# WE PUT THE CIRCULAR ECONOMY INTO PRACTICE

**LASSILA & TIKANOJA PLC**
**Financial Statement 2017**

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# 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

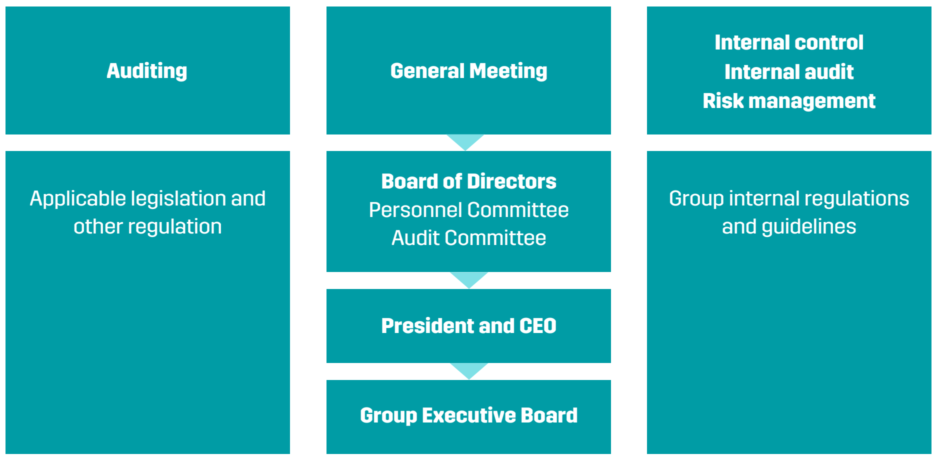
The Annual General Meeting is the supreme decision-making body of L&T. The Annual General Meeting decides on the matters stipulated in the Companies Act, such as the acceptance of the financial statements and proposed dividend, the release from liability of members of the Board of Directors and the President 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, President and CEO, principal auditor and prospective directors attend the General Meeting, unless there are well-founded reasons for their absence.

**Governance structure**




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 perspectives 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 Oyj: 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 1955
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 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)
**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 Maijala**
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 Maijala | 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–), Kiinteistötyönantajat 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:** Kiinteistötyönantajat 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)

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.

**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 Oy: 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); Säkkiväline Oy, Administrative Director (1999–2000), Corporate Lawyer (1992–1999); Helsingin Suomalainen Säästöpankki, Corporate Lawyer (1991–1992)

**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 foe 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 principlest

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 Maijala | 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 |

# REPORT BY THE BOARD OF DIRECTORS

## Strategy

In 2017, L&T engaged in extensive strategy work to assess the Group's competitive advantage and growth opportunities in terms of its customer segments. The strategy process improved market insight and identified significant growth opportunities, particularly in the public sector. The Group's position in raw material value chains was also evaluated.

As part of the strategy process, L&T defined its mission as putting the circular economy into practice. L&T helps customers maintain the value of their properties and materials while ensuring a high level of material, energy and cost efficiency and the efficient use of their properties. This is achieved by delivering responsible and sustainable service solutions that improve the daily lives of customers.

L&T's future success is built on having highly competent personnel with a positive service attitude, responsible and safe operations and a strong capacity for renewal. The company pursues profitable growth for itself as well as its customers and believes that this approach will make it the most advanced and beneficial service provider in its industry.

## Pursuing profitable growth

Based on the strategy review, changing the Group's strategic direction is not necessary and the existing strategic focus areas were kept largely unchanged. L&T will continue to focus on improving productivity and enhancing the customer and employee experience. Growth is sought organically through business development and also through potential acquisitions. In addition, the Group will invest resources in developing new services and service channels.

To strengthen its market position and support growth, the company continued to optimise the Group structure and divisional structures in late 2017. The Group's role was de-emphasised and the businesses were given more autonomy. This will improve the competitiveness of the businesses and enhance the creation of growth, taking the special needs of each business and their customers into consideration.

In summer 2017, L&T made a significant acquisition in Sweden to strengthen its foothold in the Nordic market, and the hospital segment in particular. The investment in the growing Hard FM (facility management) market in Sweden improved the Group's capacity for growth. The acquired expertise in the hospital segment supports L&T's position in the Finnish social welfare and health care service market, which is currently opening up.

To ensure the maximum advantage of the growth opportunities in Hard FM (also known as the maintenance of technical systems), it was separated into a reporting segment of its own starting from the beginning of 2018.

## The business environment remained challenging

L&T's business environment was challenging in 2017, and the recovery of the Finnish economy was not yet significantly reflected in increasing demand for services. One area where the recovery did have an impact was the demand for services used by the export-led industrial segment but, at the same time, price competition in Facility Services remained intense.

Regulation, which is a key factor in L&T's business environment, developed favourably. The direction of energy, climate and waste policy will increase the demand for recycled raw materials and biofuels, thereby boosting L&T's business in the medium and long term. With climate and recycling-related targets rising dramatically in the next few years, the significance of effective solutions for the transition period will be emphasised.

## Progress made in the implementation of strategy in 2017

In 2017, L&T systematically implemented its strategy based on the Group's chosen strategic focus areas.

Improving productivity:

- The Facility Services division's new operating model and the ERP system that supports it were deployed according to plan in the property maintenance service line. In 2018, the model and the system that supports will be expanded to cover the cleaning business and the maintenance of technical systems.
- The Industrial Services division's operating model renewal project progressed to the planning phase.

Enhancing the customer and employee experience:

- L&T's employees were closely involved in the efforts to enhance the customer and employee experience to ensure the concrete implementation of the new customer promises, among other things.
- An active focus on analysing and eliminating the root causes of customer complaints led to a significant reduction in complaints.
- Customer satisfaction developed favourably and the indicators of employee satisfaction and the mental state of the personnel also showed a positive trend.

New growth opportunities:

- L&T expanded its operations in the growing Swedish facility services market and completed the acquisition of the technical maintenance solutions provider Veolia FM AB (L&T FM AB) at the end of August. The integration process is underway and progressing as planned.

## Financial targets for the strategy period

The progress made in the implementation of strategy did not warrant any changes to L&T's strategic targets in 2017. The targets will be reviewed in conjunction with the 2018 strategy work.

| | Target 2020 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Growth | 5% | **7.6%** | 2.4% | 1.0% | -4.3% |
| Return on invested capital | 20% | **13.4%** | 17.4% | 16.5% | 15.4% |
| Operating profit | 9% | **6.2%** | 7.6% | 7.7% | 7.6% |
| Gearing | 0–70% | **53.9%** | 17.3% | 19.8% | 25.2% |

## Group net sales and financial performance

Net sales for 2017 amounted to EUR 712.1 million (661.8; 646.3), up 7.6% year-on-year. Excluding L&T FM AB, the Group's net sales increased by 2.1%. Operating profit totalled EUR 44.2 million (50.5; 49.9), representing 6.2% (7.6; 7.7) of net sales. Earnings per share were EUR 0.88 (1.13; 0.98).

Net sales increased by 10.5% in Industrial Services and by 14.8% in Facility Services, primarily due to the acquisition of L&T FM AB. The net sales of Environmental Services were on a par with the previous year. The net sales of the Renewable Energy Sources division declined by 5.1%. The decrease was attributable to low demand due to the short heating season as well the low energy content of fuels.

Operating profit improved in Industrial Services but declined in the other divisions. Environmental Services' operating profit was reduced by fuel costs being higher than in the previous year and a cost provision related to the closure of landfills. In Facility Services, the operating profit of the cleaning business developed favourably, while the weak profitability of the renovation business and costs related to the deployment of the new ERP system in the property maintenance business had a negative impact on the result. The Group's result was also weighed down by costs related to the acquisition and integration of L&T FM AB.

### Income statement by quarter

| MEUR | 10–12/2017 | 7–9/2017 | 4–6/2017 | 1–3/2017 | 10–12/2016 |
|---|---|---|---|---|---|
| **Net sales** | | | | | |
| Environmental Services | 67.0 | 68.1 | 67.4 | 62.9 | 66.5 |
| Industrial Services | 23.9 | 25.3 | 23.6 | 17.9 | 21.4 |
| Facility Services | 108.2 | 79.9 | 71.4 | 71.4 | 71.8 |
| Renewable Energy Sources | 10.7 | 4.8 | 7.3 | 12.1 | 11.6 |
| Interdivision net sales | -2.7 | -2.2 | -2.5 | -2.3 | -3.0 |
| L&T total | 207.0 | 175.9 | 167.2 | 161.9 | 168.3 |
| **Operating profit** | | | | | |
| Environmental Services | 6.5 | 9.7 | 7.7 | 5.9 | 6.5 |
| Industrial Services | 2.6 | 3.6 | 2.6 | -0.2 | 2.6 |
| Facility Services | 3.2 | 5.1 | 1.1 | -0.3 | 2.6 |
| Renewable Energy Sources | 0.2 | 0.0 | 0.2 | 0.3 | 0.7 |
| Group administration and other | -1.0 | -0.8 | -1.5 | -0.6 | -1.8 |
| L&T total | 11.4 | 17.6 | 10.1 | 5.1 | 10.5 |
| **Operating margin** | | | | | |
| Environmental Services | 9.7 | 14.2 | 11.5 | 9.4 | 9.7 |
| Industrial Services | 10.8 | 14.4 | 10.9 | -1.1 | 11.9 |
| Facility Services | 3.0 | 6.4 | 1.6 | -0.4 | 3.6 |
| Renewable Energy Sources | 2.2 | -0.7 | 2.9 | 2.4 | 6.2 |
| L&T total | 5.5 | 10.0 | 6.0 | 3.2 | 6.2 |
| Financial income and expenses, net | -1.3 | 0.5 | -0.7 | 0.1 | 0.1 |
| Share of the result of associated companies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Profit before tax** | 10.1 | 18.0 | 9.4 | 5.2 | 10.6 |

**Net sales of international operations by country**

| MEUR | 2017 | 2016 | 2015 |
|---|---|---|---|
| Sweden | **61.2** | 22.4 | 22.3 |
| Russia | **8.1** | 6.7 | 6.7 |

# Division reviews

## Environmental Services

The Environmental Services division's full-year net sales increased by 0.2% to EUR 265.3 million (264.8; 256.5). Operating profit totalled EUR 29.8 million (31.3; 35.8).

Net sales from municipal contracts decreased, but the division's market position improved in recycled raw materials as well as the retail and industrial segments.

Net sales and profitability were on a par with the previous year. The division's operating profit was reduced by fuel costs being higher than in the previous year as well as an increase of EUR 0.6 million in cost provisions related to the closure of landfills, recognised in the second quarter.

## Industrial Services

The Industrial Services division's full-year net sales grew by 10.5% to EUR 90.7 million (82.1; 77.0). Operating profit totalled EUR 8.6 million (7.8; 6.8).

The division's net sales increased year-on-year particularly in process cleaning, sewer maintenance and hazardous waste management. The net sales of environmental construction were on a par with the previous year.

Strong demand and the improved efficiency of operations improved the division's result compared to the previous year. Operating profit showed a year-on-year increase particularly in hazardous waste management.

## Facility Services

The Facility Services division's full-year net sales grew by 14.8% to EUR 331.0 million (288.3; 282.9). Operating profit totalled EUR 9.2 million (13.5; 8.1).

The division's net sales increased primarily due to the acquisition of L&T FM AB, but amortisation related to its purchase price allocation (PPA amortisation) and integration costs weighed down on operating profit. The operating profit of the cleaning business grew year-on-year due to strong demand and operational efficiency. In maintenance of technical systems and renovation, operating profit declined compared to the previous year.

The operating profit of the property maintenance business was weighed down by costs related to the deployment of a new ERP system in the Facility Services division.

## Renewable Energy Sources

The full-year net sales of the Renewable Energy Sources division decreased by 5.1% to EUR 34.9 million (36.8; 39.4). Operating profit totalled EUR 0.7 million (1.5; 2.1).

The year-on-year decline in the division's net sales and operating profit was mainly attributable to the low demand for forest energy due to the short heating season, the weak energy content of fuels and increasing delivery costs.

**Net sales by division**

| MEUR | 2017 | 2016 | Change % |
|---|---|---|---|
| Environmental Services | **265.3** | 264.8 | 0.2 |
| Industrial Services | **90.7** | 82.1 | 10.5 |
| Facility Services | **331.0** | 288.3 | 14.8 |
| Renewable Energy Sources | **34.9** | 36.8 | -5.1 |
| Eliminations | **-9.8** | -10.1 | |
| **Total** | **712.1** | 661.8 | 7.6 |

**Operating profit by division**

| MEUR | 2017 | % | 2016 | % | Change % |
|---|---|---|---|---|---|
| Environmental Services | **29.8** | 11.2 | 31.3 | 11.8 | -4.7 |
| Industrial Services | **8.6** | 9.5 | 7.8 | 9.5 | 10.3 |
| Facility Services | **9.2** | 2.8 | 13.5 | 4.7 | -31.8 |
| Renewable Energy Sources | **0.7** | 2.0 | 1.5 | 4.1 | -53.4 |
| Group administration and other | **-4.1** | | -3.7 | | |
| **Total** | **44.2** | 6.2 | 50.5 | 7.6 | -12.4 |

# Financing and capital expenditure

Cash flow from operating activities amounted to EUR 61.8 million (76.4; 89.8). A total of EUR 10.8 million in working capital was committed (2.7 released; 9.5 released).

At the end of the period, interest-bearing liabilities amounted to EUR 165.9 million (66.9; 95.8).

Net interest-bearing liabilities amounted to EUR 117.9 million (38.7; 41.8), showing a decrease of EUR 15.3 million from the previous quarter and an increase of EUR 79.2 million from the comparison period.

Net financial expenses in 2017 amounted to

EUR 1.4 million (0.4; 2.2). Net financial expenses were 0.2% (0.1%; 0.3%) of net sales.

The average interest rate on long-term loans (with interest rate hedging) was 1.1% (1.6%; 1.5%). Loans totalling EUR 22.6 million will mature in 2018, including the short-term commercial paper currently in use.

The equity ratio was 39.3% (50.4%; 46.5%) and the gearing rate was 53.9 (17.3; 19.8). Liquid assets at the end of the period amounted to EUR 48.1 million (28.2; 54.0).

Of the EUR 100 million commercial paper programme, EUR 20 million (0; 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.

Gross capital expenditure in 2017 totalled EUR 110.3 million (41.6; 49.6), consisting primarily of acquisitions, machine and equipment purchases and investments in information systems. The most significant investment was the acquisition of L&T FM AB. Of the significant ongoing information system projects, the new ERP system for Facility Services was deployed in the property maintenance business in early 2017. System deployment processes for the other service lines will continue in 2018.

## Key figures for financing

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Interest-bearing liabilities, MEUR | **165.9** | 66.9 | 95.8 |
| Net interest-bearing liabilities, MEUR | **117.9** | 38.7 | 41.8 |
| Interest expenses, MEUR | **1.8** | 1.7 | 1.4 |
| Net finance costs, MEUR | **-1.4** | -0.4 | -2.2 |
| Net finance costs, % of net sales | **0.2** | 0.1 | 0.3 |
| Net finance costs, % of operating profit | **3.2** | 0.7 | 4.4 |
| Equity ratio, % | **39.3** | 50.4 | 46.5 |
| Gearing, % | **53.9** | 17.3 | 19.8 |
| Cash flow from operating activities, EUR million | **60.2** | 76.4 | 89.8 |
| Change in working capital in the cash flow statement, EUR million | **-10.8** | 2.7 | 9.5 |

## Invested capital

| MEUR | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|
| Non-current assets | **360.4** | 308.3 | 303.4 |
| Inventories and receivables | **162.1** | 116.3 | 108.3 |
| Liquid assets | **48.1** | 28.2 | 54.0 |
| Deferred tax liability | **-29.2** | -24.8 | -24.9 |
| Trade and other payables | **-147.7** | -129.9 | -121.7 |
| Provisions | **-7.0** | -6.8 | -8.0 |
| Other non-interest-bearing liabilities | **-2.2** | -1.5 | -3.7 |
| Invested capital | **384.6** | 289.9 | 307.4 |

## Capital expenditure by balance sheet item

| MEUR | 2017 | 2016 | 2015 |
|---|---|---|---|
| Real estate | **2.7** | 4.7 | 3.3 |
| Machinery, equipment and other property, plant and equipment | **30.8** | 26.3 | 32.3 |
| Goodwill and other intangible rights arising from business acquisitions | **69.2** | 1.4 | 6.0 |
| Other intangible assets | **7.1** | 9.3 | 7.9 |
| Other non-current assets | **0.5** | 0.0 | 0.0 |
| Total | **110.3** | 41.6 | 49.6 |

## Capital expenditure by division

| MEUR | 2017 | 2016 | 2015 |
|---|---|---|---|
| Environmental Services | **21.9** | 18.5 | 24.4 |
| Industrial Services | **9.0** | 8.2 | 7.5 |
| Facility Services | **78.7** | 14.5 | 17.3 |
| Renewable Energy Sources | **0.2** | 0.3 | 0.3 |
| Group administration and other | **0.4** | 0.0 | 0.0 |
| Total | **110.3** | 41.6 | 49.6 |

## Loans, liabilities and contingent liabilities to related parties

Related-party transactions are accounted for in the consolidated financial statements, in Note 31: Related-party transactions.

## Changes in Group structure

The Group acquired the share capital of the Swedish facility management service provider Veolia FM AB as well as the business operations of Pieksämäen Keräys Oy, Pihtiputaan Jätehuolto Oy and Oulun Viemärihuolto Oy. The Group also founded L&T Työllistämispalvelu Oy and acquired a share of Moppicom Oy.

## Main events during the reporting period

On 31 March, the company announced that, based on the decision of the Annual General Meeting of Lassila & Tikanoja plc on 16 March 2017, it had transferred 3,896 shares to the members of the Board of Directors as part of the remuneration of the Board.

On 21 April 2017, the company announced that, starting from the interim report for January–March 2017, it will report its results through an income statement categorised by expense type. The stock exchange release presented cumulative quarterly comparison data by expense type for 2016 in accordance with the new income statement scheme. Previously, the company has used an income statement categorised by operation type in its reporting. The change has no impact on the Group's segment reporting. The presentation method was changed to correspond to the income statement scheme used in the management's reporting.

On 13 June 2017, the company announced a change to its outlook for 2017. Full-year net sales in 2017 are expected to remain at the 2016 level and operating profit is expected to be below the 2016 level. Previously, the company had estimated that the 2017 net sales and operating profit were expected to remain at the 2016 level. The company lowered its outlook for the operating profit due to weak profitability in Facility Services and particularly in the renovation business.

On 20 June 2017, the company announced that it has signed an agreement to acquire Veolia's facility management business in Sweden through the acquisition of 100 per cent of the shares of Veolia FM AB from Veolia Nordic AB. The company indicated that the acquisition is aimed at strengthening its presence in the Swedish facility services market by broadening its service offering in Sweden to include the maintenance of technical systems.

On 4 July 2017, the company announced that it had received a notification from Kabouter Management LCC, indicating that its holding of the shares and votes in Lassila & Tikanoja plc has risen above the threshold of 5.00%, to 7.53%.

On 31 August 2017, the company announced that it had completed the acquisition of Veolia's facility management business in Sweden.

On 16 November 2017, the company announced a change to its outlook for 2017. According to the new guidance, full-year net sales in 2017 were expected to be above the 2016 level and operating profit was expected to be below the 2016 level.

On 22 November 2017, the company announced changes in its management. Lassila & Tikanoja merged the positions of CFO, Supply Chain Director and Development Director as of 1 January 2018. M.Sc. (Econ.) Tuomas Mäkipeska was named CFO in charge of finances, ICT, development and procurement and Member of the Group Executive Board beginning 1 January 2018. The company announced that CFO and Member of the Group Executive Board Timo Leinonen and Supply Chain Director and Member of the Group Executive Board Timo Kontinen would leave the company.

On 14 December 2017, the company announced it is changing its segment reporting to report the Maintenance of Technical Systems business as a separate segment as of 1 January 2018. Lassila & Tikanoja's new structure consists of five reporting segments: Environmental Services, Industrial Services, Facility Services, Renewable Energy Sources and Maintenance of Technical Systems. The interim report for the first quarter of 2018 will be prepared in accordance with the new reporting structure.

**Employees by country at year end**

| Full-time and part-time, total | 2017 | 2016 | 2015 |
|---|---|---|---|
| Finland | **7,041** | 7,023 | 7,192 |
| Sweden | **1,332** | 652 | 640 |
| Russia | **290** | 256 | 253 |
| Total | **8,663** | 7,931 | 8,085 |

## Personnel

In 2017, the average number of employees converted into full-time equivalents was 7,875 (7,199; 7,099). At the end of the period, Lassila & Tikanoja had 8,663 (7,931; 8,085) full-time and part-time employees. Of these, 7,041 (7,023; 7,192) worked in Finland and 1,622 (908; 893) in other countries.

## Statement of non-financial information

### Description of the business model

According to the L&T business model managing corporate responsibility is part of the daily management and development of business operations at L&T, and it is controlled via strategic and annual planning and the company's management system. L&T's management system has been certified in accordance with the following standards: ISO 9001 (management system), ISO 14001 (environment) and OHSAS 18001 (occupational health and safety).

The Group Executive Board is responsible for the strategic management of corporate responsibility, and operational measures are guided by the corporate responsibility programme. The board of directors approves the corporate responsibility programme. The corporate responsibility steering group, chaired by the President and CEO, regularly monitored the progress of the programme and the projects launched to support its implementation in 2017.

The focus areas of the corporate responsibility programme (responsible business, environmental responsibility, responsibility of personnel, responsible supply chain and active stakeholder relations) are based on the Group's strategic policies and the expectations of key stakeholders. The programme also takes into account the particular nature of the business operations and operating environment of a service business in the environmental sector.

L&T's corporate responsibility programme and activities are described in more detail in the 2017 corporate responsibility report, which is published as part of the company's Annual Report 2017. The report has been prepared in compliance with the Global Reporting Initiative (GRI) reporting guidelines. For the Swedish facility management business (L&T FM AB), the material aspects are reported as of 1 September, the date on which the business was incorporated into the L&T Group as the result of an acquisition.

## Corporate responsibility principles and risk management

A responsible operating method is an inseparable part of L&T's strategy, business operations and day-to-day work. The Group's services play a key role in ensuring the responsibility of its customers, which drives the Group to strive for continuously improving results in recovering materials, reducing emissions and maintaining the work ability of personnel. Through its services, L&T is a prominent participant in the day-to-day workings of society, which is why it must make no compromises when it comes to regulatory compliance in its operations. Suppliers are also required to comply with regulations, agreements and L&T's responsibility principles.

In its administration, L&T complies with Finnish legislation, its Articles of Association, the rules and regulations of Nasdaq Helsinki and the regulations governing listed companies in Finland. L&T's operations are also guided by the policies and operating principles approved by the Board of Directors or the Group Executive Board.

To ensure the regulatory compliance of its operations, L&T has documented its responsible business principles in its Code of Conduct. The management is responsible for ensuring the personnel's familiarity with the Code of Conduct and monitoring compliance with the guidelines. All L&T employees must follow the L&T Code of Conduct as well as prevent actions that are contrary to guidelines and instructions. Violations of the Code of Conduct are primarily reported to the immediate supervisor. Immediate supervisors assist in the interpretation of guidelines in ambiguous situations. Employees can also use a confidential reporting channel by phone or e-mail. The channel is available in all of the Group's operating countries. L&T responds to all incidents of non-compliance without delay, in accordance with a jointly agreed process.

In 2017, all new L&T employees studied the Code of Conduct as part of their induction training programme. The Group will next implement the Code of Conduct in Sweden, where the number of L&T employees increased significantly after an acquisition completed in autumn 2017.

Managing responsibility-related risks is part of the Group's comprehensive risk management. The risk management process is described in the Corporate Governance Statement and the key risks are explained under "Risks and risk management" in this document.

## Environmental responsibility

### Operating principles, risks and risk management

L&T puts environmental responsibility into practice particularly through the services it produces for customers. The primary goal is always to direct materials collected from customers to reuse or recycling, guided by the order of priority stipulated by law and the circular economy approach. L&T strives to reduce emissions in its own operations as well as those of its customers. A further objective is that there should be no environmental offences or serious incidents of environmental damage in the Group's own operations.

L&T's environmental policy specifies the environmental aspects and principles that the Group observes in both its own operations as well as in the services it produces for customers. The cornerstones are uncompromising compliance with environmental legislation and standards as well as the principle of continuous improvement. The responsible management of environmental issues is part of L&T's operative risk management process.

Professional waste treatment is subject to environmental permits and regulatory compliance in operations. In 2017, L&T had 70 (69; 62) environmental permits that determined how the Group managed and monitored environmental matters. Facilities subject to environmental permits have contingency plans and rescue plans that determine how they prepare for significant environmental incidents. Environmental issues are also covered in regularly conducted internal audits.

The most significant environmental risks involved in L&T's operations are related to the fleet, waste storage and processing as well as chemical safety. These risks and their management are described in more detail under "Risks and risk management" in this document.

L&T requires its partners and suppliers to manage environmental issues responsibly.

This requirement is taken into account in the procurement process in the form of self-assessments, among other things. Waste is only handed over to operators that are authorised to receive or process it. Acquisitions are subject to detailed due diligence processes.

#### Results and key performance indicators related to compliance with the operating principles

To reduce the environmental impact of the materials collected from customers and promote the circular economy, L&T continuously strives to find new solutions to maximise material recovery in accordance with the order of priority in waste management. In 2017, the recycling rate (including reuse) of materials managed by L&T was 54% (54; 53). The recycling rate remained at the same level as the previous year, but there was positive development in the enhancement of sorting of construction waste, for example. The target for 2020 is 55% The reporting covers municipal waste collected from corporate customers, hazardous waste, industrial waste and construction waste in Finland and Russia.

The most significant direct environmental impacts of L&T's own operations are the emissions generated by collection and transport services, which is why reducing emissions is one of the Group's key corporate responsibility targets. The target is to reduce $CO_2$ emissions from the company's own operations by 25% by 2020, compared to the level of 2012, monitored operations and their volume. By the end of 2017, emissions had been reduced by 21.3% compared to 2012 (22.2: 19.4). L&T FM's figures for 9–12/2017 are excluded for the sake of comparability and due to their insignificance.

In 2017, L&T's operations caused 59.6 (59.0: 59.1) thousand $CO_2$ equivalent tonnes of emissions. Absolute emissions increased slightly compared to the previous year, which was due to an increase in the volume of our collection and transport operations. Relative to the increased volume of operations, however, the situation developed in a positivedirection. Greenhouse gas emission intensity, or greenhouse gas emissions relative to net sales, was 66.2 $CO_2$ equivalent tonnes per one million euros in 2017 (66.7; 68.2). There has been a downward trend in this respect since 2014. Among other factors, active measures to reduce emissions caused by transport and improve the driving style of drivers of heavy-duty vehicles have contributed to this.

In order to understand the impacts of L&T's operations, it should be noted that the emissions caused by L&T's own operations only represent a small proportion of the overall benefit produced by recycling and delivering biofuels and solid recovered fuels to customers. During 2017, together with its customers, L&T was able to reduce $CO_2$ emissions by approximately 1.1 million equivalent tonnes (1,0; 1.1). In the CDP Climate report, which evaluates the climate-related efforts of companies, L&T achieved the "Leadership" level with a rating of A-, the second-best grade in the system.

There was one serious fire in L&T's operations in 2017, but its impacts were minor. The fire, which occurred at the Vantaa transfer station in March, caused temporary negative environmental impacts in the local environment in the form of smoke and the water used to extinguish the fire, but there was no permanent environmental damage caused by the incident. L&T's facilities subject to permits were audited in 2017 to prevent similar incidents. The necessary corrective measures and their schedules were determined based on the audits.

## Social responsibility: employees and human rights

#### Operating principles, risks and risk management

As a major employer and service enterprise, the focus of L&T's social responsibility is on the Group's employees. The material aspects of L&T's responsibility for employees include maintaining the work ability of personnel and improving occupational safety, increasing job satisfaction and promoting diversity and equality.

L&T honours the UN Declaration of Human Rights as well as workers' rights as defined by the International Labour Organisation (ILO). National legislation, agreements and other obligations are applied in employment relationships. L&T respects the employees' freedom to unionise. L&T monitors compliance with collective agreements, environmental legislation, labour law, occupational safety legislation and regulations pertaining to financial management. The Group also complies with the applicable legislation governing contractors' obligations and liability, and requires the same from its suppliers.

Operations are guided by the personnel policy, diversity policy, certified management system, occupational safety management principles and the responsible operating principles (Code of Conduct), which emphasise the importance of fair and equal treatment and respect for each person's dignity, privacy and individual rights. The Group does not tolerate any type of discrimination, intimidation, harassment or bullying at the workplace. L&T is a signatory to the FIBS Diversity Charter. The management of personnel risks is a key component of the Group's risk management process.

The most significant personnel risks in L&T's operations are related to the availability of competent and motivated employees, the potential weakening of job satisfaction and the potential increase of disability and accident costs. These risks and their management are described in more detail under "Risks and risk management" in this document.

Risks related to human rights have been assessed as part of the risk management process. However, as L&T mainly operates in Finland and Sweden with local partners, no significant risks related to human rights have been identified in the Group's operations.

#### Compliance with the operating principles, results and performance indicators

As part of work ability management, L&T's targets by 2020 are to reduce the sickness-related absence rate to 4.5% and increase the average retirement age to 64. In 2017, the sickness-related absence relate in Finland was 4.8 (4.8; 5.2). The corresponding figures for Russia and Sweden were 4.5% and 2.45% respectively (no comparative figures available).

The average age of retirement in Finland (including retirement on disability pension) was 63 years (63.2; 63.1) and the average age of retirement on old-age pension in Finland was 63.9 years (63.8; 64). The average age of retirement on old-age pension was 64.2 years (65; 65) in Sweden and 57.5 years (57.5; 57) in Russia. Over the past ten years, the average retirement age of L&T in Finland has increased from 60 years to 63 years.

In 2017, L&T's overall accident frequency developed in line with targets and amounted to 30 in Finland (42; 46) and 25 in the Group as a whole (comparative figures not available). The LTA frequency indicator, which measures accidents leading to lost time, remained unchanged from the previous year in Finland at 15 (15; 11). The LTA figure for the Group as a whole was 14 (14; 11). The LTA target for 2018 is below 10. The main reason for this development was that substitutive work has not been used in the past two years in Finland to the same extent as it was in previous years. The cleaning services business saw particularly positive development in reducing occupational accidents. Both the overall accident frequency and the LTA indicator have been halved in Finland over the past five years.

The results of the employee satisfaction survey conducted in Finland in 2017 were largely on a par with the results of the previous survey, conducted in 2015. The scores showed improvement in certain areas, such as the work of immediate supervisors. According to the survey, 70% (-; 71) of L&T's employees in Finland would recommend the Group as an employer. The target for 2020 is 80%.

L&T's diversity is illustrated by the fact that approximately 16% (16; 17) of the Group's employees in Finland have immigrant backgrounds, with more than 80 different nationalities represented. The age distribution of the personnel is also very broad. In 2017, L&T piloted a project promoting the employment of unemployed immigrants and asylum seekers together with aid organisations, reception centres and the Employment and Economic Development Centre. A total of 15 individuals with foreign background took part in the pilot. Most of the participants were later recruited to L&T. After the pilot, such activities were decided to be established as permanent practices within the company. In 2017, there were no grievances related to human rights or incidents of discrimination at L&T.

## Supply chain responsibility, anti-corruption and bribery

### Operating principles, risks and risk management

L&T requires that suppliers comply with laws and agreements as well as L&T's responsibility principles. New contract suppliers are required to complete a self-assessment and commit to L&T's Code Of Conduct before the start of co-operation.

Supplier quality and performance is monitored in a manner that is appropriate for the product group in question. Appropriate supplier choices also help reduce the environmental impacts of production equipment and materials. Sourcing guidelines ensure that the procurement process is transparent and suppliers meet the relevant requirements and specifications. Suppliers are audited annually based on risk assessments.

L&T mainly operates in Finland and Sweden with local partners, which improves transparency with respect to the partners' responsibility. The most significant risks pertaining to service providers are related to financial aspects as well as employment relationship and occupational safety matters. These risks are taken into consideration particularly in subcontracting agreements. In Finland, L&T's subcontractors are required to be members of Suomen Tilaajavastuu Oy's Reliable Partner programme, and they must also comply with regulations governing traffic permits and the use of foreign workers, among other things.

The prevention of corruption and bribery is based on national legislation and agreements. Internally, operations are guided by L&T's responsible business principles (Code of Conduct), which include anti-bribery and corruption guidelines related to, among other things, accepting and offering gifts and hospitality as well as the avoidance of conflicts of interest. These topics are also included in the internal audit's unit inspections.

All procurement decisions are based on competitive supplier agreements and they are guided by L&T's procurement principles. Co-operation must not involve any bribery or the kind of hospitality or exchange of gifts that could influence decision-making in our business relationships.

### Compliance with the operating principles, results and performance indicators

In 2017, the supplier self-assessment procedure was expanded to cover all new suppliers in centralised procurement. In 2017, a total number of 61 supplier self-assessments were conducted. Based on a risk assessment, the audits stipulated by the corporate responsibility programme were targeted at L&T's own facilities subject to environmental permits following a fire at the Vantaa unit.

There were no incidents of bribery or corruption at L&T in 2017.

## Research and development

Research expenditure is recognised as an expense during the period in which it is incurred. Development expenditure is capitalised when the company can demonstrate the technical feasibility and commercial potential of the product under development and when the acquisition cost can be reliably determined. Other development expenditure is recognised as an expense.

The company's current capitalised development expenditure is mainly related to software and system projects. Development expenditure of EUR 5.7 million on software projects was capitalised in the balance sheet (7.6; 6.0). Costs of software projects are capitalised starting from the time when the projects move out of the research phase into the development phase and the outcome of the project is an itemisable intangible asset.

For the most part, the goal of product development recognised as an expense in the income statement is to give L&T's service offering a competitive edge and thereby to help the company achieve its growth targets.

## Risks and risk management

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 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. The principles for financial risk management are defined in the Group's Financial Policy. The principles for insurance risk management are specified in the Insurance Policy.

## Identification, assessment and reporting of risks

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

### Risk analysis

The section Strategic and operative risks describes 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. Financial risks and their management are described in the consolidated financial statements in Note 34: Financial risk management.

## Strategic and operative risks

### Risks relating to information and communications systems

If realised, risks associated with information and communications systems can cause interruptions in L&T's operations and customer service. The risks are minimised by engaging in systematic efforts to develop the systems environment and ensure the reliability of the ICT environment. These efforts include identifying which systems are critical to operations and defining the allocation of responsibilities between the system vendors and L&T. Data security is developed with a long-term approach and, in 2017, L&T started a project to ensure compliance with the EU General Data Protection Regulation by the relevant deadline.

### Market-related risks

Changes in markets and the market environment, such as municipalisation and market changes pertaining to recycled raw materials, as well as the market price development of emission rights, secondary raw materials and oil products may have an unfavourable effect on the Group's business operations and business growth and lead to lower profitability.

L&T is not dependent on 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 profitability improvement and customer care. L&T's strategies also take into account potential changes in the industry and the necessary related measures to ensure profitability. At the same time, L&T actively monitors the market situation and legislative developments and strives to proactively influence them.

### 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 competitiveness and profitability and may change the company's risk profile. Risk related to acquisitions is managed through contracts of sale, strategic and financial analysis of acquisition targets, comprehensive audits of due diligence, and particularly by carrying out an efficient integration programme after the realisation of a deal.

### Personnel

The availability of competent and motivated workers is a significant personnel-related risk due to the labour-intensive nature of the industry and the seasonality of the demand for labour. The population age structure also intensifies the competition for labour. We invest in the availability of personnel by developing our recruitment and induction training processes and our supervisory work. We are also active in recruiting people with immigrant backgrounds. We focus on fostering a 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.

One strategic risk we have identified is the potential decline of job satisfaction among personnel if we are unable to respond to this as quickly as necessary. We aim to manage this risk by facilitating career paths and job rotation as well as by enhancing the employee experience through the development of supervisory work, communication and employee engagement, among other things.

An increase in the personnel's disability and accident pension costs could materially affect L&T's competitiveness and profitability because, as a major employer, L&T is liable for the full pension costs arising from employee disability. L&T's Sirius programme is designed to promote the health of employees and to manage occupational health care services. It aims to minimise sickness-related absences and disability pensions as well as manage their related costs. We regularly conduct job-specific and site-specific risk assessments and workplace surveys, and we support the work ability and well-being of our employees through activities that promote work ability. L&T has its own workplace fund that supports L&T's work ability management and complements occupational health care. We also use the Suitable Work model that supports the rehabilitation and employment of people at risk of disability pension.

#### Damage-related risks

To cover for unexpected damage risks, 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

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 strives to minimise the risks of fire damage by using contingency planning, developing first-hand fire extinguishing preparedness and training personnel to prepare for emergencies.

#### Risk of environmental damage

L&T's business includes 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. L&T may become liable for damages due to this. In addition to taking out insurance, L&T manages environmental damage risks through systematic environmental surveys of its plants, preventive equipment maintenance plans, audits and the long-term training of personnel.

## Corporate Governance

#### Corporate Governance Statement

The Corporate Governance Statement for the financial year 2017 is provided as a separate report.

#### Administrative bodies

In accordance with Lassila & Tikanoja plc's Articles of Association, the management of the company and the proper arrangement of its operations are 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 of Shareholders 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 six months if the company terminates his employment.

The Annual General Meeting held on 16 March 2017 confirmed the number of members of the Board of Directors as six (6). Heikki Bergholm, Laura Lares, Sakari Lassila, Miikka Maijala and Teemu Kangas-Kärki were re-elected and Laura Tarkka was elected as a new member to the Board until the end of the following Annual General Meeting.

KPMG Oy Ab, Authorised Public Accountants, was elected auditor. KPMG Oy Ab named Lasse Holopainen, Authorised Public Accountant, as its principal auditor.

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

#### Group Executive Board members

On 31 December 2017, the members of the Group Executive Board were Pekka Ojanpää, President and CEO; Petri Salermo, Vice President, Environmental Services; Antti Tervo, Vice President, Industrial Services; Tutu Wegelius-Lehtonen, Vice President, Facility Services; Tuomas Mäkipeska, Vice President, Renewable Energy Sources and Development Director; Kirsi Matero, HR Director; Tomi Kontinen, Director, Supply Chain; and Jorma Mikkonen, Director, Corporate Relations and Responsibility. Tomi Kontinen left the company on 31 December 2017.

L&T's CFO and Group Executive Board member Timo Leinonen left the company and, from 22 November until the end of 2017, Development Director Tuomas Mäkipeska took on the role of CFO alongside his other duties. Tuomas Mäkipeska was appointed Lassila & Tikanoja's CFO in charge of finances, ICT, development and procurement and Member of the Group Executive Board effective from 1 January 2018.

## Shares and shareholders

### Share capital and number of shares

There were no changes in Lassila & Tikanoja's share capital and number of shares in 2017 and 2016. The registered share capital of the company is EUR 19,399,437. The number of shares is 38,798,874. The average number of shares excluding the shares held by the company was 38,394,955. Each share carries one vote. The Articles of Association do not set an upper limit on the share capital and number of shares. 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.

### Shareholders

Lassila & Tikanoja plc had 12,208 registered shareholders at the end of 2017 (10,812; 9,790). Nominee-registered holdings accounted for 19.5% (17.6%; 21.6%) of the total number of shares.

## 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 969,852 shares in the company on 31 December 2017. They represent 2.5% of the number of shares and votes..

## Trading in shares in 2017

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

The volume of trading on Nasdaq Helsinki in 2017, excluding the shares held by the company in Lassila & Tikanoja plc, was 5,480,149 shares, which is 14.3% (16.9%; 26.0%) of the average number of outstanding shares. The value of trading was EUR 101.6 million (110.1; 172.4). The highest share price was EUR 20.89 and the lowest EUR 17.22. The closing price was EUR 18.06. At the end of the review period, the market capitalisation excluding the shares held by the company was EUR 693.5 million (736.9; 695.1).

## Own shares

At the end of the period, the company held 400,862 of its own shares, representing 1.0% of all shares and votes.

## Authorisation for the Board of Directors

The Annual General Meeting held on 16 March 2017 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. In addition, the Annual General Meeting authorised the Board of Directors to decide on a share issue and the issuance of special rights entitling their holders to shares.

The Board of Directors is authorised to purchase a maximum of 2,000,000 company shares (5.2% of the total number of shares). The repurchase authorisation is effective for 18 months.

The Board of Directors is authorised to decide on the issuance of new shares or shares which may be held by the company through a share issue and/or issuance of option rights or other special rights conferring entitlement to shares, referred to in Chapter 10, Section 1 of the Finnish Companies Act, so that under the authorisation, a maximum of 2,000,000 shares (5.2% of the total number of shares) may be issued and/or conveyed. The share issue authorisation is effective for 18 months.

### 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.

### Breakdown of shareholding by sector on 31 December 2017

| | Number of shareholders | Percentage | Number of shares | Percentage of shares and votes |
|---|---|---|---|---|
| Non-financial corporations and housing corporations | 659 | 5.4 | 2,498,740 | 8.0 |
| Financial and insurance corporations | 39 | 0.3 | 6,328,724 | 20.3 |
| General Government | 23 | 0.2 | 3,945,273 | 12.6 |
| Households | 11,164 | 91.4 | 11,905,635 | 38.1 |
| Non-profit institutions serving households | 281 | 2.3 | 6,378,584 | 20.4 |
| Foreign shareholders | 43 | 0.4 | 150,506 | 0.5 |
| Shares registered in a nominee's name | 9 | 0.1 | 7,550,884 | 19.5 |
| Shares not transferred to the book-entry securities system | | | 40,528 | 0.1 |
| Own shares | | 0.0 | 400,862 | 1.0 |
| **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 | 10,715 | 87.8 | 2,676,537 | 6.9 |
| 1,001–5,000 | 1,096 | 9.0 | 2,395,193 | 6.2 |
| 5,001–10,000 | 177 | 1.5 | 1,267,305 | 3.3 |
| 10,001–100,000 | 180 | 1.5 | 5,458,720 | 14.1 |
| 100,001–500,000 | 24 | 0.2 | 4,879,890 | 12.6 |
| over 500,000 | 17 | 0.1 | 22,080,701 | 56.9 |
| Shares registered in a nominee's name | 9 | | 7,550,884 | 19.5 |
| Shares not transferred to the book-entry securities system | | | 40,528 | 0.1 |
| Own shares | 1 | 0.0 | 400,862 | 1.0 |
| **Total** | **12,209** | **100.0** | **38,798,874** | **100.0** |

### Major shareholders on 31 December 2017

| | 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 | 2,311,238 | 6.0 |
| 3 | Maijala Juhani | 1,529,994 | 3.9 |
| 4 | Nordea Nordic Small Cap Fund | 1,474,300 | 3.8 |
| 5 | Elo Mutual Pension Insurance Company | 1,229,073 | 3.2 |
| 6 | Ilmarinen Mutual Pension Insurance Company | 934,836 | 2.4 |
| 7 | Åbo Akademi University Foundation | 903,332 | 2.3 |
| 8 | Bergholm Heikki | 828,053 | 2.1 |
| 9 | Maijala Mikko | 720,000 | 1.9 |
| 10 | Föreningen Konstsamfundet rf | 677,721 | 1.8 |
| 11 | The State Pension Fund | 562,000 | 1.5 |
| 12 | Turjanmaa Kristiina | 529,200 | 1.4 |
| 13 | Nordea Pro Suomi Fund | 510,300 | 1.3 |
| 14 | Lassila & Tikanoja plc | 400,862 | 1.0 |
| 15 | Church Pension Fund | 360,604 | 0.9 |
| 16 | Fondita Nordic Small Cap Fund | 360,000 | 0.9 |
| 17 | Varma Mutual Pension Insurance Company | 349,791 | 0.9 |
| 18 | Maijala Eeva | 345,000 | 0.9 |
| 19 | Oy Chemec Ab | 340,000 | 0.9 |
| 20 | Aktia Capital Fund | 230,000 | 0.6 |
| | **Total** | **17,422,491** | **43.9** |

# Profit distribution

## 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.

In 2017, the Group's earnings per share were EUR 0.88 (1.13; 0.98) and cash flow from operating activities per share amounted to EUR 1.61 (1.99; 2.33). The Board of Directors proposed a dividend of EUR 0.92 per share to the Annual General Meeting to be held on 15 March 2018.

A dividend of EUR 0.92 per share was paid for the financial year 2016, and a dividend of EUR 0.85 per share was paid for the financial year 2015.

# Near-term uncertainties

Fluctuations in the prices of fossil fuels may affect the demand of the recovered and renewable fuels produced by the company.

The company has begun the deployment of a new ERP system and will continue the deployment process in 2018. The deployment of the new system may lead to temporary overlapping costs arising from changes in the operating model, which can have a negative effect on the company's result.

# Outlook for 2018

Lassila & Tikanoja's net sales and operating profit in 2018 are expected to be above the 2017 levels.

# Events after the balance sheet date

The company management is not aware of any events of material importance that might have affected the preparation of the financial statements.

# KEY FIGURES

## Key figures on shares

| | | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| 1 | Earnings per share (EPS), EUR | **0.88** | 1.13 | 0.98 | 0.47 | 0.57 |
| 2 | Earnings per share (EPS), diluted, EUR | **0.88** | 1.13 | 0.98 | 0.47 | 0.57 |
| 3 | Equity per share, EUR | **5.69** | 5.81 | 5.51 | 5.34 | 5.46 |
| 4 | Dividend per share, EUR * | **0.92** | 0.92 | 0.85 | 0.75 | 0.50 |
| 5 | Payout ratio, % | **104.8** | 81.3 | 86.5 | 160.0 | 87.2 |
| 6 | Effective dividend yield, % | **5.1** | 4.8 | 4.7 | 5.0 | 3.3 |
| 7 | P/E ratio, % | **20.6** | 17.0 | 18.4 | 32.3 | 26.6 |
| 8 | Cash flow from operating activities per share, EUR | **1.61** | 1.99 | 2.33 | 2.06 | 2.23 |
| | Share price adjusted for issues: | | | | | |
| 9 | lowest, EUR | **17.22** | 14.37 | 14.54 | 12.75 | 11.60 |
| 10 | highest, EUR | **20.89** | 19.59 | 18.74 | 15.84 | 15.59 |
| 11 | average, EUR | **18.52** | 16.96 | 17.25 | 14.31 | 13.81 |
| 12 | closing, EUR | **18.06** | 19.20 | 18.12 | 15.14 | 15.23 |
| 13 | Market capitalization, MEUR | **700.7** | 744.9 | 703.0 | 584.7 | 589.5 |
| | Number of shares adjusted for issue: | | | | | |
| 14 | average during the year | **38,394,955** | 38,375,007 | 38,589,658 | 38,728,721 | 38,703,933 |
| 15 | at year end | **38,398,012** | 38,378,006 | 38,361,153 | 38,617,980 | 38,706,627 |
| 16 | average during the year, diluted | **38,409,829** | 38,389,881 | 38,604,906 | 38,739,668 | 38,720,630 |
| 17 | Adjusted number of shares traded during the year | **5,480,149** | 6,475,324 | 10,271,667 | 10,191,394 | 7,206,872 |
| 18 | As a percentage of the average | **14.3** | 16.9 | 26.6 | 26.3 | 18.7 |
| 19 | Volume of shares traded, MEUR | **101.6** | 110.1 | 177.2 | 147.2 | 99.5 |

* 2017 proposal by the Board of Directors

## Key figures on financial performance

| | | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| 20 | Net sales, MEUR | **712.1** | 661.8 | 646.3 | 639.7 | 668.2 |
| 21 | Operating profit, MEUR | **44.2** | 50.5 | 49.9 | 48.5 | 33.2 |
| 22 | % of net sales | **6.2** | 7.6 | 7.7 | 7.6 | 5.0 |
| 23 | Profit before tax, MEUR | **42.7** | 50.1 | 47.7 | 26.6 | 30.3 |
| 24 | % of net sales | **6.0** | 7.6 | 7.4 | 4.2 | 4.5 |
| 25 | Profit for the period, MEUR | **33.7** | 43.4 | 37.9 | 18.1 | 22.2 |
| 26 | % of net sales | **4.7** | 6.6 | 5.9 | 2.8 | 3.3 |
| 27 | Profit for the period attributable to the equity holders of the parent company, MEUR | **33.7** | 43.4 | 37.9 | 18.1 | 22.2 |
| 28 | % of net sales | **4.7** | 6.6 | 5.9 | 2.8 | 3.3 |
| 29 | EVA, MEUR | **21.2** | 30.7 | 30.3 | 29.1 | 12.4 |
| 30 | Cash flow from operating activities, MEUR | **61.8** | 76.4 | 89.8 | 79.6 | 86.4 |
| 31 | Balance sheet total, MEUR | **570.6** | 452.8 | 465.8 | 458.3 | 496.0 |
| 32 | Return on equity, % (ROE) | **15.3** | 20.0 | 18.2 | 8.7 | 10.0 |
| 33 | Return on invested capital, % (ROI) | **13.4** | 17.4 | 16.5 | 15.4 | 10.6 |
| 34 | Equity ratio, % | **39.3** | 50.4 | 46.5 | 46.3 | 43.7 |
| 35 | Gearing, % | **53.9** | 17.3 | 19.8 | 25.2 | 30.4 |
| 36 | Net interest-bearing liabilities, MEUR | **117.9** | 38.7 | 41.8 | 52.0 | 64.4 |
| 37 | Capital expenditure, MEUR | **110.3** | 41.6 | 49.6 | 44.7 | 32.7 |
| 38 | % of net sales | **15.5** | 6.3 | 7.7 | 7.0 | 4.9 |
| 39 | Average number of employees in full-time equivalentes | **7,875** | 7,199 | 7,099 | 7,257 | 8,267 |
| 40 | Total number of full-time and part-time employees at year end | **8,663** | 7,931 | 8,085 | 7,830 | 8,847 |

# CALCULATION OF THE KEY FIGURES

## Key figures on shares

1 Earnings per share (EPS) $= \frac{\text{profit attributable to equity holders of the parent company}}{\text{adjusted average basic number of shares}}$

2 Earnings per share (EPS), diluted $= \frac{\text{profit attributable to equity holders of the parent company}}{\text{adjusted average diluted number of shares}}$

3 Equity per share $= \frac{\text{equity attributable to equity holders of the parent company}}{\text{adjusted basic number of shares at the balance sheet date}}$

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

5 Payout ratio, % * $= \frac{\text{dividend per share}}{\text{earnings per share}} \times 100$

6 Effective dividend yield, % * $= \frac{\text{dividend per share}}{\text{closing price of the financial period}} \times 100$

7 P/E ratio, % $= \frac{\text{closing price of the financial period}}{\text{earnings per share}}$

8 Cash flow from operating activities per share $= \frac{\text{cash flows from operating activities as in the cash flow statement}}{\text{adjusted average basic number of shares}}$

13 Market capitalization = basic number of shares at the balance sheet date x closing price of the financial period

* The calculations are also applied with capital repayment.

## Key figures on financial performance

29 EVA = operating profit - cost calculated on invested capital (average of four quarters) before taxes

The cost of capital invested is calculated using the Group's weighted average cost of capital (WACC).

WACC 2017: 6.69 %
WACC 2016: 6.56 %
WACC 2015: 6,51 %
WACC 2014: 6,58 %
WACC 2013: 6,52 %

32 Return on equity, % (ROE) $= \frac{\text{profit for the period}}{\text{equity (average)}} \times 100$

33 Return on invested capital, % (ROI) $= \frac{\text{profit before tax + finance costs}}{\text{Balance sheet total - non-interest-bearing liabilities (average)}} \times 100$

34 Equity ratio, % $= \frac{\text{equity}}{\text{balance sheet total - advances received}} \times 100$

35 Gearing, % $= \frac{\text{net interest-bearing liabilities}}{\text{equity}} \times 100$

36 Net interest-bearing liabilities = Interest-bearing liabilities - cash and cash equivalents

# CONSOLIDATED INCOME STATEMENT

| 1 January – 31 December MEUR | 2017 | 2016 | Note |
|---|---|---|---|
| **Net sales** | **712.1** | 661.8 | 1 |
| Other operating income | **5.7** | 4.8 | 4 |
| Change of inventory | **-1.0** | 1.1 | |
| Materials and services | **-234.9** | -206.3 | |
| Employee benefit expenses | **-296.9** | -280.8 | |
| Other operating expenses | **-100.3** | -91.4 | 4 |
| Depreciation and impairment | **-40.5** | -38.8 | |
| **Operating profit** | **44.2** | 50.5 | |
| Financial income and expenses | **-1.4** | -0.4 | 6 |
| Share of the result of associated companies | **-0.1** | 0.0 | |
| **Profit before tax** | **42.7** | 50.1 | |
| Income taxes | **-9.0** | -6.7 | 7 |
| **Profit for the period** | **33.7** | 43.4 | |
| **Attributable to:** | | | |
| Equity holders of the company | **33.7** | 43.4 | |
| Non-controlling interest | **0.0** | 0.0 | |
| **Earnings per share attributable to equity holders of the parent company:** | | | |
| Basic earnings per share, EUR | **0.88** | 1.13 | 8 |
| Diluted earnings per share, EUR | **0.88** | 1.13 | |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| 1 January – 31 December MEUR | 2017 | 2016 | Note |
|---|---|---|---|
| **Profit for the period** | **33.7** | 43.4 | |
| **Items not to be recognised through profit or loss** | | | |
| Items arising from re-measurement of defined benefit plans | **0.1** | 0.0 | 22 |
| Items not to be recognised through profit or loss, total | **0.1** | 0.0 | |
| **Items potentially to be recognised through profit or loss** | | | |
| Hedging reserve, change in fair value | **-0.1** | 0.4 | |
| Currency translation differences | **-2.7** | -0.1 | |
| Currency translation differences, non-controlling interest | **0.0** | 0.0 | |
| Items potentially to be recognised through profit or loss, total | **-2.8** | 0.3 | |
| **Total comprehensive income, after tax** | **30.9** | 43.7 | |
| **Attributable to:** | | | |
| Equity holders of the company | **30.9** | 43.7 | |
| Non-controlling interest | **0.0** | 0.0 | |

More information on taxes in consolidated statement of comprehensive income is presented in Note 7 Income taxes.

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| 31 December MEUR | 2017 | 2016 | Note |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | | | 10 |
| Goodwill | **150.2** | 116.5 | 11 |
| Customer contracts arising from acquisitions | **22.6** | 5.2 | |
| Agreements on prohibition of competition | **0.0** | 0.1 | |
| Other intangible assets arising from acquisitions | **0.5** | 0.6 | |
| Other intangible assets | **22.9** | 20.8 | |
| | **196.3** | 143.2 | |
| Property, plant and equipment | | | 12 |
| Land | **5.3** | 5.3 | |
| Buildings and constructions | **40.3** | 40.7 | |
| Machinery and equipment | **106.5** | 104.8 | |
| Other tangible assets | **0.1** | 0.1 | |
| Prepayments and construction in progress | **2.0** | 5.3 | |
| | **154.1** | 156.1 | |
| Other non-current assets | | | |
| Available-for-sale investments | **0.6** | 0.6 | 14, 27 |
| Finance lease receivables | **0.3** | 1.2 | 15, 27 |
| Deferred tax assets | **6.5** | 5.5 | 16 |
| Other receivables | **2.6** | 1.7 | 27 |
| | **10.0** | 9.0 | |
| **Total non-current assets** | **360.4** | 308.3 | |
| **Current assets** | | | |
| Inventories | **23.9** | 24.9 | 17 |
| Trade and other receivables | **137.6** | 90.5 | 18, 27 |
| Derivative receivables | **0.1** | 0.3 | 27, 28 |
| Prepayments | **0.5** | 0.6 | |
| Cash and cash equivalents | **48.1** | 28.2 | 19, 27 |
| **Total current assets** | **210.2** | 144.5 | |
| **Total assets** | **570.6** | 452.8 | |

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

| 31 December MEUR | 2017 | 2016 | Note |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Equity attributable to equity holders of the parent company | | | 20 |
| Share capital | **19.4** | 19.4 | |
| Other reserves | **-5.9** | -3.1 | |
| Invested unrestricted equity reserve | **0.6** | 0.4 | |
| Retained earnings | **170.7** | 162.7 | |
| Profit for the period | **33.7** | 43.4 | |
| | **218.5** | 222.8 | |
| Non-controlling interests | **0.2** | 0.2 | |
| **Total equity** | **218.7** | 223.0 | |
| **Liabilities** | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | **29.2** | 24.8 | 16 |
| Retirement benefit obligations | **1.4** | 1.0 | 22 |
| Provisions | **5.0** | 4.8 | 23 |
| Borrowings | **140.9** | 63.5 | 24, 27 |
| Other liabilities | **0.4** | 0.3 | 25, 27 |
| | **177.0** | 94.3 | |
| Current liabilities | | | |
| Borrowings | **25.0** | 3.4 | 24, 27 |
| Trade and other payables | **147.7** | 129.9 | 26, 27 |
| Derivative liabilities | **0.2** | 0.1 | 27, 28 |
| Current tax liabilities | **0.1** | 0.1 | |
| Provisions | **1.9** | 2.0 | 23 |
| | **174.9** | 135.5 | |
| **Total liabilities** | **351.9** | 229.8 | |
| **Total equity and liabilities** | **570.6** | 452.8 | |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

| 1 January - 31 December MEUR | 2017 | 2016 | Note |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | **33.7** | 43.4 | |
| Adjustments | **51.6** | 43.8 | 30 |
| Net cash generated from operating activities before change in working capital | **85.3** | 87.2 | |
| Change in working capital | | | |
| Change in trade and other receivables | **-14.6** | -2.5 | |
| Change in inventories | **1.0** | -1.4 | |
| Change in trade and other payables | **2.8** | 6.6 | |
| Change in working capital | **-10.8** | 2.7 | |
| Interest paid | **-2.7** | -2.0 | |
| Interest received | **0.5** | 0.3 | |
| Income tax paid | **-10.5** | -11.7 | |
| **Net cash generated from operating activities** | **61.8** | 76.4 | |
| **Cash flows from investing activities** | | | |
| Acquisitions of subsidiaries and businesses, net of cash acquired | **-67.2** | -1.8 | 2 |
| Purchases of property, plant and equipment and intangible assets | **-25.5** | -33.9 | |
| Proceeds from sale of property, plant and equipment and intangible assets | **1.7** | 0.8 | |
| Investments in associated companies | **-0.8** | - | |
| Change in other non-current receivables | **-0.3** | 0.2 | |
| Dividends received | **-** | 0.0 | |
| **Net cash used in investing activities** | **-92.1** | -34.6 | |
| **Cash flows from financing activities** | | | |
| Changes in short-term borrowings | **18.3** | -0.2 | |
| Proceeds from long-term borrowings | **69.9** | - | |
| Repayments of long-term borrowings | **-2.6** | -34.8 | |
| Dividends paid | **-35.3** | -32.6 | |
| **Net cash generated from financing activities** | **50.3** | -67.6 | |
| **Net change in liquid assets** | **20.0** | -25.9 | |
| Liquid assets at beginning of period | **28.2** | 54.0 | |
| Effect of changes in foreign exchange rates | **-0.1** | 0.0 | |
| **Liquid assets at end of period** | **48.1** | 28.2 | 19 |

The notes are an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| MEUR | Share capital | Currency translation differences | Hedging reserve | Invested unrestricted equity reserve | Retained earnings | Equity attributable to equity holders of the parent company | Non-controlling interest | Total equity | Note |
|---|---|---|---|---|---|---|---|---|---|
| Equity at 1 January 2017 | 19.4 | -3.0 | -0.1 | 0.4 | 206.1 | 222.8 | 0.2 | 223.0 | |
| Comprehensive income | | | | | | | | | |
| Profit for the period | | | | | 33.7 | 33.7 | 0.0 | 33.7 | |
| Items arising from remeasurement of defined benefit plans | | | | | 0.1 | 0.1 | | 0.1 | |
| Hedging reserve, change in fair value | | | -0.1 | | | -0.1 | | -0.1 | |
| Currency translation differences | | -2.7 | | | | -2.7 | 0.0 | -2.7 | |
| Total comprehensive income | | -2.7 | -0.1 | | 33.7 | 30.9 | 0.0 | 30.9 | |
| Transactions with equity holders of the company | | | | | | | | | |
| Expense recognition of share-based benefits | | | | 0.1 | -0.2 | 0.0 | | 0.0 | 21 |
| Dividend payment | | | | | -35.3 | -35.3 | | -35.3 | |
| Total transactions with equity holders of the company | | | | 0.1 | -35.5 | -35.4 | | -35.4 | |
| Other | | | | | 0.1 | 0.1 | | 0.1 | |
| Equity at 31 December 2017 | 19.4 | -5.7 | -0.2 | 0.6 | 204.4 | 218.5 | 0.2 | 218.7 | |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| MEUR | Share capital | Currency translation differences | Hedging reserve | Invested unrestricted equity reserve | Retained earnings | Equity attributable to equity holders of the parent company | Non-controlling interest | Total equity | Note |
|---|---|---|---|---|---|---|---|---|---|
| Equity at 1 January 2016 | 19.4 | -2.9 | -0.4 | 0.5 | 194.7 | 211.2 | 0.1 | 211.4 | |
| Comprehensive income | | | | | | | | | |
| Profit for the period | | | | | 43.4 | 43.4 | 0.0 | 43.4 | |
| Items arising from remeasurement of defined benefit plans | | | | | 0.0 | 0.0 | | 0.0 | |
| Hedging reserve, change in fair value | | | 0.4 | | | 0.4 | | 0.4 | |
| Currency translation differences | | -0.1 | | | | -0.1 | 0.0 | -0.1 | |
| Total comprehensive income | | -0.1 | 0.4 | | 43.4 | 43.7 | 0.0 | 43.7 | |
| Transactions with equity holders of the company | | | | | | | | | |
| Expense recognition of share-based benefits | | | | 0.0 | 0.5 | 0.5 | | 0.5 | 21 |
| Dividend payment | | | | | -32.6 | -32.6 | | -32.6 | |
| Dividend returned | | | | | 0.0 | 0.0 | | 0.0 | |
| Total transactions with equity holders of the company | | | | 0.0 | -32.1 | -32.1 | | -32.1 | |
| Other | | | | | 0.0 | 0.0 | | 0.0 | |
| Equity at 31 December 2016 | 19.4 | -3.0 | -0.1 | 0.4 | 206.1 | 222.8 | 0.2 | 223.0 | |

More information on equity is shown in Note 20 Equity, and on taxes recognised in equity in Note 7 Income taxes.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## General information

The Lassila & Tikanoja Group specialises in environmental management and property and plant support services. The Group has business operations in Finland, Sweden and Russia.

The Group's parent company is Lassila & Tikanoja plc. Lassila & Tikanoja plc is a Finnish public limited liability company domiciled in Helsinki. The registered address of the Company is Valimotie 27, 00380 Helsinki.

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

The consolidated financial statements are available on the company website at www.lt.fi/en/ or from the parent company's head office, address Valimotie 27, 00380 Helsinki, Finland.

These consolidated financial statements have been approved for issue by the Board of Directors of Lassila & Tikanoja plc on 30 January 2018. 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.

## Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), with application of the IFRS and IAS standards as well as IFRIC and SIC interpretations in effect on 31 December 2017. 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 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.

Figures in these financial statements are presented in millions of euros.

The preparation of financial statements in accordance with IFRS requires the management to make certain estimates and decisions based on its discretion. Information on decisions based on management discretion which the management has used in the application of the Group's accounting policies and which have the most material impact on data presented in the financial statements, as well as the key assumptions regarding the future and affecting management judgments is given in section "Critical judgments in applying the Group's accounting policies".

## Application of new or amended IFRS standards

As of 1 January 2017, the Group has applied the following new and amended standards and interpretations in preparing these consolidated financial statements:

- Amendments to IAS 7 Disclosure Initiative (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments have an impact on the disclosures in consolidated financial statements.
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after 1 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments have no impact on the consolidated financial statements.
- Amendments to IFRS 12*, Annual Improvements to IFRSs (2014-2016 cycle) (effective for financial years beginning on or after 1 January 2017). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments have no impact on the consolidated financial statements.

* = not yet endorsed for use by the European Union as of 31 December 2017.

## Accounting policies

### Consolidation

#### Subsidiaries

The consolidated financial statements include the parent company Lassila & Tikanoja plc and all subsidiaries in which the Group exercises control. The criteria for control are fulfilled when the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity.

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, with the exception of costs arising from the issuance of debt securities or equity instruments, 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. Tytäryhtiöiden hankinnasta syntyneen liikearvon käsittelyä kuvataan kohdassa "Goodwill and other intangible assets".

The subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

The profit or loss for the period and the comprehensive income are 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 transactionsThe Group has no material non-controlling interests.

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.

### Associates

Associates are companies over which the Group has significant influence. The Group has significant influence when it holds more than 20% of the voting rights or otherwise has significant influence but a non-controlling interest. The equity method has been used in the consolidation of associates.

## Foreign currency translation

Figures indicating the performance and financial position of the Group entities are specified in the currency of the economic operating environment in which the entity primarily operates (functional currency). The consolidated financial statements are presented in euros, which is the parent company's functional and presentation currency.

Any transactions in foreign currencies have been recognised in the functional currency using the exchange rate in effect on the transaction date. In practice, it is customary to use a rate that is close enough to the transaction day rate. 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 comprehensive income result in a translation difference recognised in the translation 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.

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.

## 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.

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 accumulated 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 Noncurrent 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.

## Impairment of tangible and intangible 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 Group as a lessee

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.

### The Group as a lessor

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.

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.

## 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 2015 and 2014.

## 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 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.

## Financial assets and liabilities

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 other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest method. 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.

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.

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 financial policy, L&T uses derivative instruments to reduce the financing risks associated with interest rate and commodity 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.

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. 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.

## Borrowing costs

Borrowing costs are recognised as expenses in the period in which they arise.

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.

## Equity

Ordinary shares are presented as share capital. Any expenses arising from the issue or acquisition of treasury shares are presented as a valuation allowance within equity. If the Group repurchases any equity instruments, the acquisition cost of such instruments is deducted from equity.

## Provisions

A provision is recognised when the Group has a legal or factual obligation towards a third party resulting from an earlier event, fulfilment of the payment obligation is probable, and its amount can be reliably estimated. Provisions are measured at the current value of the expenditure required to settle the obligation. Increase in provisions due to the passage of time is recognised as interest expense. Changes in provisions are recognised in the income statement in the same item in which the provision is originally recognised. A provision is recognised if the exact amount or timing of the event is not known. Otherwise the item is recognised in accrued liabilities. The amounts of provisions are estimated on each closing date and adjusted according to the best estimate at the time of the assessment.

Environmental provisions are recognised when the Group has an existing obligation that is likely to result in a payment obligation, the amount of which can be reliably estimated. 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, and 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.

## 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.

## 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.

## 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.

## 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 are deducted from the present value of the pension obligation to be recognised in the balance sheet. The net liabilities (or assets) associated with a defined benefit pension plan are recorded in the balance sheet.

Items (such as actuarial gains and losses and return on funded defined benefit plan assets, except items related to net interest) arising from the redefinition of the net liabilities (or assets) associated with a defined benefit plan are recognised in other comprehensive income in the period in which they arise.

Past service costs are recognised as expenses through profit or loss at the earlier of the following:  when the plan is rearranged or downsized, or a when the entity recognises the related rearrangement expenses or benefits related to the termination of employment.

### Share-based payment

The Group has several incentive arrangements for which payments are made either as equity instruments or cash. The benefits granted under the arrangements are measured at fair value on the granting date and recognised as expense evenly over the vesting period. The effect of the arrangement on profit and loss is recognised under employee benefit expenses.

## 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 or comprehensive result, in which case the tax effect is recognised corresponding item. 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.

### 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.

## Critical judgments in applying the Group's accounting policies and key uncertainties related to estimates

In drawing up IFRS financial statements, the Group management must make estimates and assumptions concerning the future, the outcome of which may differ from the estimates and assumptions made. The management also employs judgement when making decisions on the selection and application of accounting principles.

The preparation of financial statements 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. The estimates and assumptions reflect the management's best understanding on the closing date, based on previous experience and assumptions about the future that are considered to have the highest probability on the closing date.

Key assumptions regarding the future and key uncertainty factors related to estimates on the closing date that involve a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year 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 is allocated 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. More information on the sensitivity of recoverable amounts is provided in the notes to the financial statements (Note 11 Goodwill impairment tests).

## New or amended IFRS standards and interpretations to be applied in future financial periods

The Group has not yet applied the following new or revised standards and interpretations published by IASB. The Group will adopt them as of their effective date or, if the effective date is not the first day of the financial year, as of the beginning of the financial period following the effective date.
* = The provisions had not been approved for application in the EU by 31 December 2017.

- IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The impacts of IFRS 9 on equity of the opening balance sheet for January 1, 2018 is -0,4 MEUR.

- IFRS 15 Revenue from Contracts with Customers, Effective date of IFRS 15 and Clarifications to IFRS 15 (effective for financial years beginning on or after 1 January 2018): The new standard replaces current IAS 18 and IAS 11 -standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements.
  Lassila & Tikanoja began preparing for the introduction of the standard in 2016 by carrying out a high-level analysis of the company's customer contracts by division/income flow. The provision of services accounts for a significant share of the company's income flows. Currently, revenue from services is recognised as the services are provided. The company has estimated that control concerning a service is passed over time, as the customer simultaneously receives and consumes the benefit from the company's performance as the entity performs. Thus, the company satisfies the performance obligation and recognises revenue over time in accordance with IFRS 15. There will not be any substantial changes to the existing revenue recognition practices.
  The need for changes in the timing of revenue recognition identified when contracts were reviewed is related to equipment sales (compactors and balers), which represent approximately 0.5% of L&T's net sales.
  In accordance with IAS 8, the company will apply the standard retrospectively for each previous reporting period it presents, taking into account the practical expedients allowed by IFRS 15. The impacts of IFRS 15 on equity of the opening balance sheet for January 1, 2018 is -1,3 MEUR.

- IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17 -standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contacts in which the lease term is 12 months or less, or to low value items i.e. assets of value about USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. The standard mainly affects the accounting of operating leases. At the end of the financial year, the Group has EUR 36.1 million non-reversible rental obligations based on operating leases, note 29.

- IFRS 17 Insurance Contracts* (effective for financial years beginning on or after 1 January 2021). The new standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. This standard replaces IFRS 4-standard. The standard has no impact on the consolidated financial statements.

- Amendments to IFRS 2 - Clarification and Measurement of Share-based Payment Transactions * (effective for financial years beginning on or after 1 January 2018). The amendments clarify the accounting for certain types of arrangements. Three accounting areas are covered: measurement of cash-settled share-based payments; classification of share-based payments settled net of tax withholdings; and accounting for a modification of a share-based payment from cash-settled to equity-settled. The amendments will have a minor impanc on the consolidated financial statements.

- Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial years beginning on or after 1 January 2018). The amendments respond to industry concerns about the impact of differing effective dates by allowing two optional solutions to alleviate temporary accounting mismatches and volatility. The amendments have no impact on the consolidated financial statements.

- IFRIC 22 Interpretation Foreign Currency Transactions and Advance Consideration* (effective for financial years beginning on or after 1 January 2018). When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates -standard is not clear on how to determine the transaction date for translating the related item. The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation has no impact on the consolidated financial statements.

- Amendments to IAS 40 - Transfers of Investment Property* (effective for financial years beginning on or after 1 January 2018). When making transfers of an investment property, the amendments clarify that a change in management's intentions, in isolation, provides no evidence of a change in use. The examples of evidences of a change in use are also amended so that they refer to property under construction or development as well as to completed property. The amendments have no impact on the consolidated financial statements.

- Annual Improvements to IFRSs (2014-2016 cycle)* (effective for financial years beginning on or after 1 January 2018). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 1 and IAS 28. The amendments have no impact on the consolidated financial statements.

- IFRIC 23 Uncertainty over Income Tax Treatments* (effective for financial years beginning on or after 1 January 2019). The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The interpretation has no impact on the consolidated financial statements.

- Amendments to IFRS 9: Prepayment Features with Negative Compensation* (effective for financial years beginning on or after 1 January 2019). The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The amendments have no impact on the consolidated financial statements.

- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures* (effective for financial years beginning on or after 1 January 2019). The amendments clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments have no impact on the consolidated financial statements.

- Annual Improvements to IFRSs (2015-2017 cycle)* (effective for financial years beginning on or after 1 January 2019). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments have no impact on the consolidated financial statements.

## 1. Segment reporting

The Group has four reportable segments, which are the Group's business divisions.
As from 1 January 2013, the Group's business operations and reporting segments were reorganised to support the changes in core business functions and operational focuses. The reporting segments in 2016 and 2017 were: Environmental Services, Industrial Services, Facility Services and Renewable Energy Sources.

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.

### The Group's operating segments during the financial year:

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.

The Facility Services division provides support services and services for cleaning, property maintenance, real estate management, building automation and energy management, as well as repair and renovation services.

Renewable Energy Sources (L&T Biowatti) provides its customers with wood-based fuels, recycled fuels and wood raw materials. It also provides forest services to forest owners.

| 2017<br>MEUR | Environmental Services | Industrial Services | Facility Services | Renewable Energy Sources | Group administration and other | Eliminations | Group |
|---|---|---|---|---|---|---|---|
| **Net sales** | | | | | | | |
| External net sales | 261.8 | 87.4 | 328.2 | 34.7 | | 0.0 | 712.1 |
| Inter-division net sales | 3.5 | 3.3 | 2.8 | 0.2 | | -9.8 | 0.0 |
| Total net sales | 265.3 | 90.7 | 331.0 | 34.9 | | -9.8 | 712.1 |
| Operating profit | 29.8 | 8.6 | 9.2 | 0.7 | -4.1 | | 44.2 |
| Operating margin, % | 11.2 | 9.5 | 2.8 | 2.0 | | | 6.2 |
| Financial income and expenses | | | | | | | -1.4 |
| Profit before tax | | | | | | | 42.8 |
| Income taxes | | | | | | | -9.0 |
| Profit for the period | | | | | | | 33.8 |
| **Assets** | | | | | | | |
| Segment assets | 212.0 | 74.1 | 202.2 | 22.7 | 2.1 | | 513.1 |
| Unallocated assets | | | | | | | 57.5 |
| Total assets | | | | | | | 570.6 |
| **Liabilities** | | | | | | | |
| Segment liabilities | 47.3 | 27.4 | 68.1 | 7.6 | 5.4 | | 155.7 |
| Unallocated liabilities | | | | | | | 196.2 |
| Total liabilities | | | | | | | 351.9 |
| **Capital expenditure** | 21.9 | 9.0 | 78.7 | 0.2 | 0.4 | | 110.3 |
| **Depreciation and amortisation** | 19.3 | 7.3 | 13.6 | 0.3 | 0.0 | | 40.5 |

| 2016<br>MEUR | Environmental Services | Industrial Services | Facility Services | Renewable Energy Sources | Group administration and other | Eliminations | Group |
|---|---|---|---|---|---|---|---|
| **Net sales** | | | | | | | |
| External net sales | 261.2 | 78.7 | 285.3 | 36.6 | | 0.0 | 661.8 |
| Inter-division net sales | 3.6 | 3.4 | 2.9 | 0.2 | | -10.1 | 0.0 |
| Total net sales | 264.8 | 82.1 | 288.3 | 36.8 | | -10.1 | 661.8 |
| Operating profit | 31.3 | 7.8 | 13.5 | 1.5 | -3.7 | | 50.5 |
| Operating margin, % | 11.8 | 9.5 | 4.7 | 4.1 | | | 7.6 |
| Financial income and expenses | | | | | | | -0.4 |
| Profit before tax | | | | | | | 50.1 |
| Income taxes | | | | | | | -6.7 |
| Profit for the period | | | | | | | 43.4 |
| **Assets** | | | | | | | |
| Segment assets | 215.4 | 69.5 | 97.2 | 23.5 | 11.1 | | 416.8 |
| Unallocated assets | | | | | | | 36.0 |
| Total assets | | | | | | | 452.8 |
| **Liabilities** | | | | | | | |
| Segment liabilities | 54.7 | 22.4 | 46.9 | 7.0 | 6.6 | | 137.7 |
| Unallocated liabilities | | | | | | | 92.2 |
| Total liabilities | | | | | | | 229.8 |
| **Capital expenditure** | 18.5 | 8.2 | 14.5 | 0.3 | 0.0 | | 41.6 |
| **Depreciation and amortisation** | 19.6 | 6.7 | 12.2 | 0.3 | 0.0 | | 38.8 |

### Reconciliation of reportable segments' assets to total assets

| MEUR | 2017 | 2016 |
|---|---|---|
| Segment assets for reportable segments | 510.9 | 405.6 |
| Other segments' assets | 2.1 | 11.1 |
| | 513.1 | 416.8 |
| **Unallocated assets** | | |
| Liquid assets | 48.1 | 28.2 |
| Tax assets | 7.4 | 6.0 |
| Other unallocated assets | 2.0 | 1.9 |
| Total | 57.5 | 36.0 |
| **Total assets** | **570.6** | **452.8** |

### Reconciliation of reportable segments' liabilities to total liabilities

| MEUR | 2017 | 2016 |
|---|---|---|
| Segment liabilities for reportable segments | 150.4 | 131.1 |
| Other segments' liabilities | 5.4 | 6.6 |
| | 155.7 | 137.7 |
| **Unallocated liabilities** | | |
| Liabilities of interest rate and foreign currency derivatives | 166.2 | 66.2 |
| Accrued interest and other financing liabilities | 0.7 | 1.0 |
| Tax liabilities | 29.3 | 24.9 |
| Total | 196.2 | 92.2 |
| **Total liabilities** | **351.9** | **229.8** |

### Geographical segments

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

| MEUR | 2017 | 2016 |
|---|---|---|
| **Net sales** | | |
| Finland | 630.2 | 622.7 |
| Other countries | 81.9 | 39.1 |
| Total | 712.1 | 661.8 |
| **Assets** | | |
| Finland | 445.1 | 390.2 |
| Other countries | 67.9 | 26.5 |
| Unallocated assets | 57.5 | 36.0 |
| Total | 570.6 | 452.8 |
| **Capital expenditure** | | |
| Finland | 40.8 | 41.0 |
| Other countries | 69.5 | 0.6 |
| Total | 110.3 | 41.6 |

## 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 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 recognised at fair value at the time of acquisition, and any changes are recorded without profit impact through the acquisition cost calculation.

On 3 January 2017, Lassila & Tikanoja plc acquired the business operations of Pieksämäki-based firm Pieksämäen Keräys Oy. The acquisition includes the waste management and recycling operations. On 1 February 2017, Lassila & Tikanoja plc acquired Oulun Viermärihuolto Oy, which specialises in sewer maintenance and industrial cleaning. On 2 May 2017, Lassila & Tikanoja plc acquired the environmental businesses of Pihtiputaan Jätehuolto Oy and Viitasaari-based Hyötykolmio Oy. On 31 August 2017, Lassila & Tikanoja plc completed the acquisition of the entire share capital of Veolia FM AB (L&T FM AB) from Veolia Nordic AB. With this acquisition, Lassila & Tikanoja plc strengthened its presence in the Swedish facility services market by broadening its service offering in Sweden to include the maintenance of technical systems.

On 1 January 2016, L&T acquired the entire share capital of Huurinainen Oy, a company specialising in waste management and sewer maintenance, as well as the business operations of JPM-Kuljetus Oy.

The figures regarding the acquisition of L&T FM AB is shown separately. The figures for other 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.

Business acquisitions made during 2017 had an effect of EUR 39.9 million (5.9) on the company's net sales and EUR 1.0 million (0.7) on operating profit. If the acquisition of L&T FM AB had been completed on January 1, 2017, the Group's net sales would be approximately EUR 784.9 million and operating profit EUR 45.8 million.

### L&T FM AB

| MEUR | 2017 |
|---|---|
| Intangible assets | 19.0 |
| Property, plant and equipment | 0.1 |
| Non-current available-for-sale financial assets | - |
| Trade and other receivables | 32.2 |
| Cash and cash equivalents | 0.8 |
| Total assets | 52.1 |
| Trade and other payables | 16.8 |
| Deferred tax liabilities | 4.2 |
| Total liabilities | 21.0 |
| Total identifiable net assets | 31.2 |
| Total consideration | 64.9 |
| Goodwill | 33.7 |
| Impact on cash flow | |
| Paid in cash | -64.9 |
| Cash acquired | 0.8 |
| Cash flows from investing activities | -64.1 |

### OTHER BUSINESS ACQUISITIONS, COMBINED

| MEUR | 2017 | 2016 |
|---|---|---|
| Intangible assets | 0.6 | 1.1 |
| Property, plant and equipment | 1.0 | 1.8 |
| Non-current available-for-sale financial assets | 0.0 | 0.0 |
| Trade and other receivables | 0.3 | 1.7 |
| Cash and cash equivalents | 1.0 | 2.3 |
| Total assets | 2.9 | 6.9 |
| Trade and other payables | 0.3 | 1.0 |
| Deferred tax liabilities | 0.0 | 0.0 |
| Total liabilities | 0.3 | 1.0 |
| Total identifiable net assets | 2.6 | 5.9 |
| Total consideration | 4.1 | 8.8 |
| Goodwill | 1.5 | 2.9 |
| Impact on cash flow | | |
| Paid in cash | -4.1 | -8.8 |
| Cash acquired | 1.0 | 2.3 |
| Advance payments in previous year | - | 3.6 |
| Outstanding payments | 0.2 | 1.0 |
| Cash flows from investing activities | -3.0 | -1.8 |

## 3. Employee benefit expenses

| MEUR | 2017 | 2016 |
|---|---|---|
| Wages and salaries | 237.0 | 223.4 |
| Pension costs | | |
| Defined contribution plans | 49.4 | 43.2 |
| Defined benefit plans | 0.0 | 0.0 |
| Share-based payment | 0.2 | 0.6 |
| Other personnel expenses | 10.4 | 13.7 |
| Total | 296.9 | 280.8 |

Details on share-based payment are presented in Note 21 Share-based payment.
The employee benefits of the top management are presented in Note 31 Related-party transactions.
Details on the items of defined benefit pension plans in the consolidated statement of financial position are presented in Note 22 Retirement benefit obligations.

### Average number of employees in full-time equivalents

| | 2017 | 2016 |
|---|---|---|
| White collar | 1,326 | 1,295 |
| Blue collar | 6,549 | 5,904 |
| Total | 7,875 | 7,199 |
| Finland | 6,288 | 6,306 |
| Other countries | 1,587 | 893 |
| Total | 7,875 | 7,199 |

## 4. Other operating income and expenses

| MEUR | 2017 | 2016 |
|---|---|---|
| Other operating income | | |
| Gains on sales of property, plant and equipment | 1.5 | 1.1 |
| Annual discounts | 1.7 | 1.4 |
| Reversals of impairment losses on trade receivables | 0.3 | 0.2 |
| Reimbursements and government grants | 0.4 | 0.6 |
| Change in commodity derivatives | 0.2 | 0.7 |
| Other | 1.6 | 0.7 |
| Total | 5.7 | 4.8 |
| **Other operating expenses** | | |
| ICT costs | 12.1 | 10.8 |
| Travel costs | 10.7 | 9.6 |
| Vehicles and machinery | 36.3 | 33.0 |
| Rents and real estate costs | 14.5 | 15.2 |
| Expert fees | 7.4 | 4.3 |
| Voluntary social security costs | 6.3 | 5.3 |
| Other | 12.8 | 13.1 |
| Total | 100.3 | 91.4 |

## 5. Research and development expenses

EUR 2.0 million (1.6) research and development expenses arising from centralised development projects are included in the income statement.

## 6. Financial income and expenses

| MEUR | 2017 | 2016 |
|---|---|---|
| **Financial income** | | |
| Dividend income on available-for-sale investments | - | 0.0 |
| Interest income on available-for-sale investments and other receivables | - | 0.0 |
| Interest income on loans and other receivables | 0.2 | 0.2 |
| Sales profit on available-for-sale investments | - | 0.0 |
| Foreign exchange gains | 0.8 | 1.4 |
| **Total financial income** | 1.0 | 1.6 |
| | | |
| **Financial expenses** | | |
| Interest expenses on borrowings measured at amortised cost | 2.0 | 1.7 |
| Other financial expenses | 0.4 | 0.3 |
| Losses on foreign exchange | - | 0.0 |
| **Total financial expenses** | 2.4 | 2.0 |
| **Financial income and expenses** | -1.4 | -0.4 |

## 7. Income taxes

### Income tax in the income statement

| MEUR | 2017 | 2016 |
|---|---|---|
| Income tax for the period | -10.0 | -9.9 |
| Income tax for previous periods | 0.0 | -0.1 |
| Change in deferred tax | 1.0 | 3.3 |
| **Total** | -9.0 | -6.7 |

The differences between income tax expense recognised in the income statement and income tax calculated at the statutory tax rate of 20% in Finland, are as follows:

| MEUR | 2017 | 2016 |
|---|---|---|
| Profit before tax | 42.7 | 50.1 |
| Income tax at Finnish tax rate 20% | -8.5 | -10.0 |
| Difference between tax rate in Finland and in other countries | 0.0 | 0.0 |
| Expenses not deductible for tax purposes | -0.4 | -0.1 |
| Tax exempt income | 0.0 | 0.3 |
| Income tax for previous periods | 0.0 | -0.1 |
| Unrecognised deferred tax on loss for the period | -0.1 | 0.1 |
| Use of previous years losses | 0.1 | - |
| Tax deduction for L&T Recoil Oy guarantee commitment* | - | 3.3 |
| Other items | -0.1 | -0.2 |
| Total | -9.0 | -6.7 |

* The Group's tax expenses in the comparison year were favourably affected by a legally valid decision handed down by the Administrative Court to the parent company, according to which the payment of approximately EUR 16.7 million made by the company in 2014 under the L&T Recoil Oy guarantee commitment is tax-deductible. In previous financial statements, the company has treated the payment as a non-tax deductible item due to its tax deductibility not being confirmed. The final amount will be confirmed once the possible apportionment from L&T Recoil Oy's bankruptcy estate is confirmed. The amount of the receivable is based on the management's estimate of the future tax benefit.

### Tax effects of components of other comprehensive income

| MEUR | 2017 Before tax | 2017 Tax expense/ benefit | 2017 After tax | 2016 Before tax | 2016 Tax expense/ benefit | 2016 After tax |
|---|---|---|---|---|---|---|
| Items arising from re-measurement of defined benefit plans | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Hedging reserve, change in fair value | -0.1 | 0.0 | -0.1 | 0.5 | -0.1 | 0.4 |
| Currency translation differences | -2.7 | 0.0 | -2.7 | -0.1 | 0.0 | -0.1 |
| Currency translation differences non-controlling interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Components of other comprehensive income | -2.8 | 0.0 | -2.8 | 0.4 | -0.1 | 0.3 |

## 8. Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the parent 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.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to asume conversion of all dilutative potential ordinary shares.

| MEUR | 2017 | 2016 |
|---|---|---|
| Profit attributable to equity holders of the company | 33.7 | 43.4 |
| Adjusted weighted average number of ordinary shares outstanding during the year, million shares | 38.4 | 38.4 |
| Earnings per share, EUR | 0.88 | 1.13 |
| | | |
| Dilutive effect of the share-based incentive programme, million shares | 0.0 | 0.0 |
| Adjusted average number of shares during the period, diluted, million shares | 38.4 | 38.4 |
| Earnings per share, diluted, EUR | 0.88 | 1.13 |

## 9. Dividend per share

At the Annual General Meeting on 15 March 2018, the Board of Directors will propose that a dividend of EUR 0.92 per share be paid for the 2017 financial year.

On the basis of a decision taken by the Annual General Meeting, the company paid a dividend of EUR 0.92 per share for 2016.

## 10. Intangible assets

| MEUR | Goodwill | Customer contracts arising from acquisitions | Agreements on prohibition of competition | Other intangible assets arising from acquisitions | Intangible rights | Other intangible assets | Prepayments | Total |
|---|---|---|---|---|---|---|---|---|
| Acquisition cost, 1 Jan 2017 | 131.2 | 29.3 | 23.9 | 10.1 | 13.7 | 42.6 | 0.7 | 251.6 |
| Additions | | | | | 0.7 | 1.0 | 5.3 | 7.1 |
| Business acquisitions | 34.0 | 18.9 | 0.0 | | 0.0 | | | 53.0 |
| Disposals | 0.0 | | | | -0.3 | 0.0 | | -0.4 |
| Transfers between items | | | | | 0.8 | 1.7 | -2.4 | 0.0 |
| Exchange differences | -0.4 | -0.1 | 0.0 | 0.0 | 0.0 | | 0.0 | -0.6 |
| Acquisition cost, 31 Dec 2017 | 164.9 | 48.1 | 24.0 | 10.1 | 14.8 | 45.3 | 3.6 | 310.8 |
| Accumulated amortisation and impairment at 1 Jan 2017 | -14.8 | -24.1 | -23.9 | -9.5 | -12.3 | -24.0 | | -108.5 |
| Accumulated amortisation on disposals and transfers | | | | | 0.3 | 0.0 | | 0.4 |
| Amortisation charge | | -1.5 | -0.1 | -0.1 | -0.4 | -4.6 | | -6.6 |
| Exchange differences | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.3 |
| Accumulated amortisation and impairment at 31 Dec 2017 | -14.7 | -25.5 | -23.9 | -9.6 | -12.3 | -28.5 | | -114.5 |
| Book value, 31 Dec 2017 | 150.2 | 22.6 | 0.0 | 0.5 | 2.5 | 16.8 | 3.6 | 196.3 |
| Acquisition cost, 1 Jan 2016 | 128.5 | 28.5 | 24.0 | 10.1 | 13.3 | 30.5 | 4.0 | 239.0 |
| Additions | | | | | 0.5 | 2.6 | 6.0 | 9.2 |
| Business acquisitions | 1.3 | | | | | 0.1 | | 1.4 |
| Disposals | 0.2 | | | | 0.0 | | -0.1 | 0.1 |
| Transfers between items | 1.6 | 1.0 | | | | 9.4 | -9.3 | 2.7 |
| Exchange differences | -0.5 | -0.1 | 0.0 | 0.0 | 0.0 | | 0.0 | -0.7 |
| Acquisition cost, 31 Dec 2016 | 131.2 | 29.3 | 23.9 | 10.1 | 13.7 | 42.6 | 0.7 | 251.6 |
| Accumulated amortisation and impairment at 1 Jan 2016 | -14.9 | -23.1 | -23.8 | -9.5 | -12.1 | -20.7 | | -104.1 |
| Accumulated amortisation on disposals and transfers | | | | | 0.0 | | | 0.0 |
| Amortisation charge | 0.0 | -1.1 | -0.1 | -0.1 | -0.3 | -3.2 | | -4.8 |
| Exchange differences | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | | | 0.3 |
| Accumulated amortisation and impairment at 31 Dec 2016 | -14.8 | -24.1 | -23.9 | -9.5 | -12.3 | -24.0 | | -108.5 |
| Book value, 31 Dec 2016 | 116.5 | 5.2 | 0.1 | 0.6 | 1.4 | 18.7 | 0.7 | 143.2 |

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

Contractual commitments related to intangible assets totalled EUR 0.2 million (0.1).

# 11. Goodwill impairment tests

### Goodwill allocation

The carrying amounts of goodwill are allocated to cash-generating units in accordance with the table below:

| MEUR | 2017 | 2016 |
|---|---|---|
| Environmental Services, Finland | 73.7 | 72.8 |
| Industrial Services | 19.4 | 18.8 |
| Facility Services | 22.4 | 22.4 |
| L&T Service* | 2.2 | 2.5 |
| L&T FM AB | 32.6 | - |
| Total | 150.2 | 116.5 |

*In the financial statements for 2016, L&T Service was called "Sweden"

### Impairment tests

In impairment tests, recoverable amounts are estimated on the basis of an asset's value in use. 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 four-year period. The management bases its estimates on actual development and views on the growth outlook for the industry (general market development and unit profitability, pricing, municipalisation decisions, personnel costs and raw material costs). Approved investment decisions are taken into account in the growth estimates.

Cash flows extending beyond the four-year forecast period are calculated using the so-called terminal value method. The growth rates used in the calculations are based on the management's estimates of long-term growth in cash flow.

Long-term growth rates used in the value-in-use calculations of cash-generating units

### The long-term growth rates were increased by 0.5 percentage points from the comparison period due to the generally more positive economic outlook

| % | 2017 | 2016 |
|---|---|---|
| Environmental Services, Finland | 1.5 | 1.5 |
| Industrial Services | 1.5 | 1.5 |
| Facility Services* | 1.5 | 1.5 |
| L&T Service* | 1.5 | 1.5 |
| L&T FM AB | 2.0 | - |

The discount rates used in calculations are based on the Group's weighted average cost of capital before tax (WACC). Factors in WACC are risk-free income, market risk premium, division-specific beta cost of capital as well as the ratio between equity and liabilities. A discount rate has been defined for each cash-generating unit. The differences in the discount rates are due to, for instance, the different risks the units face in their business operations and the geographical location of the units.

### Discount rates used in the calculations

| % | 2017 | 2016 |
|---|---|---|
| Environmental Services, Finland | 8.5 | 9.0 |
| Industrial Services | 8.5 | 8.7 |
| Facility Services* | 9.8 | 10.0 |
| L&T Service* | 10.0 | 10.3 |
| L&T FM AB | 10.3 | - |

No instances of impairment were identified during impairment testing.

### Sensitivity analyses of impairment testing

Values in use exceeding book values are classified as follows: 0%, 1–10%, 11–25%, 25–50% and over 50%. The company has estimated that no somewhat probable change in the key assumptions could cause the book value of a cash-generating unit to exceed its value in use in any unit in which the book value has been exceeded by over 50%.

Future EBITDA percentages have been set conservatively. Their values are based on actual development. The EBITDA percentages used in the calculation of terminal values are a significant factor in the calculation of value in use.

EBITDA percentages used in the calculation of terminal values for those cash generating units that had a value in use relation to book value less than 50 % at closing date 2017 or 2016.

### Value in use in relation to book value

| % | 2017 | 2016 |
|---|---|---|
| Environmental Services, Finland | Over 50% | Over 50% |
| Industrial Services | Over 50% | 25–50% |
| Facility Services* | Over 50% | Over 50% |
| L&T Service* | Over 50% | Over 50% |
| L&T FM AB | 10–25% | - |

| % | 2017 | 2016 |
|---|---|---|
| Industrial Services | 17.5 | 17.5 |
| L&T FM AB | 6.0 | - |

A sensitivity analysis of each cash-generating unit was performed, during which the key calculation assumptions were tested. In the sensitivity analysis, a key assumption was tested by changing the threshold values at which the value in use would equal the book value.

Key assumptions tested in the sensitivity analyses and their threshold values for those cash generating units that had a value in use relation to book value less than 50% at closing date 2017 or 2016.

### Key assumptions tested in the sensitivity analysis and their limit values

| | 2017 | | 2016 | |
|---|---|---|---|---|
| % | Discount rate | EBITDA percentage used in the calculation of terminal value | Discount rate | EBITDA percentage used in the calculation of terminal value |
| Industrial Services | 17.0 | 10.6 | 15.3 | 11.9 |
| L&T FM AB | 11.9 | 4.5 | - | - |

## 12. Property, plant and equipment

| MEUR | Land | Buildings and constructions | Machinery and equipment | Other tangible assets | Prepayments and construction in progress | Total |
|---|---|---|---|---|---|---|
| Acquisition cost, 1 Jan 2017 | 5.8 | 120.4 | 416.0 | 0.2 | 5.3 | 547.7 |
| Additions | | 1.9 | 27.1 | | 3.4 | 32.5 |
| Business acquisitions | | | 1.1 | | | 1.1 |
| Disposals | | -1.9 | -16.5 | | 0.0 | -18.4 |
| Transfers between items | | 4.9 | 1.9 | | -6.8 | 0.0 |
| Exchange differences | 0.0 | -0.2 | -0.5 | 0.0 | 0.0 | -0.7 |
| Acquisition cost, 31 Dec 2017 | 5.8 | 125.2 | 429.1 | 0.2 | 2.0 | 562.2 |
| Accumulated depreciation at 1 Jan 2017 | -0.5 | -79.8 | -311.2 | -0.1 | | -391.6 |
| Accumulated depreciation on disposals and transfers | | 1.1 | 16.0 | | | 17.1 |
| Depreciation for the period | | -6.3 | -27.6 | | | -33.9 |
| Exchange differences | | 0.1 | 0.3 | 0.0 | | 0.4 |
| Accumulated depreciation at 31 Dec 2017 | -0.5 | -84.9 | -322.6 | -0.1 | | -408.1 |
| Net book value at 31 Dec 2017 | 5.3 | 40.3 | 106.5 | 0.1 | 2.0 | 154.1 |
| Acquisition cost, 1 Jan 2016 | 5.5 | 111.0 | 409.4 | 0.2 | 5.5 | 531.6 |
| Additions | | 4.6 | 21.6 | | 4.0 | 30.2 |
| Business acquisitions | | 0.1 | 0.7 | | | 0.8 |
| Disposals | | 2.6 | -16.7 | | | -14.1 |
| Transfers between items | 0.2 | 1.7 | -0.4 | | -4.2 | -2.7 |
| Exchange differences | 0.0 | 0.4 | 1.4 | 0.0 | 0.1 | 1.9 |
| Acquisition cost, 31 Dec 2016 | 5.8 | 120.4 | 416.0 | 0.2 | 5.3 | 547.7 |
| Accumulated depreciation at 1 Jan 2016 | -0.5 | -71.1 | -298.4 | -0.1 | | -370.1 |
| Accumulated depreciation on disposals and transfers | | -2.5 | 15.8 | | | 13.4 |
| Depreciation for the period | | -5.8 | -28.2 | | | -34.0 |
| Exchange differences | | -0.4 | -0.4 | | | -0.9 |
| Accumulated depreciation at 31 Dec 2016 | -0.5 | -79.8 | -311.2 | -0.1 | | -391.6 |
| Net book value at 31 Dec 2016 | 5.3 | 40.7 | 104.8 | 0.1 | 5.3 | 156.1 |

The book value of machinery and equipment includes EUR 17.6 million (6.0) in assets leased under a finance lease contract.

Contractual commitments related to property, plant and equipment totalled EUR 1.9 million (7.2).

# 13. Group companies

**Group's parent company**

**Lassila & Tikanoja Plc**

| Finnish subsidiaries | Group holding of shares and votes, % |
|---|---|
| L&T Relations Oy, Helsinki | 100.0 |
| L&T Toimi Oy, Helsinki | 100.0 |
| L&T Biowatti Oy, Helsinki | 100.0 |
| Kiinteistö Oy Vantaan Valimotie 33, Helsinki | 100.0 |
| L&T Hankinta Ky, Helsinki | 100.0 |
| L&T Korjausrakentaminen Oy, Helsinki | 100.0 |
| L&T Työllistämispalvelu Oy, Helsinki | 100.0 |
| Huurinainen Oy, Helsinki | 100.0 |
| Kuljetus J Hirvonen Oy, in voluntary liquidation, Kitee | 100.0 |
| Oulun Viemärihuolto Oy, in voluntary liquidation, Oulu | 100.0 |

| Foreign subsidiaries | Group holding of shares and votes, % |
|---|---|
| Lassila & Tikanoja Service AB, Stockholm, Sweden | 100.0 |
| Lassila & Tikanoja FM AB, Stockholm, Sweden | 100.0 |
| Lassila & Tikanoja Services OÜ, Tallinn, Estonia | 100.0 |
| L&T Ecoinvest LLC, Dubna, Russia | 100.0 |
| L&T LLC, Dubna, Russia | 100.0 |
| The Russian-Finnish Company Ecosystem LLC, Dubna, Russia | 90.0 |

| Associated companies | Group holding of shares and votes, % |
|---|---|
| Suomen Keräystuote Oy, Helsinki | 40.0 |
| Moppicom Oy, Helsinki | 43.7 |

**Joint ventures**

The Group had no joint ventures in 2017 or 2016

**Structured entities**

The Group had no structured entities in the 2017 and 2016 financial periods

**Changes in the Group during the financial year**

| | |
|---|---|
| Oulun Viemärihuolto Oy, Oulu | Acquired |
| Moppicom Oy, Helsinki | Acquired |
| L&T Työllistämispalvelu Oy, Helsinki | Founded |
| Lassila & Tikanoja FM AB, Stockholm, Sweden | Acquired |

## 14. Non-current available-for-sale investments

| MEUR | 2017 | 2016 |
|---|---|---|
| Carrying amount at 1 Jan | 0.6 | 0.6 |
| Additions | 0.0 | 0.0 |
| Carrying amount at 31 Dec | 0.6 | 0.6 |

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

## 15. Finance lease receivables

| MEUR | 2017 | 2016 |
|---|---|---|
| **Maturity of minimum lease payments** | | |
| Not later than one year | 0.6 | 1.0 |
| Later than one year and not later than five years | 0.3 | 1.0 |
| Later than five years | 0.0 | 0.3 |
| Gross investment in finance lease agreements | 0.9 | 2.2 |
| **Maturity of present value of minimum lease payments** | | |
| Not later than one year | 0.6 | 0.9 |
| Later than one year and not later than five years | 0.3 | 0.9 |
| Later than five years | 0.0 | 0.3 |
| Total present value of minimum lease payments | 0.8 | 2.1 |
| Unearned finance income | 0.0 | 0.1 |
| Gross investment in finance lease agreements | 0.9 | 2.2 |

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.

## 16. Change in deferred income tax assets and liabilities during the period

| MEUR | At 1 Jan 2017 | Recognised in income statement | Recognised in equity | Other changes | Business acquisitions | At 31 Dec 2017 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Pension benefits | 0.2 | 0.0 | 0.0 | | | 0.2 |
| Provisions | 0.9 | 0.0 | | | | 1.0 |
| Fair value adjustments | 0.0 | 0.0 | 0.0 | | | 0.0 |
| Deferred depreciation | 0.9 | 0.1 | | | | 1.0 |
| Other tax deductible temporary differences | 5.4 | -0.1 | | | 0.7 | 6.1 |
| Total | 7.5 | 0.1 | 0.0 | 0.0 | 0.7 | 8.3 |
| **Deferred tax liabilities** | | | | | | |
| Depreciation differences and dissolution losses | -26.6 | 0.9 | 0.0 | 0.0 | -5.2 | -31.0 |
| Finance leasing agreements | -0.2 | 0.1 | | | | -0.1 |
| Share-based benefits | 0.0 | 0.0 | 0.0 | | | 0.1 |
| Other tax deductible temporary differences | 0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | -26.7 | 0.9 | 0.0 | 0.0 | -5.2 | -31.0 |
| Net deferred tax liability | -19.3 | 1.1 | 0.0 | 0.0 | -4.5 | -22.7 |

| MEUR | At 1 Jan 2016 | Recognised in income statement | Recognised in equity | Exchange differences | Business acquisitions | At 31 Dec 2016 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Pension benefits | 0.2 | 0.0 | 0.0 | | | 0.2 |
| Provisions | 1.2 | -0.3 | | | | 0.9 |
| Fair value adjustments | 0.1 | 0.0 | -0.1 | | | 0.0 |
| Revenue recognition | 0.0 | 0.0 | | | | 0.0 |
| Deferred depreciation | 0.6 | 0.3 | | | | 0.9 |
| Losses of subsidiaries | 0.0 | 0.0 | | | | 0.0 |
| Other tax deductible temporary differences | 2.0 | 3.4 | | | | 5.4 |
| Total | 4.2 | 3.3 | -0.1 | 0.0 | 0.0 | 7.5 |
| **Deferred tax liabilities** | | | | | | |
| Depreciation differences and dissolution losses | -26.5 | -0.2 | 0.0 | 0.0 | 0.0 | -26.6 |
| Finance leasing agreements | -0.2 | 0.1 | | | | -0.2 |
| Share-based benefits | 0.1 | 0.0 | 0.0 | | | 0.0 |
| Foreign subsidiaries | 0.0 | 0.1 | 0.0 | | | 0.1 |
| Total | -26.7 | 0.0 | 0.0 | 0.0 | 0.0 | -26.7 |
| Net deferred tax liability | -22.5 | 3.3 | -0.1 | 0.0 | 0.0 | -19.3 |

### Deferred taxes in the statement of financial position

| MEUR | 2017 | 2016 |
|---|---|---|
| Deferred tax assets | 6.5 | 5.5 |
| Deferred tax liabilities | -29.2 | -24.8 |
| Net deferred tax liabilities | -22.7 | -19.3 |

Deferred tax is recognised in the statement of financial position 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.

Other tax deductible temporary differences include a deferred tax asset related to revenue recognition of amortisation on dissolution losses, which amounts to EUR 2.0 million (2.1) and tax deduction for L&T Recoil Oy's guarantee commitment. For additional information about the tax deduction for L&T Recoil Oy's guarantee commitment, see Note 7. Income taxes.

## 17. Inventories

| MEUR | 2017 | 2016 |
|---|---|---|
| Raw materials and consumables | 16.9 | 17.2 |
| Finished goods | 3.1 | 3.2 |
| Other inventories | 3.9 | 4.5 |
| Total | 23.9 | 24.9 |

The acquisition cost recognised as cost of inventories was EUR 29.9 million (28.0), which includes a change in inventories of EUR -1.0 million (1.1).

EUR 0.9 million (1.1) of the value of inventories was recognised as an expense, and a write-down of the carrying value to the net realisable value was made respectively. The expense is included in Materials and services in the income statement.

## 18. Trade and other receivables

| MEUR | 2017 | 2016 |
|---|---|---|
| Trade receivables | 127.0 | 83.0 |
| Current finance lease receivables | 0.6 | 0.9 |
| Loan receivables | 0.3 | 0.3 |
| Accruals | 7.4 | 5.6 |
| Tax receivables | 1.0 | 0.5 |
| Other receivables | 1.3 | 0.2 |
| Total | 137.6 | 90.5 |
| Accruals include the following: | | |
| Employees' health care compensation | 1.3 | 1.6 |
| Statutory pension insurances | 1.8 | 0.8 |
| Insurances | 0.1 | 0.1 |
| Indirect tax | 0.2 | 0.2 |
| Other | 3.9 | 3.0 |
| Total | 7.4 | 5.6 |

The receivables are not collaterised. Impairment losses and their reversals recognised in trade receivables are shown in Note 4 Other operating income and expenses.

## 19. Cash and cash equivalents

| MEUR | 2017 | 2016 |
|---|---|---|
| Cash on hand and in banks | 48.1 | 28.2 |
| Total | 48.1 | 28.2 |

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:

| MEUR | 2017 | 2016 |
|---|---|---|
| Cash in bank | 48.1 | 28.2 |
| Total | 48.1 | 28.2 |

# 20. Equity

### Share capital and share premium fund

| MEUR | Number of outstanding shares, 1,000 shares | Share capital | Invested non-restricted equity reserve | Own shares | Total |
|---|---|---|---|---|---|
| At 1 Jan 2017 | 38,378 | 19.4 | 0.4 | -6.8 | 13.0 |
| 24 February 2017 Transfer of own shares | 16 | | | 0.2 | 0.2 |
| 31 March 2017 Transfer of own shares | 4 | | | 0.1 | 0.1 |
| Recognition of share-based benefits as expenses | | | 0.1 | | 0.1 |
| At 31 Dec 2017 | 38,398 | 19.4 | 0.6 | -6.6 | 13.4 |

| MEUR | Number of outstanding shares, 1,000 shares | Share capital | Invested non-restricted equity reserve | Own shares | Total |
|---|---|---|---|---|---|
| At 1 Jan 2016 | 38,361 | 19.4 | 0.5 | -7.0 | 12.9 |
| 25 February 2016 Transfer of own shares | 12 | | | 0.1 | 0.1 |
| 30 March 2016 Transfer of own shares | 5 | | | 0.0 | 0.0 |
| Recognition of share-based benefits as expenses | | | 0.0 | | 0.0 |
| At 31 Dec 2016 | 38,378 | 19.4 | 0.4 | -6.8 | 13.0 |

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 2017 the company held 400,862 of its own shares (420,868).

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.

### Hedging reserves

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 and gearing. The calculation of these key figures is shown in the tables below.

| MEUR | 2017 | 2016 |
|---|---|---|
| Equity in the consolidated statement of financial position | 218.7 | 223.0 |
| Statement of financial position total | 570.6 | 452.8 |
| Current advances received | -13.5 | -10.0 |
| Non-current advances received | -0.3 | -0.3 |
| Total | 556.8 | 442.6 |
| Equity ratio, % | 39.3% | 50.4% |

| MEUR | 2017 | 2016 |
|---|---|---|
| Equity in the consolidated statement of financial position | 218.7 | 223.0 |
| Non-current borrowings | 140.9 | 63.5 |
| Current borrowings | 25.0 | 3.4 |
| Cash and cash equivalents | -48.1 | -28.2 |
| Net interest-bearing liabilities | 117.9 | 38.7 |
| Gearing, % | 53.9% | 17.3% |

## 21. Share-based payment

The Group has several incentive arrangements for which payments are made either as equity instruments or cash. The benefits granted under the arrangements are measured at fair value on the granting date and recognised as expense evenly over the vesting period. The effect of the arrangement on profit and loss is recognised under employee benefit expenses.

### Share-based incentive programme 2014

Lassila & Tikanoja plc's Board of Directors decided at a meeting held on 18 December 2013 on a new share-based incentive programme. Potential rewards was based on the EVA result of Lassila & Tikanoja group.

Based on the programme a maximum of 39,105 shares of the company could be granted. The shares paid out as rewards were transferred from the shares held by the company.

Under the programme, a total of 17,850 Lassila&Tikanoja Plc's shares were granted in 2015. The programme covered 10 persons.

### Share-based incentive programme 2015

Lassila & Tikanoja plc's Board of Directors decided at a meeting held on 17 December 2014 on a new share-based incentive programme. Potential rewards was based on the EVA result of Lassila & Tikanoja group.

Based on the programme a maximum of 37,560 shares of the company could be granted. The shares paid out as rewards were transferred from the shares held by the company.

Under the programme, a total of 12,324 Lassila&Tikanoja Plc's shares were granted in 2016. The programme covered 10 persons.

### Share-based incentive programme 2016

Lassila & Tikanoja plc's Board of Directors decided at a meeting held on 11 January 2016 on a new share-based incentive programme. Potential rewards was based on the EVA result of Lassila & Tikanoja group.

Based on the programme a maximum of 34,200 shares of the company could be granted. The shares paid out as rewards were transferred from the shares held by the company.

Under the programme, a total of 16,110 Lassila&Tikanoja Plc's shares were granted in 2017. The programme covered 10 persons.

### Share-based incentive programme 2017

Lassila & Tikanoja plc's Board of Directors decided at a meeting held on 13 December 2016 on a new share-based incentive programme. Potential rewards will be based on the EVA result of Lassila & Tikanoja group.

Based on the programme a maximum of 31,900 shares of the company can be granted. The shares to be paid out as potential rewards will be transferred from the shares held by the company.

Under the programme, an estimated total of 421 Lassila&Tikanoja Plc's shares will be granted in 2018. The programme covered 10 persons.

### Share-based incentive programmes 2014, 2015, 2016 and 2017

| Instrument | Share-based incentive programme | | | |
|---|---|---|---|---|
| Share-based incentive programme | 2014 | 2015 | 2016 | 2017 |
| Grant date | 18.12.2013 | 17.12.2014 | 11.1.2016 | 13.12.2016 |
| Start of earnings period | 1.1.2014 | 1.1.2015 | 1.1.2016 | 1.1.2017 |
| End of earnings period | 31.12.2014 | 31.12.2015 | 31.12.2016 | 31.12.2017 |
| Average share price at grant date | 14.88 | 14.69 | 17.79 | 18.92 |
| Realisation on closing date, shares* | 17,850 | 12,324 | 16,110 | 421 |
| Obligation to hold shares, years | 2 | 2 | 2 | 2 |
| Release date of shares | 31.3.2017 | 31.3.2018 | 31.3.2019 | 31.3.2020 |
| Number of persons included | 10 | 10 | 10 | 10 |

| Expenses arising from share-based incentive programme, MEUR | 2017 | 2016 |
|---|---|---|
| Share component | 0.2 | 0.2 |
| Cash component | 0.0 | 0.3 |
| Total | 0.2 | 0.6 |

* The realisation of 2017 is an estimation

## 22. Retirement benefit obligations

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

| MEUR | 2017 | 2016 |
|---|---|---|
| **Amounts recognised in the statement of financial position:** | | |
| Present value of funded obligations | 0.6 | 0.4 |
| Fair value of plan assets | -0.5 | -0.4 |
| | 0.1 | 0.1 |
| Present value of unfunded obligations | 1.3 | 0.9 |
| Closing net liability | 1.4 | 1.0 |
| **Changes in present value of obligation** | | |
| Opening defined benefit obligation | 1.3 | 1.3 |
| Current service cost | 0.0 | 0.0 |
| Interest cost | 0.0 | 0.0 |
| Actuarial gain (-) and loss (+) on obligation | 0.1 | 0.1 |
| Increases from acquisitions | 0.5 | - |
| Benefits paid | -0.1 | -0.1 |
| Closing value of obligation | 1.9 | 1.3 |
| **Changes in fair value of plan assets** | | |
| Opening fair value of plan assets | 0.4 | 0.4 |
| Interest income | 0.0 | 0.0 |
| Employers' contributions | 0.0 | 0.0 |
| Actuarial gain (+) and loss (-) | 0.2 | 0.0 |
| Benefits paid | 0.0 | -0.1 |
| Closing fair value of plan assets | 0.5 | 0.4 |

| MEUR | 2017 | 2016 |
|---|---|---|
| **Movements in the liability recognised in the statement of financial position** | | |
| Opening liability | 1.0 | 0.9 |
| Expense recognised in the income statement | 0.0 | 0.0 |
| Employers' contributions | 0.0 | 0.0 |
| Actuarial gain (-) and loss (+) | -0.1 | 0.0 |
| Increases from acquisitions | 0.5 | - |
| Contributions paid | -0.1 | 0.0 |
| Closing liability | 1.4 | 1.0 |
| **Amounts recognised in the income statement:** | | |
| Current service cost | 0.0 | 0.0 |
| Interest cost | 0.0 | 0.0 |
| Interest income | 0.0 | 0.0 |
| Actuarial gain (-) and loss (+) | 0.1 | 0.0 |
| Total | 0.1 | 0.1 |

The Group estimates that it will contribute EUR 72 thousand to defined benefit plans in 2018.

| MEUR | 2017 | 2016 |
|---|---|---|
| Present value of obligation | 1.9 | 1.3 |
| Fair value of plan assets | -0.5 | -0.4 |
| Deficit | 1.4 | 1.0 |
| **Principal actuarial assumptions used** | | |
| Discount rate | 1.5 % | 1.2 % |
| Expected rate of return on plan assets | 1.8 % | 1.5 % |
| Expected rate of salary increase | 4.0 % | 3.8 % |
| Expected rate of inflation | 1.5 % | 1.3 % |

**Defined contribution maturity of the obligation**

| MEUR | 2017 | 2016 |
|---|---|---|
| Maturity of less than one year | 0.1 | 0.1 |
| 1–5 years | 0.3 | 0.4 |
| 5–10 years | 0.3 | 0.3 |
| 10–15 years | 0.3 | 0.2 |
| 15–20 years | 0.2 | 0.2 |
| 20–25 years | 0.2 | 0.2 |
| 25–30 years | 0.1 | 0.1 |
| over 30 years | 0.1 | 0.1 |
| Total | 1.6 | 1.6 |

## 23. Provisions

| MEUR | Environmental provisions | Other provisions | Total |
|---|---|---|---|
| Provisions at 1 Jan 2017 | 5.9 | 0.9 | 6.8 |
| Additional provisions | 1.7 | 1.0 | 2.7 |
| Used during the year | -1.7 | -1.0 | -2.7 |
| Effect of discounting | 0.2 | 0.0 | 0.2 |
| Provisions at 31 Dec 2017 | 6.1 | 0.8 | 7.0 |

| MEUR | Environmental provisions | Other provisions | Total |
|---|---|---|---|
| Provisions at 1 Jan 2016 | 6.8 | 1.2 | 8.0 |
| Additional provisions | 0.8 | 1.0 | 1.8 |
| Used during the year | -1.7 | -1.4 | -3.1 |
| Effect of discounting | 0.0 | 0.0 | 0.0 |
| Provisions at 31 Dec 2016 | 5.9 | 0.9 | 6.8 |

| MEUR | 2017 | 2016 |
|---|---|---|
| Non-current provisions | 5.0 | 4.8 |
| Current provisions | 1.9 | 2.0 |
| Total | 7.0 | 6.8 |

**The environmental provisions cover the following obligations:**

L&T owns the Munaistenmetsä landfill in Uusikaupunki and the land area associated with it. The landfill site serves as a final disposal area for municipal waste, contaminated soil and industrial by-products.

The Group has leased site that it uses as landfill from the city of Kotka. In Varkaus the Group uses a site for intermediate storing, processing and final disposal of contaminated soil. 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 Group also has provisions on its balance sheet for the potential costs of cleaning land areas that have been disposed of.

Other provisions consists mainly of provision for restructuring.

## 24. Borrowings

| MEUR | 1 Jan 2017 | Cash flow | Non-cash flow adjustments: Transfer from non-current to current | Non-cash flow adjustments: Other non-cash flow adjustments | 31 Dec 2017 |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| Bank borrowings | 27.7 | 69.9 | -1.8 | -0.1 | 95.7 |
| Bonds | 29.8 | | | 0.1 | 29.9 |
| Finance lease liabilities | 5.2 | | -3.2 | 13.4 | 15.3 |
| Loans from pension institutions | 0.8 | | -0.8 | | 0.0 |
| Total | 63.5 | 69.9 | -5.8 | 13.4 | 140.9 |
| **Current** | | | | | |
| Repayments of long-term borrowings | 2.6 | -2.6 | 2.6 | | 2.6 |
| Finance lease liabilities | 0.8 | -1.6 | 3.2 | | 2.4 |
| Current bank borrowings | 0.0 | 19.9 | | 0.1 | 20.0 |
| Total | 3.4 | 15.7 | 5.8 | 0.1 | 25.0 |

| MEUR | 1 Jan 2016 | Cashflows | Non-cash flow adjustments: Transfer from non-current to current | Non-cash flow adjustments: Other non-cash flow adjustments | 31 Dec 2016 |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| Bank borrowings | 29.7 | | -1.8 | -0.2 | 27.7 |
| Bonds | 29.8 | | | 0.1 | 29.8 |
| Finance lease liabilities | - | | -1.0 | 6.2 | 5.2 |
| Loans from pension institutions | 1.6 | | -0.8 | | 0.8 |
| Total | 61.0 | 0.0 | -3.5 | 6.1 | 63.5 |
| **Current** | | | | | |
| Repayments of long-term borrowings | 34.9 | -34.9 | 2.6 | | 2.6 |
| Finance lease liabilities | - | -0.2 | 1.0 | | 0.8 |
| Current bank borrowings | 0.0 | 0.0 | | | 0.0 |
| Total | 34.9 | -35.1 | 3.6 | 0.0 | 3.4 |

Fair values of financial liabilities are presented in Note 27 Financial assets and liabilities by category.

Maturity of long-term bank borrowings and financial lease liabilities is presented in Note 34 Financial risk management.

## 25. Other non-current liabilities

| MEUR | 2017 | 2016 |
|---|---|---|
| Advances received | 0.3 | 0.3 |
| Other liabilities | 0.2 | 0.0 |
| Total | 0.4 | 0.3 |

## 26. Trade and other current payables

| MEUR | 2017 | 2016 |
|---|---|---|
| Advances received | 13.5 | 10.0 |
| Trade payables | 56.4 | 48.6 |
| Other liabilities | 23.7 | 21.2 |
| Accrued expenses and deferred income | 54.1 | 50.2 |
| Total | 147.7 | 129.9 |
| Accrued expenses and deferred income | | |
| Liabilities related to personnel expenses | 47.8 | 46.4 |
| Other accrued expenses | 6.3 | 3.8 |
| Total | 54.1 | 50.2 |

The fair values of trade payables and other current payables equal their book values.

## 27. Financial assets and liabilities by category

**2017**

| MEUR | Loans and other receivables | Available-for-sale financial assets | Financial liabilities measured at effective interest method | Derivatives under hedge accounting | Carrying amounts by balance sheet item | Fair value hierarchy level |
|---|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | | |
| Available-for-sale investments | | 0.6 | | | 0.6 | 3 |
| Finance lease receivables | 0.3 | | | | 0.3 | 2 |
| Other receivables | 1.8 | | | | 1.8 | |
| **Current financial assets** | | | | | | |
| Trade and other receivables | 128.7 | | | | 128.7 | |
| Finance lease receivables | 0.6 | | | | 0.6 | |
| Derivative receivables | | | | 0.1 | 0.1 | |
| Cash and cash equivalents | 48.1 | | | | 48.1 | |
| Total financial assets | 179.3 | 0.6 | | 0.1 | 180.1 | |
| **Non-current financial liabilities** | | | | | | |
| Borrowings | | | 125.6 | | 125.6 | 2 |
| Finance lease liabilities | | | 15.3 | | 15.3 | |
| **Current financial liabilities** | | | | | | |
| Borrowings | | | 22.6 | | 22.6 | |
| Finance lease liabilities | | | 2.4 | | 2.4 | |
| Trade and other payables | | | 80.1 | | 80.1 | |
| Derivative liabilities | | | | 0.2 | 0.2 | 2 |
| Total financial liabilities | | | 246.0 | 0.2 | 246.3 | |

The fair values of balance sheet items do not differ significantly from the carrying values of balance sheet items.

**2016**

| MEUR | Loans and other receivables | Available-for-sale financial assets | Financial liabilities measured at effective interest method | Derivatives under hedge accounting | Carrying amounts by balance sheet item | Fair value hierarchy level |
|---|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | | |
| Available-for-sale investments | | 0.6 | | | 0.6 | 3 |
| Finance lease receivables | 1.2 | | | | 1.2 | 2 |
| Other receivables | 1.5 | | | | 1.5 | |
| **Current financial assets** | | | | | | |
| Trade and other receivables | 83.6 | | | | 83.6 | |
| Finance lease receivables | 0.9 | | | | 0.9 | |
| Derivative receivables | | | | 0.3 | 0.3 | |
| Cash and cash equivalents | 28.2 | | | | 28.2 | |
| Total financial assets | 115.4 | 0.6 | | 0.3 | 116.3 | |
| **Non-current financial liabilities** | | | | | | |
| Borrowings | | | 58.3 | | 58.3 | 2 |
| Finance lease liabilities | | | 5.2 | | 5.2 | |
| Other liabilities | | | 0.0 | | 0.0 | |
| **Current financial liabilities** | | | | | | |
| Borrowings | | | 2.6 | | 2.6 | |
| Finance lease liabilities | | | 0.8 | | 0.8 | |
| Trade and other payables | | | 71.8 | | 71.8 | |
| Derivative liabilities | | | | 0.1 | 0.1 | 2 |
| Total financial liabilities | | | 138.6 | 0.1 | 138.7 | |

The fair values of balance sheet items do not differ significantly from the carrying values of balance sheet items.

In the tables on the previous page, 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 financial assets

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

### Derivatives

Fair values of 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 measured at effective interest method. 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

Financial assets and liabilities recognised at fair value must be categorised by using a three-level fair value hierarchy that reflects the significance of the input data used in fair value measurement. At L&T, only current available-for-sale financial assets and derivatives are recognised at fair value. The fair values of available-for-sale current investments, which comprise units in investment funds, certificates of deposit and commercial papers, and derivatives, which comprise interest rate swaps, currency derivatives and commodity derivatives, are categorised in Level 2. The fair values of financial instruments are based on prices derived from prices quoted in an active market or generally accepted valuation models that are, to a significant degree, based on verifiable market data.

## 28. Derivative financial instruments

### Interest rate swaps

| | 2017 | | 2016 | |
|---|---|---|---|---|
| MEUR | Nominal value | Fair value | Nominal value | Fair value |
| **Maturity of interest rate swaps under hedge accounting** | | | | |
| Not later than one year | 1.8 | | 1.8 | |
| Later than one year and not later than five years | 0.9 | | 2.7 | |
| Later than five years | 30.0 | | 0.0 | |
| Total | 32.7 | -0.3 | 4.5 | -0.1 |

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 2017 were 0.8% (1.6). The floating interest rate was 6-month Euribor.

### Commodity derivatives

| | 2017 | | 2016 | |
|---|---|---|---|---|
| MEUR | Nominal value | Fair value | Nominal value | Fair value |
| **Maturity of diesel swaps under hedge accounting** | | | | |
| Not later than one year | 1.2 | | 1.3 | |
| Later than one year and not later than five years | 0.0 | | 0.0 | |
| Total | 1.2 | 0.1 | 1.3 | 0.3 |

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.

## 29. Operating leases

| MEUR | 2017 | 2016 |
|---|---|---|
| **Maturity of minimum lease payments of non-cancellable operating leases** | | |
| Not later than one year | 10.5 | 7.4 |
| Later than one year and not later than five years | 15.1 | 11.4 |
| Later than five years | 10.5 | 4.0 |
| Total minimum lease payments | 36.1 | 22.7 |

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.

## 30. Notes to the consolidated statement of cash flows

| MEUR | 2017 | 2016 |
|---|---|---|
| **Adjustments to cash flows from operating activities** | | |
| Taxes | 9.0 | 6.7 |
| Depreciation, amortisation and impairment | 40.5 | 38.8 |
| Finance income and costs | 1.4 | 0.4 |
| Provisions | 0.1 | -1.2 |
| Other | 0.5 | -0.9 |
| Total | 51.6 | 43.8 |

## 31. Related-party transactions

The related parties of the Lassila & Tikanoja Group are the senior management, Suomen Keräystuote Oy (an associated company), Moppicom Oy (an associated company) and the L&T sickness fund.

Lists of the Group's parent and subsidiary relationships, associated companies and joint ventures are presented in Note 13. Group companies.

The contributions paid by the parent company to the L&T sickness fund during the financial year amounted to EUR 0.7 million (0.6). The parent company has granted a EUR 0.3 million convertible bond loan to Moppicom Oy.

### Employee benefits of top management

| MEUR | 2017 | 2016 |
|---|---|---|
| Salaries and other short-term employee benefits | 2.2 | 2.1 |
| Post-employment benefits | 0.3 | 0.1 |
| Share-based payment | 0.2 | 0.6 |
| Total | 2.7 | 2.8 |

Top management consists of the members of the Board of Directors, President and CEO and the Group Executive Board. An expense of EUR 0.2 million (0.6) 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

| TEUR | 2017 | 2016 |
|---|---|---|
| Heikki Bergholm, Chairman of the Board | 62 | 61 |
| Sakari Lassila, Deputy Chairman of the Board | 43 | 34 |
| Eero Hautaniemi | 2 | 42 |
| Teemu Kangas-Kärki | 35 | 32 |
| Laura Lares | 34 | 34 |
| Miikka Maijala | 34 | 34 |
| Laura Tarkka | 33 | - |

On 31 March 2017, 3,896 shares were transferred to the members of the Board of Directors as part of the remuneration of the Board (30 March 2016: 4,529)

In 2017, the remuneration paid to the President and CEO totalled EUR 521 thousand (509), consisting of salaries and benefits of EUR 424 thousand (424) and a bonus of EUR 97 thousand (85). In addition, the President and CEO was paid rewards amounting to EUR 224 thousand on the basis of the achievement of the targets of the share-based incentive programme in 2016 (162).

The remuneration paid to the other members of the Group Executive Board totalled EUR 1,468 thousand (1,362), which includes salaries and benefits of EUR 1,300 thousand (1,213) and bonuses of EUR 167 thousand (149). In addition, the other members of the Group Executive Board were paid rewards amounting to EUR 351 thousand on the basis of the achievement of the targets of the share-based incentive programme in 2016 (211). The figures include salaries for the period during which the persons in question were on the Group Executive Board.

The members of the Board of Directors have no pension contracts with the company. In 2017, EUR 6 thousand (9) 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.

In 2017, the company sold services included in normal business operations at market price to parties related to the key personnel for a total amount of EUR 35,000 (38,000).

The members of the Board are not included in the share-based incentive programmes.

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

## 32. Auditing costs

| MEUR | 2017 | 2016 |
|---|---|---|
| Auditing | 0.2 | 0.1 |
| Other assignments in accordance with the auditing act | 0.0 | 0.0 |
| Tax consulting services | 0.0 | 0.0 |
| Other services | 0.4 | 0.2 |
| Total | 0.7 | 0.3 |

Non-audit services performed by the statutory auditor KPMG Oy Ab in the financial year 2017 totalled EUR 0.4 million.

## 33. Contingent liabilities

| MEUR | 2017 | 2016 |
|---|---|---|
| **Collaterals for own commitments** | | |
| Mortgages on rights of tenancy | 0.1 | 0.2 |
| Other securities | 0.1 | 0.1 |
| Bank guarantees required for environmental permits | 10.6 | 10.9 |

Other securities are guarantee deposits

## 34. 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 unfavourable effects of fluctuations in the financial market and other risk factors on the Group's result.

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

### Foreign exchange risk

L&T consists of a parent company operating in Finland and subsidiaries operating in Finland, Sweden, Russia and Estonia. The parent company's and the Finnish subsidiaries' functional and reporting currency is the euro. The foreign subsidiaries' functional and reporting currency is the currency of their country of location. For this reason, changes in foreign exchange rates affect the Group's result and equity, but not very significantly.

### Transaction risk

The business operations of L&T's foreign subsidiaries are carried out almost completely in their functional currencyand and thus does not cause any transaction risk. Financing for subsidiaries is 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 comparable loans. The position of net investments in foreign subsidiaries is not hedged, as these holdings are considered long-term strategic investments.

The Group's most significant transaction risk arises from the SEK-denominated loan capital of subsidiary loans and accrued interest. The net position on the balance sheet date was as follows:

| MEUR | 2017 | 2016 |
|---|---|---|
| SEK loans and accrued interests | 9.5 | - |
| RUB loans and accrued interests | - | 7.1 |
| Net | 9.5 | 7.1 |

Changes in exchange rates in 2017 resulted in translation differences of EUR -2.7 million in equity (-0.1). Net investments by currency are presented in the table below.

| Translation exposure of net investments | 2017 | 2016 |
|---|---|---|
| SEK | 26.7 | 19.3 |
| RUB | 1.3 | 7.0 |
| Total | 28.0 | 26.3 |

### 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 thus 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 price risk

The fluctuations of the world market price of crude oil are reflected in the price of fuel used in production equipment 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 service prices with a delay. The diesel price risk has been partly hedged with 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

L&T's interest rate risk is primarily related 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 with interest rate swaps.

At 31 December 2017, 56.2% (59.0) of the company's borrowings were either fixed interest rate borrowings or hedged with interest rate swaps. Variable-rate borrowings accounted for 43.8% (41.0). 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 in accordance with IAS 39 is applied to all contracts. Most of L&T's net sales are generated by long-term service agreements. Due to good cash flow predictability, L&T's treasury policy specifies that the company shall seek to minimise the amount of interest-bearing assets in proportion to the current short-term financing requirements, and to invest 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 consisting of companies, industrial plants, office and business properties, institutional property owners, housing corporations, public sector organisations 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 are managed centrally by the financial management function. The foreign subsidiaries manage the collection of their trade receivables locally. 88% (94) of net sales originated from Finland in 2017. The total book value of financial assets at 31 December 2017 represents best the Group's maximum exposure to credit risk at the balance sheet date in case the counterparties are not able to fulfil their commitments related to the financial instruments.

### Analysis of trade receivables by age

| MEUR | 2017 | 2016 |
|---|---|---|
| Trade receivables | 108.5 | 75.8 |
| Trade receivables past due 1-90 days | 13.1 | 6.2 |
| Trade receivables past due 91-180 days | 0.7 | 0.6 |
| Trade receivables past due 181-365 days | 1.2 | 0.2 |
| Trade receivables past due over 365 days | 3.4 | 0.2 |
| Total | 127.0 | 83.0 |

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 4 Other operating income and expenses.

Financial assets are not collateralised. 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.

### Credit risk related to financial assets

| MEUR | 2017 | 2016 |
|---|---|---|
| Non-current available-for-sale investments | 0.6 | 0.6 |
| Non-current finance lease receivables | 0.3 | 1.2 |
| Other non-current receivables | 1.9 | 1.7 |
| Trade and other current receivables | 127.0 | 83.0 |
| Derivative receivables | 0.1 | 0.3 |
| Cash and cash equivalents | 48.1 | 28.2 |

### 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 that 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 two 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 committed credit limits (totalling EUR 30 million) and a commercial paper programme (EUR 100 million). At 31 December 2017, the Group's liquid assets and investments amounted to EUR 48.1 million (28.2). EUR 20.0 million of the commercial paper programme was in use (0.0).

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

### 31 Dec 2017

| MEUR | Carrying amount | Contractual cash flows | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 and later. |
|---|---|---|---|---|---|---|---|---|
| Bank borrowings and loans from pension institutions | 98.3 | 98.5 | 2.6 | 20.9 | 25.0 | | | 50.0 |
| Bonds | 29.9 | 30.0 | | 30.0 | | | | |
| Commercial paper liabilities | 20.0 | 20.0 | 20.0 | | | | | |
| Financial lease liabilities | 17.7 | 18.7 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 5.7 |
| Derivative liabilities | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade and other payables | 80.1 | 80.1 | 80.1 | | | | | |
| Total | 246.3 | 247.5 | 105.3 | 53.6 | 27.6 | 2.6 | 2.6 | 55.7 |

### 31 Dec 2016

| MEUR | Carrying amount | Contractual cash flows | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 and later. |
|---|---|---|---|---|---|---|---|---|
| Bank borrowings and loans from pension institutions | 31.1 | 29.9 | 2.2 | 2.2 | 0.4 | 25.1 | | |
| Bonds | 29.8 | 31.9 | 0.6 | 0.6 | 30.6 | | | |
| Commercial paper liabilities | | 0.0 | | | | | | |
| Financial lease liabilities | 6.0 | 6.3 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 2.1 |
| Derivative liabilities | | 0.0 | | | | | | |
| Trade and other payables | 69.8 | 69.8 | 69.8 | | | | | |
| Total | 136.6 | 137.9 | 73.5 | 3.6 | 31.9 | 25.9 | 0.8 | 2.1 |

### Maturity of financial lease liabilities

| MEUR | 2017 | 2016 |
|---|---|---|
| Finance lease liabilities | | |
| – minimum lease payments by maturity | | |
| Not later than one year | 2.6 | 0.8 |
| Later than one year and not later than five years | 10.5 | 3.3 |
| Later than five years | 5.7 | 2.1 |
| Total minimum lease payments | 18.7 | 6.3 |
| Future finance charges | -1.0 | -0.3 |
| Present value of finance lease liabilities | 17.7 | 6.0 |
| Maturity of present value of finance lease liabilities | | |
| Not later than one year | 2.4 | 0.8 |
| Later than one year and not later than five years | 9.7 | 3.1 |
| Later than five years | 5.6 | 2.1 |
| Total | 17.7 | 6.0 |

The company deployed a finance lease on heavy machinery during the comparison year. This is currently the only asset meeting the characteristics of a finance lease, and it is handled as a finance lease liability in the financial statements.

### Breakdown of borrowings

| MEUR | 31 Dec 2017 | | | 31 Dec 2016 | | |
|---|---|---|---|---|---|---|
| | In use | Undrawn | Total | In use | Undrawn | Total |
| Bank borrowings and loans from pension institutions | 95.7 | | 95.7 | 31.1 | | 31.1 |
| Bonds | 29.9 | | 29.9 | 29.8 | | 29.8 |
| Committed credit facility maturing in 2020 | | 30.0 | 30.0 | 0.0 | 30.0 | 30.0 |
| Commercial paper programme | 20.0 | 80.0 | 100.0 | 0.0 | 100.0 | 100.0 |
| Total | 145.6 | 110.0 | 255.6 | 60.8 | 130.0 | 190.8 |

**Sensitivity to 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 2017 (31 December 2016), 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 a rise of +0.5 percentage point and a decrease of -0.2 percentage point.
- The change in the price level of Diesel is assumed to be a rise of +10 percentage point and a decrease of -10 percentage point.
- The exposure underlying the calculation includes interest-bearing financial liabilities

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

**Sensitivity analysis in accordance with IFRS 7 of market risk arising from financial instruments**

| MEUR | 2017 | | 2016 | |
|---|---|---|---|---|
| | Profit after tax | Equity | Profit after tax | Equity |
| +0.5% change in market interest rates | -0.3 | 0.6 | -0.1 | 0.0 |
| -0.2% change in market interest rates | 0.0 | -0.2 | 0.0 | 0.0 |
| +10% change in diesel oil CIF CARGO NWE price*) | | 0.2 | | 0.1 |
| -10% change in diesel oil CIF CARGO NWE price*) | | -0.2 | | -0.1 |
| *) price level in euros | | | | |
| +10% change in SEK exchange rate | 1.1 | | - | |
| -10% change in SEK exchange rate | -0.9 | | - | |
| +10% change in RUB exchange rate | - | | 0.8 | |
| -10% change in RUB exchange rate | - | | -0.6 | |

## 35. Disputes and litigation

Lassila & Tikanoja plc is party to a few minor disputes related to the Group's ordinary business operations. The outcome of these disputes will not have a material effect on the Group's financial position.

## 36. Events after the balance sheet date

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

# INCOME STATEMENT OF THE PARENT COMPANY

| MEUR | 2017 | 2016 | Note |
|---|---|---|---|
| **Net sales** | **540.9** | 549.1 | 1 |
| Other operating income | **7.0** | 5.3 | 4 |
| Change of inventory | **-0.5** | 1.1 | |
| Materials and services | **-152.4** | -149.0 | |
| Employee benefit expenses | **-236.6** | -244.4 | 2 |
| Other operating expenses | **-83.1** | -81.4 | 3.4 |
| Depreciation and impairment | **-36.1** | -36.0 | |
| **Operating profit before goodwill amortisation** | **39.3** | 44.6 | |
| Goodwill amortisation | **-1.5** | -1.5 | |
| **Operating profit** | **37.7** | 43.1 | |
| Financial income and expenses | **-0.1** | -1.7 | 5 |
| **Profit before appropriations and taxes** | **37.7** | 41.4 | |
| Appropriations | | | |
| Increase/decrease in accumulated depreciation | **3.2** | 2.0 | |
| Group contribution | **2.1** | 5.0 | 6 |
| Income tax | **-8.8** | -9.8 | 7 |
| **Profit for the period** | **34.2** | 38.5 | |

# BALANCE SHEET OF THE PARENT COMPANY

| MEUR | 2017 | 2016 | Note |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| Intangible assets | | | 8 |
| Intangible rights | **1.3** | 1.2 | |
| Goodwill | **3.9** | 4.2 | |
| Other intangible assets | **16.2** | 18.0 | |
| Advance payments and construction in progress | **3.6** | 0.7 | |
| | **25.0** | 24.1 | |
| Tangible assets | | | 9 |
| Land | **4.6** | 4.6 | |
| Buildings and constructions | **35.3** | 35.6 | |
| Machinery and equipment | **101.2** | 99.4 | |
| Other tangible assets | **0.0** | 0.0 | |
| Advance payments and construction in progress | **1.9** | 5.3 | |
| | **143.1** | 144.9 | |
| Financial assets | | | 10 |
| Shares in Group companies | **30.2** | 30.2 | |
| Receivables from Group companies | **12.5** | - | |
| Shares in joint ventures | **0.5** | 0.0 | |
| Other shares and holdings | **0.5** | 0.4 | |
| | **43.7** | 30.6 | |
| **Total fixed assets** | **211.8** | 199.6 | |

| MEUR | 2017 | 2016 | Note |
|---|---|---|---|
| **Current assets** | | | |
| Inventories | | | |
| Raw materials and consumables | **1.8** | 1.7 | |
| Finished products/goods | **1.2** | 1.2 | |
| Other inventories | **3.9** | 4.5 | |
| | **6.9** | 7.4 | |
| Non-current receivables | | | |
| Loan receivables from Group companies | **105.7** | - | |
| Loan receivables from Associated companies | **0.3** | - | |
| Loan receivables | **0.7** | 1.0 | |
| Prepayments | **0.3** | 0.3 | |
| | **107.1** | 1.4 | |
| Current receivables | | | 11 |
| Receivables from Group companies | **9.0** | 42.6 | |
| Trade receivables from Associated companies | **0.1** | 0.1 | |
| Trade receivables | **68.7** | 64.5 | |
| Other receivables | **0.7** | 0.8 | |
| Prepaid expenses and accrued income | **5.3** | 4.4 | |
| | **83.8** | 112.5 | |
| Cash and cash equivalents | **40.1** | 23.7 | |
| Total current assets | **237.9** | 145.0 | |
| **Total assets** | **449.7** | 344.5 | |

# BALANCE SHEET OF THE PARENT COMPANY

| MEUR | 2017 | 2016 | Note |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | 12 |
| Share capital | **19.4** | 19.4 | |
| Fair value reserve | **0.0** | 0.0 | |
| Invested non-restricted equity reserve | **0.7** | 0.5 | |
| Retained earnings | **68.0** | 64.6 | |
| Profit for the period | **34.2** | 38.5 | |
| **Total shareholders' equity** | **122.3** | 123.1 | |
| **Accumulated appropriations** | | | |
| Depreciation difference | **26.7** | 29.9 | |
| **Obligatory provisions** | | | 13 |
| Non-current | **5.3** | 5.2 | |
| Current | **1.1** | 1.1 | |
| | **6.5** | 6.3 | |

| MEUR | 2017 | 2016 | Note |
|---|---|---|---|
| **Liabilities** | | | 14 |
| Non-current | | | |
| Bank borrowings | **95.9** | 27.7 | |
| Pension institution loans | **0.0** | 0.8 | |
| Bonds | **30.0** | 30.0 | |
| Finance lease liabilities | **15.3** | 5.2 | |
| Accrued income | **0.3** | 0.3 | |
| | **141.5** | 64.0 | |
| Current | | | |
| Bank borrowings | **22.6** | 2.6 | |
| Finance lease liabilities | **2.4** | 0.8 | |
| Advances received | **9.9** | 8.9 | |
| Trade payables | **41.3** | 42.4 | |
| Trade payables to Associated companies | **0.1** | 0.1 | |
| Liabilities to Group companies | **18.7** | 8.5 | |
| Other liabilities | **17.6** | 17.2 | |
| Accruals and deferred expenses | **40.2** | 41.0 | |
| Accruals and deferred expenses on commodity derivatives | **0.0** | 0.0 | |
| | **152.7** | 121.3 | |
| **Total liabilities** | **294.3** | 185.3 | |
| **Total shareholders' equity and liabilities** | **449.7** | 344.5 | |

# CASH FLOW STATEMENT OF THE PARENT COMPANY

| MEUR | 2017 | 2016 |
|---|---|---|
| **Operations** | | |
| Operating profit | **37.7** | 43.1 |
| Adjustments: | | |
| Depreciation and amortisation | **37.6** | 37.5 |
| Gains and losses on sales | **-1.3** | 0.9 |
| Provisions | **0.2** | -1.6 |
| Other adjustments | **0.1** | -0.8 |
| Cash flow before change in working capital | **74.5** | 79.1 |
| Change in working capital | | |
| Increase/decrease in current non-interest-bearing receivables | **26.4** | 1.2 |
| Increase/decrease in inventories | **0.5** | -1.0 |
| Increase/decrease in current non-interest-bearing liabilities | **0.3** | 1.5 |
| Cash flow from operations before financial income/expenses and tax | **101.7** | 80.8 |
| Interest expenses and other financial expenses | **-0.3** | -1.9 |
| Interest income from operations | **0.1** | 0.1 |
| Direct taxes paid | **-9.0** | -11.2 |
| **Cash flow from operating activities** | **92.5** | 67.8 |
| **Investments** | | |
| Investments in subsidiaries and associated companies and acquired businesses minus cash at the time of acquisition | **-1.8** | -0.1 |
| Investments in tangible and intangible assets | **-22.6** | -30.0 |
| Proceeds from sale of tangible and intangible assets | **1.7** | -3.9 |
| Proceeds from/repayments of current liabilities to Group companies | **-109.0** | -1.0 |
| Dividends received from investments | **-** | 0.1 |
| **Cash flow from investing activities** | **-131.7** | -34.9 |

| MEUR | 2017 | 2016 |
|---|---|---|
| **Financing** | | |
| Paid Group contributions | **-0.3** | 5.3 |
| Received Group contributions | **5.3** | -0.3 |
| Proceeds from short-term borrowings | **40.0** | 6.1 |
| Repayments of short-term borrowings | **-20.0** | - |
| Proceeds from long-term loans | **69.9** | - |
| Repayments of leasing liabilities | **-2.6** | - |
| Repayments of long-term loans | **-1.6** | -36.8 |
| Capital repayment and other distribution of profit paid | **-35.1** | -32.6 |
| **Cash flow from financing activities** | **-55.6** | -58.3 |
| **Changes in cash and cash equivalents** | **16.4** | -25.5 |
| **Cash and cash equivalents at 1 January** | **23.7** | 49.3 |
| **Cash and cash equivalents at 31 December** | **40.1** | 23.7 |
| **Cash and cash equivalents at 31 December** | | |
| Cash and cash equivalents | **40.1** | 23.6 |
| Overdraft facilities | **-** | 0.1 |
| | **40.1** | 23.7 |

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 | 5–30 years |
| Vehicles | 6–15 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.

### Finance lease agreement

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.

### 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 swap agreements 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 agreements 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, recognition and recovery of bad debt as well as the annual discounts on purchases.

### 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

| MEUR | 2017 | % | 2016 | % |
|---|---|---|---|---|
| **Net sales by division** | | | | |
| Environmental Services | 237.4 | 43.9 | 257.0 | 46.8 |
| Industrial Services | 81.6 | 15.1 | 52.5 | 9.6 |
| Facility Services | 221.9 | 41.0 | 239.6 | 43.6 |
| Total | 540.9 | 100.0 | 549.1 | 100.0 |
| **Net sales by market** | | | | |
| Finland | 531.2 | 98.2 | 541.3 | 98.6 |
| Other countries | 9.7 | 1.8 | 7.8 | 1.4 |
| Total | 540.9 | 100.0 | 549.1 | 100.0 |

# 2. Personnel and administrative bodies

| | 2017 | 2016 |
|---|---|---|
| **Average personnel** | | |
| Salaried employees | 1,084 | 1,068 |
| Non-salaried employees | 4,675 | 4,710 |
| Total | 5,759 | 5,778 |

| MEUR | 2017 | 2016 |
|---|---|---|
| **Personnel expenses** | | |
| Salaries and bonuses | 192.0 | 196.3 |
| Pension expenditure | 35.1 | 35.5 |
| Other salary-related expenses | 9.6 | 12.9 |
| Total | 236.7 | 244.7 |
| Personnel services invoiced from the Group | -0.2 | -0.3 |
| | 236.6 | 244.4 |

Salaries, bonuses and pension benefits of the management are described in the Note 31 Related-party transactions of the consolidated financial statements. No loans were granted to the related parties of the Group companies.

# 3. Auditor's fees

| MEUR | 2017 | 2016 |
|---|---|---|
| **KPMG** | | |
| Auditing | 0.1 | 0.1 |
| Other assignments in accordance with the auditing act | 0.0 | 0.0 |
| Tax consulting services | 0.0 | 0.0 |
| Other services | 0.4 | 0.2 |
| Total | 0.5 | 0.3 |

# 4. Other operating income and expenses

| MEUR | 2017 | 2016 |
|---|---|---|
| **Other operating income** | | |
| From Group companies | | |
| Compensation for administration costs | 1.9 | 0.7 |
| From others | | |
| Profit on sale of other fixed assets | 1.3 | 1.0 |
| Government grants | 0.3 | 0.6 |
| Recovery of bad debt | 0.3 | 0.1 |
| Annual discounts | 1.7 | 1.4 |
| Change in value of commodity derivatives | 0.2 | 0.7 |
| Other operating income | 1.4 | 0.8 |
| Total | 7.0 | 5.3 |
| **Other operating expenses** | | |
| To others | | |
| ICT costs | 11.0 | 10.3 |
| Travel costs | 6.2 | 6.3 |
| Vehicles and machinery | 32.8 | 31.3 |
| Rents and real estate costs | 15.7 | 16.1 |
| Expert fees | 3.8 | 3.9 |
| Voluntary social security costs | 5.6 | 5.0 |
| Other | 7.9 | 8.4 |
| Total | 83.1 | 81.4 |

## 5. Financial income and expenses

| MEUR | 2017 | 2016 |
|---|---|---|
| Dividend income | 0.0 | 0.1 |
| Other interest and financial income | 1.9 | 0.1 |
| Other interest and financial costs | -1.9 | -1.9 |
| Total financial income and costs | -0.1 | -1.7 |
| Financial income and costs include: | | |
| Dividend income | | |
| from Group companies | 0.0 | 0.1 |
| Interest income | | |
| from others | 0.2 | 0.1 |
| Foreign exchange gains | | |
| from others | 1.7 | 0.0 |
| Interest costs | | |
| to others | -1.6 | -1.7 |
| Other financial expenses | | |
| to others | -0.4 | -0.2 |
| | -0.1 | -1.7 |

## 6. Appropriations

| MEUR | 2017 | 2016 |
|---|---|---|
| **Increase/decrease in accumulated depreciation** | | |
| Intangible assets | -0.8 | -1.0 |
| Tangible assets | 4.0 | 3.0 |
| Total extraordinary income and expenses | 3.2 | 2.0 |
| **Group contribution** | | |
| Group contribution received | 2.4 | 5.3 |
| Group contribution paid | -0.3 | -0.3 |
| Total extraordinary income and expenses | 2.1 | 5.0 |
| **Total Appropriations** | 5.3 | 7.0 |

## 7. Income taxes

| MEUR | 2017 | 2016 |
|---|---|---|
| Income taxes on operations for the financial year | 8.6 | 9.8 |
| Total | 8.6 | 9.8 |
| **Deferred tax assets / liabilities** | | |
| From depreciation differences | -5.3 | -6.0 |
| Tax deduction from guarantee commitment* | 3.3 | 3.3 |
| From other matching differences | 1.9 | 1.7 |
| Total | -0.1 | -1.0 |

*In the comparison year the parent company received a legally valid decision handed down by the Administrative Court, according to which the payment of approximately EUR 16.7 million made by the company in 2014 under the L&T Recoil Oy guarantee commitment is tax-deductible. In previous financial statements, the company had treated the payment as a non-tax deductible item due to its tax deductibility not being confirmed. The final amount will be confirmed once the possible apportionment from L&T Recoil Oy's bankruptcy estate is confirmed. The amount of the receivable is based on the management's estimate of the future tax benefit.

## 8. Intangible assets

| MEUR | Intangible rights | Goodwill | Other intangible assets | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Cost at 1 January | 9.7 | 112.2 | 51.4 | 0.7 | 174.0 |
| Additions | 0.4 | 1.2 | 0.9 | 4.6 | 7.0 |
| Disposals | -0.1 | | 0.0 | | -0.1 |
| Transfers between items | | 0.0 | 1.7 | -1.7 | 0.0 |
| Cost at 31 December | 10.0 | 113.4 | 53.9 | 3.6 | 180.9 |
| Accumulated depreciation at 1 January | -8.5 | -108.0 | -33.4 | 0.0 | -149.9 |
| Accumulated depreciation on disposals and transfers | | 0.0 | 0.0 | | 0.0 |
| Depreciation during the period | -0.2 | -1.5 | -4.3 | | -6.1 |
| Accumulated depreciation at 31 December | -8.7 | -109.5 | -37.8 | | -156.0 |
| Total book value | 1.3 | 3.9 | 16.2 | 3.6 | 25.0 |
| **2016** | | | | | |
| Cost at 1 January | 9.3 | 126.2 | 25.1 | 4.2 | 164.8 |
| Additions | 0.5 | 0.1 | 3.2 | 5.5 | 9.3 |
| Disposals | -0.1 | 0.0 | | | -0.1 |
| Transfers between items | | -14.1 | 23.1 | -9.0 | 0.0 |
| Cost at 31 December | 9.7 | 112.2 | 51.4 | 0.7 | 174.0 |
| Accumulated depreciation at 1 January | -8.3 | -120.5 | -16.0 | | -144.8 |
| Accumulated depreciation on disposals and transfers | | 14.0 | -14.4 | | -0.4 |
| Depreciation during the period | -0.2 | -1.5 | -3.0 | | -4.7 |
| Accumulated depreciation at 31 December | -8.5 | -108.0 | -33.4 | | -149.9 |
| Total book value | 1.2 | 4.2 | 18.0 | 0.7 | 24.1 |

Other intangible assets includes several ICT projects.

## 9. Tangible assets

| MEUR | Land | Buildings | Machinery and equipment | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Cost at 1 January | 4.6 | 91.6 | 345.3 | 5.3 | 446.8 |
| Additions | | 0.9 | 27.7 | 2.6 | 31.2 |
| Disposals | | -1.9 | -15.3 | | -17.2 |
| Transfers between items | | 4.8 | 0.8 | -5.9 | |
| Cost at 31 December | 4.6 | 95.5 | 358.5 | 1.9 | 460.5 |
| Accumulated depreciation at 1 January | | -56.0 | -245.9 | | -301.9 |
| Accumulated depreciation on disposals and transfers | | 1.1 | 14.9 | | 16.0 |
| Depreciation during the period | | -5.2 | -26.2 | | -31.5 |
| Accumulated depreciation at 31 December | | -60.2 | -257.3 | | -317.4 |
| Total book value | 4.6 | 35.3 | 101.3 | 1.9 | 143.1 |

The additions of machinery and equipment includes EUR 13.4 million in assets leased under a finance lease contract (6.2).

| MEUR | Land | Buildings | Machinery and equipment | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Cost at 1 January | 4.6 | 86.1 | 345.9 | 5.3 | 441.9 |
| Additions | | 3.8 | 9.3 | 6.7 | 19.8 |
| Disposals | | | -14.9 | | -14.9 |
| Transfers between items | | 1.7 | 5.0 | -6.7 | |
| Cost at 31 December | 4.6 | 91.6 | 345.3 | 5.3 | 446.8 |
| Accumulated depreciation at 1 January | | -51.1 | -240.3 | | -291.4 |
| Accumulated depreciation on disposals and transfers | | | 22.3 | | 22.3 |
| Depreciation during the period | | -4.9 | -27.9 | | -32.8 |
| Accumulated depreciation at 31 December | | -56.0 | -245.9 | | -301.9 |
| Total book value | 4.6 | 35.6 | 99.4 | 5.3 | 144.9 |

## 10. Investments

| MEUR | Shares in Group companies | Other shares and holdings | Capital loan receivable | Total |
|---|---|---|---|---|
| **2017** | | | | |
| Cost at 1 January | 30.2 | 0.4 | | 30.6 |
| Additions | 0.1 | 0.6 | 12.5 | 13.1 |
| Transfers between items | | 0.0 | | 0.0 |
| Cost at 31 December | 30.2 | 1.0 | 12.5 | 43.7 |
| Total book value | 30.2 | 1.0 | 12.5 | 43.7 |
| **2016** | | | | |
| Cost at 1 January | 23.8 | 0.5 | | 24.3 |
| Additions *) | 6.3 | | | 6.3 |
| Transfers between items | 0.0 | -0.1 | | -0.1 |
| Cost at 31 December | 30.2 | 0.4 | | 30.6 |
| Total book value | 30.2 | 0.4 | | 30.6 |

“*) The damage repair business was incorporated into L&T Korjausrakentaminen Oy on the 1st of October 2016.

| | Holding of shares and votes, % |
|---|---|
| **Holdings in 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 |
| L&T Korjausrakentaminen Oy, Helsinki | 100.0 |
| L&T Työllistämispalvelu Oy, Helsinki | 100.0 |
| **Associated companies** | |
| Suomen Keräystuote Oy, Helsinki | 40.0 |
| Moppicom Oy, Helsinki | 43.7 |

## 11. Receivables

| MEUR | 2017 | 2016 |
|---|---|---|
| **From Group companies** | | |
| Loan receivables | 7.0 | 40.6 |
| Trade receivables | 2.0 | 2.0 |
| Total | 9.0 | 42.6 |
| **Prepaid expenses and accrued income** | | |
| Employees' health care compensation | 1.2 | 1.5 |
| Statutory personnel insurance | 1.7 | 0.7 |
| Annual discounts | 0.5 | 0.5 |
| Licences | 0.7 | 0.6 |
| Other | 1.2 | 1.1 |
| Total | 5.3 | 4.4 |

## 12. Shareholders' equity

| MEUR | 2017 | 2016 |
|---|---|---|
| Share capital at 1 January / 31 December | 19.4 | 19.4 |
| Fair value reserve 1 January | 0.0 | -0.1 |
| Valuation of commodity derivatives | 0.0 | 0.1 |
| Fair value reserve 31 December | 0.0 | 0.0 |
| Invested non-restricted equity reserve 1 January | 0.5 | 0.6 |
| Expense recognition of share-based benefits | 0.1 | -0.1 |
| Invested non-restricted equity reserve 31 December | 0.7 | 0.5 |
| Retained earnings at 1 January | 103.1 | 97.0 |
| Dividend | -35.3 | -32.6 |
| Out-dated dividend | 0.2 | 0.2 |
| Retained earnings at 31 December | 68.0 | 64.6 |
| Profit for the period | 34.2 | 38.5 |
| Shareholders' equity at 31 December | 122.3 | 123.1 |
| **Distributable assets** | | |
| Retained earnings | 68.0 | 64.6 |
| Profit for the period | 34.2 | 38.5 |
| Invested non-restricted equity reserve | 0.7 | 0.5 |
| Total distributable assets | 102.9 | 103.6 |

## 13. Obligatory provisions

| MEUR | 2017 | 2016 |
|---|---|---|
| Environmental provision | 5.8 | 5.7 |
| Pension liabilities | 0.6 | 0.6 |
| Other provision | 0.1 | - |
| Total | 6.5 | 6.3 |

Environmental provisions concern the site restoration costs of landfills.

# 14. Liabilities

### Repayments of non-current liabilities in coming years

| MEUR | 2018* | 2019 | 2020 | 2021 | 2022 and later |
|---|---|---|---|---|---|
| Bank borrowings | 22.6 | 50.9 | 25.0 | 0.0 | 50.0 |

* In the balance sheet under current liabilities

| MEUR | 2017 | 2016 |
|---|---|---|
| **Liabilities to Group companies** | | |
| Trade payables | 1.5 | 0.5 |
| Other liabilities | 17.2 | 8.0 |
| Total | 18.7 | 8.5 |
| **Accruals and deferred expenses** | | |
| Personnel expenses | 37.9 | 39.3 |
| Other matched expenses | 2.3 | 1.7 |
| Total | 40.2 | 41.0 |

### Maturity of financial lease liabilities

| MEUR | 2017 | 2016 |
|---|---|---|
| Finance lease liabilities | | |
| – minimum lease payments by maturity | 2.6 | 0.8 |
| Not later than one year | 10.5 | 3.3 |
| Later than one year and not later than five years | 5.7 | 2.1 |
| Later than five years | 18.7 | 6.3 |
| Total minimum lease payments | -1.0 | -0.3 |
| Future finance charges | 17.7 | 6.0 |
| Maturity of present value of finance lease liabilities | | |
| Not later than one year | 2.4 | 0.8 |
| Later than one year and not later than five years | 9.7 | 3.1 |
| Later than five years | 5.6 | 2.1 |
| Total | 17.7 | 6.0 |

The company deployed a finance lease on heavy machinery during the comparison year. This is currently the only asset meeting the characteristics of a finance lease, and it is handled as a finance lease liability in the financial statements.

## 15. Contingent liabilities

| MEUR | 2017 | 2016 |
|---|---|---|
| **For own commitments** | | |
| Mortgages on rights of tenancy | 0.1 | 0.1 |
| Other securities | 0.1 | 0.1 |
| **Liabilities related to leasing and leases** | | |
| Falling due next year | 7.4 | 6.6 |
| Falling due in subsequent years | 22.1 | 14.5 |
| Total | 29.5 | 21.1 |
| **For Group companies** | | |
| Guarantees | 14.5 | 9.2 |
| Bank guarantees required for environmental permits | 10.6 | 10.9 |

## 16. Derivatives

### Interest rate contracts

| MEUR | 2017 | 2016 |
|---|---|---|
| Nominal value | 32.7 | 4.5 |
| Fair value | -0.3 | -0.1 |

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

### Commodity derivatives

| MEUR | 2017 | 2016 |
|---|---|---|
| Nominal value of Diesel swaps | 1.2 | 1.3 |
| Fair value | 0.1 | 0.3 |

Commodity derivative contracts were signed for the hedging of future diesel oil purchases. Their fair values are based on the market data on 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.

According to the financial statements, Lassila & Tikanoja plc's unrestricted equity amount to EUR 102,864,459.89 with the profit for the period representing EUR 34,195,639.76. 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 a dividend of EUR 0.92 per share be paid on the basis of the balance sheet to be adopted for the financial year 2017.

The dividend will be paid to a shareholder who is registered in the Company's shareholders' register maintained by Euroclear Finland Ltd on the record date for dividend payment, 19 March 2018. The Board of Directors proposes to the Annual General Meeting that the dividend be paid on 26 March 2018.

No dividend shall be paid on share held by the company on the record date of dividend payment, 19 March 2018.

On the day the proposal for the distribution of assets was made, the number of shares entitling to dividend was 38,398,012, which means

| | |
|---|---|
| the total amount of the dividend would be | EUR 35,326,171.04 |
| To be retained and carried forward | EUR 67,538,288.85 |
| Total | EUR 102,864,459.89 |

**Signatures to the Report of the Board of Directors and the Financial Statements for the year 2017:**

**Helsinki on 30 January 2018**

Heikki Bergholm Sakari Lassila

Teemu Kangas-Kärki Laura Lares

Miikka Maijala Laura Tarkka

Pekka Ojanpää
President and CEO

# THE AUDITOR'S NOTE

**We have today submitted our report on the audit conducted by us.**

**Helsinki, 8 February 2018**

KPMG OY Ab
Authorised Public Accountants
Lasse Holopainen
APA

# AUDITOR'S REPORT

## To the Annual General Meeting of Lassila & Tikanoja Plc

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Lassila & Tikanoja Plc (business identity code 1680140-0) for the year ended 31 December, 2017. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 32 to the consolidated financial statements.

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

### Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

| THE KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|

### Acquisitions and impairment of goodwill and other intangible assets (Accounting policies, Note 2, 10 and 11 to the consolidated financial statements)

The Group expands its activities through acquisitions. As a result, the Group's assets include a significant amount of goodwill and other acquisition-related intangible assets. At the year-end the Group has €150.2 million in goodwill and €23.1 million in other acquisition-related intangible assets.

In 2017 Lassila & Tikanoja acquired Swedish company LT FM for €64.9 million. Goodwill arising from acquisition was €33.7 million and €19.0 million was allocated to separately identifiable intangible assets.

Acquisition accounting requires the fair value of the acquired assets and liabilities at the acquisition date to be determined. This involved complex valuation considerations.

There is a risk of inappropriate judgment in determining the fair value of assets acquired and use of inaccurate forecasted financial and operational data in the valuations.

Goodwill is tested for impairment annually.

Estimating future cash flows in impairment tests involves a significant amount of management judgment in respect of profitability, long-term growth rate and discount rates, among others.

With the involvement of KPMG valuation specialists, we have challenged the anticipated future performance of LT FM and evaluated key assumptions made by management in preparing the purchase price allocation.

We have performed audit procedures on the acquired opening balances.

Our audit procedures regarding goodwill impairment testing included, among others:

- We evaluated the key assumptions used in respect of profitability levels, discount rate and long-term growth rate.
- We involved KPMG valuation specialists when considering the appropriateness of the assumptions used by comparing to external market and industry data, and to test the technical accuracy of the calculations.

In addition, we considered the appropriateness of the related notes to the consolidated financial statements.

Overall, due to the high level of judgment involved, and the significant carrying amounts involved, valuation of goodwill is considered one of the key areas of our audit.

### Revenue recognition (Accounting policies and Note 1 to the consolidated financial statements)

Revenue recognition is one of our focus areas due to following, for example:

- Revenues consists of numerous individual service transactions generated in multiple business locations.
- Volumes of sales transactions processed in several IT systems are substantial. The Group also uses a number of service pricing models and client contract templates.
- The collection of basic data for invoicing purposes is based on various processes and IT systems, too.
- Partly due to the nature of business the user rights in the sales-related IT systems are relatively extensive.

Our audit procedures covered assessment of the sales-related internal control environment, as well as testing of the operating effectiveness of the associated key controls. We also carried out both analytical audit procedures and test of details.

Audit procedures included key person interviews in order to obtain an understanding of the whole process and to assess the appropriateness of the revenue recognition principles and practices applied.

We tested the functionality of the sales-related recording, recognition, invoicing and pricing processes. We also assessed the accuracy of the recognition of revenues on accrual basis.

In addition, we considered the appropriateness of the Group's disclosures in respect of revenues.

### Accounting of employee benefits (Accounting policies, Note 3 and 31 to the consolidated financial statements)

Accounting of employee benefits is one of our focus areas due to following, for example:

- The Group operates in highly labor-intensive business and accordingly significant part of the Group's operating cost structure consists of employee-related costs.
- The collection of basic payroll data is carried out in numerous business locations using service line specific processes. Respectively, the number of individuals involved in the payroll process is high.
- Taking into account the above mentioned circumstances, the importance of control environment is emphasized when ensuring the correctness of the Group's financial reporting.

Our audit procedures covered assessment of the payroll internal control environment and also testing of the operating effectiveness of the related key controls.

In addition, we carried out both analytical and substantive audit procedures that included testing of individual payroll transactions, and comparing the cost accruals recognized at year-end to the confirmations obtained from external parties.

In addition, we considered the appropriateness of the Group's disclosures in respect of employee benefits.

### Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Other Reporting Requirements

### Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 15 March 2012, and our appointment represents a total period of uninterrupted engagement of 6 years.

### Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Other opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the members of the Board of Directors of the parent company and the President and CEO should be discharged from liability for the financial period audited by us.

Helsinki 8 February 2018

KPMG Oy Ab

Lasse Holopainen
Authorised Public Accountant, KHT

WE PUT THE CIRCULAR ECONOMY INTO PRACTICE

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