particularly in Property Maintenance.

A non-recurring capital gain of EUR 4.2 million was recognised in the second quarter from the divestment of holdings in L&T Recoil Oy. At the same time, a non-recurring cost of EUR 2.0 million was recorded in financial expenses, consisting of interest receivable from subordinated loans granted to the joint venture. Furthermore, non-recurring costs totalling EUR 3.2 million from the rearrangement and efficiency enhancement measures taken in Environmental Services, Property Maintenance and the Swedish business were recognised during the report year.

Environmental Services

The division's full-year net sales increased by 1.5% to EUR 330.7 million (325.9; 290.0). Operating profit amounted to EUR 38.1 million (34.0; 33.7), and operating profit excluding non-recurring items was EUR 35.0 million (34.0; 34.0).

The healthy demand for waste management and industrial services was the key driver of net sales growth. However, industrial demand weakened during the latter half of the year. Waste volumes and the prices of secondary raw materials (fibres, plastics, metals) remained robust throughout the report year.

The division's operating profit remained on a par with the comparison period. Operating profit was boosted by higher profitability following the L&T Recoil divestment and successful production efficiency measures. However, performance was taxed by the increase seen in fuel and repair costs, particularly in the first half of the year, as well as weaker profitability in international operations.

At the end of the second quarter, L&T sold its 50 per cent holding in the joint venture L&T Recoil to the co-owner, EcoStream Oy. After this arrangement, L&T owns slightly less than 20 per cent of EcoStream's shares and continues to serve as one of the suppliers of raw materials to the regeneration plant. A non-recurring capital gain of EUR 4.2 million on the arrangement was recorded for the second quarter.

Cleaning and Office Support Services

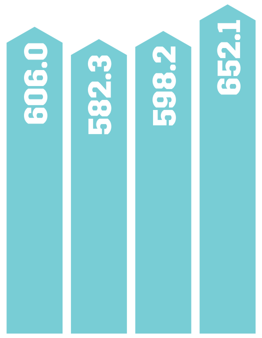
The Cleaning and Office Support Services division's full-year net sales grew by 2.7% to EUR 161.5 million (157.3; 140.6). Operating profit amounted to EUR 7.6 million (7.1; 7.5), and operating profit excluding non-recurring items was EUR 9.1 million (7.5; 8.0).

The division's net sales saw slight year-on-year growth as a result of acquisitions made in the previous spring. Demand for commissioned assignments remained good throughout the year in spite of heavy price competition.

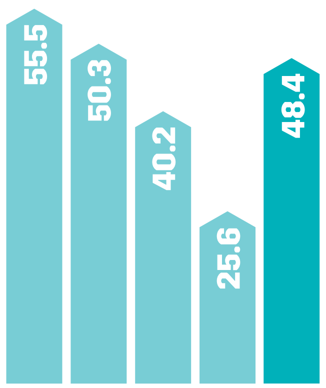
The division's operating profit improved substantially on the comparison period thanks to good performance in commissioned assignments and the higher profitability of Swedish operations. Operating profit is burdened by a rise in labour costs, which were not fully set off by service price hikes.

A non-recurring cost of EUR 1.0 million was recorded in the second quarter for the reorganisation of the Swedish operations.

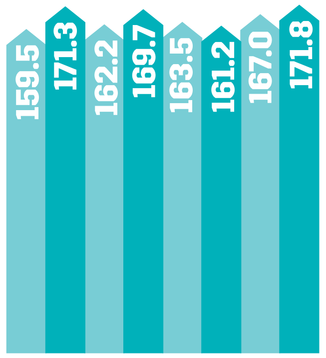
Net sales
EUR million



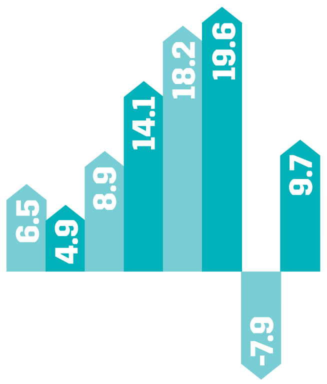
Operating profit
EUR million



Net sales quarterly
EUR million



Operating profit quarterly
EUR million



Property Maintenance

The Property Maintenance division's full-year net sales increased by 2.5% to EUR 138.0 million (134.6; 123.5). Operating profit amounted to EUR 5.3 million (8.2; 7.8), and operating profit excluding non-recurring items was EUR 5.6 million (8.2; 7.9).

Net sales saw a year-on-year increase primarily due to the growth in the workload following the expansion of the damage repair service network.

The division's operating profit weakened from the comparison period due to tighter price competition in property maintenance and higher subcontracting costs. Profitability was also burdened by the fact that snowfall was heavier in the latter part of the year than in the comparison period.

In damage repair services, even more new co-operation agreements were signed with insurance companies in the latter half of the year. These agreements are expected to bolster L&T's market position in the future and provide a steadier workload.

Renewable Energy Sources

The full-year net sales of Renewable Energy Sources (L&T Biowatti) were up by 23.2% to EUR 55.9 million (45.4; 55.1). Operating loss amounted to EUR 0.1 million (21.3; 6.6), and operating profit excluding non-recurring items was EUR 0.1 million (a loss of EUR 3.8 million; a loss of EUR 3.1 million).

Net sales saw substantial year-on-year growth, as new sales rose thanks to the better demand for wood-based fuels in comparison with fossil fuels.

Operating profit also improved substantially due to volume growth and the more efficient cost structure, although the rainy summer and early autumn weakened the energy content of forest processed chips.

Net sales of operations abroad by country

EUR 1,000	2012	2011	2010
Latvia	**35,970**	33,740	24,443
Sweden	**16,664**	17,133	18,548
Russia	**8,076**	7,908	8,489

Financing

Cash flows from operating activities amounted to EUR 80.5 million (74.5; 63.8). EUR 6.4 million was released from the working capital (EUR 3.2 released; EUR 2.2 tied up).

At the end of the year, interest-bearing liabilities amounted to EUR 96.9 million (135.2; 126.8). L&T Recoil accounted for EUR 18.1 million of the interest-bearing liabilities in the reference period. Guarantees of EUR 16.4 million given by Lassila & Tikanoja to other providers of finance for these liabilities are still in force. In addition L&T had receivables from EcoStream Group of EUR 4.9 million, of which EUR 4.2 million were past due on 31 December 2012. L&T's receivables and liabilities related to EcoStream holding were in total EUR 21.3 million.

Net interest-bearing liabilities amounted to EUR 82.3 million, showing a decrease of EUR 44.9 million from the beginning of the year.

Net finance costs amounted to EUR 5.4 million (4.6; 4.2). This increase could be attributed to the non-recurring cost recognition of EUR 2.0 million on interest receivables from subordinated loans given to L&T Recoil Oy in the second quarter. Due to the cost recognition, net finance costs were 0.8% (0.7; 0.7) of net sales.

The average interest rate on long-term loans (with interest-rate hedging) was 2.2% (3.1; 3.3). The interest hedging of loans remained unchanged at 68% (68:70). Long-term loans totalling EUR 26.9 million will mature during 2013.

The equity ratio was 49.4% (44.5; 46.5) and the gearing rate 35.3 (58.3; 50.3). Liquid assets at the end of the period amounted to EUR ,14.6 million (8.1; 14.5).

Net sales by division

EUR 1,000	2012	2011	Change %	2010
Environmental Services	**330,675**	325,884	1.5	290,031
Cleaning and Office Support Services	**161,542**	157,271	2.7	140,615
Property Maintenance	**137,951**	134,591	2.5	123,469
Renewable Energy Sources	**55,947**	45,402	23.2	55,106
Eliminations	**-12,130**	-11,018		-11,028
Total	**673,985**	652,130	3.4	598,193

Operating profit by division

EUR 1,000	2012	%	2011	%	Change %	2010	%
Environmental Services	**38,143**	**11.5**	33,970	10.4	12.3	33,674	11.6
Cleaning and Office Support Services	**7,641**	**4.7**	7,131	4.5	7.2	7,524	5.4
Property Maintenance	**5,339**	**3.9**	8,181	6.1	-34.7	7,764	6.3
Renewable Energy Sources	**-61**	**-0.1**	-21,250	-46.8		-6,553	-11.9
Group administration and other	**-2,671**		-2,435		9.7	-2,190	
Total	**48,391**	**7.2**	25,597	3.9	89.0	40,219	6.7

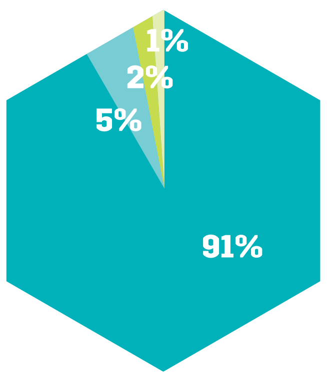
Income statement by quarter

EUR 1,000	10–12/ 2012	7–9/ 2012	4–6/ 2012	1–3/ 2012	10–12/ 2011	7–9/ 2011	4–6/ 2011	1–3/ 2011
Net sales								
Environmental Services	**82,254**	**83,304**	**88,126**	**76,991**	84,014	85,906	83,535	72,429
Cleaning and Office Support Services	**40,223**	**41,340**	**40,658**	**39,321**	40,101	41,530	40,784	34,856
Property Maintenance	**34,566**	**31,368**	**31,718**	**40,299**	33,451	31,322	30,879	38,939
Renewable Energy Sources	**18,287**	**7,977**	**12,099**	**17,584**	12,578	7,213	9,600	16,011
Inter-division net sales	**-3,539**	**-2,773**	**-2,909**	**-2,909**	-3,143	-2,502	-2,612	-2,761
L&T total	**171,791**	**161,216**	**169,692**	**171,286**	167,001	163,469	162,186	159,474
Operating profit								
Environmental Services	**7,753**	**12,808**	**14,567**	**3,015**	8,305	12,308	9,182	4,175
Cleaning and Office Support Services	**2,017**	**4,544**	**235**	**845**	937	3,718	1,001	1,475
Property Maintenance	**499**	**3,299**	**790**	**751**	1,928	3,582	769	1,902
Renewable Energy Sources	**269**	**-384**	**-733**	**787**	-18,189	-1,085	-1,325	-651
Group administration and other	**-853**	**-638**	**-715**	**-465**	-887	-344	-767	-437
L&T total	**9,685**	**19,629**	**14,144**	**4,933**	-7,906	18,179	8,860	6,464
Operating margin								
Environmental Services	**9.4**	**15.4**	**16.5**	**3.9**	9.9	14.3	11.0	5.8
Cleaning and Office Support Services	**5.0**	**11.0**	**0.6**	**2.1**	2.3	9.0	2.5	4.2
Property Maintenance	**1.4**	**10.5**	**2.5**	**1.9**	5.8	11.4	2.5	4.9
Renewable Energy Sources	**1.5**	**-4.8**	**-6.1**	**4.5**	-144.6	-15.0	-13.8	-4.1
L&T total	**5.6**	**12.2**	**8.3**	**2.9**	-4.7	11.1	5.5	4.1
Finance costs, net	**-512**	**-568**	**-3,356**	**-960**	-1,099	-1,277	-1,163	-1,064
Profit before tax	**9,173**	**19,061**	**10,788**	**3,973**	-9,005	16,902	7,697	5,400

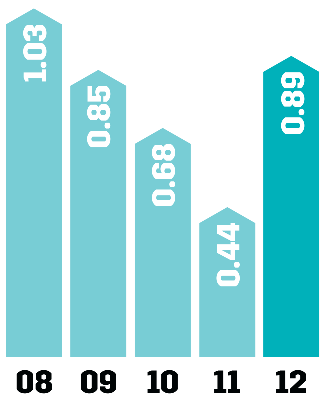
Of the EUR 100 million commercial paper programme, EUR 12.0 million (17.0; 5.0) was in use at the end of the period. A committed limit totalling EUR 30.0 million, was not in use, as was the case in the comparison period.

Operating profit excluding non-recurring items
EUR million

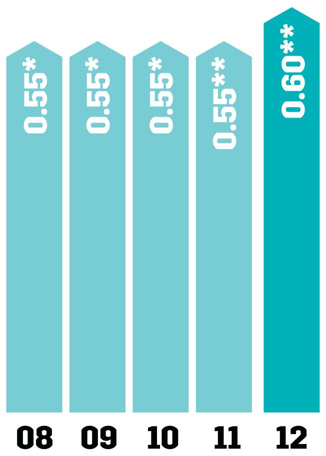
Net sales by country
total EUR 674.0 million



Earnings per share
€



Distribution of assets
EUR/share



* Dividend
** A capital repayment

Key figures for financing

	2012	2011	2010
Interest-bearing liabilities, EUR million	**96.9**	135.2	126.8
Net interest-bearing liabilities, EUR million	**82.3**	127.2	112.3
Interest expenses, EUR million	**4.8**	4.3	4.7
Net finance costs, EUR million	**5.4**	4.6	4.2
Net finance costs, % of net sales	**0.8**	0.7	0.7
Net finance costs, % of operating profit	**11.1**	18.0	10.5
Equity ratio, %	**49.4**	44.5	46.5
Gearing, %	**35.3**	58.3	50.3
Cash flows from operating activities, EUR million	**80.5**	74.5	63.8
Change in working capital in the cash flow statement, EUR million	**6.4**	3.2	-2.2

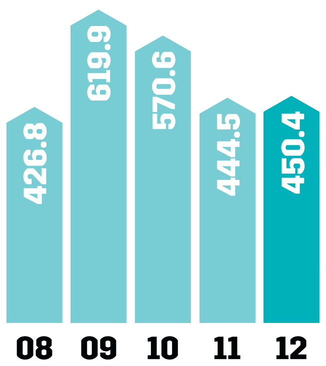
Financial risks and financial risk management are presented in the Note 37 Financial risk management.

A non-recurring cost of EUR 2.0 million was recorded in financial expenses, consisting of interest receivable from subordinated loans granted to the joint venture.

Invested capital
Invested capital amounted to EUR 23.3 million more than a year ago mainly due to business acquisitions and other investments. The rate of circulation for invested capital was 2.0 (1.8; 1.7).

EUR 1,000	31 December 2012	31 December 2011	31 December 2010
Non-current assets	**336,081**	365,832	354,851
Inventories and receivables	**130,590**	120,440	114,344
Liquid assets	**14,582**	8,068	14,548
Deferred tax liability	**-31,313**	-29,389	-33,718
Trade and other payables	**-112,880**	-105,752	-94,891
Provisions	**-4,425**	-2,500	-3,148
Other non-interest-bearing liabilities	**-2,756**	-3,522	-2,167
Invested capital	**329,879**	353,177	349,818

Market capitalisation at year end,
EUR million



Capital expenditure
In 2012, gross capital expenditure amounted to EUR 49.4 million (70.6; 39.3), of which EUR 9.4 million were related to acquisitions, including the slightly under 20 per cent holding in EcoStream Oy that was part of the L&T Recoil arrangement.

In the first quarter, the Property Maintenance division acquired the property maintenance businesses of IK Kiinteistöpalvelu Oy and the business of Jyvässeudun Talonmiehet Oy and Kiinteistöhuolto Markku Hyttinen Oy.

In the second quarter, the Environmental Services division acquired the waste management business of Sita Finland Oy in Oulu.

In the fourth quarter, the Environmental Services acquired business operations of the Munaistenmetsä material recovery area in Uusikaupunki.

Changes in the Group structure
The Group acquired the property maintenance business operations of IK Kiinteistöpalvelu Oy, business operations of Jyvässeudun Talonmiehet Oy, waste management business operations of SITA Finland Oy in Oulu and the business of material utilisation area of the Munaistenmetsä material recovery area in Uusikaupunki.

The Group also acquired the share capital of Kiinteistöhuolto Markku Hyttinen Oy.

The holding in joint venture L&T Recoil and eco-products, a former part of Environmental Services, were divested.

L&T Kalusto Oy merged with Lassila & Tikanoja plc.

Papros Oy, Ympäristöhuollon Palvelukeskus Full House Oy, Palvelusiivous Ulla Haavisto Oy, Nastolan Talohuolto Oy and L&T Hygienutveckling Ab were dissolved. Kiinteistöhuolto Markku Hyttinen Oy was placed in voluntary liquidation.

Capital expenditure by balance sheet item

EUR million	2012	2011	2010
Real estates	**7.4**	8.2	10.4
Machinery, equipment and other property, plant and equipment	**31.9**	36.9	24.7
Goodwill and intangible rights arising from business acquisitions	**1.3**	22.9	1.2
Other intangible assets	**2.1**	2.6	2.9
Other non-current assets	**6.7**	0.1	0.0
Total	**49.4**	70.6	39.3

Capital expenditure by division

EUR million	2012	2011	2010
Environmental Services	**27.4**	43.4	31.4
Cleaning and Office Support Services	**4.9**	14.7	2.1
Property Maintenance	**9.8**	11.8	5.1
Renewable Energy Sources	**0.5**	0.5	0.7
Group administration and other	**6.8**	0.3	0.1
Total	**49.4**	70.6	39.3

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

	2012	2011	2010
Finland	**7,035**	7,381	6,849
Latvia	**912**	895	1,060
Sweden	**783**	838	603
Russia	**232**	243	220
Total	**8,962**	9,357	8,732

Personnel

In 2012 the average number of employees converted into full-time equivalents was 8,399 (8,513; 7,835). The total number of full-time and part-time employees at the end of the period was 8,962 (9,357; 8,732). Of them 7,035 (7,381; 6,849) people worked in Finland and 1,927 (1,976; 1,883) people in other countries.

The wages and salaries paid in 2012 totalled EUR 224.4 million (216.4; 193.8).

Product development

To stand out from the competition, L&T wants to provide the industry's best customer experience. As from the beginning of 2012, L&T launched a standard template for its customer surveys. The surveys assess the customers' willingness to promote the company to others – this yields our net promoter score. In addition, the surveys ask how well L&T has measured up to customers' expectations. Surveys are carried out twice a year, in the spring and autumn. On the basis of the results, we assess the necessary development targets at the division, region and unit level.

Environmental Services expanded the ERP system for waste management, recycling and hazardous waste management. The system covers all operations, from material collection to waste processing, disposal or re-delivery of materials.

Environmental Services also participated in many research projects. Their objective was to make better use of alternative recovered fuels, to assess and reduce environmental impacts, to develop new environmental business activities, to enhance waste recycling, and to develop new recovered fuels.

Facility Services started up a programme to develop customer-focused systems to support business operations. The first phases were implemented in the latter half of 2012.

Cleaning and Office Support Services launched several projects dealing with customer experiences, such as standardising practices when starting up work at new locations, developing different kinds of support services and enhancing the customer contact of supervisors. Towards the end of 2012, Cleaning and Office Support Services started setting up an operations system.

We have started assessing the harmonisation of maintenance log systems in our property maintenance operations, as a very large number of competing log systems are used in this field. Compatible systems will improve the accuracy and real-time capabilities of reporting, which will benefit both customers and L&T.

We also deployed mobile solutions more extensively among cleaning and maintenance personnel working directly with customers. As a result, they have more time for customer work.

Research and development expenses

Computer software development costs of EUR 1.7 million (1.6; 1.8) were recognised as an asset in the balance sheet. Computer software development costs are recognised as an asset starting from the time when the projects move out of the research phase into the development phase and the outcome of a project is an identifiable intangible asset.

Risk management

Objective

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

Responsibilities

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

Principles for financial risk management are defined in the Treasury Policy. Principles for insurance risk management are defined in the Risk Management and Insurance Policy.

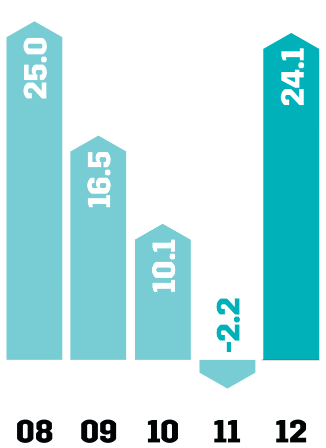
Identification, assessment and reporting of risks

The risk management process is determined in L&T's Integrated Management System. Regular risk survey takes place as part of the annual strategy process at the division and group levels, in units outside Finland as well as within centralised functions defined as being critical. The operative management assesses strategic, financial, operational and damage-related risk factors for each area of responsibility. L&T evaluates risks using a risk matrix and by assigning monetary values to risks. Contingency plans for significant risks are prepared and the responsibilities for risk management measures are allocated. Any risks identified and preparations for them are regularly reported to the President and CEO and to the Board of Directors

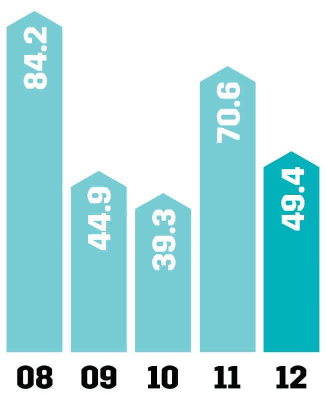
Risk analysis

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.

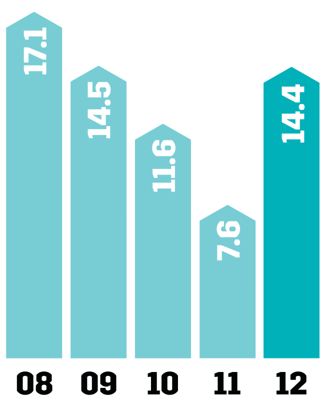
EVA
EUR million



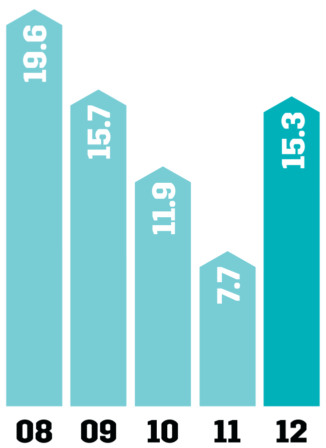
Capital expenditure
EUR million



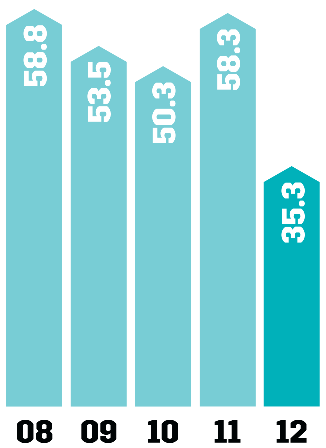
ROI
%



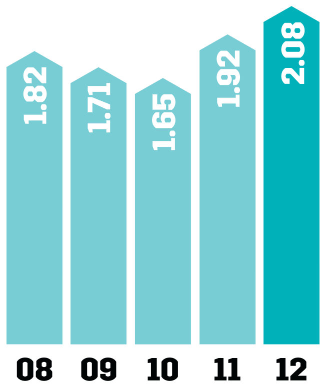
ROE
%



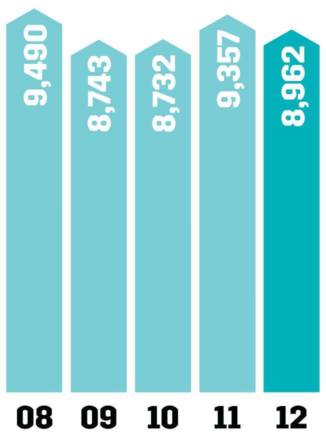
Gearing
%



Cash flows from operating activities/share
EUR



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



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

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

Strategic and operational risks

Risks relating to information and communications systems

If realised, risks associated with the information and communications systems can cause interruptions in L&T's operations and customer services. In 2012, determined work continued, in order to develop the system environment and secure the IT environment's reliability.

Market-related risks

Key market-related risks include a continuance of the economic recession and the resulting decline in customers' operating volumes, the entry of new competitors into the market, and legislative changes. Market price development for emission rights, secondary raw materials or oil products may affect the company's business operations.

Future developments are difficult to predict due to the continuing general economic uncertainty. Major changes in the markets may have a negative impact on business growth and cause profitability to decline.

L&T is independent of single large customers, which, together with L&T's extensive service offering, helps reduce market-related risks. As a means of standing out from its competitors and creating value-adding elements other than price, L&T is continuously developing and launching new service products. To prepare for market risks, L&T pays special attention to productivity improvement and customer care.

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 closing of an acquisition.

Operations in developing markets

L&T has business operations in Latvia and Russia. Business operations in these countries make the company vulnerable to political and financial risks as well as risks relating to changes in social conditions and, for example, any restriction of the free pricing of services. L&T endeavours to mitigate these risks by becoming familiar with the international market situation and 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. The positive change in the job markets has boosted employee turnover, which makes the sourcing of workforce more challenging. Due to the age structure of the population, competition for skilled employees will become tougher.

L&T runs several human resources management programmes aimed at ensuring the availability and competence of labour. We focus on the good work community, management and leadership, improving multicultural skills, work rotation and occupational safety. L&T endeavours to be the most attractive employer in its sector.

Damage-related risks

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

Risk of fire

The manufacture of recovered fuels within the Environmental Services business constitutes a risk of fire. A fire at a recycling plant may result in a momentary or extended interruption of the plant's operations. However, the significance of the risk is reduced by the fact that individual plants or production lines have no substantial impact on L&T's overall profitability. In addition to taking out insurance, L&T endeavours to mitigate 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

L&T's 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 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.

Early retirement of personnel

An increase in the personnel's disability and accident pension costs may materially affect competitiveness and profitability, particularly in the Cleaning and Office Support Services division and the Property Maintenance division. As a major employer, L&T is liable for the full pension costs arising from its employee disability. L&T's Sirius programme is designed to promote the health of employees and to manage occupational health care services. It has the objective of minimising sickness-related absence and disability and accident pensions and related costs.

Environmental factors

As a leading company in the environmental management sector, L&T's operations are based on the legal and operational requirements set for both its own and its customers' operating environments. The company's management of environmental issues is based on the Group's risk management and environmental policies. In 2012, L&T's Group Executive Board approved a new environmental policy and the company's related environmental objectives.

The L&T Integrated Management System is a tool used to plan, develop and steer everyday work and operations. It includes jointly defined operating procedures and provides tools for strategy implementation and the achievement of business goals. The system also extends to L&T's international operations. It is used to ensure that L&T's operations are consistent, harmonised and of high quality in all locations. L&T's management system is certified for compliance with the ISO 9001 (quality), ISO 14001 (environment) and OHSAS 18001 (occupational health and safety) standards.

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

L&T makes its competence available to its customers and equips its customers to meet their environmental goals and obligations. Growing awareness of environmental matters is creating greater expectations with respect to L&T's services. Improvement in material and energy efficiency is becoming an even more integral part of customer companies' daily operations.

L&T collects and processes waste and by-products into secondary raw materials and recovered fuels. These replace fossil fuels and help to save natural resources, and thereby help to curb climate change. The EU's recycling objectives, the national waste plan and national legislation are gradually turning Finland into a recycling society. Waste tax base will expand and taxes will rise, steering our customers towards choices that promote sustainable development.

Over the next few years, L&T will assume a major role, as Finland increases its use of renewable energy sources in order to fulfil its obligations. Wood-based biofuels and recycled fuels supplied by L&T replace fossil fuels in energy production.

Environmental management and waste processing operations are governed by strict laws and regulations, and operations often require a permit. L&T has 78 environmental permits in Finland related to the handling and storage of waste and biofuels.

L&T responds to growing environmental reporting needs by offering tools for both the customer's own monitoring and for reporting to the authorities. The Ympäristönetti online service offers a channel through which customers can monitor their waste volumes and costs. Co-developed with VTT Technical Research Centre of Finland, the corporate waste environmental impact calculator is a tool enabling companies to calculate the climate impacts of their waste management and to compare waste management solutions.

Year 2012

Our services reduced carbon dioxide emissions by more than 1.5 million tonnes of CO_2 in 2012 (2011: more than 1 million tonnes). We cut more CO_2 emissions by further improving material efficiency and substantially stepping up deliveries of recycled raw materials and biofuels.

Of all the material flows managed by L&T, 82% could be recycled or utilised. As much as 86% of the waste processed at L&T's plants was reused as secondary raw materials or as energy (2011: 84%). Nine per cent of hazardous wastes were transported to other EU countries for reuse. In 2011, we also started collecting hazardous wastes in Russia. We did not import any hazardous wastes to Finland in 2012.

The most significant negative environmental impacts of our operations include the emissions generated by collection and transport services. Before the report year, our carbon dioxide emissions had risen in step with growth in production volume. In 2012, we managed to keep our total carbon dioxide emissions at the same level as in 2011. For instance, in long-distance logistics, we consumed less fuel per loose cubic metre transported. In addition, we boosted our efficiency by means such as optimising waste collection routes. In 2012, we reviewed the routes of hundreds of vehicles and were able to phase out older and higher-emission vehicles.

Our project geared towards more effective use of our properties continued throughout 2012. We will keep forging ahead with it in 2013. We will introduce more open-plan offices, arrange shared workstations for highly mobile employees, and combine storage rooms, halls, break rooms and meeting rooms. In 2012, work travel in Finland declined by 7%. We have increased our use of online meetings. As our employees now have to commute less, this has reduced our emissions.

L&T did not have any significant or serious environmental damage incidents in 2012. There were eight minor incidents, which were due to traffic accidents, a tank leak and other technical reasons. Emissions were released into a limited area and they were recovered by absorption, changing the soil and either containing or cleaning up the discharged substances from the sewer system.

More details on environmental responsibility is presented on pages 24–27 on the general section of Annual Report.

Loans, liabilities and contingent liabilities to related parties

Related-party transactions are accounted for in Note 34 Related-party transactions.

Corporate Governance Statement

Corporate Governance Statement for the financial year 2012 is disclosed as a separate statement starting from page 2.

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 6 months if the company terminates his employment.

The Annual General Meeting of Shareholders held on 15 March 2012 confirmed the number of the members of the Board of Directors five (5). The following Board members were re-elected to the Board until the end of the following AGM: Heikki Bergholm, Eero Hautaniemi, Hille Korhonen, Sakari Lassila and Miikka Maijala. In its constitutive meeting the Board elected Heikki Bergholm as Chairman of the Board and Eero Hautaniemi as Vice Chairman. From among its members, the Board elected Eero Hautaniemi as Chairman of the audit committee and Sakari Lassila and Miikka Maijala as members of the committee. From among its members, the Board elected Heikki Bergholm as Chairman of the remuneration committee and Hille Korhonen as member of the committee.

KPMG Oy Ab, Authorised Public Accountants, is Auditor of the Company.

Pekka Ojanpää has served as the President and CEO since 1 November 2011.

Group Executives

As of 2 May 2012 Jorma Mikkonen, Vice President, Environmental Services, left the Group Executive Board. His new position in the company is Director, Corporate Relations and Responsibility.

As of 9 November 2012 Juha Simola, Vice President, Property Maintenance and as of 20 November 2012 Henri Turunen, Vice President, Cleaning and Office Support Services left the Group Executive Board and the company.

Group Executives were in 31 December 2012 Pekka Ojanpää, President and CEO, Ville Rantala, CFO and Vice President Renewable Energy Sources, Kirsi Matero, HR Director, Tuomas Mäkipeska, Business Development Director and Antti Tervo, Chief Procurement Officer.

Petri Salermo was appointed Vice President, Environmental Services as of 1 January 2013. Ville Rantala was appointed Vice President, Industrial Services as of 1 January 2013 and will continue as Vice President, Renewable Energy Sources. Petri Myllyniemi was appointed Vice President, Facility Services as of 7 January 2013 and Timo Leinonen was appointed as CFO as of 23 January 2013.

Distribution of assets

The Group's earnings per share amounted to EUR 0.89 (0.44; 0.68) and cash flow from operating activities per share EUR 2.08 (1.92; 1.65). The Board of Directors will propose capital repayment of EUR 0.60 per share (0.55; 0.55) to the Annual General Meeting to be held on 12 March 2013. No capital repayment shall be paid on shares held by the company on the capital repayment record date. On the day when the distribution of profit was proposed, the number of shares conferring entitlement to receive capital repayment totalled 38,692,064 shares, on which the total dividend payment would be EUR 23,215,238.40.

Near-term uncertainties

Economic uncertainty may cause major changes in the Environmental Services division's secondary raw material markets and in industrial customer relationships.

Uncertainties associated with government subsidies for renewable fuels and with their continuity could affect demand for the Renewable Energy Sources division's services.

Prospects for the year 2013

Full-year net sales in 2013 are expected to remain at the 2012 level. Operating profit, excluding non-recurring items, is expected to remain at the 2012 level or improve slightly.

Shares and shareholders

Share capital and number of shares

The registered share capital of Lassila & Tikanoja plc is EUR 19,399,437. The number of shares is 38,798,874. In 2012, the average number of shares excluding the shares held by the company totalled 38,688,373. Each share carries one vote. There is no maximum to the number of the shares and the share capital in the Articles of Association. A share has neither a nominal value nor a book equivalent value.

The company's shares are included in the book-entry system of securities maintained by Euroclear Finland Ltd. Euroclear Finland maintains the company's official list of shareholders.

Trading in shares and share options in 2012

The company's shares are quoted on the mid-cap list of the NASDAQ OMX Helsinki Ltd in the Industrials sector. The trading code is LAT1V and the ISIN code is FI0009010854.

The volume of trading in Lassila & Tikanoja plc shares excluding the shares held by the compnay on the NASDAQ OMX Helsinki during 2012 was 9,973,989 which is 25.8% (23.0; 20.0) of the average number of outstanding shares. The value of trading was EUR 105.1 million (108.2; 111.1). The trading price varied between EUR 8.59 and EUR 12.15 The closing price was EUR 11.64. The market capitalisation excluding the shares held by the company was EUR 450.4 million (444.5; 570.6) at the end of the period.

The exercise period for 2008 options ended 31 May 2012.

Own shares

At the beginning of the period, the company held 113,305 of its own shares and at the end of the period 106,810, representing 0.3% of all shares and votes.

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 Annual General Meeting held on 15 March 2012 authorised Lassila & Tikanoja plc's Board of Directors to make decisions on the repurchase of the company's own shares using the company's unrestricted equity.

The Board of Directors is authorised to purchase a maximum of 500,000 company shares, which is 1.3% of the total number of shares. The share issue authorisation will be effective for 18 months.

The Board of Directors is authorised to transfer a maximum of 500,000 company shares, which is 1.3% of the total number of shares. The share issue authorisation will be effective until 31 March 2014.

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.

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

The exercise period for 2008 options ended 31 May 2012.

More details of share option scheme are given in Note 24. Share-based payment.

Share-based incentive programme 2012

Lassila & Tikanoja plc's Board of Directors decided on 14 December 2011 on a share-based incentive programme. Rewards were based on the EVA result of Lassila & Tikanoja group without L&T Recoil. Based on the programme a maximum of 65,520 shares of the company could be granted. The programme covered 22 persons. Under the programme, 6,295 shares will be granted for 2012.

Share-based incentive programme 2013

Lassila & Tikanoja plc's Board of Directors decided on 17 December 2012 on a new share-based incentive programme. The programme's earnings period began on 1 January 2013 and ends on 31 December 2013. Potential rewards to be paid for the year 2013 will be based on the EVA result of Lassila & Tikanoja group. Potential rewards will be paid partly as shares and partly in cash. A maximum total of 53,300 Lassila & Tikanoja plc shares may be paid out on the basis of the programme. The programme covers 10 persons.

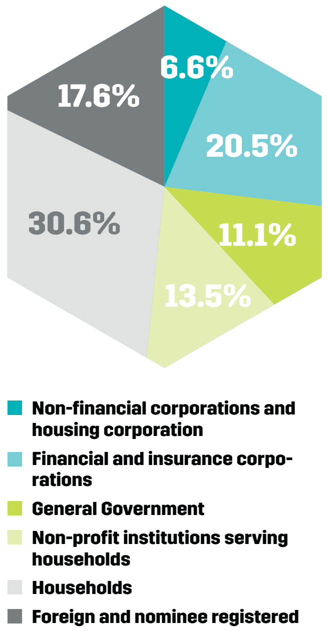
Shareholders

Lassila & Tikanoja plc had 9,382 registered shareholders at the end of 2012 (9,365; 9,151). Nominee-registered shares and shares in direct foreign ownership accounted for 17.2% of the stock (13.0; 12.6).

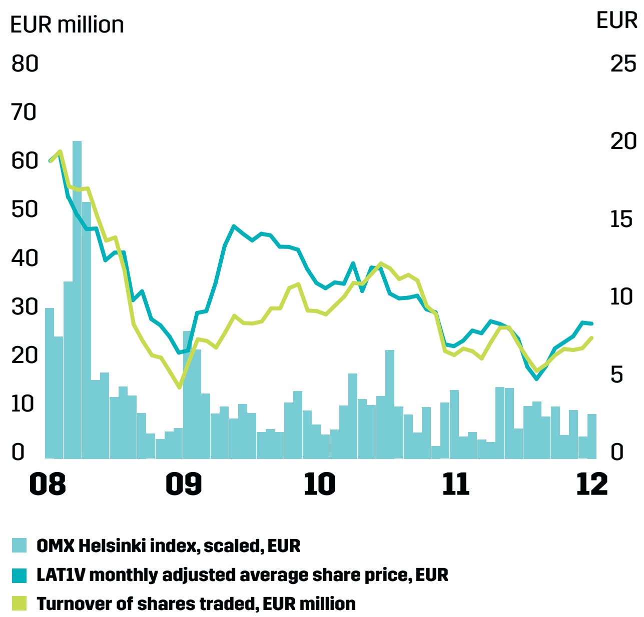
Holdings of the Board of Directors and President and CEO

The Members of the Board, the President and CEO, and organisations under their control held a total of 881,571 shares in the company on 31 December 2012. They represent 2.3% of the number of shares and votes.

Breakdown of shareholding % of shares and votes



Adjusted share price development and turnover of shares traded



Changes in share capital and number of shares between 30 September 2001 and 31 December 2012

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 2007			19,392,187	38,784,374
Subscriptions pursuant to share options during 2008	7,250	14,500	19,399,437	38,798,874
31 December 2008			19,399,437	38,798,874
31 December 2009			19,399,437	38,798,874
31 December 2010			19,399 437	38,798,874
31 December 2011			19,399,437	38,798,874
31 December 2012			**19,399,437**	**38,798,874**

* Subscription ratio before the bonus issue

The changes in share capital and the number of the shares in 2012 and 2011 are listed in more detail in Note 23 Equity.

Breakdown of shareholding by category at year end

	Number of shareholders	Percentage	Number of shares	Percentage of shares and votes
Non-financial corporations and housing corporations	536	5.7	2,563,897	6.6
Financial and insurance corporations	62	0.7	7,952,329	20.5
General Government	26	0.3	4,324,852	11.1
Non-profit institutions serving households	212	2.3	5,231,953	13.5
Households	8,508	90.7	11,856,082	30.6
Foreign shareholders	39	0.4	165,844	0.4
Own shares			106,810	0.3
Shares registered in a nominee's name			6,663,381	17.2
Shares not transferred to the book-entry securities system			40,536	0.1
Total			38,798,874	100.0

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	7,906	84.3	2,208,019	5.7
1 001–5 000	1,033	11.0	2,335,836	6.0
5 001–10 000	184	2.0	1,360,519	3.5
10 001–100 000	209	2.2	6,075,581	15.7
100 001–500 000	35	0.4	6,774,398	17.5
over 500 000	16	0.2	20,003,985	51.6
	9,383	100	31,988,147	82.4
Own shares			106,810	0.3
Shares registered in a nominee's name			6,663,381	17.2
Shares not transferred to the book-entry securities system			40,536	0.1
Total			38,798,874	100.0

Major shareholders at year end

	Shareholder	Number of shares	Percentage of shares and votes
1.	Evald and Hilda Nissi Foundation	2,413,584	6.2
2.	Mandatum Life Insurance Company Limited	2,231,238	5.8
3.	Nordea investment funds	1,656,196	4.3
4.	Ilmarinen Mutual Pension Insurance Company	1,547,803	4.0
5.	Maijala Juhani	1,529,994	3.9
6.	Danske investment funds	1,213,688	3.1
7.	LähiTapiola Group	1,048,145	2.7
8.	Bergholm Heikki	780,758	2.0
9.	Maijala Mikko	720,000	1.9
10.	Varma Mutual Pension Insurance Company	600,690	1.5
11.	Turjanmaa Kristiina	585,842	1.5
12.	The State Pension Fund	562,000	1.4
13.	Veritas Pension Insurance Company Ltd.	556,481	1.4
14.	LähiTapiola Mutual Pension Insurance Company	414,073	1.1
15.	Maijala Eeva	345,000	0.9
16.	Chemec Ltd	340,000	0.9
17.	OP-Pohjola Group	321,301	0.8
18.	Säästöpankki investment funds	319,751	0.8
19.	SEB Gyllenberg investment funds	281,586	0.7
20.	Aktia investment funds	253,280	0.7
	Total	17,721,410	45.7

All information concerning the company's shareholders is based on the list of shareholders maintained by Euroclear Finland Oy as on 31 December 2012. Current information on shares and shareholders is available on the company website and is updated monthly.

Key figures on shares

	2012	2011	2010	2009	2008
Earnings per share (EPS), EUR	**0.89**	0.44	0.68	0.85	1.03
Earnings per share (EPS), diluted, EUR	**0.89**	0.44	0.68	0.85	1.03
Equity per share, EUR	**6.01**	5.63	5.75	5.6	5.28
Dividend per share, EUR			0.55	0.55	0.55
Dividend/earnings ratio, %			81.4	64.4	53.4
Capital repayment per share, EUR	**0.60***	0.55			
Capital repayment/earnings ratio, %	**67.4***	125.0			
Effective dividend yield, %			3.7	3.4	5.0
Effective capital repayment yield, %	**5.2***	4.8			
Price/earnings ratio	**13.1***	26.2	21.8	18.7	10.7
Cash flows from operating activities/share, EUR	**2.08**	1.92	1.65	1.71	1.82
Share price adjusted for issues:					
lowest, EUR	**8.59**	9.49	12.85	9.16	10.26
highest, EUR	**12.15**	15.18	16.20	17.19	23.00
average, EUR	**10.55**	12.13	14.36	12.61	16.5
closing, EUR	**11.64**	11.49	14.73	15.99	11.00
Market capitalisation at 31 December, EUR million	**450.4**	444.5	570.6	619.9	426.8
Number of shares adjusted for issues					
average during the year	**38,688,373**	38,721,908	38,748,649	38,780,589	38,796,135
at year end	**38,692,064**	38,685,569	38,738,116	38,768,874	38,798,874
average during the year, diluted	**38,701,004**	38,762,194	38,772,906	38,784,285	38,816,873
Adjusted number of shares traded during the year	**9,967,494**	8,965,140	7,816,454	10,089,598	17,452,448
as a percentage of the average	**25.8**	23.2	20.2	26.0	45.0
Volume of shares traded, EUR 1,000	**105,121**	108,740	112,270	127,213	287,928

* Proposal by the Board of Directors

Key figures on financial performance

	2012	2011	2010	2009	2008
Net sales, EUR million	**674.0**	652.1	598.2	582.3	606
Operating profit, EUR million	**48.4**	25.6	40.2	50.3	55.5
as % of net sales	**7.2**	3.9	6.7	8.6	9.2
Profit before tax, EUR million	**43.0**	21.0	36.0	45.0	50.7
as % of net sales	**6.4**	3.2	6.0	7.7	8.4
Profit for the period, EUR million	**34.5**	17.0	26.2	33.1	40.0
as % of net sales	**5.1**	2.6	4.4	5.7	6.6
Profit for the period attributable to the equity holders of the parent company, EUR million	**34.5**	17.0	26.2	33.1	40.0
as % of net sales	**5.1**	2.6	4.4	5.7	6.6
EVA, EUR million	**24.1**	-2.2	10.1	16.5	25.0
Cash flows from operating activities, EUR million	**80.5**	74.5	63.8	66.2	70.4
Balance sheet total, EUR million	**481.3**	494.3	483.7	496.4	477.7
Return on equity, % (ROE)	**15.3**	7.7	11.9	15.7	19.6
Return on invested capital, % (ROI)	**14.4**	7.6	11.6	14.5	17.1
Equity ratio, %	**49.4**	44.5	46.5	44.1	43.2
Gearing, %	**35.3**	58.3	50.3	53.5	58.8
Net interest-bearing liabilities, EUR million	**82.3**	127.2	112.3	116.3	120.5
Capital expenditure, EUR million	**49.4**	70.6	39.3	44.9	84.2
as % of net sales	**7.3**	10.8	6.6	7.7	13.9
Depreciation, amortisation and impairment, EUR million	**43.6**	61.5	43.9	40.3	41.0
Average number of employees in full-time equivalents	**8,399**	8,513	7,835	8,113	8.363
Total number of full-time and part-time employees at year end	**8,962**	9,357	8,732	8,743	9.490

Calculation of the key figures

Earnings per share	=	profit attributable to equity holders of the parent company / adjusted average basic number of shares	
Earnings per share, diluted	=	profit attributable to equity holders of the parent company / adjusted average diluted number of shares (Note 10 Earnings per share)	
Equity per share	=	equity attributable to equity holders of the parent company / adjusted basic number of shares at the balance sheet date	
Dividend per share*	=	dividend for the financial period / share issue adjustment factor for issues made after the financial period	
Dividend/earnings ratio, %*	=	dividend per share / earnings per share	x100
Effective dividend yield, %*	=	dividend per share / closing price of the financial period	x100
Price/earnings ratio	=	closing price of the financial period / earnings per share	
Cash flows from operating activities/share	=	cash flows from operating activities as in the cash flow statement / adjusted average basic number of shares	
Market capitalisation of shares	=	basic number of shares at the balance sheet date x closing price of the financial period	
EVA	=	operating profit - cost calculated on invested capital (average of four quarters) before taxes WACC 2012: 7.10% WACC 2011: 7.70% WACC 2010: 8,70% WACC 2009: 9.40% WACC 2008: 9.30%	
Return on equity, % (ROE)	=	profit for the period / equity (average)	x100
Return on investment, % (ROI)	=	(profit before tax + finance costs) / (balance sheet total - non-interest-bearing liabilities average)	x100
Equity ratio, %	=	equity / (balance sheet total - advances received)	x100
Gearing, %	=	interest-bearing liabilities / equity	x100
Net interest-bearing liabilities	=	interest-bearing liabilities - liquid assets	
Operating profit excluding non-recurring and imputed items	=	operating profit +/- non-recurring and imputed items	

* The calculations are also applied with capital repayment.

CONSOLIDATED INCOME STATEMENT

1 January–31 December EUR 1,000	Note	2012	%	2011	%
Net sales	1	**673,985**	**100.0**	652,130	100.0
Cost of sales		**-602,581**	**-89.4**	-584,152	-89.6
Gross profit		**71,404**	**10.6**	67,978	10.4
Other operating income	6	**7,708**	**1.1**	3,038	0.5
Selling and marketing costs		**-16,745**	**-2.5**	-15,217	-2.3
Administrative expenses		**-12,090**	**-1.8**	-11,408	-1.7
Other operating expenses	6	**-1,584**	**-0.2**	-1,733	-0.3
Impairment, property, plant and equipment	13	**-302**	**0.0**	-5,677	-0.9
Impairment, goodwill and other intangible assets	13	**0**	**0.0**	-11,384	-1.7
Operating profit	3, 5	**48,391**	**7.2**	25,597	3.9
Finance income	8	**860**	**0.1**	1,041	0.2
Finance costs	8	**-6,256**	**-0.9**	-5,644	-0.9
Profit before tax		**42,995**	**6.4**	20,994	3.2
Income tax expense	9	**-8,543**	**-1.3**	-4,030	-0.6
Profit for the period		**34,452**	**5.1**	16,964	2.6
Attributable to:					
Equity holders of the company		**34,459**		16,960	
Minority interest		**-7**		4	
Earnings per share for profit attributable to the equity holders of the company:					
Basic earnings per share, EUR	10	**0.89**		0.44	
Diluted earnings per share, EUR		**0.89**		0.44	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 January–31 December EUR 1,000	Note	2012	2011
Profit for the period		**34,452**	16,964
Other comprehensive income, after tax			
Hedging reserve, change in fair value		**1,098**	-487
Revaluation reserve			
Current available-for-sale financial assets	8		
Gains in the period		**2**	-4
Current available-for-sale financial assets		**2**	-4
Currency translation differences		**627**	111
Currency translation differences non-controlling interest		**10**	-11
Other comprehensive income, after tax		**1,737**	-391
Total comprehensive income, after tax		**36,189**	16,573
Attributable to:			
Equity holders of the company		**36,186**	16,580
Minority interest		**3**	-7

More information on taxes in consolidated statement of comprehensive income is presented in Note 9 Income taxes.

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December EUR 1,000	Note	2012	%	2011	%
ASSETS					
Non-current assets					
Intangible assets	12				
Goodwill		**120,189**		119,509	
Customer contracts arising from acquisitions		**7,880**		10,591	
Agreements on prohibition of competition		**1,810**		3,162	
Other intangible assets arising from acquisitions		**57**		78	
Other intangible assets		**8,494**		11,149	
		138,430	**28.8**	144,489	29.2
Property, plant and equipment	14				
Land		**3,844**		4,589	
Buildings and constructions		**52,393**		78,217	
Machinery and equipment		**121,179**		120,015	
Other		**86**		85	
Prepayments and construction in progress		**2,657**		4,616	
		180,159	**37.4**	207,522	42.0
Other non-current assets					
Available-for-sale investments	17, 30	**7,284**		605	
Finance lease receivables	18, 30	**3,608**		3,578	
Deferred income tax assets	9	**3,845**		6,323	
Other receivables	30	**2,755**		3,315	
		17,492	**3.6**	13,821	2.8
Total non-current assets		**336,081**	**69.8**	365,832	73.9
Current assets					
Inventories	19	**24,884**		27,953	
Trade and other receivables	20, 30	**103,925**		91,629	
Derivative receivables	30, 31	**1,290**		419	
Prepayments		**491**		438	
Available-for-sale investments	21, 30	**2,499**		2,299	
Cash and cash equivalents	22, 30	**12,083**		5,770	
Total current assets		**145,172**	**30.2**	128,508	26.1
Total assets		**481,253**	**100.0**	494,340	100.0

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

31 December EUR 1,000	Note	2012	%	2011	%
EQUITY AND LIABILITIES					
Equity					
Equity attributable to equity holders of the company	23				
Share capital		**19,399**		19,399	
Other reserves		**-743**		-2,469	
Unrestricted equity reserve		**29,381**		50,658	
Retained earnings		**150,233**		133,125	
Profit for the period		**34,459**		16,960	
		232,729		217,673	
Minority interest		**274**		271	
Total equity		**233,003**	**48.4**	217,944	44.1
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	9	**31,313**		29,389	
Retirement benefit obligations	25	**672**		628	
Provisions	26	**4,304**		2,500	
Borrowings	27, 30	**57,961**		92,914	
Other liabilities	28, 30	**942**		960	
		95,192	**19.8**	126,391	25.6
Current liabilities					
Borrowings	27, 30	**38,915**		42,319	
Trade and other payables	29, 30	**112,880**		105,751	
Derivative liabilities	30, 31	**1,129**		1,850	
Current tax liabilities		**14**		85	
Provisions	26	**120**			
		153,058	**31.8**	150,005	30.3
Total liabilities		**248,250**	**51.6**	276,396	55.9
Total equity and liabilities		**481,253**	**100.0**	494,340	100.0

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

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR 1,000	Note	2012	2011
Cash flows from operating activities			
Profit for the period		**34,452**	16,964
Adjustments	33	**55,002**	69,322
Net cash generated from operating activities before change in working capital		**89,454**	86,286
Change in working capital			
Change in trade and other receivables		**-10,574**	-7,843
Change in inventories		**-121**	9
Change in trade and other payables		**17,096**	11,055
Change in working capital		**6,401**	3,221
Interest paid		**-5,070**	-6,165
Interest received		**830**	1,020
Income tax paid		**-11,127**	-9,896
Net cash generated from operating activities		**80,488**	74,466
Cash flows from investing activities			
Acquisitions of subsidiaries and businesses, net of cash acquired	2	**-2,498**	-24,430
Proceeds from sale of subsidiaries and businesses, net of sold cash	33	**7,820**	0
Purchases of property, plant and equipment and intangible assets		**-40,659**	-45,503
Proceeds from sale of property, plant and equipment and intangible assets		**2,826**	1,850
Purchases of available-for-sale investments			-20
Change in other non-current receivables		**560**	98
Proceeds from sale of available-for-sale investments			
Dividends received		**1**	
Net cash used in investing activities		**-31,950**	-68,005
Cash flows from financing activities			
Proceeds from issuance of shares	23		
Changes in short-term borrowings		**-5,781**	8,712
Proceeds from long-term borrowings		**10,200**	20,000
Repayments of long-term borrowings		**-25,254**	-19,761
Repurchase of own shares			-517
Capital repayments paid		**-21,254**	-21,284
Net cash generated from financing activities		**-42,089**	-12,850
Net change in liquid assets		**6,449**	-6,389
Liquid assets at beginning of period		**8,069**	14,548
Effect of changes in foreign exchange rates		**64**	-90
Liquid assets at end of period	22	**14,582**	8,069

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR 1,000	Note	Share capital	Share premium reserve	Currency translation differences	Revaluation reserve	Hedging reserve	Invested unrestricted equity reserve	Retained earnings	Equity attributable to equity holders of the company	Non-controlling interest	Total equity
Equity at 1 January 2011		**19,399**	**50,673**	**-1,523**	**-48**	**-570**	**0**	**154,785**	**222,716**	**278**	**222,994**
Comprehensive income											
Profit for the period								16,960	16,960	-7	16 953
Hedging reserve, change in fair value						-487			-487		-487
Current available-for-sale financial assets					-4				-4		-4
Currency translation differences				111					111		111
Total comprehensive income				111	-4	487		16,960	16,580	-7	16,573
Transactions with equity holders of the company											
Expense recognition of share-based benefits	24							183	183		183
Repurchase of own shares	23							-553	-553		-553
Dividends paid	11							-21,290	-21,290		-21,290
Transfer from revaluation reserve					52		-15		37		37
Total transactions with equity holders of the company					52		-15	-21,660	-21,623	0	-21,623
Transfer from share premium reserve			-50,673				50,673				
Equity at 31 December 2011		**19,399**	**0**	**-1,412**	**0**	**-1,057**	**50,658**	**150,085**	**217,673**	**271**	**217,944**

EUR 1,000	Note	Share capital	Share premium reserve	Currency translation differences	Revaluation reserve	Hedging reserve	Invested unrestricted equity reserve	Retained earnings	Equity attributable to equity holders of the company	Non-controlling interest	Total equity
Equity at 1 January 2012		**19,399**	**0**	**-1,412**	**0**	**-1,057**	**50,658**	**150,085**	**217,673**	**271**	**217,944**
Comprehensive income											
Profit for the period								34,459	34,459	3	34,462
Hedging reserve, change in fair value						1,098			1,098		1,098
Current available-for-sale financial assets					2				2		2
Currency translation differences				627					627		627
Total comprehensive income				627	2	1,098		34,459	36,186	3	36,189
Transactions with equity holders of the company											
Expense recognition of share-based benefits	24							125	125		125
Capital repayment							-21,277	22	-21,255		-21,255
Total transactions with equity holders of the company									-21,130		-21,130
Transfer from share premium reserve											
Equity at 31 December 2012		**19,399**	**0**	**-785**	**2**	**41**	**29,381**	**184,691**	**232,729**	**274**	**233,003**

More information on equity is shown in Note 23 Equity, and on taxes recognised in equity in Note 9 Income taxes.
The notes are an integral part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

Lassila & Tikanoja plc is a Finnish public limited liability company. Its domicile is Helsinki. The registered address of the Company is Sentnerikuja 1, 00440 Helsinki. The Group consists of the parent company, Lassila & Tikanoja plc and its subsidiaries (together L&T), and it specialises in environmental management and property and plant support services. The Group has business operations in Finland, Sweden, Latvia and Russia.

Lassila & Tikanoja plc is listed on the NASDAQ OMX Helsinki.

The consolidated financial statements are available on the company website at www.lassila-tikanoja.com or from the parent company's head office, address Lassila & Tikanoja plc, P.O. Box 28, 00441 Helsinki, Finland.

These consolidated financial statements have been approved for issue by the Board of Directors of Lassila & Tikanoja plc on 31 January 2013. Under the Finnish Limited Liability Companies Act, the shareholders may accept or reject the financial statements at the General Meeting of Shareholders held after their publication. The meeting also has the power to make a decision to amend the financial statements.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are described below. These policies have been consistently applied to all 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 in effect on 31 December 2012. 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) 1606/2002. The notes to the consolidated financial statements also comply with the Finnish accounting and community legislation supplementing the IFRS regulations.

The consolidated financial statements have been prepared in euros, and figures are presented as thousands of euros. The financial statements have been prepared under the historical cost convention, with the exception of available-for-sale investments for which a fair value can be determined from market prices, and derivative contracts, which have been measured at fair value. Share-based payments have been recognised at fair value on the grant date.

Consolidation

Subsidiaries

The consolidated financial statements include the parent company Lassila & Tikanoja plc and all subsidiaries in which the Group exercises control. The Group has a controlling interest when it holds more than 50 per cent of votes, or otherwise exercises control over the company. Control means the right to govern the financial and operating policies of a company so as to obtain benefits from its activities. The subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Intra-Group shareholdings have been eliminated using the acquisition method. Consideration given and the identifiable assets and liabilities of an acquired company are recognised at fair value on the date of acquisition.

Any costs associated with the acquisition have been recorded as expenses. Any conditional additional sale price has been measured at fair value on the date of acquisition and classified as a liability or as equity.

Additional sale price classified as a liability is measured at fair value on the closing day of each reporting period, and the resulting gains or losses are recognised through profit or loss. Additional sale price classified as equity will not be re-measured. Any non-controlling interests in the acquired entity are recognised either at fair value or at the proportionate share of non-controlling interests in the acquired entity's net identifiable assets. The principle applied in measurement is specified separately for each acquisition. Comprehensive income is attributed to the parent company's shareholders and non-controlling interests, even if this would result in the non-controlling interest being negative. Equity attributable to non-controlling interests is presented as a separate item in the statement of financial position, as an equity component. Changes in the parent company's holdings in the subsidiary and not resulting in loss of controlling interest are presented as equity transactions.

In an acquisition achieved in stages, the previous holdings are measured at fair value and the resulting gains or losses are recognised through profit or loss. If the Group loses its controlling interest in the subsidiary, its remaining holdings are measured at fair value on the date when control ceases, and the difference is recognised through profit or loss.

All intra-Group transactions, receivables, liabilities and unrealised gains, as well as distribution of profits within the Group, are eliminated in the consolidated financial statements. Unrealised losses are not eliminated if the losses are attributable to impairment. The distribution of profit or loss for the period between equity holders of the parent company and the non-controlling interest is presented in a separate income statement and the statement of comprehensive income, and the share of equity belonging to the non-controlling interest is presented as a separate item in the consolidated statement of financial position under equity.

Business combinations of entities under common control are treated on the basis of previous carrying amounts.

Joint ventures

Joint ventures are entities over which the Group, together with another party, exercise joint, contractually agreed control. Joint ventures are accounted for by the proportionate method, line by line. The Group's share of the assets, liabilities, revenues, expenses and contingent liabilities of the joint ventures is included in the consolidated financial statements. A share corresponding to the Group's ownership of the joint venture's cash flow items is consolidated in the Group's statement of cash flows. On 31 December 2012, the Group had no ownership interests in joint ventures.

Foreign currency translation

The consolidated financial statements are presented in euros, which is the parent company's functional and presentation currency.

Items included in the financial statements of each of the Group's entities are treated using the currency of the economic operating environment in which the entity primarily operates (functional currency).

Any transactions in foreign currencies have been recognised in the functional currency using the exchange rate in effect on the transaction date. 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 rate in effect on the transaction date. L&T has 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 items 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 financial 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 statements of financial position at the exchange rates in effect on the balance sheet date. The difference in exchange rates applicable to the translation of profit in the income statement and statement of financial position result in a translation difference recognised in the translation differences 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 treated as part of the net investment in subsidiaries. The translation differences on such receivables are also recognised in the translation difference reserve.

When a subsidiary is fully or partly divested, any accumulated translation differences are recognised in the income statement as part of the total gain or loss on sale.

Goodwill and fair value adjustments to the carrying amounts of the assets and liabilities arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated into euros at the closing rate.

Revenue recognition

Sales of services are recognised after the services have been provided. At plants producing materials for sale, the cost of materials is recognised in inventories. When the processed materials have no sales price, cost provisions are recognised in accrued expenses.

Revenue on goods sold is recognised after the material risks and rewards associated with the ownership of the goods have been transferred to the buyer, and the amount of the revenue can be reliably measured.

For the calculation of net sales, sales revenue is adjusted with indirect taxes and discounts.

Interest income is recognised using the effective interest method. The Group's dividend income is minor and 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.

Long-term projects

Contract revenue and contract costs are recognised on the basis of the stage of completion, once the outcome of the project can be estimated reliably. Landfill closure contracts are recognised using the percentage-of-completion method. Their initiation and completion generally take place in different financial periods. The stage of completion of a contract is determined as the proportion of costs incurred from work completed up to the time of review in relation to the estimated total contract costs. If the incurred costs and recognised profits exceed the project billings, the difference is presented in the statement of financial position under trade and other receivables. If the incurred costs and recognised profits are less than the project 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 for the period in which they are incurred, and revenue is recognised only up to the amount of recoverable contract costs incurred. If it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as expense immediately.

The outcome of the projects related to the collection of contaminated soil cannot be estimated reliably.

In these projects, revenue is recognised to the amount of costs incurred.

The Group had no long-term projects in progress during the period ended on 31 December 2012 or in the previous period.

Research and development

Research expenditure is recognised as an expense during the period in which it is incurred. The gains from new service concepts can only be verified at such a late stage that the revenue recognition criteria are not considered fulfilled before the service delivery. Computer software development costs recognised as an asset in the statement of financial position are described in more detail in the following chapter.

Goodwill and other intangible assets

Goodwill represents the portion of the acquisition cost by which the aggregate of the consideration given, the share of non-controlling owners in the acquired entity and the previously owned share exceed the fair value of the acquired entities at the time of acquisition. Goodwill is not amortised, but is tested annually for impairment. Goodwill is presented in the statement of financial position at original cost less impairment losses, if any.

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

Other intangible assets consist primarily of software and software licences.

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

The depreciation period for computer software and software licences is five years. Depreciation will cease when an intangible asset is classified as held for sale (or included in a disposal group held for sale) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Property, plant and equipment

Property, plant and equipment are recognised at acquisition cost less accumulated depreciation and impairment losses. The historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment. Borrowing costs immediately arising from the acquisition, construction or manufacture of property, plant and equipment that meet the conditions are capitalised as part of the asset's acquisition cost.

The statement of financial position of L&T Recoil, consolidated in the comparison period as a joint venture, included financial costs attributable to the construction re-refinery that were capitalised as part of the asset's acquisition cost. As L&T Recoil's borrowings involved the construction of the re-refinery, the actual borrowing costs have been capitalised in the acquisition cost.

In business combinations, property, plant and equipment are measured at fair value on the acquisition date. In the statement of financial position, property, plant and equipment are shown less depreciation and impairment, if any.

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

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

Buildings and structures	5–30 years
Vehicles	6–15 years
Machinery and equipment	4–15 years

For completed landfills the Group applies the units of production method, which involves depreciation on the basis of the volume of waste received. Land is not depreciated.

When an asset included in property, plant and equipment consists of several components with different estimated useful lives, each component is treated as a separate asset. Ordinary repair and maintenance costs are recognised in the income statement during the period in which they are incurred. Costs of significant modification and improvement projects are capitalised if it is probable that the projects will result in future economic benefits to the Group. When a tangible asset is classified as held for sales in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, depreciation will no longer be recorded. Gains and losses on sales and disposal of property, plant and equipment are recognised through profit or loss and are presented in other operating income or expenses.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) and assets and liabilities associated with discontinued operations are classified as held for sale if the amount corresponding to their carrying amount will be principally recovered through their sale instead of continued use. An asset is considered to meet the conditions specified for an asset to be classified as held for sale when the asset (or disposal group) is immediately available for sale in its present condition under standard and conventional terms, when management is committed to a plan to sell, and the sale is expected within one year of the classification.

Immediately before the initial classification of the asset or disposal group as held for sale, the assets and liabilities will be measured in accordance with applicable IFRSs. After classification as held for sale, non-current assets (or disposal groups) are measured at the lower of the carrying amount and fair value, less selling costs. Depreciation of these assets will be discontinued upon classification. If the asset does not meet the classification conditions, the classification is cancelled and the asset is measured at pre-classification balance sheet value less depreciation and impairment, or the recoverable amount, whichever is lower. Non-current assets, or the assets and liabilities of a disposal group, classified as held for sale must be presented separately in the statement of financial position. Similarly, any liabilities of disposal groups must be presented separately from other liabilities. The profit or loss of discontinued operations must be presented in a separate line in the income statement. Comparison data shown in the income statement is adjusted for operations classified as discontinued during the most recent financial period presented. The profit or loss of discontinued operations must be shown in a separate line, including comparison data. There were no discontinued operations in the financial periods 2012 and 2011.

Impairment of assets

On each closing day of a reporting period, the Group assesses the balance sheet values of its assets for any impairment. If any indication exists, an estimate of the asset's recoverable amount is made. The need for recognition of 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 the present value. The discount rate used is the pre-tax rate, which reflects the market view of the time value of money and the risks associated with the asset.

An impairment loss is recognised in the income statement when an asset's carrying amount exceeds its recoverable amount. Impairment losses attributable to a cash-generating unit are used for 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 for an asset other than goodwill recognised in prior periods is reversed if there is a change in circumstances and the recoverable amount has changed. An impairment loss recognised for goodwill is not reversed.

Goodwill is tested for impairment annually or whenever there is any indication of impairment. Recoverable amount calculations based both on values in use and on the net sales price are made for the cash-generating units to which the goodwill has been allocated.

Intangible assets under construction are software projects that cannot be tested separately for impairment, as they do not generate separate cash flow. There is no need for impairment if, at the end of the financial period, it is clear that the projects will be completed and the software will be introduced. Intangible assets under construction are, however, tested for impairment as part of the cash generating unit to which they belong.

Leases

The Environmental Services division leases out equipment, such as waste compactors, to customers under long-term leases that transfer the material risks and rewards associated with ownership to the lessee. Such leases are classified as finance leases, and net investment in them is recognised as a trade receivable upon commencement of the lease term. Each lease payment is apportioned between financial income and repayment of trade receivables. Financial 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.

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 term of the lease 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 owned by the company. Liabilities arising from the leases are recorded under loans. Each lease payment is apportioned between financial cost and loan repayment. Financial costs are allocated to each period of the leasing 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 the material risks and rewards associated with ownership to the lessee are classified as operating leases. The lease payments are recognised on a straight-line basis over the term of the lease 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 owned by the company.

L&T Recoil, consolidated in the comparison period as a joint venture, signed a purchase agreement covering the procurement of hydrogen, hot oil and steam. Pursuant to this agreement, L&T Recoil undertakes to purchase the entire production of the production facilities for its re-refinery. The purchase agreement contains a lease as specified in IFRIC 4. This is classified as a financial lease with the same term as the purchase agreement.

Financial instruments

Financial assets and liabilities are classified as loans and receivables, available-for-sale investments, financial assets and liabilities at fair value through profit or loss, and as other financial liabilities. This classification is performed 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 all material risks and rewards of the ownership of the asset have been transferred outside L&T.

Borrowings 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 are recognised in the statement of financial position 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 category 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. Financial instruments in this category are measured at fair value. All unlisted shares are, however, measured at cost or at cost less impairment loss, if any, as the markets for these shares are inactive and their fair value cannot be measured reliably.

Available-for-sale investments are included in non-current assets, if management intends not to dispose of the investments within 12 months of the balance sheet date. All purchases and sales of available-for-sale investments are recognised on the settlement date. Any change in fair value between the trading date and settlement date is recognised in equity.

In the financial statements, available-for-sale investments are measured at fair value at the market prices in effect on 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 matures. Changes in fair values of available-for-sale financial assets are also transferred to the income statement when the fair value of an investment has been permanently impaired.

Financial assets and liabilities at fair value through profit or loss are derivative financial instruments to which hedge accounting is not applied. Accounting policies applied to them are described below under Derivative financial instruments and hedge accounting.

Borrowings are recognised in the statement of financial position on the settlement date at fair value, on the basis of the consideration received, including transaction costs directly attributable to the acquisition or issue. These financial liabilities are subsequently measured at amortised cost using the effective interest rate method. In the comparison period, financial costs associated with the construction of the L&T Recoil re-refinery were capitalised as part of the acquisition cost of the investment.

Trade and other current non-interest-bearing payables are recognised in the statement of financial position at cost.

Derivative instruments and hedge accounting

As specified in its treasury policy, L&T uses derivative instruments to reduce the financing risks associated with interest rate, commodity and exchange rate fluctuations. L&T's derivative instruments include interest rate swaps to hedge the cash flow of variable-rate borrowings against interest rate risk, commodity swaps made to balance price fluctuations in future diesel purchases, and currency forward contracts made to hedge purchases in foreign currencies against foreign exchange risk.

Derivatives are recognised initially in the statement of financial position at fair value. After acquisition, they are measured at fair value on each balance sheet date. The fair values are based on market quotations on the balance sheet date. Any gains and losses arising from measurement at fair value are accounted for in the manner determined by the purpose of the derivative instrument.

All interest rate, commodity and currency hedges meet the criteria set for efficient hedging in the Group's risk management policy. The profits and losses from derivatives covered by hedge accounting are recorded consistently with the underlying commodity. Derivative agreements are defined as hedging instruments for future cash flows and anticipated purchases (cash flow hedging), or as derivative agreements to which hedge accounting is not applied (financial hedging).

L&T applies cash-flow hedge accounting to all interest rate and currency swaps and commodity derivatives. When hedge accounting is initiated, L&T documents the relationship between the hedged item and the hedging instrument, as well as the Group's risk management objectives and hedging strategy. The Group does not use derivatives to hedge net investments made in independent foreign units.

When hedging begins and in connection with each interim report, L&T documents and estimates the effectiveness of the hedging relationships by assessing the hedging instrument's ability to cancel any changes in the cash flows of the hedged item.

To the extent that cash flow hedging is efficient, changes in fair values of hedging instruments 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 materialises. If the hedged cash flow is no longer expected to materialise, the gain or loss incurred on the hedging instrument is recognised in the income statement immediately. The ineffective portion of hedging relationship is also recognised immediately in the income statement.

The economic characteristics and risks of interest options included in borrowing agreements are embedded derivatives closely related to the host contracts. L&T does not, under IAS 39, account for them separately from the host contracts.

Hedge accounting in accordance with IAS 39 was not applied to foreign currency forward instruments and changes in the fair values of these items were recognised in the income statement as financial income or costs. Derivatives to which hedge accounting is not applied are categorised as financial assets and liabilities held for trading.

The positive fair values of all derivatives are recorded in the statement of financial position under derivative receivables. Similarly, the negative fair values of derivatives are recorded under derivative payables. All fair values of derivatives are included in current assets or liabilities.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank deposits redeemable on demand and other short-term liquid investments. Their maturity is no longer than three months from the acquisition date and they are recognised as of the settlement date and measured at historical cost. Foreign currency transactions are translated into euros using the exchange rates prevailing on the balance sheet date.

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 shall be reversed through profit or loss.

Inventories

Inventories are measured 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, L&T Recoil 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 secondary raw materials for sale. The cost of the inventories of these materials comprises raw materials, direct labour costs, other direct costs of manufacturing and a proportion of variable and fixed production overheads based on normal operating capacity.

Employee benefits

Pension 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 mainly from business acquisitions. The Group is responsible for some of these defined benefit pension plans, while others 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. When calculating the present value of pension obligations, the discount rate is based on the market yield of the high-quality bonds issued by the company, whose maturity materially corresponds to the estimated maturity of the pension obligation. The risk premium is based on bonds issued by companies with an AAA credit rating. The pension plan assets measured at fair value on the balance sheet date, the share of unrecognised actuarial gains and losses, as well as any past service costs, are deducted from the present value of the pension obligation to be recognised in the statement of financial position.

The portion of the actuarial gains and losses that exceeds the greater of 10% of the pension 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

Share-based incentive programmes

On 14 December 2011, Lassila & Tikanoja's Board of Directors decided on a share-based incentive programme with a duration of one year. Rewards will be based on the EVA result of Lassila & Tikanoja Group, excluding L&T Recoil. On the basis of this programme, no more than 65,520 Lassila & Tikanoja plc's shares may be acquired from the stock markets and transferred to personnel. At the beginning, 22 people were included in the programme.

On 17 December 2012, Lassila & Tikanoja plc's Board of Directors decided on a new share-based incentive programme with a duration of one year. The earnings period began on 1 January 2013 and ends on 31 December 2013. Any rewards paid for 2013 will be based on the Group's EVA result. Potential rewards will be paid partly in shares and partly in cash. The programme permits the transfer of a maximum of 53,300 Lassila & Tikanoja plc shares. 10 people were included in the programme.

Provisions

A provision is recognised when the Group 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, the item is recognised in accrued expenses.

Environmental provisions are recognised when it is probable that an obligation has arisen and its amount can be estimated reliably. Environmental provisions related to the restoration of sites are made at the commencement of each project. The costs recognised as a provision, as well as the original acquisition cost of assets, are depreciated over the useful life of the asset. Provisions are discounted to present value. The most significant provisions recognised in the statement of financial position are the site restoration provisions for landfills and the contaminated soil processing site.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be included in the acquisition cost of that asset.

Transaction costs directly attributable to borrowing have been included in the historical cost of the liability and recognised as an interest expense during the expected life of the liability applying the effective interest method. In addition, the financial costs attributable to the construction of the joint venture L&T Recoil's re-refinery have been capitalised as part of the asset's acquisition cost.

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 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 economic life of a depreciable asset, by way of a reduced depreciation charge.

Income taxes

The Group's 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 current tax rates 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. Calculation of deferred taxes is based on the tax rates in effect on the closing day. If the rates change, it is based on the new tax rate. 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.

Temporary differences arise e.g. from goodwill amortisation performed under FAS; depreciation on property, plant and equipment; revaluation of derivative instruments and measurement at fair value in business combinations.

Non-recurring items

Non-recurring items refer to one-off income or expenses arising in the context of a single or infrequent event. The Group records as non-recurring items the profit and loss arising from the divestment or discontinuation of business operations or assets, profit and loss arising from business reorganisation, and goodwill and asset impairment losses. The matching principle is applied in the recognition of non-recurring items in the income statement in a specific income or expense group. Non-recurring items are discussed in more detail in the Report of the Board of Directors.

Critical judgements in applying the Group's accounting policies

The Group's management makes judgements 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 presentation.

Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the management to make estimates and assumptions that

affect the carrying amounts on the balance sheet date for assets and liabilities and the amounts of revenues and expenses. Actual results may differ from the estimates and assumptions. The items wherein critical estimates and judgements have been made are described below.

Fair value measurement of assets and liabilities acquired in business combinations

Assets and liabilities acquired in business combinations are measured at fair value according to IFRS 3. Whenever possible, the management uses available market values when determining the fair values. When this is not possible, the measurement is based on the historical revenues from the asset. In particular, the measurement of intangible assets is based on discounted cash flows and requires the management to make estimates on future cash flows. Although these estimates are based on the management's best knowledge, actual results may differ from the estimates (Note 2 Business acquisitions). The carrying amounts of assets are reviewed continuously for impairment. More information on 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 management judgements. Though the assumptions used are appropriate according to the management's judgement, the estimated cash flows may differ fundamentally from those realised in the future (Note 13 Goodwill impairment tests).

Distribution of dividend

The dividend liability to the company's shareholders is recognised as a liability in the consolidated financial statements, after the Annual General Meeting has decided on the dividend distribution.

Application of new or amended IFRS standards

In preparing these consolidated financial statements, the Group has followed the same accounting policies as in the annual financial statements for 2011 except for the following new standards, interpretations and amendments to existing standards and interpretations effective as of 1 January 2012:

IFRS- 7 (Amendment) Financial Instruments: Disclosures - Derecognition

- The amendment increases the transparency of transfer transactions of financial assets and allows users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. Earlier application is permitted subject to the EU's approval of the amendment. The amendment does not have an impact on the consolidated financial statements.

IAS 12 (Amendment) Income Taxes – Deferred Tax

- Earlier, IAS 12 required an entity to assess which part of the carrying amount of assets recognised at fair value in the statement of cash position the entity expects to recover through use or sale. The amendment introduces a presumption that recovery of the carrying amount of assets measured at fair value will normally be through sale. This presumption may be applied to deferred taxes arising from investment properties, property, plant and equipment, and intangible assets measured using the fair value model or the revaluation model. The amendment has not yet been approved for application in the EU. The amendment does not have an impact on the consolidated financial statements.

The following standards, interpretations and amendements to existing standards and interpretations will be adopted in 2013 or later:

IAS 1 (Amendment) Presentation of Financial Statements

- The most significant change is the requirement to group the items included in the statement of comprehensive income, depending on their potential recognition through profit or loss in the future (reclassification adjustments). The amendment has no effect on which items are presented in the statement of comprehensive income, but they do affect the method of presentation in consolidated financial statements.

IAS 19 (Amendment) Employee Benefits

- Key changes: The amendment eliminates the use of the 'corridor' approach. The definition of estimated return on funded defined benefit plan assets will change. Financial cost is determined on the net assets (included in the obligation and in the plan). These changes are expected to have the following impacts on the consolidated financial statements:

Impact on statement of financial position on 31 December 2012 and statement of comprehensive income for the period 1 January 2012–31 December 2012 (in EUR 1,000):

Non-current liabilities	-188
Equity attributable to equity holders of the parent company	+31
Employee benefit expenses	-15
Comprehensive income for the financial period	-204

IFRS 13 Fair Value Measurement

- The new standard sets out the requirement to determine fair value and to disclose related information in the financial statements; the new standard also includes a definition of fair value. The use of fair value is not extended, but the standard offers guidelines for value definition when another standard requires or permits fair value measurements. IFRS 13 extends the disclosure requirement for assets measured at fair value not included in financial assets. The EU has not yet approved the new standard for application. The new standard is not expected to have a material impact on consolidated financial statements.

Annual improvements to IFRS standards

The Annual Improvements project provides a streamlined process for dealing efficiently with a collection of narrow scope, non-urgent amendments to IFRSs once a year. Amendments included in a project usually deal with five standards. These amendments have not yet been approved for application in the EU. The impacts of the amendments vary by standard, but are not material.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

- The amendment includes more extensive disclosure requirements; entities are required to disclose numerical information on financial assets presented in net amount in the statement of financial position, and on financial assets subject to master netting arrangements or similar agreements, even if presented in gross amount in the statement of financial position. The amendment will be adopted for application in the 2013 financial statements. The required disclosures must be presented retrospectively. The amendment has not yet been approved for application in the EU. The amendment does not have a material impact on the consolidated financial statements.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

- The interpretation offers guidance on how to account for stripping costs when it results in two types of benefits to the entity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. The interpretation has not yet been approved for application in the EU. The interpretation does not have an impact on the consolidated financial statements.

IFRS 10 Consolidated Financial Statements

- IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard defines the principles of control, and establishes control as the basis for consolidation. It provides instructions on how to apply the principle of control to identify whether an investor controls an investee and must therefore consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The EU has not yet approved the new standard for application. The amendment does not have a material impact on the consolidated financial statements.

IFRS 11 Joint Arrangements

- IFRS 11 outlines the accounting by entities that jointly control an arrangement. Joint control involves the contractual agreed sharing of control and arrangements subject to joint control are classified as either a joint venture or a joint operation. Entities undertaking a joint operation have rights to the assets of the arrangement and obligations for liabilities, and are required to account for their share of the assets, liabilities, income and expenses. In a joint venture, entities have rights to the net assets of the arrangements and therefore use equity accounting to account for their shares. Proportionate consolidation is no longer permitted. The EU has not yet approved the new standard for application. The amendment does not have a material impact on the consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

- IFRS 12 is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The new standard extends the scope of Group disclosures about its interests in other entities. The EU has not yet approved the new standard for application. Management is assessing the impact of these changes on the consolidated financial statements.

IAS 27 (as amended in 2011) Separate Financial Statements

- The amended IAS 27 outlines the accounting and disclosure requirements for separate financial statements remaining after sections regarding control were included in the new IFRS 10. The amendment has not yet been approved for application in the EU. The amendment does not have a material impact on the consolidated financial statements.

IAS 28 (as amended in 2011) Investments in Associates and Joint Ventures

- The amended standard outlines how to apply the equity method to investments in associates and joint ventures following the publication of IFRS 11. The amendment has not yet been approved for application in the EU. The amendment does not have a material impact on the consolidated financial statements.

IAS 32 Offsetting Financial Assets and Financial Liabilities

- The change has to do with the current inconsistencies in guidelines regarding presentation of financial assets and liabilities in their net amounts in the statement of financial position. The amended standard also provides for the offsetting of financial assets and liabilities on a daily basis, rather than being dependent on a specific future event. In addition, both parties must be able to report net amounts in the context of ordinary business, in the event of default and liquidation. Additional guidelines are also provided on situations where certain payment arrangements in gross amounts meet the conditions specified in IAS 32 for presentation in net amounts. The amendment will be adopted for application in the 2014 financial statements. Entities are required to apply the amended standard retrospectively. This amendment has not yet been approved for application in the EU. Management is assessing the impact of these changes on the consolidated financial statements.

IFRS 9 Financial Instruments

- This is the first part of a comprehensive project, which will result in a complete replacement of IAS 39 with a new standard. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortised cost and those measured at fair value. Classification depends on the entity's business model and the cash flow characteristics. The guidance provided in IAS 39 regarding impairment of financial assets and hedge accounting will remain in effect. The incomplete sections of IFRS 9 address the impairment of financial assets and general hedge accounting. In addition, the IASB proposes certain changes to the financial asset classification and measurement principles. The section regarding macro hedge accounting has been separated from IFRS 9 into a project of its own. Since the IFRS 9 project is still in progress, the Group is unable to present an estimate of the impacts of the standard on the consolidated financial statements.

1. Segment reporting

Segment information is reported for business segments.

The business segments, Environmental Services, Cleaning and Office Support Services, Property Maintenance and Renewable Energy Sources, are based on internal organisational structure and internal financial reporting.

Transactions between segments are based on market prices. Segment information is reported to the highest operational decision-maker, consistent with internal reporting. The highest operational decision-maker is Lassila & Tikanoja plc's President and CEO. Group Administration and other segment includes expenses associated with Group management, as well as costs incurred from operating as a public company, and the assets and liabilities corresponding to this income and expenses. Group administration assets also include available-for-sale investments.

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

Unallocated assets consist of liquid assets, receivables of interest rate and foreign currency derivatives, accrued interest receivables and other finance income and tax receivables. Unallocated liabilities consist of borrowings, liabilities of interest rate and foreign currency derivatives, accrued interest and other financing liabilities and tax liabilities.

Business segments of the Group

Environmental Services collects waste materials and processes these into secondary raw materials or recovered fuel. In addition, L&T maintains wastewater systems, hazardous waste, offers process cleaning services to the industry and is engaged in wholesale trade in environmental management products.

Cleaning and Office Support Services offers cleaning services as well as office support services.

Property Maintenance offers property maintenance, maintenance of technical systems and damage repair services.

Renewable Energy Sources (L&T Biowatti) specialises in comprehensive fuel solutions based on wood-based biofuels as well as supply of raw material and forestry services.

As of 1 January 2013 The Group's reporting segments have been reorganized to support the shift in core business focus and priorities. From 2013 the reporting segments are Environmental Services, Industrial Services, Facility Services and Renewable Energy Sources.

Environmental Services division consists of the waste management and recycling business.

Industrial Services division covers solutions for industrial material flows and their utilisation, industrial process cleaning solutions, collection and disposal of hazardous waste and sewer system maintenance and repair solutions. During the fiscal period, these services were included in the Environmental Services division.

Facility Services division consists of the former Cleaning and Office Support Services and Property Maintenance divisions.

Renewable Energy Sources (L&T Biowatti) will no longer be included in L&T's core business portfolio. Profitability improvement is the key priority in this segment.

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

1.1. Business segments

2012 EUR 1,000	Environ-mental Services	Cleaning and Office Support Services	Property Maintenance	Renewable Energy Sources	Group administration and other	Eliminations	Group
Net sales							
External net sales	326,654	159,470	135,981	51,880			673,985
Inter-division net sales	4,021	2,072	1,970	4,067		-12,130	0
Total net sales	330,675	161,542	137,951	55,947		-12,130	673,985
Operating profit	38,143	7,641	5,339	-61	-2,671		48,391
Operating margin, %	11.5	4.7	3.9	-0.1			7.2
Finance income and costs (Note 8)							-5,396
Profit before tax							42,995
Income tax expense (Note 9.1)							-8,543
Profit for the period							34,452
Assets							
Assets of the division	310,030	56,056	49,662	30,179	9,853		455,780
Unallocated assets							25,473
Total assets							481,253
Liabilities							
Liabilities of the division	61,068	30,289	19,784	6,094	1,378		118,613
Unallocated liabilities							129,637
Total liabilities							248,250
Capital expenditure (Notes 12 and 14)	27,421	4,917	9,810	486	6,751		49,385
Depreciation and amortisation (Note 5)	31,774	5,001	6,275	281	9		43,340
Impairment				302			302
Other expenses of no-cash transactions							
Share-based payment					188		188
Retirement benefit obligations	31	10			193		234
Provisions	160	-29	-20				111
Total	191	-19	-20	0	381		533

2011 EUR 1,000	Environ-mental Services	Cleaning and Office Support Services	Property Maintenance	Renewable Energy Sources	Group administration and other	Eliminations	Group
Net sales							
External net sales	322,264	155,817	132,399	41,650			652,130
Inter-division net sales	3,620	1,454	2,192	3,752		-11,018	0
Total net sales	325,884	157,271	134,591	45,402		-11,018	652,130
Operating profit	33,970	7,131	8,181	-21,250	-2,435		25,597
Operating margin, %	10.4	4.5	6.1	-46.8			3.9
Finance income and costs (Note 8)							-4,603
Profit before tax							20,994
Income tax expense (Note 9.1)							-4,030
Profit for the period							16,964
Assets							
Assets of the division	346,224	54,302	45,048	27,346	2,528		475,448
Unallocated assets							18,892
Total assets							494,340
Liabilities							
Liabilities of the division	57,367	29,804	15,889	3,932	1,343		108,335
Unallocated liabilities							168,061
Total liabilities							276,396
Capital expenditure (Notes 12 and 14)	43,362	14,721	11,776	454	277		70,590
Depreciation and amortisation (Note 5)	30,760	4,928	4,873	3,919	7		44,487
Impairment				17,061			17,061
Other expenses of no-cash transactions							
Share-based payment					182		182
Retirement benefit obligations	1	17			58		76
Provisions	111	-10	-5		0		96
Total	112	7	-5	0	240		354

Reconciliation of reportable segments' assets to total assets

EUR 1,000	2012	2011
Segment assets for reportable segments	**445,927**	472,920
Other segments' assets	**9,853**	2,528
	455,780	475,448
Unallocated assets		
Liquid assets	**14,582**	8,069
Receivables of interest rate and foreign currency derivatives	**4,325**	4,577
Accrued interest receivables and other finance income	**0**	24
Tax assets	**6,566**	6,223
Total	**25,473**	18,892
Total assets	**481,253**	494,340

Reconciliation of reportable segments' liabilities to total liabilities

EUR 1,000	2012	2011
Segment liabilities for reportable segments	**117,234**	106,992
Other segments' liabilities	**1,379**	1,343
	118,613	108,335
Unallocated liabilities		
Liabilities of interest rate and foreign currency derivatives	**81,275**	135,644
Accrued interest and other financing liabilities	**17,035**	2,943
Tax liabilities	**31,327**	29,474
Total	**129,637**	168,061
Total liabilities	**248,250**	276,396

1.2. Geographical segments

EUR 1,000	2012	2011
Net sales		
Finland	**587,765**	560,178
Other countries	**86,220**	91,952
Total	**673,985**	652,130
Assets		
Finland	**411,898**	431,752
Other countries	**43,882**	43,696
Unallocated assets	**25,473**	18,892
Total	**481,253**	494,340
Capital expenditure		
Finland	**46,624**	63,660
Other countries	**2,761**	6,930
Total	**49,385**	70,590

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 they are identifiable. 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. 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. All business combinations also create synergy benefits that consist primarily of savings in fixed production costs.

Changes in goodwill arising from acquisitions or acquisition costs may arise on the basis of terms and conditions related to the acquisition price in the deeds of sale. In many acquisitions a small portion of the acquisition price is contingent on future events (less than 12 months). These conditional acquisition prices are recorded at fair value at the time of acquisition, and any changes will be recorded through profit or loss in the income statement for the period. Profit for the period includes changes allocated to acquisition prices amounting to EUR 150 thousand. Changes in the acquisition prices made in 2009 and for the Biowatti acquisition in 2007 will be recorded in goodwill in line with the old IFRS 3.

The consolidated net sales for the year 2012 would have been EUR 674.1 million and the consolidated profit for the period EUR 34.5 million if all the acquisitions had occurred on 1 January 2012. The realised net sales of the acquired businesses have been added to the consolidated net sales, and their realised profits and losses have been added to the consolidated profit in accordance with interim accounts at the time of acquisition. Profit for the period is stated less the current amortisation on intangible assets and depreciation charges on property, plant and equipment. Synergy benefits have not been accounted for.

The aggregate net sales of the acquired businesses totalled EUR 1.9 million in 2012.

2012
Business combinations in aggregate

EUR 1,000 Consideration	Fair values used in consolidation
Cash	**2,690**
Equity instruments	**0**
Contingent consideration	**0**
Total consideration transferred	**2,690**
Indemnification asset	**0**
Fair value of equity interest held before the acquisition	**0**
Total consideration	**2,690**
Acquisition-related costs (included in the administrative expenses in the consolidated financial statements)	**6**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	**2,438**
Customer contracts	**618**
Agreements on prohibition of competition	**151**
Other intangible assets arising from business acquisitions	**0**
Other intangible assets	**0**
Non-current available-for-sale financial assets	**0**
Inventories	**2**
Trade and other receivables	**87**
Deferred tax receivables	**96**
Cash and cash equivalents	**154**
Total assets	**3,546**
Deferred tax liabilities	**0**
Non-current interest-bearing liabilities	**44**
Trade and other payables	**54**
Retirement benefit obligations	**0**
Contingent liability	**1,098**
Total liabilities	**1,196**
Total identifiable net assets	**2,350**
Non-controlling interest	**0**
Goodwill	**340**
Total	**2,690**

The property maintenance operations of IK Kiinteistöpalvelu Oy was acquired into Property Maintenance on 1 January 2012 and the business of Jyvässeudun Talonmiehet Oy and Kiinteistöhuolto Markku Hyttinen Oy on 1 February 2012.

The waste management business of Sita Finland Oy in Oulu was acquired to Environmental Services on 1 May 2012. In addition, the business of material utilisation area of Munaistenmetsä, Uusikaupunki was acquired to Environmental Services on 11 October 2012.

The figures for these acquired businesses are stated in aggregate, because none of them is of material importance when considered separately. 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. With share acquisitions, L&T was able to gain 100% of the voting rights. The conditional consideration is tied to the transfer of the customer contracts to Lassila & Tikanoja plc, and the estimates of the fair values of considerations were determined on the basis of probability-weighted final acquisition price. The estimates for the conditional consideration have not changed between the time of acquisition and the balance sheet date. Trade and other receivables have been recorded at fair value at the time of acquisition. Individual acquisition prices have not been itemised because none of them is of material importance when considered separately.

By net sales, the largest acquisition was the business of Jyvässeudun Talonmiehet Oy (EUR 858 thousand).

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

On 18 December 2006, an agreement was signed on the acquisition of the majority (70%) of the shares of Biowatti Oy from the acting management of the company. L&T also made a commitment to redeem the remaining 30 percent of the shares by the beginning of the year 2012. The acquisition price for the 70 percent portion was EUR 30.9 million, and it was settled in cash. No interest-bearing liabilities were transferred in the acquisition. 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 acquisition price of the remaining 30 percent was recognised as interest-bearing current liability. The final price of the 30 percent portion will be determined based on the future earnings of L&T Biowatti. According to the agreement the final 30 percent of the acquisition price for Renewable Energy Sources (L&T Biowatti) was paid in January 2012. This instalment was valued at EUR 2,411 thousand in the 2011 financial statements.

2011
Business combinations in aggregate

EUR 1,000 Consideration	Fair values used in consolidation
Cash	27,830
Equity instruments	0
Contingent consideration	45
Total consideration transferred	27,875
Indemnification asset	
Fair value of equity interest held before the acquisition	
Total consideration	27,875
Acquisition-related costs (included in the administrative expenses in the consolidated financial statements)	27
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	4,281
Customer contracts	9,042
Agreements on prohibition of competition	3,336
Other intangible assets arising from business acquisitions	0
Other intangible assets	160
Non-current available-for-sale financial assets	122
Inventories	411
Trade and other receivables	5,914
Cash and cash equivalents	3,399
Total assets	26,666
Deferred tax liabilities	752
Non-current interest-bearing liabilities	45
Trade and other payables	8,475
Retirement benefit obligations	0
Contingent liability	0
Total liabilities	9,272
Total identifiable net assets	17,394
Non-controlling interest	0
Goodwill	10,481
Total	27,875

Pentti Laurila Ky, an environmental management business operating in the Keuruu and Multiala region in central Finland, was acquired into Environmental Services on 4 January 2011, the Ypäjä-based Matti Hossi Ky, a waste management and interchangeable platform business, on 1 February 2011, the PPT Luttinen Oy waste management business on 1 March 2011, Papros Oy, an environmental management company and Full House Oy, a company specialising in the provision of environmental management services, both operating in the Helsinki region on 1 May 2011. Additionally on the final quarter on 1 October 2011, Paraisten Puhtaanapito Oy, a company providing waste management, recycling and wastewater services was acquired into Environmental Services.

The cleaning business of Kestosiivous Oy, a company operating in the Helsinki region was acquired into Cleaning and Office Support Services on 1 January 2011 an the cleaning and property maintenance businesses of Varkaus-based Savon Kiinteistöhuolto- ja Siivouspalvelu Oy, Varkauden Kiinteistönhoito ja Siivouspalvelu Oy and Jo-Pe Huolto Oy 1 April 2011. On 1 May 2011, Östgöta Städ Ab in Sweden, a cleaning service provider, on 1 June 2011, WTS-Palvelut Oy, a cleaning company operating in the Tampere region and on 1 November 2011, Palvelusiivous Ulla Haavisto Oy, a cleaning company operating in the Forssa region were acquired into the division.

Cleaning and Office Support Services and Property Maintenance acquired the Hansalaiset Oy group, including its subsidiaries, providing cleaning and property maintenance services in the Helsinki, Turku, Tampere and Oulu regions on 1 April 2011.

The operations of KH-Kiinteistöhuolto Oy operating in the Nurmijärvi region were acquired into Property Maintenance on 1 March 2011 and Nastolan Talohuolto Oy, property maintenance company operating in Lahti region was acquired on 1 December 2011.

The figures for these acquired businesses are stated in aggregate, because none of them is of material importance when considered separately. 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. With share acquisitions, L&T was able to gain 100% of the voting rights. The conditional consideration is tied to the transfer of the customer contracts to Lassila & Tikanoja plc, and the estimates of the fair values of considerations were determined on the basis of probability-weighted final acquisition price. The estimates for the conditional consideration have not changed between the time of acquisition and the balance sheet date. Trade and other receivables have been recorded at fair value at the time of acquisition. Individual acquisition prices have not been itemised because none of them is of material importance when considered separately.

By annual net sales, the largest acquisitions were Hansalaiset Oy (EUR 10,973 thousand), Papros Oy (EUR 6,209 thousand), Full House Oy (EUR 3,208 thousand) and Östgöta Städ Ab (EUR 11,842 thousand).

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

On 18 December 2006, an agreement was signed on the acquisition of the majority (70%) of the shares of Biowatti Oy from the acting management of the company. L&T also made a commitment to redeem the remaining 30 percent of the shares by the beginning of the year 2012. The acquisition price for the 70 percent portion was EUR 30.9 million, and it was settled in cash. No interest-bearing liabilities were transferred in the acquisition. 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 acquisition price of the remaining 30 percent 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. According to the assessment of 31 December 2011, the acquisition price for the remaining 30 percent was reduced by EUR 239 thousand to EUR 2,411 thousand (EUR 2,650 thousand). The adjustment is treated in line with IFRS 3 and it has no impact on the profit or loss, as the adjustment was recognised accordingly under cost of the combination, goodwill and interest-bearing liabilities.

After the financial period the property maintenance operations of IK Kiinteistöpalvelu Oy was acquired into Property Maintenance on 1 January 2012. and the business of Jyvässeudun Talonmiehet Oy and Kiinteistöhuolto Markku Hyttinen Oy on 1 February 2012. The accounting process for these acquisitions is still in progress.

2.1. Disposals of businesses

In June 2012 Lassila & Tikanoja plc sold its holding in joint venture L&T Recoil Oy to the co-owner, EcoStream Oy. The selling price totalled EUR 16.7 million and was comprised of EUR 10 million paid in cash and 19.9% of EcoStream's share capital. The gain on sale was EUR 4.2 million. The gain on sale is shown in other operating income and is treated as on non-recurring item. L&T Recoil was a part of Environmental Services division. L&T still continues as one of the raw material suppliers of the plant in Hamina.

At 31 December 2012 Lassila & Tikanoja had a selling price receivable of EUR 2.0 million and account receivables related to oil deliveries of EUR 2.9 million from EcoStream.

Lassila & Tikanoja plc has given a guarantee for a share of 50 per cent of L&T Recoil Oy's financial liabilities. The guarantee is valid no later than the maturity date of the liabilities on 31 August 2014. The financial liabilities of L&T Recoil totalled EUR 32.8 million on 31 December 2012.

In December 2012 the selling of eco-products to Kekkilä Oy was completed. The selling price totalled EUR 1.1 million. The gain on sale of EUR 0.2 million was not substantial. This component of entity does not meet the criteria of presenting discontinued operations specified in IFRS 5.31-32.

No disposals of subsidiaries or businesses were made in 2011.

EUR 1,000	L&T Recoil Oy
Property, plant and equipment and intangible assets	31,329
Inventories	3,188
Trade and other receivables	5,516
Cash and cash equivalents	185
Financial liabilities	-18,088
Trade and other payables	-9,608
Net assets	12,522
Total selling price	16,702
Received in cash	8,004
Selling price receivables	1996
EcoStream shares	6,702

3. Employee benefit expenses

EUR 1,000	2012	2011
Wages and salaries	**224,412**	216,434
Pension costs		
Defined contribution plans	**43,444**	40,915
Defined benefit plans	**36**	76
Share-based payment	**188**	182
Other personnel expenses	**13,217**	13,360
Total	**281,297**	270,967
Defined benefit plan costs by function		
Cost of sales	**8**	17
Sales and marketing	**6**	1
Administration	**22**	58
Total	**36**	76

Details on granted share options and share-based payment are presented in Note 24 Share-based payment.

The employee benefits of the top management are presented in Note 34 Related-party transactions.

Details on the items of defined benefit pension plans in the consolidated statement of financial position are presented in Note 25 Retirement benefit obligations.

Average number of employees in full-time equivalents

	2012	2011
Salaried employees	**1,364**	1,402
Non-salaried employees	**7,035**	7,111
Total	**8,399**	8,513
Finland	**6,378**	6,473
Other countries	**2,021**	2,040
Total	**8,399**	8,513

4. Construction contracts

At the end of fhe financial year 2012, the Group had no construction contracts where revenue recognition is based on the percentage of completion. It is not possible to estimate the outcome of receiving of contaminated soil reliably. The costs of these construction contracts are recognised as expenses in the period they have incurred.

5. Depreciation, amortisation and impairment

Depreciation and amortisation by function

EUR 1,000	Intangible assets	Property, plant and equipment	Total
2012			
Depreciation and amortisation			
On cost of sales	7,739	34,972	42,711
On sales and marketing	5	260	265
On administration	279	85	364
Total depreciation and amortisation	8,023	35,317	43,340
Impairment		302	302
2011			
Depreciation and amortisation			
On cost of sales	11,139	32,686	43,825
On sales and marketing	12	127	139
On administration	441	82	523
Total depreciation and amortisation	11,592	32,895	44,487
Impairment	12,273	4,788	17,061

6. Other operating income and expenses

EUR 1,000	2012	2011
Other operating income		
Gains on sales of property, plant and equipment	**1,046**	475
Gain on sale of businesses	**4,444**	
Lease income	**52**	77
Reversals of impairment losses on trade receivables	**125**	182
Reimbursements and government grants	**200**	423
Income from commodity derivatives	**421**	972
Environmental permit		300
Other	**1,420**	609
Total	**7,708**	3,038
Other operating expenses		
Losses on disposals and scrapping of property, plant and epuipment	**435**	210
Impairment losses on trade receivables	**1,010**	1,176
Other	**139**	347
Total	**1,584**	1,733

7. Research and development expenses

EUR 1.7 million (EUR 1.4 million) research and development expenses arising from centralised development projects are included in the income statement.

8. Finance income and costs

EUR 1,000	2012	2011
Finance income		
Dividend income on available-for-sale investments	**1**	
Interest income on available-for-sale investments and other receivables	**23**	87
Interest income on loans and other receivables	**649**	954
Revaluations on financial assets at fair value through profit or loss (excl. derivative swaps under hedge accounting)	**144**	
Foreign exchange gains	**43**	
Total finance income	**860**	1,041
Finance costs		
A non-recurring cost consisting of interest receivable from subordinated loans granted to L&T Recoil	**-1,960**	
Interest expenses on borrowings measured at amortised cost	**-2,747**	-4,133
Losses on non-hedging interest rate swaps, transferred from equity	**-978**	-640
Revaluations on financial assets at fair value through profit or loss (excl. derivative swaps under hedge accounting)	**0**	-144
Other finance expenses	**-571**	-653
Losses on foreign exchange	**0**	-74
Total finance costs	**-6,256**	-5,644

9. Income taxes

9.1. Income tax in the income statement

EUR 1,000	2012	2011
Income tax for the period	**-8,471**	-11,742
Income tax for previous periods	**18**	321
Deferred income tax	**-90**	7,391
Total	**-8,543**	-4,030

The differences between income tax expense recognised in the income statement and income tax calculated at the statutory tax rate of 24.5% (26% in 2011) in Finland, are as follows:		
Profit before tax	**42,995**	20,994
Income tax at Finnish tax rate	**-10,534**	-5,458
Different tax rates and losses of foreign subsidiaries	**-671**	-31
Expenses not deductible for tax purposes	**-167**	-204
Goodwill impairment	**0**	-972
Tax exempt income	**214**	73
Income tax for previous periods	**-18**	-321
Change in deferred tax liabilities (amortisation on dissolution losses)	**276**	1,519
Effect of change in tax rate, deferred tax	**0**	1,464
Tax effect of divestment of holding in L&T Recoil Oy	**3,110**	
Other items	**-753**	-100
Total	**-8,543**	-4,030

9.2. Tax effects of components of other comprehensive income

		2012			2011		
EUR 1,000	Note	Before tax	Tax expense/ benefit	After tax	Before tax	Tax expense/ benefit	After tax
Hedging reserve, change in fair value		**1,454**	**-356**	**1,098**	-623	136	-487
Revaluation reserve							
Current available-for-sale investments	21	**2**	**0**	**2**	-5	1	-4
Currency translation differences		**694**	**-67**	**627**	169	-58	111
Currency translation differences non-controlling interest		**10**		**10**	-11		-11
Components of other comprehensive income		**2,160**	**-423**	**1,737**	-470	79	-391

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

2012 EUR 1,000	At 1 January 2012	Recognised in income statement	Recognised in equity	Exchange differences	Acquired/ sold businesses	At 31 December 2012
Deferred tax assets						
Pension benefits	154	11				165
Provisions	559	189				748
Fair value adjustments	429	48			-473	4
Revenue recognition	36	-24				12
Deferred depreciation	1,533	-296				1,237
Losses of joint ventures	3,751	321			-4,072	0
Losses of subsidiaries	855	458		7	0	1,320
Translation differences	-33	-98	98		33	0
Other tax deductible temporary differences	1,635	84			74	1,793
Total	8,919	693	98	7	-4,438	5,279
Deferred tax liabilities						
Depreciation differences	-31,197	-1,003	0	0	64	-32,136
Finance lease agreements	-489	-3			9	-483
Share-based benefits	-24	12				-12
Foreign subsidiaries	-275	203			-45	-117
Other current differences	0					0
Total	-31,985	-791	0	0	28	-32,748
Net deferred tax liability	-23,066	-98	98	7	-4,410	-27,469

2011 EUR 1,000	At 1 January 2011	Recognised in income statement	Recognised in equity	Exchange differences	Acquired/ sold businesses	At 31 December 2011
Deferred tax assets						
Pension benefits	160	-6				154
Provisions	625	-66				559
Fair value adjustments	217	68	137	7		429
Revenue recognition	16	20				36
Deferred depreciation	88	1,445				1,533
Losses of joint ventures	2,965	786				3,751
Losses of subsidiaries	1,050	-194		-1	0	855
Translation differences	25		-58			-33
Other tax deductible temporary differences	368	1,315			-48	1,635
Total	5,514	3,368	79	6	-48	8,919
Deferred tax liabilities						
Depreciation differences	-34,725	3,682		-6	-148	-31,197
Finance lease agreements	-531	42				-489
Share-based benefits	-25	1				-24
Foreign subsidiaries	108	163		-2	-544	-275
Other current differences	-136	136				0
Total	-35,309	4,024		-8	-692	-31,985
Net deferred tax liability	-29,795	7,392	79	-2	-740	-23,066

9.4. Deferred tax in statement of financial position

EUR 1,000	2012	2011
Deferred tax assets	**3,845**	6,323
Deferred tax liabilities	**-31,313**	-29,389
Net deferred tax liabilities	**-27,468**	-23,066

Deferred tax is recognised in the balance sheet as tax assets and tax liabilities. Deferred tax assets and deferred tax liabilities are set off if both the assets and the liabilities relate to the same taxable entity and if the amount is not significant.

No deferred tax assets are recognised in respect of losses of joint ventures (EUR 3,751 thousand). The deferred tax assets amounting to EUR 1,320 thousand (EUR 580 thousand) in respect of losses of subsidiaries. The recognition is based on the estimated realisation of the related tax benefit through future taxable income.

Other tax deductible temporary differences include a deferred tax asset related to revenue recognition of amortisation on dissolution loss of EUR 1,795 thousand (EUR 1,519 thousand).

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

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the company by the adjusted weighted average number of ordinary shares outstanding during the period excluding ordinary shares purchased by the company and held as treasury shares.

EUR 1,000	2012	2011
Profit attributable to equity holders of the company	**34,459**	16,960
Adjusted weighted average number of ordinary shares outstanding during the year, 1,000 shares	**38,688**	38,722
Earnings per share, EUR	**0.89**	0.44

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. In 2010 and 2009, earnings per share are diluted by the share-based payments of the share-based incentive programme for the years 2009-2011, for which the cost recognition period has not yet ended. These payments are treated as share options in the calculation for diluted earnings per share even though they remain contingent.

Options have a diluting effect, when the exercise price with an option is lower than the market value of the company share. Not yet recognised option expenses are accounted for in the exercise price. The diluting effect is the number of shares that the company has to issue gratuitously because the funds received from the exercised options do not cover the fair value of the shares. The fair value of the company's share is determined as the average market price of the share during the period.

EUR 1,000	2012	2011
Profit attributable to equity holders of the company	**34,459**	16,960
Adjusted weighted average number of ordinary shares outstanding during the year, 1,000 shares	**38,688**	38,722
Effect of shares included in the share-based incentive programme, 1,000 shares	**13**	40
Adjusted average number of shares during the period, diluted, 1,000 shares	**38,701**	38,762
Earnings per share, diluted, EUR	**0.89**	0.44

11. Dividend and capital repayment per share

At the Annual General Meeting on 12 March 2013 the Board of Directors will propose that the profit for 2012 be placed in retained earnings and that no dividend be paid.

A capital repayment of EUR 0.60 will be proposed by the Board of Directors, corresponding to total of EUR 23,215,238.40. This capital repayment payable is not recognised as a liability in the financial statements. A capital repayment of EUR 0.55 per share was paid in respect of 2011.

12. Intangible assets

2012 EUR 1,000	Goodwill	Customer contracts arising from acquisitions	Agreements on prohibition of competition	Other intangible assets arising from acquisitions	Internally generated intangible assets	Intangible rights	Other intangible assets	Pre-payments	Total
Opening net book amount at 1 January 2012	127,474	23,332	23,662	9,439	4,098	13,823	15,109	713	217,650
Additions					377	220	99	1,626	2,322
Business acquisitions	340	619	151						1,110
Disposals	-66					-765	-1,115	-11	-1,957
Transfers between items					744	75	362	-1,181	0
Exchange differences	535	154	50	13		30	12	4	798
Closing net book amount at 31 Decmber 2012	128,283	24,105	23,863	9,452	5,219	13,383	14,467	1,151	219,923
Accumulated amortisation and impairment at 1 January 2012	-7,965	-12,741	-20,500	-9,361	-2,201	-10,857	-9,536		-73,161
Accumulated amortisation on disposals and transfers									0
Amortisation charge		-3,373	-1,518	-21	-658	-807	-1,646		-8,023
Impairment									0
Exchange differences	-129	-111	-35	-13		-10	-11		-309
Accumulated amortisation and impairment at 31 December 2012	-8,094	-16,225	-22,053	-9,395	-2,859	-11,674	-11,193		-81,493
Net book amount at 31 December 2012	120,189	7,880	1,810	57	2,360	1,709	3,274	1,151	138,430

Other intangible assets arising from acquisitions include mainly patents and permits.

In 2012, contractual commitments related to acquisition of intangible assets totalled EUR 109 thousand.

2011 EUR 1,000	Goodwill	Customer contracts arising from acquis-itions	Agreements on prohibition of competition	Other intangible assets arising from acquisitions	Internally generated intangible assets	Intangible rights	Other intangible assets	Pre-pay-ments	Total
Opening net book amount at 1 January 2011	116,787	14,254	20,318	9,435	5,311	13,067	10,885	1,826	191,883
Additions					511	438	451	1,246	2,646
Business acquisitions	10,481	9,042	3,336						22,859
Disposals						-15	-3		-18
Transfers between items					-1,724	331	3,773	-2,380	0
Exchange differences	206	36	8	4		2	3	21	280
Closing net book amount at 31 December 2011	127,474	23,332	23,662	9,439	4,098	13,823	15,109	713	217,650
Accumulated amortisation and impairment at 1 January 2011	-3,320	-9,518	-10,295	-8,206	-2,466	-9,869	-5,528		-49,202
Accumulated amortisation on disposals and transfers					1.019		-1,019		0
Amortisation charge		-3,187	-3,420	-1,151	-754	-915	-2,165		-11,592
Impairment	-4,607		-6,776			-68	-822		-12,273
Exchange differences	-38	-36	-9	-4		-5	-2		-94
Accumulated amortisation and impairment at 31 December 2011	-7,965	-12,741	-20,500	-9,361	-2,201	-10,857	-9,536		-73,161
Net book amount at 31 December 2011	119,509	10,591	3,162	78	1,897	2,966	5,573	713	144,489

Other intangible assets arising from acquisitions include mainly patents and permits.

In 2011, there were no contractual commitments related to acquisition of intangible assets.

In 2011, L&T Biowatti Oy was tested for impairment resulting in an impairment loss of which EUR 12,273 thousand was allocated to intangible assets.

13. Goodwill impairment tests

Goodwill allocation

Lassila & Tikanoja's business is divided into four divisions: Environmental Services, Cleaning and Office Support Services, Property Maintenance and Renewable Energy Sources (L&T Biowatti).

Environmental Services in Finland are divided into business operations that form cash generating units: Environmental Services, L&T Recoil and Environmental Products. Cleaning and Office Support Services in Finland form a cash generating unit. The Property Maintenance and Renewable Energy Sources (L&T Biowatti) divisions are tested as separate cash generating units. In addition, the Latvian/Baltic and Swedish business operations 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 1,000	2012	2011
Environmental Services excluding Environmental Products and L&T Recoil	**84,302**	84,601
Cleaning and Office Support Services	**13,904**	13,758
Property Maintenance	**5,526**	5,254
Renewable Energy Sources (L&T Biowatti)	**0**	0
Latvia	**5,673**	5,646
Sweden	**10,730**	10,174
Total	**120,135**	119,433
Units for which the amount of goodwill allocated is not significant in proportion to the balance sheet value of the Group	**54**	76
Total	**120,189**	119,509

Impairment tests

In estimation of the recoverable amounts, an asset's value in use is used. 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 the business, 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 -3.5% and 9.0% (-2.5% and 17.0%). Beyond that period, upkeep investments and a residual growth rate on a par with inflation rate (2%) or slightly higher than the inflation rate (3%) have been estimated for the cash flows. The EBITDA percentages for the future have been determined on a conservative basis. Their values are based on actual development, and no substantial changes are expected to occur during the estimate period.

The value in 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 debt equity ratio. The industry beta, cost of debt and debt equity ratio 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. In 2012, changes in return rates are mainly due to the changes of risk-free return rate and industry betas. Based on these factors, the discount rate used in the impairment tests is pre-tax return on equity (WACC) as follows: Environmental Services excluding Environmental Products and L&T Recoil 7.4% (8.9), Property Maintenance 10.5% (11.5), Cleaning and Office Support Services 10.3% (10.1), Sweden 9.4% (8.5) and Latvia 11.3% (12.5). The WACC was defined on 30 September 2012.

The impairment testing does not show impairment in any of the cash generating units.

The final 30% of the acquisition price for Renewable Energy Sources (L&T Biowatti) was paid in January 2012; this instalment was valued at EUR 2,411 thousand in the 2011 financial statements. The payment of the final acquisition price did not increase goodwill in the consolidated balance sheet. The acquisition price is presented in more detail in Note 2 Business acquisitions.

As of 1 January 2013 The Group's divisions and reporting segments have been reorganised to support the shift in core business focus and priorities. Cash-generating units will be re-defined and goodwill will be re-allocated to match the revised business segments in 2013. From 2013 the cash generating units are Environmental Services, Industrial Services, Facility Services and Renewable Energy Sources. In addition, the Latvian/Baltic and Swedish business operations continue to form cash generating units. For the purpose of impairment testing, goodwill is allocated to the cash generating units.

Sensitivity analysis of impairment testing

Principal assumptions	Share of goodwill	Required change	Required change in the most critical CGU
2012			
Residual EBITDA percentage	91%	≥ -50 %	-36%
WACC (before tax)	91%	≥ 99 %	65%
2011			
Residual EBITDA percentage	82%	≥ -50 %	36%
WACC (before tax)	82%	≥ 99 %	-31%

In 60% of the cash generating units and 91% of the consolidated goodwill (33 and 82), the change in the discount rate would have to be 99% or more to make the value in use equal to the book value. In 60% of the cash generating units and 91% of the consolidated goodwill (33 and 82), 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, L&T Latvia, the interest rate would have to increase by 65% (-31) and the residual EBITDA percentage would have to decrease by 36% (36) to make the value in use equal to the book value. Recognition of impairment loss of other cash generating units would require even greater changes in the critical variables.

14. Property, plant and equipment

2012 EUR 1,000	Land	Buildings and constructions	Machinery and equipment	Other	Prepayments and construction in progress	Total
Opening net book amount at 1 January 2012	5,082	124,403	320,743	174	4,616	455,018
Additions	20	2,608	28,562		5,620	36,810
Business acquisitions		382	2,056			2,438
Disposals	-323	-29,336	-1,884			-31,543
Transfers between items	-460	6,485	1,559		-7,584	0
Exchange differences	18	118	275	1	5	417
Closing net book amount at 31 December 2012	4,337	104,660	351,311	175	2,657	463,140
Accumulated depreciation at 1 January 2012	-493	-46,186	-200,728	-89	0	-247,496
Accumulated depreciation on disposals and transfers			285			285
Impairment		-6,047	-29,270			-35,317
Depreciation charges		-17	-285			-302
Exchange differences		-17	-134			-151
Accumulated depreciation at 31 December 2012	-493	-52,267	-230,132	-89	0	-282,981
Net book amount at 31 December 2012	3,844	52,393	121,179	86	2,657	180,159

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

EUR 1,000	Buildings and constructions	Machinery and equipment	Total
Opening net book amount at 1 January 2012	3,350	1,019	4,369
Disposals	-2,861		-2,861
Transfers between items			0
Exchange differences			0
Closing net book amount at 31 December 2012	489	1,019	1,508
Accumulated depreciation at 1 January 2012	-406	-1,019	-1,425
Accumulated depreciation on disposals and transfers	-83		-83
Exchange differences			0
Accumulated depreciation at 31 December 2012	-489	-1,019	-1,508
Net book amount at 31 December 2012	0	0	0

Contractual commitments related to property, plant and equipment totalled EUR 1,953 thousand.

2011 EUR 1,000	Land	Buildings and constructions	Machinery and equipment	Other	Prepayments and construction in progress	Total
Opening net book amount at 1 January 2011	4,671	116,544	283,759	174	5,303	410,451
Additions	165	4,358	30,503		5,590	40,616
Business acquisitions			4,441			4,441
Disposals	-21	-4	-419		-79	-523
Transfers between items	273	3,506	2,337		-6,116	0
Exchange differences	-6	-1	122		-82	33
Closing net book amount at 31 December 2011	5,082	124,403	320,743	174	4,616	455,018
Accumulated depreciation at 1 January 2011	0	-37,636	-172,026	-89	0	-209,751
Accumulated depreciation on disposals and transfers			46			46
Impairment		-6,544	-26,351			-32,895
Depreciation charges	-493	-2,009	-2,286			-4,788
Exchange differences		3	-111			-108
Accumulated depreciation at 31 December 2011	-493	-46,186	-200,728	-89	0	-247,496
Net book amount at 31 December 2011	4,589	78,217	120,015	85	4,616	207,522

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

EUR 1,000	Buildings and constructions	Machinery and equipment	Prepayments and construction in progress	Total
Opening net book amount at 1 January 2011	3,350	1,019		4,369
Transfers between items				0
Exchange differences				0
Closing net book amount at 31 December 2011	3,350	1,019	0	4,369
Accumulated depreciation at 1 January 2011	-238	-1,017	0	-1,255
Accumulated depreciation on disposals and transfers	-168	-2		-170
Exchange differences				0
Accumulated depreciation at 31 December 2011	-406	-1,019	0	-1,425
Net book amount at 31 December 2011	2,944	0	0	2,944

Contractual commitments related to property, plant and equipment totalled EUR 4,593 thousand.
In 2011, L&T Biowatti Oy was tested for impairment resulting in an impairment loss of which EUR 4,788 thousand was allocated to property, plant and equipment.

15. Joint ventures

The Group holded a 50% interest in L&T Recoil Oy, Helsinki until 25 June 2012.

The assets, liabilities, revenues and expenses of the joint venture included in the consolidated income statement and the statement of financial position

EUR 1,000	2012	2011
Non-current assets		34,465
Current assets		3,459
Non-current liablities		-19,152
Current liabilities		-5,467
Net assets	**0**	13,305
Revenues	**4,961**	11,508
Expenses	**-5,343**	-13,092
Profit/loss for the period	**-382**	-1,584

	2012	2011
Average personnel in joint venture	**0**	47

More details on the joint venture are shown in Note 34 Related-party transactions.

16. Investments in subsidiaries

	Group holding of shares and votes %
Hansalaiset Oy, Helsinki*	100.0
Kiinteistö Oy Vantaan Valimotie 33, Helsinki	100.0
Kiinteistöhuolto Markku Hyttinen Oy, Hyvinkää	100.0
Kiinteistöpalvelu Hansalaiset Oy, Helsinki*	100.0
Lassila & Tikanoja Service AB, Tukholma, Sweden	100.0
Lassila & Tikanoja Services OÜ, Tallinna, Estonia	100.0
L&T Biowatti Oy, Helsinki	100.0
L&T Ecoinvest LLC, Dubna, Russia	100.0
L&T Hankinta Ky, Helsinki	100.0
L&T Hygienutveckling AB, Kävlinge, Sweden	100.0
L&T LLC, Dubna, Russia	100.0
L&T Relations Oy, Helsinki	100.0
L&T Toimi Oy, Helsinki	100.0
L&T Östgöta AB, Norrköping, Sweden	100.0
Paraisten Puhtaanapito Oy, Helsinki	100.0
SIA L&T, Riika, Latvia	100.0
Suomen Keräystuote Oy, Tampere	100.0
The Russian-Finnish Company Ecosystem LLC, Dubna, Russia	90.0

* in voluntary liquidation

17. Non-current available-for-sale investments

EUR 1,000	2012	2011
Carrying amount at 1 January	**605**	598
Additions	**6,705**	16
Disposals	**-26**	-9
Transfers between items		
Carrying amount at 31 December	**7,284**	605

Non-current available-for-sale investments include unlisted shares.

18. Finance lease receivables

EUR 1,000	2012	2011
Maturity of minimum lease payments		
Not later than one year	**1,923**	1,886
Later than one year and not later than five years	**3,771**	3,752
Later than five years	**309**	386
Gross investment in finance lease agreements	**6,003**	6,024
Maturity of present value of minimum lease payments		
Not later than one year	**1,867**	1,826
Later than one year and not later than five years	**3,350**	3,273
Later than five years	**258**	305
Total present value of minimum lease payments	**5,475**	5,404
Unearned finance income	**528**	620
Gross investment in finance lease agreements	**6,003**	6,024

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.

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19. Inventories

EUR 1,000	2012	2011
Raw materials and consumables	**18,033**	19,007
Unfinished goods	**0**	209
Finished goods	**5,074**	6,179
Other inventories	**1,777**	2,558
Total	**24,884**	27,953

Cost of inventory recognised as an expense under cost of sales in the income statement, totalled EUR 25,986 thousand (EUR 22,220 thousand).

EUR 1.0 million (EUR 2.3 million) of the carrying amounts of inventories was recognised as an expense, and a write-down of inventories to net realisable value was made respectively. The expense is included in the cost of sales.

20. Trade and other receivables

EUR 1,000	2012	2011
Trade receivables	**89,772**	81,677
Current finance lease receivables	**1,867**	1,826
Loan receivables	**446**	1,021
Accruals	**6,857**	6,799
Tax receivables	**2,721**	39
Other receivables	**2,262**	268
Total	**103,925**	91,629
Accruals include the following:		
Interest	**9**	24
Employees' health care compensation	**3,174**	1,670
Statutory pension insurances	**286**	670
Insurances	**603**	492
Grants received	**255**	857
Indirect tax	**196**	1,136
Other	**2,334**	1,950
Total	**6,857**	6,799

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.

21. Current available-for-sale financial assets

EUR 1,000	2012	2011
Certificates of deposit and commercial papers	**2,499**	2,299
Total	**2,499**	2,299
At 1 January	**2,299**	9,895
Additions/disposals	**198**	-7,590
Changes in fair values transferred into equity	**2**	-5
At 31 December	**2,499**	2,299

Gains of EUR 23 thousand (EUR 87 thousand) were transferred from the equity to the income statement in 2012.

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.

22. Cash and cash equivalents

EUR 1,000	2012	2011
Cash on hand and in banks	**12,083**	5,770
Total	**12,083**	5,770

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

Liquid assets in the consolidated statement of cash flows include the following:

EUR 1,000	2012	2011
Cash	**12,083**	5,770
Certificates of deposit	**2,499**	2,299
Total	**14,582**	8,069

23. Equity

Share capital and share premium fund

	Number of outstanding shares, 1,000 shares	Share capital	Share premium reserve	Invested non-restricted equity reserve	Own shares	Total
At 1 January 2012	38,685	19,399	0	50,658	-1,399	68,658
At 26 March 2012 Capital repayment				-21,255		-21,255
At 1 May 2012 Unpaid capital repayment				-22		-22
At 26 July 2012 Gratuitous transfer of the company's own shares	7					
At 31 December 2012	38,692	19,399	0	29,381	-1,399	47,381
At 1 January 2011	38,738	19,399	50,673		-845	69,227
At 5 April 2011 Purchase of own shares	-3				-37	-37
At 12 September 2011 Purchase of own shares	-5				-50	-50
At 13 September 2011 Purchase of own shares	-7				-67	-67
At 14 September 2011 Purchase of own shares	-5				-54	-54
At 15 September 2011 Purchase of own shares	-6				-65	-65
At 16 September 2011 Purchase of own shares	-4				-37	-37
At 19 September 2011 Purchase of own shares	-3				-36	-36
At 20 September 2011 Purchase of own shares	-3				-29	-29
At 21 September 2011 Purchase of own shares	-4				-42	-42
At 22 September 2011 Purchase of own shares	-8				-82	-82
At 23 September 2011 Purchase of own shares	-5				-55	-55
At 31 December 2011 Transfer of share premium reserve to unristrected equity reserve			-50,673	50,658		-15
At 31 December 2011	38,685	19,399	0	50,658	-1,399	68,658

Lassila & Tikanoja plc has one share series. There is no maximum to the number of the shares and the share capital in the Articles of Association. A share has neither a nominal value nor a book equivalent value. All issued shares have been paid for in full.

At 31 December 2012 the company held 106,810 of its own shares (113,305).

A decision was made at a shareholders' meeting on 8 September 2011 to reduce the share premium shown in the balance sheet on 31 December 2010, by transferring all share premium funds to the invested non-resticted equity reserve.

Invested non-restricted equity reserve includes other equity type investments and share subscription prices to the extent that they are not expressly designated to be included in share capital.

Other reserves

Translation reserve

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 and hedging reserves

Revaluation reserve includes a fair value fund for changes in fair values of available-for-sale investments. Hedging reserve includes effective 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 operations and maintain an optimal capital structure to enable investments, taking the cost of capital into account. The capital includes equity and liabilities less advances received.

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

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

EUR 1,000	2012	2011
Equity in the consolidated statement of financial position	**233,003**	217,944
Statement of financial position total	**481,253**	494,340
Current advances received	**-9,016**	-4,843
Non-current advances received	**-279**	-262
Total	**471,958**	489,235
Equity ratio, %	**49.4%**	44.5%

The equity ratio increased slightly in comparison with the previous year. The gross capital expenditure totalled EUR 49.4 million (70.6). EUR 6.4 million were released from the working capital (EUR 3.2 million released). The amount of net cash generated from operating activities was EUR 80.5 million (74.5).

Covenants for long-term bank borrowings are shown in Note 27 Borrowings.

24. Share-based payment

The Group had share option scheme granted in 2008. The subscription period for 2008 option rights ended on 31 May 2012. Trading in 2005 option scheme's last series ended in 2011. Expenses arising from fair values of options are recognised as expenses on a straight-line basis during the vesting periods. The fair values are measured using the Black-Scholes option pricing model.

Option rights

Option	Exercise period	Exercise price EUR/ share	Number of shares to be subscribed for at 31 Dec. 2012	Number of shares to be subscribed for at 31 Dec. 2011	End of vesting period
2005C	2.11.2009–31.5.2011	26.80	0	0	2.11.2009
2008	1.11.2010–31.5.2012	16.20	0	168,000	1.11.2010
Total			0	168,000	

Amounts and average exercise prices of outstanding option rights

	2012		2011	
	Weighted average exercise price EUR/share	Number of options	Weighted average exercise price EUR/share	Number of options
Beginning of year	**16.20**	**168,000**	22.03	368,000
New options granted				
Forfeited options				
Exercised options				
Expired options		**-168,000**	26.80	-200,000
End of year	**0.00**	**0**	16.20	168,000
Options exercisable at year end	**0.00**	**0**	16.20	168,000

In 2011 and 2012, no options were exercised.

Parameters used in the Black-Scholes option pricing model

	2008	2005C
Grant date	5 June 2008	12 June 2007
Number of options in the scheme	230,000	230,000
Share price at grant date	16.65	25.18
Exercise price	16.20	26.80
Expected volatility	53%	26%
Expected vesting period	3y 360d	3y 354d
Vesting conditions	Employment period 2y 4m	Employment period 2y 4m
Risk-free interest	4.57%	4.56%
Expected dividends, EUR	2.13	2.73
Fair value at grant date, EUR	5.16	4.70

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

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

Option schemes

In the comparison period share options had been granted to key persons belonging to the management. The share options entitled their holders to subscribe for the shares of Lassila & Tikanoja plc at a subscription price and over a period determined in the terms and conditions of the option scheme. The exchange ratio for all option rights was 1:1.

Those share options whose share subscription period had not commenced and which had not yet been vested, were 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 was without delay offer to the company, free of charge, those options whose share subscription period had not commenced. After the exercise period the option rights expired with no value.

The entitlement for dividends of the shares subscribed for pursuant to the option rights, together with other shareholder rights, was to commence once the increase in the share capital or new shares had been entered in the trade register. The share subscription periods and prices of the already expired option rights are presented in the above table. The subscription prices were, as per the dividend record date, reduced by the amount of dividend which exceeded 70% of the profit per share for the financial period to which the dividend applied.

The subscription period for 2008 option rights ended on 31 May 2012 and the company no longer has effective option scheme.

Option scheme 2008

The Annual General Meeting of the year 2008 resolved to issue a maximum of 230,000 share options. The outstanding option rights entitled to the subscription of 168,000 shares. At the beginning of the scheme it included 33 key persons. The exercise price of the 2008 share options was EUR 16.20.

The subscription period for 2008 option rights ended in NASDAQ OMX Helsinki on 31 May 2012. No shares were subscribed for pursuant to the option rights and all option rights expired.

Share-based incentive programme 2009-2011

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

Payment of the reward was subject to reaching the financial targets set by the Board. The criteria for the determination of the rewards were decided annually. Rewards paid were based on the EVA result of Lassila & Tikanoja Group. Rewards were paid for the year 2009 only.

The programme included three earnings periods one year each, of which the first one began on 1 January 2009 and the last one ended on 31 December 2011.

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

A maximum total of 180,000 Lassila & Tikanoja plc shares could be paid out on the basis of the programme. The shares will be obtained in public trading. In the starting phase the programme covered 28 persons.

The share component is measured at fair value at the grant date and the measurement will not be changed during the validity of the programme. Expenses from the share component are deferred to three years over vesting period and recognised as personnel expenses in the income statement and under the equity.

Cash components are measured at fair value based on the share price on the balance sheet date. Cash components of the share-based incentive programme are recognised under personnel expenses and liabilities and deferred over the earnings period.

In June, the shares for the first earnings period 2009 were transferred. The obligation to hold shares earned through the incentive programme ceases on 31 May 2012.

Share-based incentive programme 2012

Lassila & Tikanoja plc's Board of Directors decided on 14 December 2011 on a share-based incentive programme. Rewards were based on the EVA result of Lassila & Tikanoja group without L&T Recoil. In other respects the conditions are equal with the 2009–2011 programme. Based on the programme a maximum of 65,520 shares of the company could be granted.

Under the programme, a total of 6,295 Lassila & Tikanoja pls's shares are granted in 2013. The company will acquire the shares from the markets. At the beginning the programme covered 22 persons.

Share-based incentive programme 2013

Lassila & Tikanoja plc's Board of Directors decided at a meeting held on 17 December 2012 on a new share-based incentive programme. Potential rewards will be based on the EVA result of Lassila & Tikanoja group. In other respects the conditions are equal with the 2009–2011 and 2012 programmes.

Based on the programme a maximum of 53,300 shares of the company can be granted. he company will acquire the shares from the markets. The programme covers 10 persons.

Share-based incentive programmes 2009–2011 and 2012

Instrument	Share-based incentive programme		
Share-based incentive programme	2010	2011	2012
Grant date	09/02/2010	03/01/2011	02/01/2012
Start of earnings period	01/01/2010	01/01/2011	01/01/2012
End of earnings period	31/12/2010	31/12/2011	31/12/2012
Average share price at grant date 20 May 2009	15.26	14.99	11.60
Estimated realisation on closing date, shares	0	0	6,295
Obligation to hold shares, years	2	2	2
Release date of shares	31/03/2013	31/03/2014	31/03/2015
Number of persons included	25	23	22
Expenses arising from share-based incentive programme, EUR 1,000	2010	2011	2012
Share component	192.4	182.1	125.1
Cash component	277.8		63.4
Total	470.2	182.1	188.5

No share-based payments were paid for 2010 and 2011 as the criteria for the rewards was not fulfilled.

25. 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	2012	2011
The amounts recognised in the consolidated statement of financial position		
Present value of funded obligations	715	557
Fair value of plan assets	-596	-496
	119	61
Present value of unfunded obligations	740	536
Unrecognised actuarial gain (+) and loss (-)	-188	30
Closing net liability	671	627
Changes in present value of obligation		
Opening defined benefit obligation	1,093	1,160
Current service cost	48	49
Interest cost	53	55
Actuarial gain (-) and loss (+) on obligation	309	-86
Benefits paid	-48	-85
Closing present value of obligation	1,455	1,093
Changes in fair value of plan assets		
Opening fair value of plan assets	496	546
Expected return on plan assets	22	24
Employee contributions	0	8
Actuarial gain (+) and loss (-) on plan assets	106	-57
Benefits paid	-28	-25
Closing fair value of plan assets	596	496

EUR 1,000	2012	2011
Movements in the net liability recognised in the consolidated statement of financial position		
Opening net liability	628	611
Expense recognised in the income statement	63	81
Contributions paid	-20	-64
Closing net liability	671	628
The amounts recognised in the income statement		
Current service cost	48	49
Interest cost	53	55
The amounts recognised in the income statement	101	104
Expected return on plan assets	-22	-24
Actuarial gain (-) and loss (+) recognised	155	-4
Total	234	76

The return on plan assets was EUR 128 thousand in 2012 (EUR -33 thousand).

Expected contributions to post-employment benefit plans for the year 2013 are EUR 40 thousand.

EUR 1,000	2012	2011	2010
The amounts for the period and for two preceding periods			
Present value of obligation	1,455	1,093	1,160
Fair value of plan assets	-596	-496	-546
Deficit	859	597	614
Actuarial gain (+) / loss (-) on plan assets due to experience adjustments	106	-57	11
Actuarial gain (+) / loss (-) on obligation due to experience adjustments	-19	-101	2
The principal actuarial assumptions used			
Discount rate	3.0%	4.8%	4.8%
Expected rate of inflation	2.0%	2.0%	2.0%
Expected rate of return on plan assets	3.0%	4.5%	4.5%
Rate of salary increase	4.5%	4.5%	4.5%

26. Provisions

EUR 1,000	Environmental provisions	Other provisions	Total
Provisions at 1 January 2012	2,320	180	2,500
Additional provisions	1,799		1,799
Used during the year	-20	-116	-136
Reversal of unused provisions			0
Effect of discounting	261	0	261
Provisions at 31 December 2012	4,360	64	4,424

EUR 1,000	2012	2011
Non-current provisions	4,304	2,500
Current provisions	120	0
Total	4,424	2,500

The environmental provisions cover the following obligations:
The Group has leased sites that it uses as landfills from the Cities of Kerava and Kotka. In Varkaus the Group uses a site for intermediate storing, processing and final disposal of contaminated soil. In addition to those mentioned above, L&T's acquisitions during the financial year also included the Munaistenmetsä landfill business and the land area. The landfill is used for the final disposal of municipal waste, contaminated soil and industrial by-products. At the expiry of the leases or at the discontinuation of operations, the Group is responsible for site restoration comprising landscaping and post-closure environmental monitoring called for in the terms and conditions of environmental permits.

The site restoration provision for the Kerava landfill is divided into three parts. For one part, future expenditure has been measured at the price level of the time of calculation adjusted by a change in cost index of civil engineering and by an annual inflation rate of 2% because the cost level will be higher at the moment when the provision will be used than during the construction of the landfill. The expenditure adjusted by inflation has been discounted to the date of construction of the landfill. The interest rate used is the yield expectation of a risk-free five-year government bond at the time of construction plus L&T's loan margin at the time in question. This part arising from the construction of the landfill is recognised at present value in the balance sheet as a part of the cost of the site and it is depreciated using the straightline method. A corresponding amount has been recognised as a provision in liabilities. This amount is increased annually by a discount interest recognised in finance costs. The second part of the provision is calculated on the basis of the tonnage taken to the landfill. The third portion of the provision is a part for post-closure environmental monitoring.

The site restoration provision for the Kotka landfill consists of two parts. For one part, the construction expenditure is recognized at present value in the balance sheet as a part of the cost of the site as the provision for the Kerava landfill. The accrual method, however, is applied to the depreciations on the Kotka landfill, and it will be depreciated on the basis of the volume of the waste taken to the site. The other part consists of a provision for post-closure environmental monitoring, which is based on depreciation where the straight-line method is used. Future expenditure is measured at the price level of the time of calculation adjusted by an annual inflation rate of 2%.

The principle applied for the Kerava site has been applied to the restoration provision of the processing and final disposal site of contaminated soil in Varkaus.

The same principle has been applied to the treatment of the site restoration provision for the Munaistenmetsä final disposal site as for the Kotka site. In connection with the business transaction concluded with the City of Uusikaupunki, the post-closure environmental monitoring obligation of the old, closed-down landfill was also transferred to L&T. The obligation only covers sampling and analysis, not the remediation of any contaminated soil. Future expenditure has been measured at the price level of the time of calculation adjusted by an annual inflation rate of 2%.

The settlement of the obligations recognised under long-term provisions will probably require an outflow of resources embodying economic benefits over a period of 1 to 5 years from now, except for the provision for the post-closure monitoring of the Kotka landfill the period is 30 years.

Other provisions are mainly related to restructuring and arbitration claims.

27. Borrowings

EUR 1,000	2012 Carrying amount	2011 Carrying amount
Non-current		
Bank borrowings and loans from pension institutions	**57,961**	90,345
Finance lease liabilities	**0**	2,569
Total	**57,961**	92,914
Current		
Repayments of long-term borrowings	**26,924**	24,548
Repayments of finance lease liabilities	**0**	341
Short-term borrowings	**11,991**	16,926
Acquisition price liabilities	**100**	473
Other interest-bearing liabilities	**0**	31
Total	**39,015**	42,319

Fair values of financial liabilities are presented in Note 30 Financial assets and liabilities by category.

Maturity of long-term bank borrowings and financial lease liabilities is presented in Note 37. Financial risk management.

27.1. Finance lease liabilities

EUR 1,000	2012	2011
Maturity of minimum lease payments		
Not later than one year		354
Later than one year and not later than five years		1,416
Later than five years		2,565
Total minimum lease payments	**0**	4,335
Maturity of present values of minimum lease payments		
Not later than one year		341
Later than one year and not later than five years		1,149
Later than five years		1,420
Total present value of minimum lease payments	**0**	2,910
Future finance costs		1,425
Total finance lease liabilities	**0**	4,335

The finance lease concerned the purchase agreement signed by joint venture L&T Recoil, covering the procurement of hydrogen, hot oil and steam. Pursuant to this agreement, L&T Recoil was undertaken to purchase the entire production of the production facilities for its re-refinery. The purchase agreement contained a lease as specified in IFRIC 4.

The minimum lease payments stated above comprise the redemption price to be paid at the end of the lease term, if it is included in the lease agreement.

28. Other non-current liabilities

EUR 1,000	2012	2011
Advances received	**279**	262
Other liabilities	**662**	698
Total	**941**	960

29. Trade and other current payables

EUR 1,000	2012	2011
Advances received	**9,016**	4,843
Trade payables	**28,494**	24,899
Other liabilities	**20,779**	20,081
Accrued expenses and deferred income	**54,591**	55,928
Total	**112,880**	105,751
Accrued expenses and deferred income		
Liabilities related to personnel expenses	**50,374**	49,441
Waste charges	**449**	1,420
Interest liabilities	**305**	1,500
Other accrued expenses	**3,463**	3,567
Total	**54,591**	55,928

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

30. Financial assets and liabilities by category

2012 EUR 1,000	Financial assets and 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	Fair value hierarchy level under IFRS 7
Non-current financial assets								
Available-for-sale investments			7,284			7,284	7,284	3
Finance lease receivables		3,608				3,608	3,946	
Other receivables		2,577				2,755	2,755	
Current financial assets								
Trade and other receivables		94,346				94,346	94,346	
Derivative receivables	4				1,286	1,290	1,290	2
Available-for-sale financial assets			2,499			2,499	2,499	2
Cash and cash equivalents		12,083				12,083	12,083	
Total financial assets		112,792	9,783		1,286	123,865	124,203	
Non-current financial liabilities								
Borrowings				57,961		57,961	58,310	
Other liabilities				662		662	662	
Current financial liabilities								
Borrowings				38,914		38,914		
Trade and other payables				35,710		35,710		
Derivative liabilities					1,129	1,129	1,129	2
Total financial liabilities				133,247	1,129	134,376	60,101	

2011 EUR 1,000	Financial assets and 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	Fair value hierarchy level under IFRS 7
Non-current financial assets								
Available-for-sale investments			605			605	605	3
Finance lease receivables		3,578				3,578	3,894	
Other receivables		3,315				3,315	3,315	
Current financial assets								
Trade and other receivables		84,792				84,792	84,792	
Derivative receivables					419	419	419	2
Available-for-sale financial assets			2,299			2,299	2,299	2
Cash and cash equivalents		5,770				5,770	5,770	
Total financial assets	0	97,455	2,904		419	100,778	101,094	
Non-current financial liabilities								
Borrowings				92,914		92,914	94,033	
Other liabilities				698		698	698	
Current financial liabilities								
Borrowings				42,319		42,319		
Trade and other payables				44,713		44,713		
Derivative liabilities	163				1,687	1,850	1,850	2
Total financial liabilities	163			180,644	1,687	182,494	96,581	

In the above tables, Non-current other liabilities do not include advances received, Trade and other receivables do not include tax receivables and accruals, and Trade and other payables do not include statutory liabilities (e.g. tax liabilities), as such classifications are required of financial instruments only.

Principles for determining fair values of financial assets and liabilities

Available-for-sale investments
Available-for-sale investments consist of unquoted shares. The unquoted equity instruments whose fair values are not available due to inactive markets, are measured at acquisition cost.

Available-for-sale financial assets
Available-for-sale financial assets consist of certificates of deposit and commercial papers. The certificates of deposit are tradeable 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 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 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.

Fair value hierarchy of financial assets and liabilities measured at fair value
The financial assets and liabilities measured at fair value must be classified using a three-level fair value hierarchy that reflects the significance of input data used for value definition. At L&T, only non-current available-for-sale financial assets and derivatives are measured at fair value. The fair value of non-current available-for-sale investments consisting of certificates of deposit and derivatives consisting of interest rate, currency and commodity derivative swaps represent level 2. The fair values of both financial instruments are based on prices derived from prices quoted in active markets or on generally accepted valuation techniques, the input data for which is, however, materially based on verifiable market data.

31. Derivative financial instruments

Currency forwards

	2012		2011	
EUR 1,000	Nominal value	Fair value	Nominal value	Fair value
Not later than one year	**775**	**4**	1,079	-19

Changes in fair values of currency forwards have been recognised in finance income and costs.

Cross currency interest rate swaps

	2012		2011	
EUR 1,000	Nominal value	Fair value	Nominal value	Fair value
Maturity of cross currency interest rate swaps under hedge accounting				
Not later than one year	**12,800**		10,400	
Later than one year and not later than five years	**16,667**		29,467	
Total	**29,467**	**1,150**	39,867	-183

The contracts are used to hedge cash flow related to foreign currency floating rate loans. The changes in the fair values are shown in the consolidated statement of comprehensive income for the period. On the balance sheet date, the value of foreign currency loans was EUR 1.2 million negative.

Interest rate swaps

	2012		2011	
EUR 1,000	Nominal value	Fair value	Nominal value	Fair value
Maturity of interest rate swaps under hedge accounting				
Not later than one year	**14,229**		13,429	
Later than one year and not later than five years	**28,940**		38,033	
Later than five years	**2,727**			
Total	**45,896**	**-1,129**	51,462	-1,504

The interest rate swaps are used to hedge cash flow related to a floating rate loan, and hedge accounting under IAS 39 has been applied to it. The hedges have been effective, and the changes in the fair values are shown in the consolidated statement of comprehensive income for the period. The fair values of the swap contracts are based on the market data at the balance sheet date.

The fixed interest rates of the interest rate swaps at 31 December 2012 varied between 1.24% and 4.22% (1.24 and 4.22). The floating interest rate was 1-, 3- or 6-month Euribor.

	2012		2011	
EUR 1,000	Nominal value	Fair value	Nominal value	Fair value
Maturity of interest rate swaps not under hedge accounting				
Not later than one year			4,000	
Later than one year and not later than five years			19,455	
Later than five years			4,545	
Total	**0**	**0**	28,000	-144

Hedge accounting under IAS 39 has not been applied to these interest rate swaps. Changes in fair values have been recognised in finance income and costs.

Commodity derivatives

	2012		2011	
Metric tonnes	Nominal value	Fair value	Nominal value	Fair value
Maturity of diesel swaps under hedge accounting				
Not later than one year	**5,136**		2,544	
Later than one year and not later than five years	**660**		636	
Total	**5,796**	**136**	3,180	419

Commodity derivative contracts were concluded, for hedging of future diesel oil purchases. IAS-39-compliant hedge accounting will be applied to these contracts, and the effective change in fair value will be recognised in the hedging reserve within equity. The fair values of commodity derivatives are based on market prices at the balance sheet date.

32. Operating leases

EUR 1,000	2012	2011
Maturity of minimum lease payments of non-cancellable operating leases		
Not later than one year	**5,556**	7,708
Later than one year and not later than five years	**8,377**	15,504
Later than five years	**2,274**	4,185
Total minimum lease payments	**16,206**	27,397

The Group has leased a part of the production and office premises, office equipment and vehicles. Most of the leases are index-linked and in conformity with local market practice.

The income statement of 2012 includes lease expenses arising from other leases EUR 16.1 million (EUR 17.1 million).

33. Notes to the consolidated statement of cash flows

EUR 1,000	2012	2011
Adjustments to cash flows from operating activities		
Taxes	**8,543**	4,030
Depreciation, amortisation and impairment	**43,642**	61,548
Finance income and costs	**5,395**	4,602
Profit/loss on sales of equipment	**-5,067**	-1,338
Provisions	**2,427**	311
Other	**62**	169
Total	**55,002**	69,322
Effect of subsidiaries and businesses disposed of on the Group's financial position		
Property, plant and equipment	**29,953**	0
Goodwill and other intangible assets	**1,376**	0
Total assets and liabilities	**31,329**	0
Received in cash	**8,004**	0
Cash and cash equivalents	**-184**	0
Net cash flow arising from disposals	**7,820**	0

In 2012, the joint venture L&T Recoil was disposed of.

No disposals of subsidiaries or businesses were made in 2011.

34. Related-party transactions

Lassila & Tikanoja Group has related-party relationships with a joint venture and the top management. The Group had no associates in 2012 and 2011. Joint venture L&T Recoil was disposed of at 25 June 2012.

Transactions and balances with joint ventures

EUR 1,000	2012	2011
Sales	**939**	2,489
Other operating income	**24**	63
Interest income	**391**	707
Non-current receivables		
Capital loan receivable		24,396
Current receivables		
Trade receivables		2,710
Loan receivables		1,633

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

Employee benefits of top management

EUR 1,000	2012	2011
Salaries and other short-term employee benefits	**1,517**	1,364
Post-employment benefits	**56**	49
Share-based payment (share options)		
Total	**1,573**	1,413

Top management consists of the members of the Board of Directors, President and CEO and the Group Executive Board. An expense of EUR 121 thousand (EUR 97 thousand) was recognised in the income statement as the top managements' share of the share-based payment.

Salaries and remunerations paid to members of the Board of Directors

EUR 1,000	2012	2011
Heikki Bergholm, Chairman	**63**	64
Eero Hautaniemi, Vice Chairman since 28 December 2011	**43**	36
Hille Korhonen	**33**	36
Miikka Maijala	**34**	36
Sakari Lassila	**34**	34
Juhani Lassila, former Vice Chairman member of the Board of Directors		3
Matti Kavetvuo, former Vice Chairman and member of the Board of Directors		46

At 26 July 2012 6,495 shares were transferred to the members of the Board of Directors as part of remuneration of the Board.

In 2012, the salaries paid to the President and CEO totalled EUR 396 thousand including salaries and benefits (salaries and benefits EUR 285 thousand and bonuses EUR 31 thousand).

The salaries paid to the Group Executive Board totalled EUR 913 thousand which includes salaries and benefits EUR 886 thousand and bonuses EUR 27 thousad (salaries and benefits EUR 678 thousand, bonuses EUR 116 thousand). The figures include salaries for the period during which the persons in question held an executive position.

There were changes in the Group Executive Board in 2012. EUR 199 thousand will be paid to the persons who stepped down from the Group Executive Board and left the L&T Group's employ for the period following their departure from the Group Executive Board.

The members of the Board of Directors have no pension contracts with the company. In 2012, EUR 56 thousand (49 thousand) arising from the pension agreement of the President and CEO, Jari Sarjo (President and CEO until 13 June 2011) was recognised in the income statement.

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

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

35. Auditing costs

EUR 1,000	KPMG	Other companies	Total
2012			
Auditing	82	80	162
Other assignments in accordance with the auditing act	3	9	3
Tax consulting services		25	9
Other services	60		85
Total	145	114	259

EUR 1,000	PWC*	Other companies	Total
2011			
Auditing	203	17	220
Other assignments in accordance with the auditing act	3		3
Tax consulting services	3		3
Other services	33		33
Total	242	17	259

36. Contingent liabilities

EUR 1,000	2012	2011
Collaterals for own commitments		
Mortgages on rights of tenancy	**186**	42,186
Company mortgages	**583**	21,460
Other securities	**178**	174
Bank guarantees required for environmental permits	**6,483**	5,702

In the comparison period, collaterals for own commitments were mainly collaterals given to banks by joint venture L&T Recoil. The objects of the mortgages were sites rented from the City of Hamina and the re-refinery plant situated on the sites.

Lassila & Tikanoja plc has given a guarantee for a share of 50 percent of L&T Recoil Oy's financial liabilities. The guarantee is valid no later than the maturity date of the liabilities on 31 August 2014. The financial liabilities of L&T Recoil totalled EUR 32.8 million on 31 December 2012.

37. Financial risk management

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

The Group's financing and liquidity management are handled centrally at the Group's financial management managed by the CFO. Transactions related to financial risk management are carried out by Group's financial management.

Foreign exchange risk

L&T comprises the parent company operating in Finland and subsidiaries operating in Finland, Sweden, Latvia and Russia. The functional and reporting currency of the parent company and Finnish subsidiaries is the euro, while the other 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 very 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 denominated in the functional currency of each subsidiary. 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 kronas.

Translation risk

L&T's exposure to translation risk consists of net investments in foreign subsidiaries, which include equity and loans. The position of net investments in foreign subsidiaries is not hedged, as these holdings are considered long-term strategic investments.

Changes in exchange rates in 2012 resulted in translation differences of EUR 694 thousand in equity (EUR 169 thousand). Net investments by currency are presented in the table below.

Translation exposure of net investments

EUR 1,000	2012	2011
SEK	**16,411**	19,864
LVL	**5,723**	9,719
RUB	**8,489**	8,244
Total	**30,623**	37,827

Price risk of investments

L&T has not invested in listed securities, the value of which changes as the market prices change, and L&T is not exposed to securities price risk. L&T has only a minor holding in unlisted shares, and there is no substantial price risk related to these shares.

Commodity risk

The fluctuations of world market price of crude oil 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 process of the services with a delay. This price risk has been partly hedged using commodity derivatives. Hedge accounting under IAS 39 has been applied to these derivatives.

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.

Interest rate risk

The most significant interest risk of L&T relates to borrowings, which are tied to variable interest rates and create cash flows that vary with the interest rate level. As the demand for L&T's services or their prices are not significantly dependent on fluctuations in economic trends, L&T tries to keep interest costs steady. On account of this, over 50% of the cash flow associated with variable-rate borrowings is hedged against interest rate risk by interest rate swaps.

At 31 December 2012, 68% (68) of the company's borrowings were either fixed interest rate borrowings or hedged with interest rate swaps. Variable-rate borrowings accounted for 32% (32). Therefore changes in the interest rate level will not impact interest costs in full.

All interest rate swaps made to hedge the cash flow are hedges in accordance with the Group's risk management policy and hedge accounting is applied to all contracts.

Major part of L&T's net sales arises from long-term service agreements. Due to good cash flow predictability it is determined in L&T's treasury policy that the company seeks to minimise the amount of interest-bearing assets in proportion to the current short-term financing requirements, and invests in relatively short-term instruments.

Credit and counterparty risk

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

L&T has a wide customer base comprising of companies, industrial plants, office and business properties, institutional property owners, housing corporations, public sector and households. Its accounts receivable consist mostly of a high number of relatively small receivables and there are no significant concentrations of credit risk. L&T has credit control guidelines to ensure that services and products are sold only to customers with an appropriate credit standing or, if a customer's creditworthiness is inadequate, prepayment is required. Most customer relationships are based on long-term service contracts, and customers are not generally required to provide collateral.

With regard to Finnish trade receivables, collection operations related to trade receivables are managed centrally by the financial management function. The foreign subsidiaries manage the collection of their accounts receivable locally. 91.0% of net sales originated from Finland in 2012.

The net amount of impairment on the accounts receivable in proportion to the net sales decreased from year earlier and was below 0.2%. The total of carrying amounts of financial assets at 31 December 2012 represents best the Group's maximum exposure to credit risk at the balance sheet date in case that the counterparties are not able to fulfil their commitments related to the financial instruments.

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

EUR 1,000	2013	2014	2015	2016	2017	2018 and later	Total
Bank borrowings and loans from pension institutions	**26,861**	22,139	24,831	4,883	2,596	3,574	84,885
Finance lease liabilities							
Total	**26,861**	22,139	24,831	4,883	2,596	3,574	84,885

EUR 1,000	2012	2013	2014	2015	2016	2017 and later	Total
Bank borrowings and loans from pension institutions	**24,548**	30,073	33,161	11,196	6,263	9,652	114,893
Finance lease liabilities	**341**	318	296	276	259	1,420	2,910
Total	**24,889**	30,391	33,457	11,472	6,522	11,072	117,803

The average duration of long-term borrowings at 31 December 2012 was 1.9 years (2.2) and the weighted average of effective interest rates 2.2% (3.1).

The loan agreements include equity ratio and interest cover covenants and other normal terms which restrict giving of collaterals to other financiers and discontinuance or disposal of present business. The breaching of the terms will entitle the borrowers to call in the loans immediately. The terms of loans being in Lassila & Tikanoja plc's name have not been close to breaching during 2012 and 2011.

Analysis of trade receivables by age

EUR 1,000	2012	2011
Trade receivables past due	**76,001**	70,605
Trade receivables past due 1-90 days	**10,959**	9,019
Trade receivables past due 91-180 days	**1,082**	873
Trade receivables past due 181-365 days	**766**	341
Trade receivables past due over 365 days	**964**	838
Total	**89,772**	81,676

Impaired trade receivables have been recognised as expenses in the income statement. Impairment losses and reversals of impairment losses recognised in previous periods are shown in Note 6 Other operating income and expenses.

Credit risk related to financial assets

EUR 1,000	2012 Carrying amount	2011 Carrying amount
Non-current available-for-sale investments	**7,283**	605
Non-current finance lease receivables	**3,608**	3,578
Other non-current receivables	**2,755**	3,315
Trade and other current receivables	**89,772**	81,676
Derivative receivables	**1,290**	419
Current available-for-sale investments	**2,499**	2,299
Cash and cash equivalents	**12,083**	5,770
Total	**119,290**	97,662

Financial assets are not collateralised, and they do not include any significant concentrations of credit risk. The maximum exposure to credit risk is the carrying amount of the financial assets. The criteria for recognising an impairment loss on a receivable include, based on the management's judgement, the debtor's substantial financial difficulties, corporate restructuring, a credit loss recommendation issued by a collection agency or extended default on payments. No impairment was recognised on other financial assets.

Liquidity and refinancing risk

Liquidity risk management ensures that L&T continuously will be able to answer for its financial obligations associated with operations at the lowest possible cost. L&T seeks to maintain good liquidity through efficient cash management and by investing in money market instruments which can be realised quickly. The liquidity situation is monitored in real time and predicted using cash flow forecasts. The netting of the Finnish Group companies' liquidity is done using Group bank accounts, and the Group's financial management is responsible for investing any excess liquidity. To ascertain the availability of funding, L&T uses several banks in its financial operations. Refinancing risk is managed by a broad-based maturity profile of loans and by maintaining the level of the average duration of the loan portfolio at 2 years.

L&T seeks to keep its cash assets fairly small, while ensuring sufficient credit limits for liquidity management purposes.

To meet any temporary need for cash arising from cash flow fluctuations, L&T has credit limits (totalling EUR 30 million) and a commercial paper programme (EUR 100 million). At 31 December 2012, the Group's liquid assets and investments amounted to EUR 14.6 million (EUR 8.1 million). At 31 December 2012 EUR 12.0 million of the commercial paper programme was in use (EUR 17.0 million).

The following table shows the Group's financial liabilities classified according to contractual maturity dates at the balance sheet date. The figures shown are undiscounted contractual cash flows. The long-term borrowings include equity ratio and interest cover covenants and other normal terms which restrict giving of collaterals to other financiers and discontinuance or disposal of present business. Breaching of these terms would entitle the borrowers to call in the loans immediately, which would lead to earlier realisation of the cash flows related to the borrowings.

Maturity of financial liabilities

EUR 1,000	Carrying amount	Contractual cash flows	2013	2014	2015	2016	2017	2018 and later
31 December 2012								
Bank borrowings and loans from pension institutions	84,885	87,208	27,935	22,740	25,176	5,037	2,692	3,627
Acquisition price liabilities	100	100	100					
Commercial paper liabilities	11,991	12,000	12,000					
Derivative liabilities	1,128	1,128	1,128					
Trade and other payables	49,274	47,274	47,274					
Total	147,378	149,710	90,437	22,740	25,176	5,037	2,692	3,627

EUR 1,000	Carrying amount	Contractual cash flows	2012	2013	2014	2015	2016	2017 and later
31 December 2011								
Bank borrowings and loans from pension institutions	114,893	122,930	27,497	32,375	34,552	11,815	6,644	10,047
Finance lease liabilities	2,910	4,335	354	354	354	354	354	2,565
Acquisition price liabilities	473	473	473					
Commercial paper liabilities	16,926	17,000	17,000					
Derivative liabilities	1,850	1,850	1,850					
Trade and other payables	47,923	47,923	47,923					
Total	184,975	194,511	95,097	32,729	34,906	12,169	6,998	12,612

Breakdown of borrowings

EUR 1,000	In use at 31 December 2012	Undrawn at 31 December 2012	Total	In use at 31 December 2011	Undrawn at 31 December 2011	Total
Bank borrowings and loans from pension institutions	**84,885**		**84,885**	114,893		114,893
Finance lease liabilities				2,910		2,910
Committed credit facility with maturity in 2012					15,000	15,000
Committed credit facility with maturity in 2014		**30,000**	**30,000**		30,000	30,000
Non-committed credit facilities		**8,000**	**8,000**		8,000	8,000
Commercial paper programme	**12,000**	**88,000**	**100,000**	17,000	83,000	100,000
Acquisition price liabilities	**100**		**100**	473		473
Total	**96,985**	**126,000**	**222,985**	135,276	136,000	271,276

Sensitivity for market risks arising from financial instruments

The following sensitivity analysis required by IFRS 7 illustrates the sensitivity of the Group's profit for the period and equity to changes in the interest rate level and diesel oil price level with regard to financial instruments in the statement of financial position at 31 December 2012 (31 December 2011), including financial assets and liabilities as well as derivative contracts. Changes in the fair value of derivative contracts under hedge accounting are assumed to be allocated entirely to equity, while changes in the fair value of other derivative contracts are assumed to be allocated entirely to the income statement.

The following assumptions have been used in calculating sensitivity to changes in the interest rate level:

- The change in the interest rate level is assumed to be +/-0.5 percentage point.
- The change in diesel oil price is assumed to be +/-10 percentage point.
- The exposure underlying the calculation includes interest-bearing financial liabilities and receivables, as well as interest rate and commodity derivative swaps.

Net investments in foreign subsidiaries are not included in the sensitivity analysis.

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

	2012		2011	
EUR million	Profit after tax	Equity	Profit after tax	Equity
+ 0,5% change in market interest rate	**-0.1**	**0.3**	-0.1	0.3
- 0,5% change in market interest rate	**0.1**	**-0.3**	0	-0.3
+10% change in diesel oil CIF CARGO NWE price*		**0.3**		0.2
-10% change in diesel oil CIF CARGO NWE price*		**-0.3**		-0.2

* price level in euros

38. Disputes and litigation

Lassila & Tikanoja plc is a defendant in a dispute over damages related to the company's business. The company has adequate insurance coverage for the liability for damages. Additionally, Lassila & Tikanoja is involved in a few 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.

39. Events after the balance sheet date

The company's management is not aware of any events of material importance after the balance sheet date, which might have affected the preparation of the financial statements.

FINANCIAL STATEMENTS OF THE PARENT COMPANY, FAS

Income statement

EUR 1,000	Note	2012	2011
Net sales	1	**522,570**	499,023
Cost of goods sold		**-459,005**	-437,122
Gross profit		**63,565**	61,901
Sales and marketing expenses		**-13,571**	-12,600
Administration expenses	3	**-8,965**	-8,209
Other operating income	5	**2,891**	6,791
Other operating expenses	5	**-9,669**	-24,991
Operating profit before goodwill amortisation	2, 4	**34,251**	22,892
Goodwill amortisation		**-2,662**	-2,655
Operating profit		**31,589**	20,237
Financial income and costs	6	**-1,919**	439
Profit before extraordinary items		**29,670**	20,676
Extraordinary items	7	**1,670**	1,660
Profit before appropriations and income taxes		**31,340**	22,336
Appropriations			
Increase/decrease in accumulated depreciation		**702**	81
Income tax	8	**-7,959**	-10,896
Profit for the period		**24,083**	11,521

Balance sheet

EUR 1,000	Note	2012	2011
ASSETS			
Fixed assets			
Intangible assets	9		
Intangible rights		**1,103**	547
Goodwill		**4,363**	6,784
Other capitalised expenditure		**4,850**	691
Advance payments and construction in progress		**1,623**	
		11,939	8,022
Tangible assets	10		
Land		**2,945**	3,287
Buildings and constructions		**41,943**	37,477
Machinery and equipment		**115,330**	5,335
Other tangible assets		**47**	47
Advance payments and construction in progress		**1,925**	3,596
		162,190	49,742
Financial assets	11		
Shares in Group companies		**24,811**	24,735
Shares in joint ventures			4
Capital loan receivables from joint ventures			24,396
Capital loan receivables from others		**115**	115
Other shares and holdings		**7,141**	447
		32,067	49,697
Total fixed assets		**206,196**	107,461
Current assets			
Inventories			
Raw materials and consumables		**1,120**	918
Finished products/goods		**1,730**	2,694
Other inventories		**1,716**	1,381
		4,566	4,993
Non-current receivables			
Loan receivables		**2,407**	2,960
Current receivables	12		
Receivables from Group companies		**61,601**	143,560
Receivables from joint ventures			4,343
Trade receivables		**73,280**	66,902
Other receivables		**2,522**	256
Prepaid expenses and accrued income		**7,054**	3,384
		144,457	218,445
Cash and cash equivalents		**9,947**	3,543
Total current assets		**161,377**	229,941
Total assets		**367,573**	337,402

EUR 1,000	Note	2012	2011
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	13		
Share capital		**19,399**	19,399
Fair value reserve		**95**	287
Invested non-restricted equity reserve		**29,478**	50,755
Retained earnings		**60,913**	49,369
Profit for the period		**24,083**	11,521
Total shareholders' equity		**133,968**	131,331
Appropriations			
Depreciation difference		**36,262**	3,248
Obligatory provisions	14		
Non-current		**2,716**	2,274
Current		**120**	429
		2,836	2,703
Liabilities	15		
Non-current			
Loans from financial institutions		**53,274**	59,693
Pension institution loans		**4,589**	13,767
Accrued income		**279**	262
		58,142	73,722
Current			
Commercial paper liabilities		**11,991**	16,926
Loans from financial institutions		**26,497**	22,372
Advances received		**8,041**	4,689
Trade payables		**22,974**	16,716
Liabilities to Group companies		**4,649**	3,786
Other liabilities		**18,246**	17,297
Accruals and deferred expenses		**43,967**	44,612
		136,365	126,398
Total liabilities		**194,507**	200,120
Total shareholders' equity and liabilities		**367,573**	337,402

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Cash flow statement

EUR 1,000	2012	2011
Operations		
Operating profit	**31,589**	20,237
Adjustments:		
Depreciation and amortisation	**18,724**	7,826
Gains and losses on sales	**8,237**	-47
Other adjustments	**493**	261
Cash flow before change in working capital	**59,043**	28,277
Change in working capital		
Increase/decrease in current non-interest-bearing receivables	**-6,820**	-6,448
Increase/decrease in inventories	**427**	-1,155
Increase/decrease in current non-interest-bearing liabilities	**10,439**	6,461
Cash flow from operations before financial income/expenses and tax	**63,088**	27,135
Interest expenses and other financial expenses	**-4,681**	-4,486
Interest income from operations	**3,847**	3,821
Direct taxes paid	**-11,066**	-10,558
Cash flow from operating activities	**51,189**	15,912
Investments		
Investments in Group companies	**-1,556**	-5,279
Proceeds from sale of Group companies, net of sold cash	**7,820**	
Investments in tangible and intangible assets	**-26,164**	-12,413
Proceeds from sale of tangible and intangible assets	**1,957**	-465
Investments in other assets	**0**	
Granted capital loans	**17**	24,656
Dividends received from investments	**585**	1,069
Cash flow from investing activities	**-17,341**	7,568
Financing		
Proceeds from share issue		
Group contribution paid	**-30**	-128
Group contribution received	**1,690**	3,277
Proceeds from/repayments of short-term borrowings	**-4,030**	4,000
Proceeds from/repayments of current liabilities to Group companies	**8,356**	-15,249
Proceeds from long-term loans	**10,200**	20,000
Repayments of long-term loans	**-22,374**	-20,652
Capital repayment and other distribution of profit paid	**-21,255**	-21,300
Repurchase of own shares	**0**	-517
Cash flow from financing activities	**-27,443**	-30,569
Changes in cash and cash equivalents	**6,404**	-7,089
Cash and cash equivalents at 1 January	**3,543**	10,632
Cash and cash equivalents at 31 December	**9,947**	3,543
Cash and cash equivalents at 31 December		
Cash and cash equivalents	**7,337**	1,145
Available-for-sale non-current financial assets	**2,496**	2,298
Overdraft facilities	**114**	100
	9,947	3,543

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.

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

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

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

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

In 2008 the Group started to apply the units of production method to new landfills. Landfills are depreciated on the basis of the volume of waste received. This method reflects more closely than the straight-line method the expected future benefits to be derived from the landfills. As the Kerava landfill is about to be filled up, it will be fully depreciated using the straight-line method.

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
Swaps are used for hedging against the interest rate risk associated with variable-rate borrowings. Interest income and expenses arising from the swaps are allocated over the contract period and recognised as adjustments to the interest on the hedged item.

Commodity swaps are used for hedging against the commodity risk associated with cash flows from diesel purchases. As far as the ineffective portion of the hedging is concerned, changes in the fair values of these agreements are recorded in the income statement, and similarly when the agreements mature or the hedged risk materialises.

Currency forward contracts are used to hedge against foreign exchange risk. Changes in fair values are recorded in the income statement as financial income or expenses.

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.

1. Net sales

EUR 1,000	2012	%	2011	%
Net sales by division				
Environmental Services	**284,586**	**54.5**	271,673	54.4
Cleaning and Office Support Services	**105,403**	**20.2**	99,485	19.9
Property Maintenance	**132,581**	**25.4**	127,865	25.7
Total	**522,570**	**100.0**	499,023	100.0
Net sales by market				
Finland	**510,325**	**97.7**	488,801	98.0
Other countries	**12,245**	**2.3**	10,222	2.0
Total	**522,570**	**100.0**	499,023	100.0

2. Personnel and administrative bodies

	2012	2011
Average personnel		
Salaried employees	**1,014**	1,024
Non-salaried employees	**4,865**	4,885
Total	**5,879**	5,909

EUR 1,000	2012	2011
Personnel expenses		
Salaries and bonuses	**180,890**	173,260
Pension expenditure	**30,956**	29,552
Other salary-related expenses	**12,277**	12,265
Total	**224,123**	215,077
Personnel services invoiced from the Group	**-233**	-290
	223,890	214,787

Salaries, bonuses and pension benefits of the management are described in the Note 34 Related-party transactions of the consolidated financial statements. No loans were granted to the related parties of the Group companies.

3. Auditor's fees

EUR 1,000	2012	2011
Auditing	**73**	154
Other assignments in accordance with the auditing act	**3**	3
Tax consulting services	**6**	3
Other services	**51**	24
Total	**133**	184

4. Depreciation and amortisation

EUR 1,000	2012	2011
Depreciation and amortisation by function		
Cost of goods sold	**15,744**	4,971
Sales and marketing	**84**	2
Administration	**234**	198
Goodwill	**2,662**	2,655
Total	**18,724**	7,826

Depreciation and amortisation are itemised under intangible and tangible assets.

5. Other operating income and expenses

EUR 1,000	2012	2011
Other operating income		
From Group companies		
Compensation for administration costs	**552**	458
From others		
Merger profit	**51**	3,954
Profit on sale of real estates	**160**	
Profit on sale of shares	**1**	
Profit on sale of other fixed assets	**205**	63
Government grants	**182**	258
Rents		70
Recovery of bad debt	**106**	149
Low-wage support	**0**	1
Change in values commodity derivatives	**399**	965
Annual discounts	**621**	223
Other operating income	**614**	650
Total	**2,891**	6,791
Other operating expenses		
To others		
Losses on sale of fixed assets	**244**	16
Impairment of shares		23,844
Impairment of subordinated loans of L&T Recoil	**8,447**	
Bad debt	**799**	895
Other	**179**	236
Total	**9,669**	24,991

6. Financial income and costs

EUR 1,000	2012	2011
Dividend income	**448**	959
Other interest and financial income	**3,972**	3,943
Other interest and financial costs	**-6,339**	-4,463
Total financial income and costs	**-1,919**	439
Financial income and costs include		
Dividend income		
from Group companies	**447**	958
from others	**1**	1
Interest income		
from Group companies	**3,181**	2,925
from joint ventures	**391**	707
from others	**262**	200
Interest costs		
to Group companies	**1,154**	771
to others	**4,919**	3,362

7. Extraordinary items

EUR 1,000	2012	2011
Extraordinary income		
Group contribution received	**1,670**	1,690
Extraordinary expenses		
Group contribution paid		-30
Total extraordinary income and expenses	**1,670**	1,660

8. Income taxes

EUR 1,000	2012	2011
Income taxes on operations for the financial year	**7,952**	11,040
Income taxes for previous periods	**7**	-144
Total	**7,959**	10,896
Deferred tax liabilities/receivables		
From depreciation differences	**-8,884**	-796
From other matching differences	**704**	677
Total	**-8,180**	-119

9. Intangible assets

2012 EUR 1,000	Intangible rights	Goodwill	Other capitalised expenditure	Advance payments and construction in progress	Total
Cost at 1 January	1,428	119,619	1,280		122,327
Additions	8,343	241	13,197	2,253	24,034
Disposals	-299	-362	-406		-1,067
Transfers between items			630	-630	0
Cost at 31 December	9,472	119,498	14,701	1,623	145,294
Accumulated depreciation at 1 January	-881	-112,835	-589		-114,305
Accumulated depreciation on disposals and transfers	-7,257	362	-8,500		-15,395
Depreciation during the period	-231	-2,662	-762		-3,655
Accumulated depreciation at 31 December	-8,369	-115,135	-9,851		-133,355
Total book value	1,103	4,363	4,850	1,623	11,939

2011 EUR 1,000	Intangible rights	Goodwill	Other capitalised expenditure	Total
Cost at 1 January	2,131	115,241	1,280	118,652
Additions	109	4,378		4,487
Disposals	-812			-812
Transfers between items				
Cost at 31 December	1,428	119,619	1,280	122,327
Accumulated depreciation at 1 January	-1,582	-109,667	-436	-111,685
Accumulated depreciation on disposals and transfers	775	-513		262
Depreciation during the period	-74	-2,655	-153	-2,882
Accumulated depreciation at 31 December	-881	-112,835	-589	-114,305
Total book value	547	6,784	691	8,022

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10. Tangible assets

2012 EUR 1,000	Land	Buildings	Machinery and equipment	Other	Advance payments and construction in progress	Total
Cost at 1 January	3,287	68,535	31,971	132	3,596	107,521
Additions	19	3,945	280,358		4,599	288,921
Disposals	-322	-386	-8,251			-8,959
Transfers between items	-39	6,129	180		-6,270	0
Cost at 31 December	2,945	78,223	304,258	132	1,925	387,483
Accumulated depreciation at 1 January		-31,058	-26,636	-85		-57,779
Accumulated depreciation on disposals and transfers		-1,273	-151,173			-152,446
Depreciation during the period		-3,949	-11,119			-15,068
Accumulated depreciation at 31 December		-36,280	-188,928	-85		-225,293
Total book value	2,945	41,943	115,330	47	1,925	162,190

2011 EUR 1,000	Land	Buildings	Machinery and equipment	Other	Advance payments and construction in progress	Total
Cost at 1 January	3,240	64,409	27,894	133	1,428	97,104
Additions	65	3,447	5,066		2,847	11,425
Disposals			-998	-1	-9	-1,008
Transfers between items	-18	679	9		-670	
Cost at 31 December	3,287	68,535	31,971	132	3,596	107,521
Accumulated depreciation at 1 January		-26,498	-23,876	-85		-50,459
Accumulated depreciation on disposals and transfers		-980	-1,396			-2,376
Depreciation during the period		-3,580	-1,364			-4,944
Accumulated depreciation at 31 December		-31,058	-26,636	-85		-57,779
Total book value	3,287	37,477	5,335	47	3,596	49,742

11. Investments

2012 EUR 1,000	Shares in Group companies	Holdings in joint ventures	Capital loan receivables*	Other shares and holdings	Total
Cost at 1 January	48,579	4	24,511	447	73,541
Additions	236			6,704	6,940
Transfers between items	-24,004	-4	-24,396	-10	-48,414
Cost at 31 December	24,811	0	115	7,141	32,067
Total book value	24,811	0	115	7,141	32,067

*Capital loan receivables include:	
Capital loan receivables	
From joint ventures	0
From others	115
	115

2011 EUR 1,000	Shares in Group companies	Holdings in joint ventures	Capital loan receivables*	Other shares and holdings	Total
Cost at 1 January	53,084	4	20,761	422	74,271
Additions			3,750	33	3,783
Transfers between items	-4,505			-8	-4,513
Cost at 31 December	48,579	4	24,511	447	73,541
Impairment 31.12.	-23,844				
Total book value	24,735	4	24,511	447	49,697

*Capital loan receivables include:	
Capital loan receivables	
From joint ventures	24,396
From others	115
	24,511

	Holding of shares and votes, %
Group companies	
Kiinteistö Oy Vantaan Valimotie 33, Helsinki	100.0
L&T Biowatti Oy, Helsinki	100.0
L&T Relations Oy, Helsinki	100.0
L&T Toimi Oy, Helsinki	100.0
Suomen Keräystuote Oy, Helsinki	100.0

12. Receivables

EUR 1,000	2012	2011
From Group companies		
Loan receivables	**60,509**	142,966
Trade receivables	**1,092**	594
Total	**61,601**	143,560
From joint ventures		
Loan receivables		1,633
Trade receivables		2,710
Total		4,343
Prepaid expenses and accrued income		
Interests	**1**	15
Employees' health care compensation	**2,868**	1,553
Statutory personnel insurance	**80**	223
Insurance refunds	**528**	380
Derivative financial instrument receivables	**141**	419
Tax receivables	**2,468**	
Other	**968**	794
Total	**7,054**	3,384

13. Shareholders' equity

EUR 1,000	2012	2011
Share capital at 1 January / 31 December	**19,399**	19,399
Fair value reserve at 31 December	**95**	287
Invested non-restricted equity reserve at 1 January	**50,755**	50,755
Capital repayment	**-21,277**	
Invested non-restricted equity reserve at 31 December	**29,478**	50,755
Retained earnings at 1 January	**60,891**	71,213
Dividend		-21,306
Out-dated dividend	**22**	16
Purchase of own shares		-554
Retained earnings at 31 December	**60,913**	49,369
Profit for the period	**24,083**	11,521
Shareholders' equity at 31 December	**133,968**	131,331
Distributable assets		
Retained earnings	**60,913**	49,369
Profit for the period	**24,083**	11,521
Invested non-restricted equity reserve	**29,478**	50,755
Total distributable assets	**114,474**	111,645

14. Obligatory provisions

EUR 1,000	2012	2011
Environmental provision	**2,143**	1,649
Pension liabilities	**579**	545
Restructuring provisions	**64**	180
Screened construction waste	**50**	329
Total	**2,836**	2,703

The environmental provisions relate to the site restoration cost of the landfill in Kerava.

15. Liabilities

Repayments of non-current liabilities in coming years

EUR 1,000	2013*	2014	2015	2016	2017	2018 and later
Loans from financial institutions	26,497	22,104	24,796	4,863	2,596	3,505

* In the balance sheet under current liabilities

EUR 1,000	2012	2011
Liabilities to Group companies		
Trade payables	**388**	430
Other liabilites	**4,261**	3,356
Total	**4,649**	3,786
Accruals and deferred expenses		
Personnel expenses	**39,238**	37,263
Interests	**305**	608
Waste charges	**449**	1,420
Other matched expenses	**3,975**	5,321
Total	**43,967**	44,612

16. Contingent liabilities

EUR 1,000	2012	2011
For own commitments		
Mortgages on rights of tenancy	**186**	186
Other securities	**149**	137
Liabilities related to leasing and leases		
Falling due next year	**4,769**	6,993
Falling due in subsequent years	**8,808**	15,333
Total	**13,577**	22,326
For Group companies		
Guarantees	**7,051**	8,160
For joint ventures		
Guarantees		18,128
Bank guarantees required for environmental permits	**6,483**	5,649

Off balance sheet liabilities

Lassila & Tikanoja plc has given a guarantee for a share of 50 percent of L&T Recoil Oy's financial liabilities.

The guarantee is valid no later than the maturity date of the liabilities on 31 August 2014.

The financial liabilities of L&T Recoil totalled EUR 32.8 million on 31 December 2012.

17. Derivatives

EUR 1,000	2012	2011
Interest rate swaps		
Nominal value	**45,896**	79,462
Fair value	**-1,129**	-1,648
Cross currency interest rate swaps		
Nominal value	**29,467**	39,867
Fair value	**1,150**	-183

Swaps were entered into for hedging purposes. Their fair values are based on the market prices at the balance sheet date.

Metric tonnes	2012	2011
Commodity derivatives		
Nominal value	**5,796**	3,180
Fair value	**136**	419

Commodity derivatives were entered into in hedging purposes. Their fair values are based on the market prices at the balance sheet date.

EUR 1,000	2012	2011
Currency derivatives		
Nominal value	**775**	1,079
Fair value	**4**	-19

Currency derivatives were entered into in hedging purposes. Their fair values are based on the market prices at the balance sheet date.

PROPOSAL FOR THE DISTRIBUTION OF ASSETS

Proposal by the Board of Directors for the use of the profit shown on the balance sheet and the capital repayment

According to the financial statements, Lassila & Tikanoja plc's unrestricted equity amount to EUR 114,473,686.13 with the operating profit for the period representing EUR 24,083,220.00. There were no substantial changes in the financial standing of the company after the end of the 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 Annual General Meeting that the profit for 2012 be placed in retained earnings and that no dividend be paid.

The Board of Directors proposes to the Annual General Meeting that, based on the balance sheet to be adopted for 2012, a capital repayment of EUR 0.60 per share be made. Capital is repaid from the reserve for invested unrestricted equity. Capital is repaid to shareholders included in the company shareholder register maintained by Euroclear Finland Oy on the record date, 15 March 2013. The Board proposes to the Annual General Meeting that the capital repayment be made on 22 March 2013.

No capital repayment shall be paid on shares held by the company on the capital repayment record date, 15 March 2013.

On the day the proposal for the distribution of assets was made, the number of shares entitling to capital repayment was 38,692,064, which means the total amount of the capital repayment would be	EUR 23,215,238.40
To be retained and carried forward	EUR 91,258,447.73
Total	EUR 114,473,686.13

In accordance with the resolution of the Board of Directors, the record date is 15 March 2013. The Board of Directors proposes to the Annual General Meeting that the capital repayment be paid on 22 March 2013.

Signatures to the Report of the Board of Directors and the Financial Statements for the year 2012:

Helsinki on 31 January 2013

Heikki Bergholm
Hille Korhonen
Miikka Maijala

Eero Hautaniemi
Sakari Lassila

Pekka Ojanpää
President and CEO

AUDITOR'S REPORT

To the Annual General Meeting of Lassila & Tikanoja plc
We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Lassila & Tikanoja plc for the year ended December 31, 2012. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director
The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors
In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

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

Helsinki, 5 February 2013

KPMG OY AB

LASSE HOLOPAINEN
Authorised Public Accountant

INFORMATION FOR INVESTORS

Lassila & Tikanoja Disclosure Policy
This disclosure policy defines the principles and operating procedures in Lassila & Tikanoja plc's (L&T) communication with the capital market. The policy is approved by the Board of Directors.

Principles and goals of investor communications
L&T complies with the requirements of the Finnish legislation and with the regulations and guidelines issued by The Finnish Financial Supervision Authority and NASDAQ OMX Helsinki.

The purpose of L&T's investor communications is to provide correct and relevant information for the capital market, in order to support the correct valuation of L&T's share. All material information on L&T's activities, operating environment, strategy, goals and financial standing is disclosed timely, clearly and sufficiently comprehensively. All market participants are provided with the same information simultaneously, and both positive and negative events are reported. All information is published in Finnish and in English. Periodical reports are produced in a continuous, consistent format in terms both of figures and written assessments.

Regular disclosure requirements
L&T issues a financial statements release, interim reports, financial statements and report of the Board of Directors according to a previously disclosed calendar. The calendar is disclosed prior to the start of each financial year.

Other disclosure requirements
L&T discloses without undue delay information on decisions and circumstances concerning the company and its activities, which is expected to materially affect the price of its listed securities. In evaluating whether information is immaterial, the expected extent or importance of the matter compared to the company's activities as a whole is considered. Material information is always disclosed by a stock exchange release.

Examples of information that could be material: changes in the management, profit warnings, major capital expenditure, major business acquisitions, major reorientation of business, major new partnership arrangements, major litigation pending or decisions rendered in legal disputes, major decision made by authorities, significant information regarding a subsidiary or a joint venture.

Information leaks
In the event that confidential material information leaks out, the company will make immediate disclosure of that information without undue delay.

Forward looking information and guidance
Forecasts and forward-looking statements are disclosed in the financial statement release and interim reports. L&T discloses forecasts for the current financial year as a whole only. L&T does not comment on analyst estimates nor market rumours.

Communication practices
L&T discloses without undue delay a profit warning, if either a forecast or prospects deviate significantly from a previous forecast. In deciding whether a deviation is significant enough, the deviation is compared to the latest disclosed financial report. Primarily the decision on the disclosure of a profit warning is made by the Board. If a sufficient number of directors to constitute a quorum cannot be reached quickly enough, the decision is made by the Chairman of the Board or the President and CEO, who endeavour to discuss with as many members of the Board as possible prior to the disclosure.

In crisis situations, the company's crisis communication guidelines are followed.

Stock exchange releases are available on the company website immediately after the disclosure.

Responsibilities and designated spokespersons
L&T's President and CEO, Chief Financial Officer and the head of IR are responsible for all communications with investors, shareholders and analysts.

Questions from capital market participants to the Board of Directors will be forwarded to the chairman of the Board. As necessary, the chairman will either answer these questions or forward them to the President and CEO.

Other people may not issue any financial disclosures concerning the company. Contact information is available in the Investor Relations sector on the company website.

Communications with the equity markets is coordinated by the IR function under the CFO's supervision. Other company representatives may participate in IR activity on a case-by-case basis.

Procedures in investor and analyst meetings
In conjunction with the publication of its annual and interim results L&T holds conferences for analysts and investors. Investors are also met at the analyst and investor meetings and in the road shows organised by banking companies. Analysts and investors are also invited to visit the company.

Any discussions with the equity markets are based on information that has been previously published or is generally available in the markets. The purpose of such discussions is to provide background information on L&T and its business environment.

Silent period
No appointments will be arranged with L&T's representatives, nor will they comment on the financial result during the period between the end of the financial period and the disclosure of the result.

Financial information in 2013
The interim report for the period between 1 January and 31 March will be published on 24 April 2013 at 8 am.

The interim report for the period between 1 January and 30 June will be published on 6 August 2013 at 8 am.

The interim report for the period between 1 January and 30 September will be published on 23 October 2013 at 8 am.

Distribution of financial information
Lassila & Tikanoja's Annual Report and interim reports are published in Finnish and English.

The annual report will be mailed to the persons on the mailing list maintained by the company. The company website can be used for subscribing for annual reports.

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

Contact information
www.lassila-tikanoja.com
E-mail: ir@lassila-tikanoja.fi
Keijo Keränen, Head of Treasury and Investor Relations, tel. +358 10 636 2782 or +358 50 385 6957

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.

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.

Carnegie
Danske
Evli Bank
Nordea
Pohjola Bank
SEB Enskilda

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

Lassila & Tikanoja plc share
The company's shares are quoted on the mid-cap list of the NASDAQ OMX Helsinki Ltd. in the Industrials sector. Listing date is 1 October 2001.

	Share
Trading code	LAT1V
ISIN code	FI0009010854

ANNUAL GENERAL MEETING AND PAYMENT OF CAPITAL REPAYMENT

Annual General Meeting
Annual General Meeting of Lassila & Tikanoja plc will be held on Tuesday 12 March 2013 at 4 pm in Valkea talo, at the address of Ilkantie 4, Haaga, 00400 Helsinki. Each shareholder, who is registered on 28 February 2013 in the Company's shareholder register held by Euroclear Finland Ltd, has the right to participate in the Annual General Meeting. A shareholder, whose shares are registered on his/her personal Finnish book-entry account, is registered in the Company's shareholder register.

Registration
A shareholder, who is registered in the shareholders' register of the Company and who wants to participate in the Annual General Meeting, shall register for the meeting no later than Thursday 7 March 2013 at 4 pm by giving a prior notice of participation. Such notice can be given:

a) via the Company website www.lassila-tikanoja.com
b) by telephone at +358 20 770 6876 on weekdays during 9.00 am – 4.00 pm, or
c) by regular mail to Lassila & Tikanoja plc, Taru Enrot, P.O. Box 28, 00441 Helsinki, Finland.

Any powers of attorney and proxy documents shall be delivered in originals to the above mentioned address by the end of the registration period.

Holders of nominee registered shares
A holder of nominee registered shares, who wants to participate in the Annual General Meeting, shall be temporarily entered into the Company's shareholder register on 7 March 2013 at 10 am at the latest. A holder of nominee registered shares is advised to request without delay necessary instructions regarding the registration in the Company's shareholder register, the issuing of proxy documents and registration for the Annual General Meeting from his/her custodian bank.

Payment of capital repayment
The Board of Directors proposes to the Annual General Meeting of Shareholders that a capital repayment of EUR 0.60 per share be paid for the 2012 financial year. The capital repayment determined by the Annual General Meeting of Shareholders will be paid to a shareholder registered in the company's list of shareholders maintained by the Euroclear Finland Ltd on the record date.

Annual General Meeting	12 March 2013
Ex-date	13 March 2013
Record date	15 March 2013
Payment of capital repayment	22 March 2013

Consept, design: Motley Oy, Miltton Oy
Production: Miltton Oy
Printing House: PunaMusta Oy
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Photos: Kimmo Virtanen

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