

## Lassila & Tikanoja plc Transition to IFRS

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

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

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

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

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

### Reconciliation of profit for the period

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

## Reconciliation of equity

EUR 1000	Note	31.12.2004	1.1.2004
According to FAS		130 649	95 786
IFRS 1 First-time Adoption of IFRS:			
Depreciation on revaluations	7	-1 333	-1 256
IFRS 3 Business combinations	5	8 194	
IAS 1 Format of financial statements:			
Minority interest	14	1 550	1 167
IAS 2 Inventories	8	240	121
IAS 12 Income taxes	10	-2 406	1 879
IAS 17 Leases: Finance leases	6	785	733
IAS 18 Revenue: Recognition in the income statement	3	-1 176	-1 137
IAS 19 Employee Benefits: Post-employment benefits	9	-1 161	-10 295
IAS 37 Provisions	11	17	10
IAS 39 Financial instruments	2	-570	-1 588
According to IFRS		<b>134 789</b>	<b>85 420</b>

## Consolidated income statement 1 January to 31 December

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

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

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

## Consolidated balance sheet

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

## CASH FLOW STATEMENT (12)

EUR 1,000	FAS 2004	Effect of transition to IFRS	IFRS 2004
Cash flow before change in working capital	63 421	-1 100	<b>62 321</b>
Change in working capital	1 042	-974	<b>68</b>
Finance costs, net	-4 213	189	<b>-4 024</b>
Taxes	-9 572	-418	<b>-9 990</b>
<b>Cash flows from operating activities</b>	<b>50 678</b>	<b>-2 303</b>	<b>48 375</b>
Investments in group companies	-16 907	1 415	<b>-15 492</b>
Other investments	-30 362	253	<b>-30 109</b>
Proceeds from sales of property, plant and equipment	2 260	-102	<b>2 158</b>
<b>Cash flow from investing activities</b>	<b>-45 009</b>	<b>1 566</b>	<b>-43 443</b>
Increase of share capital	48 569		<b>48 569</b>
Dividends paid	-34 845		<b>-34 845</b>
Change in interest-bearing liabilities	-10 330	757	<b>-9 573</b>
<b>Cash flow from financing</b>	<b>3 394</b>	<b>757</b>	<b>4 151</b>
<b>Change in liquid assets</b>	<b>9 063</b>	<b>20</b>	<b>9 083</b>
Liquid assets at the beginning of the financial period	10 757	-47	<b>10 710</b>
Changes in exchange rates and fair values			<b>-34</b>
<b>Liquid assets in balance sheet at 31 December 2004</b>	<b>19 820</b>	<b>-61</b>	<b>19 759</b>

## KEY FIGURES

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

## Segment reporting

2004

EUR 1000

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### Net sales

Environmental Services	159 152
Property Services	124 820
Industrial Services	56 195
Group administration and other	377
Inter-division sales	-3 303
<b>Lassila &amp; Tikanoja</b>	<b>337 241</b>

### Operating profit\*

Environmental Services	26 097
Property Services	9 336
Industrial Services	6 907
Group administration and other	-1 553
<b>Lassila &amp; Tikanoja</b>	<b>40 787</b>

### Operating margin

Environmental Services	16.4
Property Services	7.5
Industrial Services	12.3
<b>Lassila &amp; Tikanoja</b>	<b>12.1</b>

Finance costs, net	-2 969
Share of profit of associates	64
Revenue recognition of deferred pension liability in income statement	10 535

**Profit before tax** **48 417**

\* Operating profit excluding the revenue recognition of pension liability

## Other segment information

EUR 1000 2004

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### Assets

Environmental Services	159 659
Property Services	41 638
Industrial Services	55 797
Group administration and other	5 241
Non-allocated assets	20 649
<b>Lassila &amp; Tikanoja</b>	<b>282 984</b>

### Liabilities

Environmental Services	25 462
Property Services	20 105
Industrial Services	9 889
Group administration and other	265
Non-allocated liabilities	93 474
<b>Lassila &amp; Tikanoja</b>	<b>148 195</b>

### Investments

Environmental Services	26 928
Property Services	12 609
Industrial Services	8 580
Group administration and other	7
<b>Lassila &amp; Tikanoja</b>	<b>48 124</b>

### Depreciation

Environmental Services	11 727
Property Services	4 888
Industrial Services	4 706
Group administration and other	80
<b>Lassila &amp; Tikanoja</b>	<b>21 401</b>

## Notes

### 1. Format of income statement

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

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

### 2. Derivative agreements

Lassila & Tikanoja's derivative agreements are interest rate swaps. IFRS requires recognition of derivative agreements at their fair value. Hedge accounting is applicable only if there is documentation of the hedged risk and the effectiveness of hedging is verified regularly. Lassila & Tikanoja does not apply hedge accounting to derivative agreements valid on the transition date, but changes in the fair values of the

agreements will be recognised in profit or loss. The negative effect on the equity at the date of transition is EUR 1.6 million (EUR 1.1 million net of deferred taxes).

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

### 3. Revenue recognition

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

### 4. Share-based payment

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

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

### 5. Business combinations

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

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

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

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

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

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

## 6. Finance leases

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

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

## 7. Revaluations

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

## 8. Inventories

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

## 9. Employee benefits

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

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

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

## 10. Income taxes

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

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

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

#### 11. Provisions

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

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

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

#### 12. Cash flow statement and gross investments

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

#### 13. Segment reporting

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

#### 14. Minority interest

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