



WE PUT THE CIRCULAR ECONOMY INTO PRACTICE

LASSILA & TIKANOJA PLC
Corporate governance Statement 2017

CORPORATE GOVERNANCE 2017

Corporate governance

Lassila & Tikanoja plc (“L&T” or “the company”) is a public limited liability company that is registered in Finland and listed on Nasdaq Helsinki Oy. In its decision-making and administration, Lassila & Tikanoja complies with the Finnish Companies Act, other regulations governing listed companies, Articles of Association of Lassila & Tikanoja plc, charter of L&T’s Board of Directors and its committees and the rules and guidelines of Nasdaq Helsinki Ltd.

Corporate Governance Statement 2017

L&T complies with the Finnish Corporate Governance Code in force. This statement was prepared in accordance with the Finnish Corporate Governance Code that entered into force on 1 January 2016 (“Corporate Governance Code”). The full Corporate Governance Code is available on www.cgfinland.fi. L&T has not deviated from the recommendations of the Code.

This statement was prepared in accordance with the Corporate Governance Code recommendation concerning reporting and is issued separately from the Report of the Board of Directors. L&T’s Audit Committee has reviewed this statement.

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.

General Meeting of Shareholders

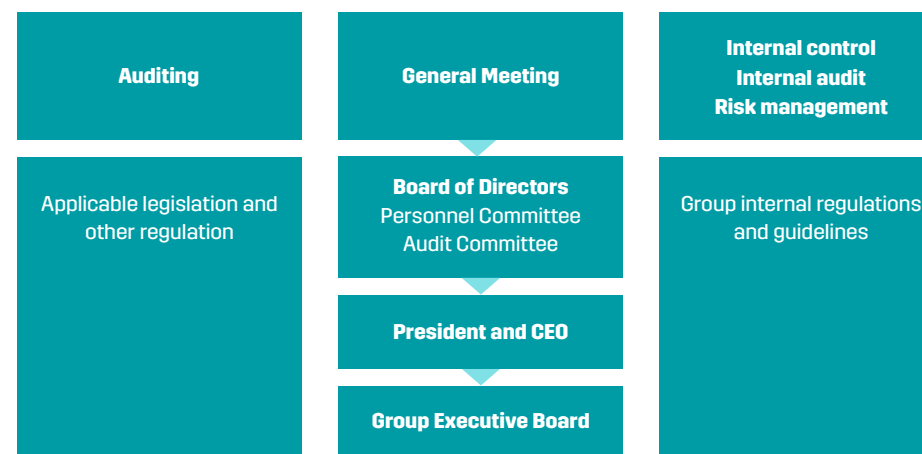
The Annual General Meeting is the supreme decision-making body of L&T. The Annual General Meeting decides on the matters stipulated in the Companies Act, such as the acceptance of the financial statements and proposed dividend, the release from liability of members of the Board of Directors and the President 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 as determined by the Board of Directors.

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

The notice to the meeting and other Annual General Meeting documents, including the Board of Directors’ proposals to the Annual General Meeting are disclosed to the shareholders at the latest three weeks before the meeting at the company’s head office and website on www.lt.fi/en/investors/corporate-governance/general-meeting. The notice to the meeting is also disclosed in a stock exchange release.

The members of the Board of Directors,

Governance structure



President and CEO, principal auditor and prospective directors attend the General Meeting, unless there are well-founded reasons for their absence.

The minutes of the General Meeting will be available on the company’s website within two weeks of the General Meeting. The resolutions by the General Meeting will be published in a stock exchange release immediately after the meeting.

Board of Directors

Composition and election of the Board of Directors

In accordance with the Articles of Association, the Board of Directors of Lassila & Tikanoja plc comprises a minimum of three members and a maximum of seven. The members of the Board of Directors are elected by the General Meeting.

The practice applied in the preparation of the proposal concerning the composition of the Board of Directors is to have major shareholders prepare proposals concerning the Board, including a proposal for the number of Board members, their remuneration and, if necessary, Board members to the General Meeting. The term of each member 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.

Diversity of the Board of Directors

The company considers diversity essential to achieving the company’s strategic targets. Diversity is also viewed from several perspec-

tives when planning the composition of the Board of Directors.

In the election of Board members, the aim is to ensure that the Board of Directors as a whole supports the company's business and its development. It is important from the point of view of the effective operation of the Board of Directors that the Board of Directors is sufficiently diverse and comprised of an adequate number of members, and that the members have diverse expertise and their experience supplements one another's.

In assessing the composition of the Board of Directors, it is, for example, considered whether the professional and educational background and gender and age distribution of the Board is adequately diverse and whether is suitably represents decision-making ability, skills and experience to be able to meet the requirements set by the company's business operations and strategic targets. The company's aim is that both genders are represented in the Board of Directors.

The principles regarding the diversity of the Board of Directors are taken into consideration in the successor planning of Board members. Both genders have been represented in the Board of Directors for a long time. In 2017, two of the six Board members were female, so the less represented gender accounts for 33% of the Board of Directors.

Board members

The following six members were elected to the Board of Directors by the Annual General Meeting of 2017, and their information is disclosed as per the situation on 31 December 2017.



Chairman Heikki Bergholm

born 1956

Independent of the company and major shareholders

Board member: since 2008

Board Committees: Chairman of the Personnel Committee

Education: M.Sc. (Eng.)

Key work experience: Suominen Corporation Oy: 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), Lassila & Tikanoja Oy: CFO (1985–1986), Industrialisation Fund of Finland Ltd: Researcher and development manager (1980–1985)

Membership on other Boards: Solidium Oy (2013–2016), Lakan Betoni Oy (1986–, COB), Maillefer International Oy (2010–2014), Finnish Foundation for Cardiovascular Research (2013–), MB Funds (2002–), Forchem Oy (2007–2013), Componenta (2003–2012, COB), Kemira Oyj (2004–2007), Pohjola-Yhtymä Oyj (2003–2005), Sponda Oyj (1998–2004) and Suominen Corporation (2006–2011)



Vice Chairman Sakari Lassila

born 1956

Independent of the company and major shareholders

Board member: since 2011

Board committees: Chairman of the Audit Committee

Primary occupation: Indcrea Oy: Managing Director, Board member, Partner

Education: M.Sc. (Econ.)

Key work experience: Cupori Group Oy: member of the Management Board (2008–2014), Managing Director of Cupori AB (2012–2014); Carnegie Investment Bank AB, Finland Branch: executive positions (2002–2005); Alfred Berg Finland Oy: 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)

Membership on other Boards: Evald and Hilda Nissi Foundation, Vice Chairman of the Board (member 1987–), Aplagon Oy, Chairman of the Board (2009–)



Teemu Kangas-Kärki

born 1966

Independent of the company and major shareholders

Board member: since 2016

Board committees: Member of the Audit Committee

Education: M.Sc. (Econ.)

Key work experience: Fiskars Oyj, Chief Operating Officer and Deputy to the CEO (2018–2017), Interim President (2017), Chief Operating Officer and Chief Financial Officer, deputy to the CEO (2014–2017), President, Home Business Area (2012–2014), Chief Financial Officer (2008–2012); Alma Media Corporation, Chief Financial Officer (2003–2008); Kesko Group, Corporate Controller (2002–2003), Corporate Business Controller (2000–2001); Suomen Nestlé Oy, Finance Director (1999–2000); Smith & Nephew Oy, Financial Manager (1996–1998); Unilever Oy & GmbH, Marketing Controller & Internal Auditor (1992–1996)



Laura Lares

born 1966

Independent of the company and major shareholders

Board member: since 2014

Board Committees: Member of the Personnel Committee

Primary occupation: Managing Director of Woimistamo Oy

Education: Ph.D in technology

Key work experience: Kalevala Koru Oy & Lapponia Jewelry Oy, Managing Director (2007–2012); UPM Kymmene Corporation, Director of Wood Products Division, Director of Business Development & Human Resources (2004–2006).

Membership on other Boards: Lappeenranta University of Technology (2009–2017), Woikoski Oy (2012–2016)



Miikka Majjala

born 1967

Independent of the company and major shareholders

Board member: since 2010

Board Committees: Member of the Personnel Committee

Primary occupation: CEO of Clinius Ltd

Education: M.Sc. (Eng.)

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

Membership on other Boards: Healthtech Finland (2008–)



Laura Tarkka

born 1970

Independent of the company and major shareholders

Board member: since 2017

Board committees: Member of the Audit Committee

Primary occupation: Kämp Group/Kämp Collection Hotels CEO

Education: M.Sc. (Eng.)

Key work experience: Diacor Terveyspalvelut Oy, CFO and deputy CEO (2013–2014); Fazer Group, director (2007–2012); Icecapital Securities Ltd, investment banker (2001–2007); Mandatum Stockbrokers Ltd, investment banker (1997–2001)

Membership on other Boards: Docrates Oy (2016–)

In 2017, the Board of Directors also had Eero Hautaniemi as a member. His membership ended at the Annual General Meeting of 2017, and his information has been presented as per the situation on 16 March 2017.

Eero Hautaniemi

born 1965

Independent of the company and major shareholders

Board member: since 2007, Vice Chairman of the Board since 2011

Board committees: Chairman of the Audit Committee

Primary occupation: President and CEO of Oriola-KD Corporation

Education: M.Sc. (Econ.)

Key work experience: GE Healthcare Finland Oy, President (2004–2005); GE Healthcare IT, General Manager, Oximetry, Supplies and Accessories business area (2003–2004); Instrumentarium Corporation: specialist and executive positions (1990–2003)

Membership on other Boards: Finnish Commerce Federation (2014–), Ecostream Oy (2012–2013), L&T Recoil Oy (2010–2012), Nurminen Logistics Oyj (2009–2012)

Board members' shareholding 31 December 2017

Heikki Bergholm	828,053
Sakari Lassila	11,916
Teemu Kangas-Kärki	1,207
Laura Lares	2,530
Miikka Majjala	73,717
Laura Tarkka	558
Eero Hautaniemi	10,403
Total	928,384

Shares in the company held by the Board members and any corporations over which they exercise control have been taken into account in terms of shareholding. Board members do not hold shares in any group companies other than Lassila & Tikanoja plc.

Information about the Board members' remuneration is disclosed in the Remuneration Statement published in connection with the Report of the Board of Directors and is available at www.lt.fi/en/investors/annual-report-2017.

Duties of the Board of Directors

The Board of Directors is responsible for the management of the company, the proper arrangement of the company's operations, and the proper arrangement and supervision of the company's accounting and financial management. The Board of Directors decides upon matters that are of major importance, in view of the scope and size of the operations of the company. 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 in 2017, which the Board complies with in addition to the Articles of Association and Finnish laws and regulations.

Duties of the Board of Directors:

- 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 the Group structure and organisation
- ensuring the operation of the management system
- handling and adopting interim reports, consolidated financial statements and annual reports
- confirming the Group'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
- approving the corporate responsibility programme
- nominating and dismissing the President and CEO and monitoring and evaluating his work
- deciding on the nomination, remuneration and other financial benefits of the President and CEO's immediate subordinates

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

Meetings of the Board of Directors

Board meetings are held at the company's head office in Helsinki, other locations of the group or other places decided on by the Board of Directors. If necessary, the Board of Directors may also hold meetings by telephone or electronically and make decisions without convening.

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 as well as strategy, budget 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.

The company's President and CEO and CFO usually participate in Board meetings. Where necessary, such as in conjunction with discussing the strategy or budget, the meetings are also attended by other members of Lassila & Tikanoja plc's Group Executive Board. The company's General Counsel acts as the secretary of the Board of Directors.

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 Board. These minutes are kept at the company's headquarters.

The President and CEO is responsible for ensuring that the Board is provided with sufficient information for assessing the operations and financial situation of the company.

He also supervises and reports to the Board on the implementation of the Board's decisions.

Activities of the Board of Directors in 2017

The Board of Directors had 16 meetings during 2016, one of which was held as a telephone conference and one without convening. The average attendance rate of the members at the meetings was 100 per cent.

Key themes in Board work included strategy and directing and supporting its implementation, monitoring strategic projects, developing the business portfolio and directing risk management.

Committees of the Board of Directors

The Board has an Audit Committee and a Personnel Committee, both of which consist of three (3) Board members. After the end of the Annual General Meeting, the Board of Directors elects chairmen and members of the Committees from among its number for a term of one year at a time. The committee members must have the expertise and experience required by the duties of the committee. The Board of Directors confirms the charters of the committees annually.

Meeting attendance of Board members in 2017

	Board of Directors	Audit Committee	Personnel Committee
Heikki Bergholm	16/16		4/4
Sakari Lassila	16/16	7/7	
Teemu Kangas-Kärki	16/16	7/7	
Laura Lares	16/16		4/4
Miikka Maijala	16/16		4/4
Laura Tarkka*	13/13	6/6	
Eero Hautaniemi**	3/3	1/1	

* Member of the Board from 16 March 2017

** Member of the Board until 16 March 2017

The committees have no independent decision-making authority; the Board of Directors makes the decisions based on the preparation work by the committees. The chairman of the committee reports on the work of the committee at the Board meeting following the committee meeting. Minutes of the committees' meetings are provided to the Board members for information.

Audit Committee

In its first meeting after the Annual General Meeting of 16 March 2017, the Board of Directors appointed Sakari Lassila (Chairman), Teemu Kangas-Kärki and Laura Tarkka as members of the Audit Committee.

The Audit Committee will convene at least four times a year. The duties of the Audit Committee pursuant to the charter include:

- monitoring the financial position and financing of the Group
- 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 operating principles of the company's internal control
- reviewing the plans and reports of the company's internal audit
- reviewing the company's corporate governance statement, including the description of the main features of internal control and risk management systems pertaining to the financial reporting process
- monitoring related-party transactions
- reviewing the corporate responsibility programme
- monitoring the statutory audit of the financial statements and consolidated financial statements
- evaluating the independence of the auditing company
- evaluating the provision of non-audit services to the company by the auditing firm

- preparing the proposal and/or recommendation concerning the auditor of the company
- maintaining contact with the company's auditor and reviewing the reports prepared for the committee by the auditor
- assessment of compliance with laws and provisions.

The Audit Committee met seven times in 2017. The attendance rate of the members at the meetings was 100 percent.

Personnel Committee

In its first meeting after the Annual General Meeting of 16 March 2017, the Board of Directors appointed Heikki Bergholm (Chairman), Miikka Maijala and Laura Lares as members of the Personnel Committee. The Personnel Committee convenes at least twice a year. The duties of the Personnel Committee pursuant to the charter include:

- handling, evaluating and making statements on the salary structure of the Group management and personnel as well as 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.

- reviewing and preparing the personnel-related matters of the corporate responsibility programme

The Personnel Committee met four times in 2017. The attendance rate of the members at the meetings was 100 per cent.

President and CEO

Lassila & Tikanoja plc's 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. Pekka Ojanpää, M.Sc. (Econ.), has served as the company's President and CEO since 1 November 2011. The more detailed personal and shareholding information of the CEO is disclosed below in connection with the personal and shareholding information of the members of the Group Executive Board.

Group Executive Board

The Group Executive Board assists the President and CEO in the management of the company. The Group Executive Board has no authority based on legislation or the Articles of Association. The Group Executive Board is comprised of the President and CEO as the chairman and Group executives confirmed by the Board of Directors. The members of the Group Executive Board report to the President and CEO. The Group Executive Board convenes at least once a month.

On 31 December 2017, the Group Executive Board was comprised of the following persons:



Pekka Ojanpää

born 1966

President and CEO

Member of the Group Executive

Board since:

1 November 2011

Education: M.Sc. (Econ.)

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

Membership on other Boards:

Ilmarinen Mutual Pension Insurance Company: Supervisory Board member (2012–), Kiinteistöyönantajat ry: Board member (2013–2016), Technopolis Plc: Board member (2014–)



Tuomas Mäkipeska

born 1978

CFO

Member of the Group Executive

Board since: 14 February 2012

Education: M.Sc. (Econ.)

Key work experience: Lassila & Tikanoja plc; Development Director (2012–2017), Vice President, Renewable Energy Sources (2015–2017); 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)



Petri Salermo

born 1970

Vice President, Environmental Services

Member of the Group Executive

Board since:

1 January 2013

Education: QBA

Key work experience: 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), managerial positions in sales (1995–1998)



Tutu Wegelius-Lehtonen

born 1970

Vice President, Facility Services

Member of the Group Executive

Board since: 16 February 2015

Education: Lic. Tech.

Key work experience: Lassila & Tikanoja plc, Chief Procurement Officer (2015–2016); Hartwall Oy, Operations and Supply Chain Director (2014); Rexel Finland Oy, Director of Marketing and Business Development (2011–2014); YIT: managerial positions in procurement and logistics (2004–2008) and in YIT's Building Services and Building and Industrial Services divisions (2009–2011); Ensto, Director, Production and Logistics (1998–2004)

Membership on other Boards:

Kiinteistöyönantajat ry (Employers' association of property management) board (2017–)



Antti Tervo

born 1978

Vice President, Industrial Services

Member of the Group Executive

Board since: 14 February 2012

Education: M.Sc. (Econ.)

Key work experience: Lassila & Tikanoja plc: Chief Officer responsible for procurement and supply chain (2012–2014); Siemens, North West Europe, Head of Commodity Management (2009–2012); Project Manager, Procurement and Supply Chain Management (2008–2009); Siemens Oy: Director, Procurement (2005–2009); Procurement Manager (2003–2005); Supply Chain Consultant (2001–2003)



Kirsi Matero

born 1968

HR Director

Member of the Group Executive

Board since: 1 January 2012

Education: M.Sc. (Econ.)

Key work experience: Atria Oyj: Group Vice President, Human Resources (2010–2011); Pfizer Oyj: HR Director (2007–2010); Nokia Mobile Phones, Senior Business HR Manager (2004–2007); Nokia Mobile Phones and Nokia Networks: Business HR Manager and Competence Development Manager (1998–2003); Adulta Oy, Programme Manager (1996–1998); Shell Oil Products, Product Manager (1994–1995)



Jorma Mikkonen

born 1963

Director, Corporate Relations and Responsibility

Member of the Group Executive

Board since: 1 June 2015

Education: Master of Laws

Key work experience: Lassila & Tikanoja plc, Division Manager, Environmental Services (2009–2012), Division Manager, Industrial Services (2000–2009); Säkkipääläinen Oy, Administrative Director (1999–2000), Corporate Lawyer (1992–1999); Helsingin Suomalainen Säästöpankki, Corporate Lawyer (1991–1992)

In 2017, members of the Group Executive Board also included Tomi Kontinen (membership ended on 31 December 2017) and Timo Leinonen (membership ended on 22 November 2017). Their information has been presented as per the situation on the date of termination of membership.

Tomi Kontinen

born 1967

Director, Supply Chain

Member of the Group Executive

Board since: 1 July 2016

Education: B.Eng. (Logistics)

Key work experience: Wihuri/Wipak Group, Chief Procurement Officer (2012–2014), Director, Group Supply Chain Management (2014–2016); Tikkurila Group: VP, Global Sourcing (2006–2011); Nokia Group: Sourcing & Logistics Manager (1995–2006)

Timo Leinonen

born 1970

CFO

Member of the Group Executive

Board since: 23 January 2013

Education: M.Sc. (Admin.)

Key work experience: Ixonos Plc, CFO (2008–2012); Suomen Terveystalo Oyj, CFO (2006–2008); Tieto-X Plc, CFO (2002–2006), business controller (2000–2002); APT Sijoitus Oy, Financial Advisor (1999–2000); Uusimaa Regional Tax Office: Tax Auditor (1998–1999)

Group Executive Board members' shareholding 31 December 2017

	31 Dec 2017
Pekka Ojanpää	41,468
Timo Leinonen*	2,507
Petri Salermo	12,247
Antti Tervo	6,157
Kirsi Matero	5,931
Tuomas Mäkipeska	6,011
Tutu Wegelius-Lehtonen	1,854
Tomi Kontinen**	325
Jorma Mikkonen	5,640
Total	82,140

* Member of the Group Executive Board until 22 November 2017.

** Member of the Group Executive Board until 31 December 2017.

Shares in the company held by the Group Executive Board members and any corporations over which they exercise control have been taken into account in terms of shareholding. Group Executive Board members do not hold shares in any group companies other than Lassila & Tikanoja plc.

Information about the remuneration paid to the CEO and the Group Executive Board is disclosed in the Remuneration Statement published in connection with the Report of the Board of Directors and is available at www.lt.fi/en/investors/annual-report-2017.

Descriptions of internal control procedures and main features of risk management system

The Group's financial reporting

The financial reporting principles represent an essential element of L&T's Integrated Management System (IMS). The financial results of the Group's divisions are reported and analysed internally within the Group monthly and disclosed as interim reports, half-yearly reports and financial statements release on a quarterly basis. The Group's and its divisions' strategies and related long-term financial plans are updated annually.

The Group's financial reporting process includes both financial accounting and management accounting. The internal control and risk management processes and procedures pertaining to the financial reporting process are explained in more detail below. Their purpose is to ensure that the information disclosed in the financial reports published by the company is essentially correct.

Audit Committee

The Board of Directors' Audit Committee supervises and monitors the efficiency of L&T's financial reporting process and internal control systems. 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 and half-yearly reports and financial statements releases. The auditor is also invited to attend the meetings. The Audit Committee is presented in more detail in the Committees section.

L&T's financial reporting process

L&T conducts a significant proportion of its business in Finland. Functions related to 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 foreign subsidiaries' financial 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 and half-yearly reports and financial statement releases and the annual financial statements. Public financial reporting is realised with the same principles and it is subject to the same control methods as monthly internal financial reporting. The Audit Committee reviews the interim report, half-yearly report and financial statements and proposes its recommendation on their processing to the Board of Directors. The Board of Directors approves the interim report, half-yearly report, financial statements release and financial statements prior to their publication.

Internal control

Internal control is a material part of the Group's administration and management. The purpose of internal control is to ensure the reliability of the Group's financial reporting, efficiency and profitability of operations and compliance with legislation and other regulations. Tools of internal control include policies and principles, guidelines, manual and IT system-based automatic controls, follow-up reports and inspections or audits.

The company's Board of Directors has ratified L&T's internal control policy. The Board of Directors and the CEO are responsible for the organisation of internal control. The Audit Committee of the Board of Directors monitors the

efficiency and performance of internal control and correctness of financial reporting.

The financial development of the company is monitored monthly by an operational reporting system covering the whole Group. In addition to actual data, the system provides budgets, forecasts and investment reports. L&T's operations and financial reports are monitored and compared against budgets and forecasts at different organisational levels. Group management, divisional management and area management as well as business unit management analyse the results and any nonconformities. Those responsible for finances at the divisions also analyse the financial reports and prepare reports for management use. Their duties also include supervision of the accuracy of financial reports and analysis of results.

Risk management

L&T has a defined risk management process that includes a review of financial, strategic, operational and damage-related risks.

Key Risk Management Principles

Risk management at L&T aims to identify significant risk factors, prepare for them and manage them in an optimal way so that the company's strategic and financial 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. Risk management at L&T Group is controlled by the risk management policy confirmed by L&T's Board of Directors. The policy specifies the objectives and principles, organisation and responsibilities and procedures of the Group's risk management. The Group's financing policy confirmed by L&T's Board of Directors is followed in the management of financial risks. The principles for insurance risk management are specified in the Insurance Policy.

Identification, assessment and reporting of risks

Risks are surveyed regularly and systematically at both division and company level and in central functions considered to be critical. The significance of risks is assessed by a risk matrix. Measures for managing and minimising the identified risks are prepared and responsibility for these measures is allocated to specified individuals or units. The most significant risks identified and the preparations for them are regularly reported to the President and CEO and the Board of Directors.

Other information disclosed in the CG statement

Internal audit

Internal audit enhances the realisation of the monitoring responsibility of L&T's Board of Directors. It is the task of L&T's internal audit to support the company and its senior management in the achievement of strategic and financial goals by providing a systematic approach to assessing and developing the effectiveness of the organisation's internal control, risk management and governance systems and performance, efficiency and appropriateness of business processes. Internal audit provides recommendations for the development of the above-mentioned systems and processes in its audit reports.

In its operations, the internal audit complies with generally accepted international professional standards concerning internal audit and ethical principles, as well as the internal audit operating guidelines confirmed by L&T's Board of Directors.

The internal audit operates under the supervision of the Audit Committee of L&T's Board of Directors and the company's President and CEO and reports its observations and recommendations to the Audit Committee, CEO, management of each audited division and the auditor. Internal audit may purchase external outsourced services for carrying out audit tasks requiring additional resourcing or special expertise as necessary.

The Board's Audit Committee confirms the annual plan of internal audit, in which items to be audited are selected based on the Group's strategic objectives, estimated risks and focal areas specified by the Board of Director and CEO. The audit plan is amended based on risks as necessary.

Related-party transactions

In accordance with the Corporate Governance Code, the company evaluates and monitors transactions between the company and its related parties and aims to ensure that any conflicts of interest are taken into consideration in decision-making. If the related-party transactions are material to the company and deviate from the company's ordinary business operations or are made in deviation from ordinary market terms, the company must report the decision-making procedure concerning such related-party transactions.

L&T's related-party transactions are described in Note 34 to the financial statements. L&T did not engage in business transactions with related parties material to the company in deviation from normal business operations or under unordinary market terms in 2017.

Insider guidelines

The company complies with the Market Abuse Regulation and the Securities Market Act and related regulations and guidelines issued by the European Securities Markets Authority, the Finnish Financial Supervisory Authority and Nasdaq Helsinki Ltd. Moreover, the Board of L&T's has also verified insider guidelines to

supplement the Guidelines for Insiders issued by Nasdaq Helsinki Ltd. Certain key aspects of the insider guidelines are described below. The insider guidelines clearly specify certain practices and decision-making procedures for ensuring that the company's insider management has been arranged in a consistent and reliable way. The General Counsel is responsible for insider issues in the company.

As a result of MAR, L&T has not had a public insider list since 3 July 2016. L&T also no longer maintains a permanent company-specific insider register. Instead, the company's employees and service providers with access to certain insider information are recorded in project-specific lists of insiders. Service providers may keep a list of insiders concerning their own employees if so decided by the company in an individual case.

If a person holds inside information, trading in the company's securities is always prohibited. In addition, certain trading restrictions apply to certain managers and employees of the company also when said parties hold no inside information. L&T has specified the Board of Directors and the CEO as executives as referred to in the Market Abuse Regulation. Said persons may not trade in L&T's financial instruments on their own account or for the account of a third party for a closed period of 30 days preceding the publication of the company's interim reports, half-year report and financial statements release, including the date of publication. The closed period preceding result announcements and the restriction of trading during the closed period also apply to

the persons who participate in the preparation of interim reports and the financial statements release, or who otherwise have regular access to L&T's undisclosed financial information.

These managers, i.e. Board members and the CEO, and the persons closely associated with them are required to notify L&T and the Finnish Financial Supervisory Authority of all transactions involving financial instruments issued by L&T or related to L&T. Transactions by managers and the persons closely associated with them are published as stock exchange releases via the company website.

Auditor

L&T has one auditor that must be a firm of auditors approved by the Finland Chamber of Commerce. The auditor is elected by the Annual General Meeting. KPMG Oy Ab, Authorised Public Accountants, was elected by the Annual General Meeting of 2017 as the company's auditor, with Lasse Holopainen, Authorised Public Accountant, as the principal auditor.

The auditors and the Board agree on the audit plan annually and discuss the audit's findings.

In 2017, the fees paid for the Group's statutory auditing to KPMG group totalled EUR 208,854 (101,059). The fees paid to the auditing company and companies belonging to the same group for non-audit services totalled EUR 439,000 (175,797). Such other services have been related to tax and IFRS services and business acquisitions, for example.

Remuneration Statement 2017

This remuneration statement was prepared in accordance with the Securities Market Association's Finnish Corporate Governance Code for Finnish listed companies that entered into force on 1 January 2016. This remuneration statement includes descriptions of the decision-making concerning the remuneration of the company's Board of Directors, CEO and other members of the Group Executive Board, key remuneration principles and a remuneration report. The Personnel Committee of the Board of Directors has reviewed this statement. This and other information disclosed in accordance with the Corporate Governance Code are available on L&T's website at www.lt.fi/en/investors/corporate-governance.

Board of Directors

Decision-making on remuneration

The Annual General Meeting annually determines the emoluments payable to the members of the Board of Directors for Board and committee work. The major shareholders prepare the proposals concerning the remuneration of the Board of Directors.

Key remuneration principles

In accordance with the resolution of the Annual General Meeting on 16 March 2017, it was decided to pay the Chairman EUR 46,250, Vice Chairman EUR 30,500 and each member EUR 25,750 per year as of the 2017 Annual General Meeting. 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 14 trading days, free from restrictions on trading, from the Annual General Meeting. In addition, meeting fees are paid to the members of the Board of Directors as follows: EUR 1,000 to the Chairman, EUR 700 to the Vice Chairman and EUR 500 to each member for each meeting. Meeting fees are also paid to the Chairmen and members of committees established by the Board of Directors: EUR 700 to the Chairman of a committee and EUR 500 to each member for each meeting.

None of the members of the Board of the Directors is employed by the Company or company belonging to the same group of companies with the Company or acts as the Company's advisor, and thereby they receive no salary, pension benefits, other financial benefits associated with employment or service, or other emoluments or fees not associated with Board work from the Company. The members of the Board are not included in the company's share-based incentive schemes and they do not have any pension contracts with the company.

Remuneration-related authorisations

The Annual General Meeting decided on 16 March 2017 in accordance with the proposal of the Board of Directors to authorise the Board of Directors to decide on a share issue and issuance of option rights or other special rights conferring entitlement to shares, referred to in Chapter 10, Section 1 of the Finnish Limited

Liability Companies Act, as follows:

The maximum number of shares issued under the authorisation is 2,000,000 shares, corresponding to approximately 5.2% of the total number of shares. The Board of Directors decides on all terms and conditions of the share issue and issuance of special rights conferring entitlement to shares, and it has the right to waive the pre-emptive right of shareholders (directed issue). The authorisation is effective for 18 months.

During 2017, the Company's Board of Directors decided to transfer a total of 16,110 Company shares under the authorisation as part of the Company's share-based incentive programme.

CEO and Group Executive Board

Decision-making on remuneration

The Board of Directors annually decides on the emoluments and financial benefits payable to the CEO and other members of the Group Executive Board. Before decision-making by the Board of Directors, the matter is prepared by the Personnel Committee of the Board.

Key remuneration principles

The remuneration of the President and CEO and the other members of the Group Executive Board consists of a fixed monthly salary and benefits and a separate annually decided short-term incentive. In addition, the CEO and other members of the Group Executive Board are covered by the share-based incentive programme functioning as a long-term incentive scheme.

Short-term incentive programme

The short-term incentives of the CEO and other members of the Group Executive Board are based on the performance of the Group and division. The short-term incentives paid to the division directors are based on the operating profit of the Group and division. The short-term incentives of the CEO and other members of the Executive Board are based on the operating profit of the Group. The bonus equals a maximum of 3–6 months' salary, at maximum, depending on the responsibilities of the recipient.

The objectives of the short-term incentives are set and their realisation assessed annually. Any incentives are usually paid in February of the year following the earnings period typically spanning a calendar year. The precondition for payment is that the person is employed by the Company at the time.

Share-based incentive programmes

The share-based incentive programme is the long-term incentive scheme for the CEO and other members of the Group Executive Board. The company's Board of Directors decides on the share-based incentive programme to form a part of the incentive and commitment scheme for the company's key personnel. The earnings period of the programme is the calendar year. The Board of Directors decides on the earnings criteria, target group and maximum share-based incentives on the proposal of the Personnel Committee. The final numbers of shares issued based on meeting the earnings criteria are decided by the Board of Directors at the beginning of the year following the earnings period. Rewards will be paid in February of the calendar

year following the earnings period. The rewards will be paid partly as shares and partly in cash. The maximum share-based payment may equal 6–12 months' salary depending on the responsibilities of the member of the Group Executive Board.

The precondition for payment is that the person be employed by the Company at the time. Any shares earned through the incentive programme must be held for a minimum period of two years following the payment. 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.

The share-based incentive programmes with years 2017 and 2016 as the earnings periods are described below:

- The share-based incentive programme 2017 began in 2016. The rewards were based on the Group's EVA result and they were paid in 2017.
- The share-based incentive programme 2018 began in 2017. The rewards were based on the Group's EVA result and they will be paid in 2018.

Other key terms and conditions

A written service contract has been drawn up for the President and CEO. According to the contract, the period of notice is six months should the company terminate the contract, and six months should the President and CEO terminate the contract. In the event that the company terminates the contract, the President and CEO will be paid compensation amounting to twelve (12) months' salary. The period of notice of other Group Executive Board members and terms and conditions of any compensation to be paid

based on termination of employment are agreed in the employment contract of each Group Executive Board member.

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

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

REMUNERATION REPORT

This remuneration report is included in Lassila & Tikanoja plc's ("L&T" or "the Company") remuneration statement published in connection with the Report by the Board of Directors. The remuneration report describes the emoluments and other financial benefits paid to members of the Board of Directors, CEO and other Group Executive Board members during the financial year 2017.

Board of Directors and its Committees

The Annual General Meeting held on 16 March 2017 decided to keep the remuneration of the members of L&T's Board of Directors unchanged, and it was as follows in 2017:

- Chairman of the Board EUR 46,250
- Vice Chairman of the Board EUR 30,500
- members EUR 25,750

In addition, meeting fees were paid to the members of the Board of Directors as follows: EUR 1,000 to the Chairman, EUR 700 to the Vice Chairman and EUR 500 to each member for each meeting. Meeting fees were also paid to the Chairmen and members of committees established by the Board of Directors: EUR 700 to the Chairman of a committee and EUR 500 to each member for each meeting.

Information about remuneration paid to those who were members of the Board of Directors during the financial years 2017 and 2016 is presented in the table below.

Remuneration paid to the members of the Board of Directors (EUR*)

	2017			2016		
	Annual fee	Meeting fees	Total	Annual fee	Meeting fees	Total
Heikki Bergholm	46,250	15,800	62,050	46,250	14,800	61,050
Sakari Lassila	30,500	12,000	42,500	25,750	8,500	34,250
Teemu Kangas-Kärki	25,750	9,000	34,750	25,750	6,000	31,750
Laura Lares	25,750	8,000	33,750	25,750	8,000	33,750
Miikka Majjala	25,750	8,500	34,250	25,750	8,000	33,750
Laura Tarkka	25,750	7,500	33,250	-	-	-
Eero Hautaniemi	-	2,100	2,100	30,500	11,900	42,400

* 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.

President and CEO

In 2017, the fixed annual salary of CEO Pekka Ojanpää including benefits was EUR 424,104 (in 2016: EUR 424,104). The short-term incentive determined based on 2016 amounted to EUR 96,941 (2016: EUR 84,823). In 2017, the CEO received 5,944 shares as rewards for 2016 (2016: 5,032 shares), the value of which at the time of transfer was EUR 112,105 (2016: EUR 80,814) and monetary compensation relating to the taxes for the share rewards, amounting to EUR

112,105 (2016: EUR 80,814), or a total of EUR 224,210 (2016: EUR 161,628). The President and CEO's wages and fees for 2017 thus totalled EUR 745,255 (2016: EUR 670,555).

Other Executive Board members

Other Group Executive Board members were paid fixed annual salary and fringe benefits of EUR 1,300,359 in 2017 (2016: EUR 1,213,050) and short-term incentives based on performance in 2016 totalling EUR 167,303 (2016: EUR

149,223). In 2017, the members of the Executive Board received a total of 9,317 shares as rewards for 2016 (2016: 6,580 shares), the value of which was EUR 175,694 (2016: EUR 105,675) and monetary compensation relating to the taxes for the share rewards, amounting to EUR 175,694 (2016: EUR 105,675), or a total of EUR 351,388 (2016: EUR 211,350). The wages and fees paid to other members of the Group Executive Board thus totalled EUR 1,819,050 (2016: EUR 1,573,623).

In 2017, EUR 6,000 arising from the pension agreement of Jari Sarjo, who served as the President and CEO until 13 June 2011, was recognised in the income statement.

Information about remuneration paid to the CEO and those who were members of the Board of Directors during the financial years 2017 and 2016 is presented in the table below.

Wages and fees paid to the CEO and other members of the Group Executive Board (EUR)

	2017				2016			
	Fixed salary	Incentives	Share-based incentives	Total	Fixed salary	Incentives	Share-based incentives	Total
President and CEO	424,104	96,941	224,210	745,255	424,104	84,823	161,628	670,555
Other Group Executive Board members total	1,300,359	167,303	351,388	1,819,050	1,213,050	149,223	211,350	1,573,623

**WE PUT THE CIRCULAR
ECONOMY INTO
PRACTICE**



Lassila & Tikanoja plc

Valimotie 27,

FI-00380 Helsinki, Finland

tel. +358 10 636 111

www.lt.fi/en/