

## DIVIDING THE ACQUISITION COST OF THE DEMERGED LASSILA & TIKANOJA PLC SHARES BETWEEN THE NEW LASSILA & TIKANOJA PLC AND J.W. SUOMINEN GROUP PLC

The acquisition cost of the demerged Lassila & Tikanoja plc share is being divided between the shares in the two new companies in such a way that 71.6 per cent of the original acquisition cost is transferred to the new Lassila & Tikanoja plc share and 28.4 per cent to the J.W. Suominen Group plc share.

According to section 52c, paragraph 4, of the Business Income Tax Act, the acquisition cost of a recipient company's share is considered to be the proportion of the acquisition cost of the demerged company share that corresponds the proportion of the demerged company's net assets transferred to the recipient company. If, however, it is obvious that the proportions of net assets transferred to the recipient companies differ substantially from the relative proportions of their shares' fair market value, these fair market value proportions will be the basis used for dividing the acquisition cost. Under the reference provision in section 28 of the Income Tax Act, the above mentioned provision also applies to determination of the acquisition cost of shares taxable under the Income Tax Act.

According to an advance ruling given by Central Tax Board (KVL 1999/458 publ.), the difference shall be regarded as substantial as meant above if the proportions of net assets transferred to the recipient companies differ from the corresponding fair market value of shares proportions by 20 per cent or more, in which case proportions of the fair market values are used as the basis for dividing the acquisition cost. The fair market values of listed shares can then be determined on the basis of share quotations. The Stock Exchange prices used as the basis for dividing can be calculated using, for instance, the average share quotations on the first five days of listing, if this average is considered to illustrate the fair market value proportions at the time of the demerger.

An external tax expert has given an opinion on dividing the acquisition cost.

According to the opinion, 71.6 per cent of the net assets of the demerged Lassila & Tikanoja plc were transferred to the new Lassila & Tikanoja plc and 28.4 per cent to J.W. Suominen Group plc. The net assets of the demerged Lassila & Tikanoja plc were approximately EUR 97.7 million on September 30, 2001. Approximately EUR 70 million was transferred to make up the net assets of the new Lassila & Tikanoja plc and EUR 27.7 million to make up the net assets of J.W. Suominen Group plc. The real estate property was valued at value corresponding the depreciable acquisition cost for income tax purposes or at the 2000 taxable value if higher, and shareholdings under fixed assets at the aggregate depreciable acquisition cost or aggregate taxable value, depending which was higher.

The weighted average quotation of the new Lassila & Tikanoja plc share during the first five days of listing was EUR 15.08 and that of J.W. Suominen Group plc EUR 4.87. Calculated using these fair market values, the proportion accounted for by the acquisition cost of the new Lassila & Tikanoja plc share will be 75.6 per cent and that of the J.W. Suominen Group plc 24.4 per cent.

Since the proportion of the demerged Lassila & Tikanoja plc share accounted for by the recipient companies' shares calculated using the fair market value differs less than 20 per cent from the proportion calculated on the basis of the net asset values, the expert's opinion is that the acquisition cost should be divided between Lassila & Tikanoja plc and J.W. Suominen Group plc based on the net assets.

In the taxation of the shareholders of the demerged company, exchanging shares in the demerging company for shares in the recipient companies will not be considered to constitute a sale of the shares. Thus the recipient companies' shares will be considered to have been acquired when the demerged Lassila & Tikanoja plc shares were acquired. In the taxation of physical shareholders taxed according to the Income Tax Act, this means in practice that the deemed acquisition cost of shares is determined per the date of acquisition of the demerged Lassila & Tikanoja plc shares.

A bonus issue was carried out in the demerged Lassila & Tikanoja plc in November 1997. Under section 47, paragraph 3, of the Income Tax Act, the acquisition cost of shares owned prior to the bonus issue by shareholders will not be taken into account when calculating the acquisition cost of shares subscribed in the bonus issue.

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LASSILA & TIKANOJA PLC (former)  
Board of Directors

Juhani Majjala  
Chairman and CEO

For additional information please contact Sirkka Tuomola, Vice President and CFO, tel. +358 10 636 115