# LEADER OF THE REGENERATIVE SOCIETY

**Financial review 2020**
Lassila & Tikanoja Plc

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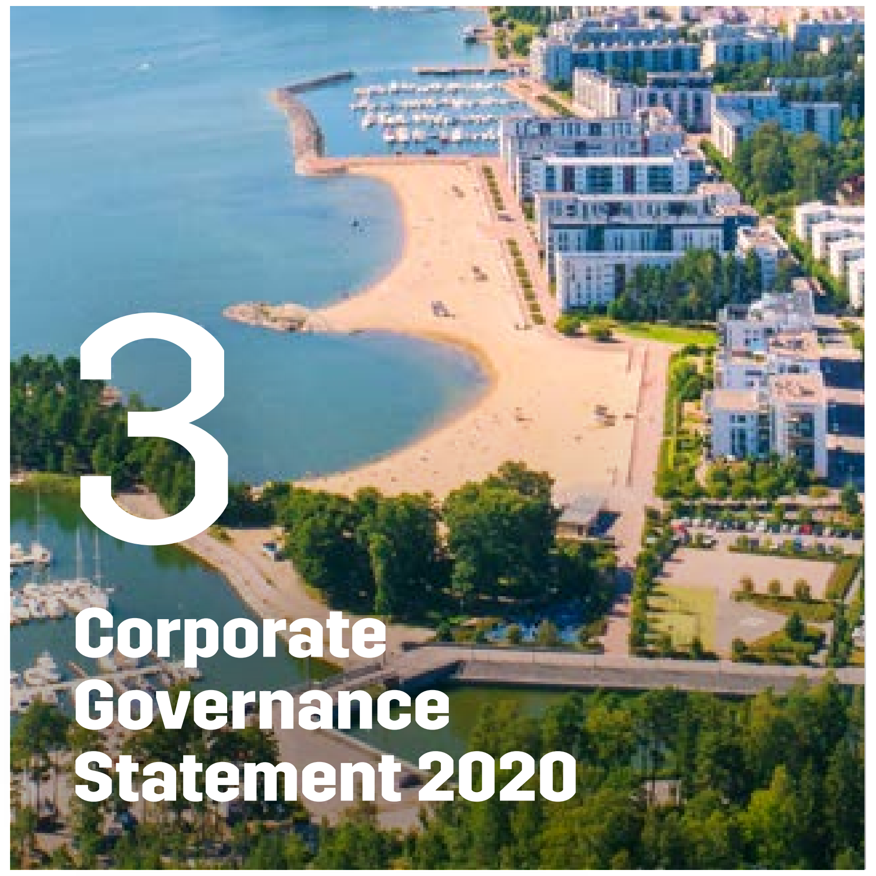
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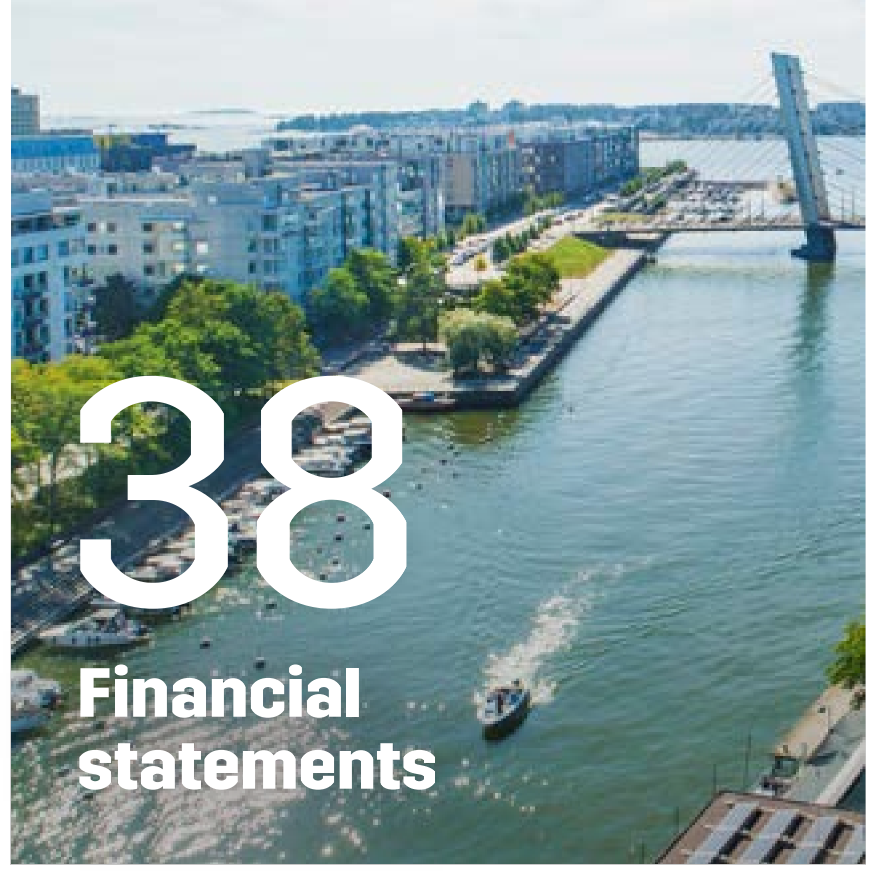
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# GOVERNANCE

# Corporate Governance Statement 2020

This Corporate Governance Statement complies with the Securities Market Association's Finnish Corporate Governance Code, which entered into force on 1 January 2020. Lassila & Tikanoja plc ("L&T" or "the company") presents this Corporate Governance Statement separately from the Report by the Board of Directors. This statement 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.

This statement has been reviewed by the Audit Committee of L&T's Board of Directors and approved by the Board. The company's auditor has verified that the statement has been issued and that the descriptions of the main features of the internal control and risk management systems relating to the financial reporting process included in the statement are consistent with the descriptions included in the financial statements.

Lassila & Tikanoja plc is a public limited liability company that is registered in Finland and listed on Nasdaq Helsinki. 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.

## Descriptions concerning corporate governance

### 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.

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 at 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

**Governance structure**

the General Meeting, unless there are well-founded reasons for their absence.

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

## Shareholders' Nomination Board

L&T's Annual General Meeting 2020 resolved to establish a permanent Shareholders' Nomination Board for the company and confirmed the charter of the Nomination Board. The Nomination Board shall be responsible for preparing and presenting proposals covering the remuneration and number of members of the Company's Board of Directors as well as proposals on the members of the Board of Directors to the Annual General Meeting and, where needed, to an Extraordinary General Meeting. The Nomination Board shall also be responsible for identifying successors to existing Board members.

The Nomination Board shall consist of four (4) members, three (3) of whom shall be appointed by the Company's three largest shareholders, who shall appoint one (1) member each. The Chairman of the Company's Board of Directors shall serve as the fourth member of the Nomination Board.

The Nomination Board was established to operate until further notice. Its members shall be elected annually and their term of office shall end when new members are elected to replace them.

The Shareholders' Nomination Board's selection process, composition and duties are described in detail in the charter, which is available at www.lt.fi/en/investors/corporate-governance/shareholders-nomination-board.

### Composition of the Nomination Board tasked with preparations for the Annual General Meeting 2021

The following members were appointed to the Shareholders' Nomination Board of Lassila & Tikanoja on 25 September 2020: Mikko Maijala (Chairman), representing a group of shareholders, Patrick Lapveteläinen, representing Mandatum Life Insurance Company Limited, Juhani Lassila, representing the Evald and Hilda Nissi Foundation, and Heikki Bergholm as the Chairman of the Board of Directors of Lassila & Tikanoja plc. Mikko Maijala resigned as a member of the Nomination Board in December 2020. The Nomination Board chose Patrick Lapveteläinen as its new Chairman.

The Nomination Board met eight times during its term. It submitted its proposals to the Annual General Meeting on 13 January 2021. The proposals were published in the form of a stock exchange release.

## Board of Directors

### Composition 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 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 Board elects a Chairman and a Vice Chairman among its members.

### Board members

The following seven members were elected to the Board of Directors by the Annual General Meeting 2020:

**Heikki Bergholm, Chairman**
born 1956
Independent of the company and major shareholders

**Board member:** since 2008
**Board Committees:** Chairman of the Personnel and Sustainability 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 Oy: Researcher and development manager (1980–1985)
**Current key Board memberships:** Lakan Betoni Oy (1986–, COB); MB Funds (2002–); Finnish Foundation for Cardiovascular Research (2013–)
**Past key Board memberships:** Componenta (2003–2012); Forchem Oy (2007–2013); Kemira Oyj (2004–2007); Maillefer International Oy (2010–2014); Pohjola-Yhtymä Oyj (2003–2005); Solidium Oy (2013–2016); Sponda Oyj (1998–2004); and Suominen Corporation (2006–2011)

**Sakari Lassila, Vice Chairman**
born 1955
Independent of the company and major shareholders

**Board member:** since 2011
**Board committees:** Chairman of the Audit Committee
**Education:** M.Sc. (Econ.)
**Key work experience:** Indcrea Oy: Managing Director (2008–2018); 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)
**Current key Board memberships:** 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
**Primary occupation:** CFO of Nokian Tyres Oyj
**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 and Sustainability Committee
**Primary occupation:** Managing Director of Ablers Oy
**Education:** Ph.D. (Tech.)
**Key work experience:** Woimistamo Oy: Managing Director (2012–2018); 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).
**Current key Board memberships:** Ablers Oy (2018–)
**Past key Board memberships:** 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 and Sustainability 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)
**Current key Board memberships:** Healthtech Finland (2008–)

**Laura Tarkka**
born 1970
Independent of the company and major shareholders

**Board member:** since 2017
**Board Committees:** Member of the Personnel and Sustainability Committee
**Primary occupation:** CEO of Gigantti Oy
**Education:** M.Sc. (Eng.), CEFA degree
**Key work experience:** Kämp Group/Kämp Collection Hotels Oy: CEO (2014–2020), 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)
**Current key Board memberships:** Docrates Oy (2016–), Caruna Oy (2019–), the Finnish Fair Corporation (2019–), Viking Line Oyj (2020–)

**Pasi Tolppanen**
born 1967
Independent of the company and major shareholders

**Board member:** since 2020
**Board Committees:** Member of the Audit Committee
**Primary occupation:** CEO of DEN Group
**Education:** Ph.D. (Tech.)
**Key work experience:** Maintpartner Group Oy: CEO 2017–2019, Pöyry Plc: President Regional Operations Northern Europe, Managing Director of Pöyry Finland Oy and member of the Management Board 2013–2016, various managerial positions 2007–
**Current key Board memberships:** Maintpartner Ab (2017–), Forcit Oy (2019–), Terrawise Oy (2019–)

## 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 it 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 2020, five of the Board members were male and two were female, aged between 50-65 years. The less represented gender accounted for 29 per cent of the Board of Directors.

### Independence of the members of the highest governance body

None of the members of the Board of Directors are in an employment relationship with the company. The Board of Directors has assessed that all of its members are independent of the company. In the assessment, it was taken into consideration that Heikki Bergholm and Miikka Maijala have been members of the Board of Directors for more than 10 years consecutively. The Board of Directors has not identified any reasons why Heikki Bergholm or Miikka Maijala should not be considered independent of the company. All of the members of the Board of Directors are also independent of the company's major shareholders.

### Board members' shareholding 31 December 2020

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 of the governing bodies, which is published in connection with the Report of the Board of Directors and is available at www.vuosikertomus.lt.fi/en/.

| | |
|---|---:|
| Heikki Bergholm | 833,451 |
| Sakari Lassila | 18,709 |
| Teemu Kangas-Kärki | 3,905 |
| Laura Lares | 5,228 |
| Miikka Maijala | 76,415 |
| Laura Tarkka | 3,256 |
| Pasi Tolppanen | 1,287 |
| **Total** | **942,251** |

### 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 Board of Directors has drawn up a written charter for its work. The charter was updated in 2020 and it governs the Board's work in addition to the company's Articles of Association and Finnish laws and regulations.

Duties of the Board of Directors:

- being responsible for the development of shareholder value
- confirming the company's goals
- deciding on the corporate strategy and confirming divisional strategies
- 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
- drawing up the dividend policy
- confirming treasury, investment, disclosure, risk management and insurance policies as well as the principles of internal control
- approving the sustainability 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 2020

The Board of Directors had 15 meetings in 2020, four of which were held remotely. The average attendance rate of the members at the meetings was 99 per cent.

Key themes in Board work included strategy and directing and supporting its implementation, monitoring strategic projects, anticipating and monitoring the impacts of the COVID-19 pandemic, developing the company structure and business portfolio as well as directing risk management.

## Committees of the Board of Directors

The Board has an Audit Committee and a Personnel Committee. The Board's Audit Committee consists of three (3) Board members and the Personnel Committee of four (4) members. At its organisational meeting after the Annual General Meeting, the Board of Directors elects chairmen and members for 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. 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 organisational meeting after the Annual General Meeting on 12 March 2020, the Board of Directors appointed Sakari Lassila (Chairman), Teemu Kangas-Kärki and Pasi Tolppanen as members of the Audit Committee. All of the members of the Audit Committee are independent of the company and its major shareholders.

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
- reviewing the statement of non-financial information
- monitoring related-party transactions
- reviewing the corporate sustainability 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 five times in 2020. The attendance rate of the members at the meetings was 100 per cent.

## Personnel Committee

At its organisational meeting after the Annual General Meeting of 12 March 2020, the Board of Directors appointed Heikki Bergholm (Chairman), Miikka Maijala, Laura Lares and Laura Tarkka as members of the Personnel Committee. All of the members of the Committee are independent of the company and its major shareholders.

### Meeting attendance of Board members in 2020

| | Board of Directors | Audit Committee | Personnel Committee |
|---|---|---|---|
| Heikki Bergholm | 15/15 | | 5/5 |
| Sakari Lassila | 15/15 | 5/5 | |
| Teemu Kangas-Kärki | 14/15 | 5/5 | |
| Laura Lares | 15/15 | | 5/5 |
| Miikka Maijala | 15/15 | | 5/5 |
| Laura Tarkka* | 15/15 | 1/1 | 4/4 |
| Pasi Tolppanen** | 11/11 | 4/4 | |

* Member of the Personnel Committee from 12 March 2020.
**Member of the Board from 12 March 2020.

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 sustainability programme
- prepare the remuneration policy and remuneration report.

The Committee met five times in 2020. The attendance rate of the members at the meetings was 100 per cent. In December 2020, the Board of Directors decided to change the Personnel Committee to the Personnel and Sustainability Committee effective from 1 January 2021.

## 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.

M.Sc. (Econ.) Eero Hautaniemi has served as the President and CEO since 1 January 2019. The more detailed personal and shareholding information of the President and 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 the date of this statement, the Group Executive Board was comprised of the following persons:

**Eero Hautaniemi**
born 1965
President and CEO

**Member of the Group Executive Board since:**
1 January 2019
**Education:** M.Sc. (Econ.)
**Key work experience:** Oriola Oyj: CEO (2006–2017); 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)
**Current key Board memberships:** Confederation of Finnish Industries EK (2021–), Real Estate Employers (2021–)
**Past key Board memberships:** Lassila & Tikanoja Plc (2007–2017); Nurminen Logistics Plc (2009–2012); Posti Group Corporation (2017–2020)

**Sirpa Huopalainen**
born 1965
General Counsel

**Member of the Group Executive Board since:**
26 February 2019
**Education:** OTK, Master of Laws (Aus.)
**Key work experience:** Lassila & Tikanoja plc, General Counsel (2012–); Atria Oyj, General Counsel (2007–2012); Metso Automation Oy, Legal Counsel (2004–2007); Metso Corporation, Legal Counsel (1999–2004); Rauma Oyj, Legal Counsel (1996–1999)

**Jorma Mikkonen**
born 1963
Senior Vice President, Public Affairs and Sustainability

**Member of the Group Executive Board:**
1996–2012 and from 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)

**Tuomas Mäkipeska**
born 1978
Senior Vice President, Facility Services Finland

**Member of the Group Executive Board since:**
14 February 2012
**Education:** M.Sc. (Econ.)
**Key work experience:** Lassila & Tikanoja plc: CFO (2017–2019), 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)

**Valtteri Palin**
born 1973
CFO

**Member of the Group Executive Board since:**
1 August 2019
**Education:** M.Sc. (Econ.)
**Key work experience:** Lassila & Tikanoja Oyj, CFO, responsible for controller operations (2019); SRV Yhtiöt Oyj, CFO (2008–2019); SRV Toimitilat Oy, business controller (2005–2008); Skanska Oy, Finance Manager, business controller and controller (1998–2005)

**Hilppa Rautpalo**
born 1974
Senior Vice President, Human Resources

**Member of the Group Executive Board since:**
1 January 2020
**Education:** Master of Laws (trained at the bench)
**Key work experience:** Arctia Ltd, SVP, Legal Affairs and HR (2018–2019); Unisport-Saltex Oy, General Counsel, Group HR Director (2017–2018); Ekokem Oyj, SVP, Legal Affairs and HR (2013–2017); Amer Sports Oyj, Senior Legal Counsel (2007–2009); Metsä Group Oyj, Group Legal Counsel (2000–2007)

**Petri Salermo**
born 1970
Senior Vice President, Environmental Services

**Member of the Group Executive Board since:**
1 January 2013
**Education:** QBA, Executive MBA
**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)

**Erik Sundström**
born 1957
Senior Vice President, Facility Services Sweden

**Member of the Group Executive Board since:**
26 February 2019
**Education:** Contract law and management studies
**Key work experience:** Lassila & Tikanoja plc; Lassila & Tikanoja Service AB: President and CEO (2019–), Lassila & Tikanoja FM AB: President and CEO (2017–); Veolia FM AB, President and CEO (2017); Veolia Sverige AB, COO (2012–2017); Dalkia Energy and Building Services AB, President and CEO (2007–2012), Vice President (1998–2001–2007), COO (2001–2004–2004), Regional Director (1995–1998); Locum Drift AB, Business Manager (1995–1998); Locum AB, Regional Director (1992–1994)

**Antti Tervo**
born 1978
Senior 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 Finland and Baltics: Director, Procurement (2005–2009), Procurement Manager (2003–2005), Supply Chain Consultant (2001–2003)

**Group Executive Board members' shareholding 31 December 2020**

| | 31 December 2020 |
|---|---|
| Eero Hautaniemi | 35,853 |
| Sirpa Huopalainen | 5,486 |
| Jorma Mikkonen | 5,849 |
| Tuomas Mäkipeska | 8,085 |
| Valtteri Palin | 22 |
| Hilppa Rautpalo | 500 |
| Petri Salermo | 16,066 |
| Erik Sundström | 106 |
| Antti Tervo | 8,200 |
| **Total** | **80,167** |

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 on the President and CEO's remuneration is provided in the remuneration report, which has been published in connection with the Report of the Board of Directors. The remuneration report and information on the Group Executive Board's remuneration is available online at https://vuosikertomus.lt.fi/en/.

# 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. The financial information of the Group and its 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' budgets and 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, accounts payable and receivable, payments, taxation 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 operational practices.

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. L&T's domestic business segments and foreign subsidiaries submit a monthly reporting package to the Group according to the Group's instructions. Controllers supervise the financial reports of domestic business segments and foreign subsidiaries.

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 President and 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 a risk management process that includes a review of financial, strategic and operational risks. Risk management at L&T aims to identify significant risk factors, prepare for them and manage them in an optimal way so that the achievement of the company's strategic and financial objectives is not compromised. 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 and insurance 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 Risk Management and Insurance Policy.

### Identification, assessment and reporting of risks

Risks are surveyed regularly and systematically at both the division and company levels and in 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. The internal audit function provides recommendations for the development of the above-mentioned systems and processes.

The internal audit focuses primarily on proactive measures by participating in development projects and supporting the businesses in the identification of risks related to their planned operating models and the specification of risk management measures. The internal audit has no operational responsibility for projects and it does not participate in decision-making. 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, President and 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 the President 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 5.4 to the financial statements. L&T did not carry out any business transactions with related parties that were material to the company, deviated from its normal business operations or were not made on market or market equivalent terms in 2020.

## Insider guidelines

The company complies with the Market Abuse Regulation (596/2014, "MAR") and the Securities Market Act and related regulations and guidelines issued by the European Securities Markets Authority, the Finnish Financial Supervisory Authority and Nasdaq Helsinki Ltd. Moreover, the Board of L&T's has also verified insider guidelines to supplement the Guidelines for Insiders issued by Nasdaq Helsinki Ltd. Certain key aspects of the insider guidelines are described below. The insider guidelines clearly specify certain practices and decision-making procedures for ensuring that the company's insider management has been arranged in a consistent and reliable way. The General Counsel is responsible for insider issues in the company.

L&T maintains an internal non-public list of the persons discharging managerial duties and the persons closely associated with them who, pursuant to MAR, are under an obligation to disclose their transactions involving L&T's financial instruments. L&T has defined the company's Board of Directors and the President and CEO as persons discharging managerial duties pursuant to the Market Abuse Regulation and each of these persons has been instructed to inform the persons closely associated with them of the notification obligation concerning transactions. Transactions by managers and the persons closely associated with them are published as stock exchange releases via the company website.

The company maintains separate project-specific insider lists pursuant to MAR on significant projects that may have a significant impact on the value of financial instruments issued by L&T. Such lists are established and maintained following the decision to postpone the disclosure of inside information. Persons who are entered in a project-specific insider list or other persons in possession of inside information concerning L&T may not trade in financial instruments issued by L&T.

In addition, L&T's aforementioned persons discharging managerial duties may not trade in L&T's financial instruments 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 on carrying out transactions 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.

## 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 2020 as the company's auditor, with Leenakaisa Winberg, 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 2020, the fees paid for the Group's statutory auditing to KPMG group totalled EUR 237,000 (216,000). The fees paid to the auditing company and companies belonging to the same group for non-audit services totalled EUR 44,000 (62,000). Such other services were mainly related to consultation regarding taxation, financial reporting and non-financial reporting as well as the assurance of sustainability reporting.

The maximum amount of fees for non-audit services provided by KPMG Oy Ab, calculated on the basis of the average of the audit fees for the financial years 2017, 2018 and 2019, was EUR 124,000 in 2020. Non-audit services performed by KPMG Oy Ab during the financial year 2020 totalled EUR 44,000.

# Remuneration Report

This Remuneration Report has been prepared in accordance with the applicable legislation and the Securities Market Association's Finnish Corporate Governance Code for Finnish listed companies, which entered into force on 1 January 2020. This report describes the remuneration of the Company's governing bodies, i.e. the Board of Directors and the President and CEO, for the financial year 2020. The Personnel and Sustainability Committee of the Board of Directors has discussed this report and it will be presented to the 2021 Annual General Meeting of Lassila & Tikanoja plc ("L&T" or "the Company"). This Remuneration Report, other information disclosed in accordance with the Corporate Governance Code and information on the remuneration of the members of the Group Executive Board is available on the Company's website.

## Introduction

L&T's Personnel Committee has drafted and the Board of Directors has approved the Remuneration Policy, presented to the 2020 Annual General Meeting. The Remuneration Policy describes the remuneration principles concerning the Company's governing bodies, i.e. the Board of Directors and the President and CEO. During the financial year 2020, L&T complied with the Remuneration Policy presented to the Annual General Meeting. There were no deviations from the Remuneration Policy and no clawback of remuneration. The Remuneration Policy is available at L&T's website.

In accordance with the Remuneration Policy, the aim of the remuneration scheme of the Board of Directors and the President and CEO is to contribute to the positive development of shareholder value as well as enhance the Company's competitiveness, long-term financial success and the fulfilment of the strategy and goals set by the Company. The key principle of the Remuneration Policy is that remuneration of the Board of Directors and the President and CEO shall contribute to the achievement of the abovementioned goals and to provide – in terms of both level and structure – a fair and competitive package that promotes commitment and retention and is in line with market practices.

The aim of all remuneration throughout Lassila & Tikanoja Group is to promote good performance and to motivate personnel to engage in long-term efforts to promote the achievement of the Company's goals. Remuneration is one factor through which the Company strives to ensure the availability of skilled and motivated persons for all positions at all levels of the organisation. These principles apply also to the remuneration of the members of the Board of Directors and the President and CEO.

The chart on the right shows the development of the remuneration of the Board members and the President and CEO during the financial years 2016–2020 relative to the development of the average remuneration of employees and the Group's financial performance.

## Fees paid to the Board for the financial year 2020

The Annual General Meeting annually determines the annual fees and meeting fees payable to the members of the Board of Directors for Board and committee work. Until the Annual General Meeting held in the spring 2020, the Company's major shareholders prepared proposals concerning the remuneration of the Board of Directors. The Annual General Meeting held in the spring 2020 resolved to establish a Shareholders' Nomination Board, which will prepare proposals on remuneration for the Annual General Meeting to be held in the spring 2021.

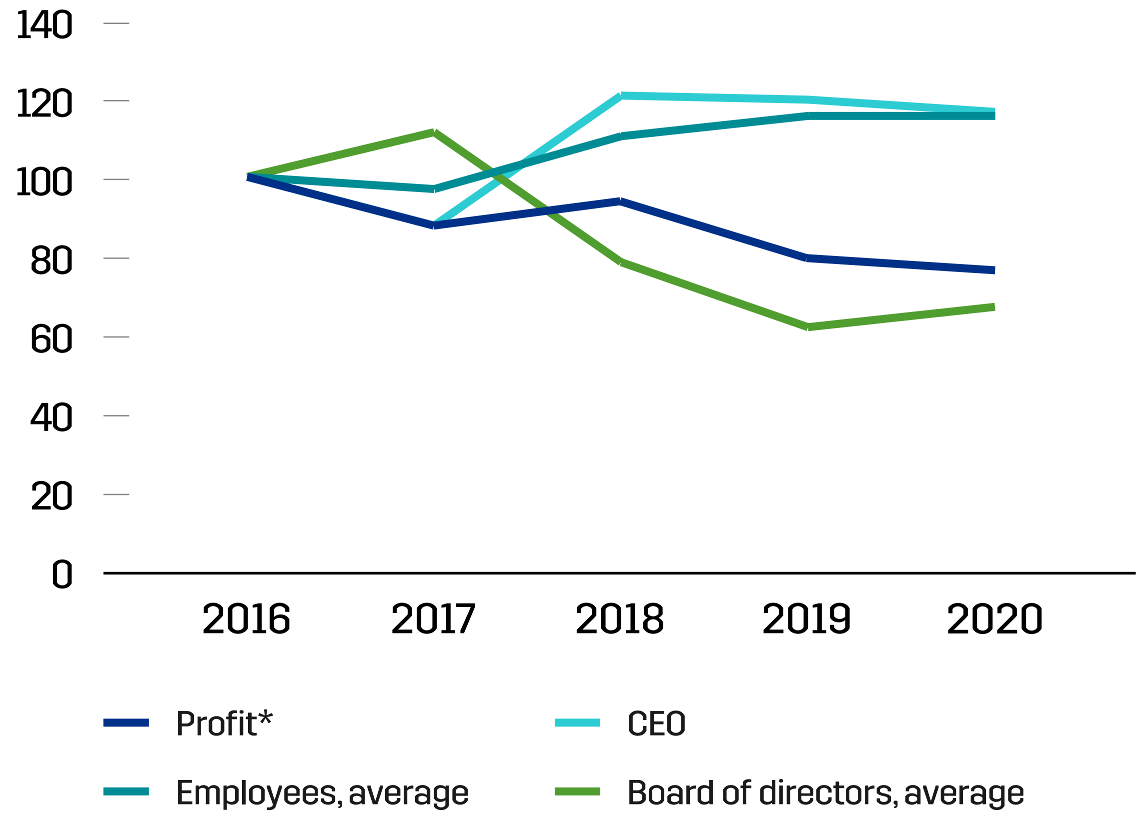
### Annual fees, meeting fees for Board and committee meetings and other financial benefits

The Annual General Meeting held on 12 March 2020 resolved on the remuneration of the Board of Directors in 2020 as follows:

- Chairman of the Board EUR 60,000
- Vice Chairman of the Board EUR 40,000
- members EUR 30,000.

The fees shall be paid so that 40 per cent 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 market, and 60 per cent in cash. Shares are to be issued to Board members and, where necessary, acquired directly from the market on behalf of Board members

**Development of business and remuneration, indexed, 2016=100**




*Reported comparable operating profit for 2019–2020

Employee salaries relative to the total number of personnel, converted to a full-time equivalent basis.

The President and CEO's total remuneration, with the incentive schemes being based on the preceding year's results.

The annual fees of the Board of Directors were increased in 2018.

within the next 14 trading days, free from restrictions on trading, from the Annual General Meeting.

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.

None of the members of the Board of the Directors is employed by the company or a 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.

For the payment of the 40 per cent proportion of the annual fee of the members of the Board of Directors, a total of 9,727 shares held by the Company were transferred to the Board members on 20 March 2020 at a rate of EUR 10.28 per share in the following amounts: 2,335 shares to the Chairman, 1,557 shares to the Vice Chairman and 1,167 shares to each member. In 2019, a total of 5,903 shares held by the Company were transferred to the Board members on 20 March 2019 at a rate of EUR 14.90 per share in the following amounts: 1,610 shares to the Chairman, 1,073 shares to the Vice Chairman and 805 shares to each member.

## Remuneration of the President and CEO for the financial year 2020

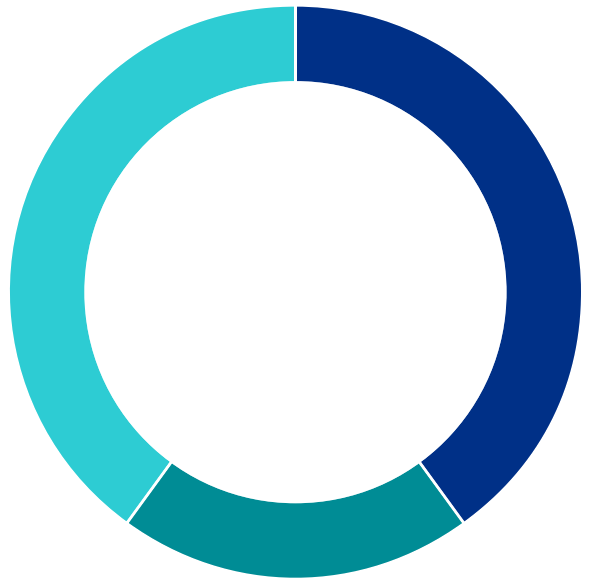
The Board of Directors decides on the remuneration and financial benefits payable to the President and CEO. Before decision-making by the Board of Directors, the matter is prepared by the Personnel and Sustainability Committee of the Board.

Eero Hautaniemi has served as the President and CEO since 1 January 2019. The Company did not have a Deputy CEO during the 2020 and 2019 financial years.

### Key remuneration principles

The remuneration of the President and CEO consists of a fixed monthly salary and benefits and a separate annually decided short-term incentive. In addition, the President and CEO is included in the share-based incentive scheme, which serves as a long-term incentive scheme. The short-term incentive scheme and the share-based incentive scheme that serves as a long-term incentive scheme constitute the variable components of the President and CEO's remuneration.

**Remuneration of the President and CEO: maximum earning potential**




**Remuneration paid to the members of the Board of Directors**

| EUR | 2020 Annual fee | 2020 Meeting fees | 2020 Total | 2019 Annual fee | 2019 Meeting fees | 2019 Total |
|---|---|---|---|---|---|---|
| Heikki Bergholm, Chairman | 60,000 | 16,500 | 76,500 | 60,000 | 15,800 | 75,800 |
| Sakari Lassila, Vice Chairman | 40,000 | 12,600 | 52,600 | 40,000 | 12,600 | 52,600 |
| Teemu Kangas-Kärki, member | 30,000 | 8,500 | 38,500 | 30,000 | 8,500 | 38,500 |
| Laura Lares, member | 30,000 | 9,000 | 39,000 | 30,000 | 8,500 | 38,500 |
| Miikka Maijala, member | 30,000 | 9,000 | 39,000 | 30,000 | 8,500 | 38,500 |
| Laura Tarkka, member | 30,000 | 9,000 | 39,000 | 30,000 | 9,000 | 39,000 |
| Pasi Tolppanen, member* | 30,000 | 6,500 | 36,500 | | | |

* Member of the Board from 12 March 2020.

### Short-term incentive scheme

The President and CEO's short-term incentive scheme is based on the Group's result. The short-term incentives of the President and CEO are determined according to the Group's operating profit. The incentive bonus corresponds to six months' salary at a maximum.

The objectives of the short-term incentive scheme are set – and their achievement 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 President and CEO is employed by the Company at the time.

### Long-term incentive scheme

The President and CEO's long-term incentive scheme is the Company's share-based incentive scheme. The Board of Directors decides on the share-based incentive scheme as part of the overall incentive and commitment scheme. The earnings period of the scheme is the calendar year. The Board of Directors decides on the earning criteria for each earnings period based on the Personnel and Sustainability Committee's proposal. 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 reward corresponds to 12 months' salary at a maximum.

The precondition for payment is that the President and CEO is employed by the Company at the time. Any shares earned through the incentive scheme must be held for a minimum period of two years following payment (commitment period). After the two-year commitment period, shares must continue to be held at a value corresponding to the President and CEO's gross salary for six months as long as the President and CEO is employed by the Company. If the President and CEO resigns during the commitment period at their own initiative, they are obligated to return the received shares without compensation.

The share-based incentive schemes with the years 2020 and 2019 as the earnings periods are described below:

- The share-based incentive scheme 2020 began in 2019. The rewards were based on the Group's EVA result and they were paid in 2020.
- The share-based incentive scheme 2021 began in 2020. The rewards were based on the Group's EVA result and no rewards were paid.

### 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.

Separate rewards are not paid to the President and CEO for memberships of the Boards of Directors of the Company's subsidiaries, and the President and CEO receives no remuneration from L&T Group companies other than the parent company. The President and CEO is not covered by any supplementary pension scheme.

### Remuneration paid to the President and CEO

The President and CEO received 450 shares in the Company, at a rate of EUR 15.47 per share, as rewards under the share-based incentive scheme on 25 February 2020. The President and CEO was not paid any share-based rewards in 2019. There are no rewards due for the year 2020.

| | 2020 | 2019 |
|---|---|---|
| Annual salary | 440,520.91 | 419,760.00 |
| Incentive reward | 0.00 | 0.00 |
| Share-based incentive reward | 13,924.00 | 0.00 |
| Fringe benefits | 1,879.09 | 240.00 |
| Total | 456,324.00 | 420,000.00 |

## Verification of the Remuneration Report

L&T's auditor KPMG Oy Ab has verified that this Remuneration Report includes the legally required disclosures.

# REPORT BY THE BOARD OF DIRECTORS



# Report by the Board of Directors

L&T is a service company that is making the circular economy a reality. All of the Group's business operations build future sustainable growth for the circular economy and are based on the opportunities it creates.

- The mission of Environmental Services is to keep our customers' materials in circulation as efficiently as possible and with the highest possible degree of processing and to replace fossil raw materials with renewable ones.
- The mission of Industrial Services is to continuously look for ways to effectively utilise the side streams of industry and society according to the principles of the circular economy.
- Facility Services in Finland and Sweden improve the value of our customers' properties and aim for the continuous improvement of energy efficiency in line with the goal of a circular economy.

By investing in the sustainable solutions of the circular economy, L&T is pursuing an increasing value for all its key stakeholders:

- The value for our customers can be seen in, for example, an improved recycling rate, more efficient energy consumption or improved property user satisfaction. The company continuously develops its services according to its customers' needs and regularly measures its success. L&T's goal is an excellent and continuously improving customer experience
- The value for our personnel is reflected in our personnel enjoying their work and going home in good health at the end of each day. L&T offers meaningful work as well as opportunities for career paths and competence development. The Group aims to improve its employee experience and increase its employee recommendation rate
- The value for society consists of L&T's work which mitigates climate change and preserves natural resources. The company replaces virgin raw materials with secondary raw materials and fossil fuels with renewable raw materials. The aim is to continuously grow the carbon handprint of the Group's operations, i.e. its positive climate impact. L&T bears its social responsibility by, for example, also offering jobs to groups for whom it is difficult to find employment. The Group is among the most significant employers in the cities it operates in. L&T has a significant impact on municipal economies and other economic activity in each economic area through wages, taxes and purchases
- The value for shareholders consists of L&T's desire to grow by means of seeking profitable growth exceeding the market growth rate from business operations promoting sustainable development.

## L&T's business environment in 2020

L&T's business environment was exceptional in 2020 due to the COVID-19 pandemic. The restrictions and recommendations issued by the authorities to prevent the spread of the pandemic led to customer-specific production restrictions and adjustment measures. The economic uncertainty caused by the pandemic had a negative impact on the demand for L&T's services and secondary raw materials as well as the prices of secondary raw materials. Lower oil prices reduced fuel costs but, at the same time, they had a negative effect on the prices of oil-based secondary raw materials, such as recycled plastic and regenerated lubricants.

Awareness of climate change remained at a high level in spite of the pandemic and the understanding of the role of the circular economy in the mitigation of climate change gained strength.

The European Green Deal 2019–2024 sets out the path for Europe becoming the first climate-neutral continent by 2050. Circular economy plays a key role in the European Green Deal. The European Green Deal outlines the investments and financing instruments needed for the change, which have been subsequently complemented by the stimulus measures related to the COVID-19 pandemic. In late 2020, the EU reached an agreement on increasing the 2030 climate targets from the previous level of 40 per cent to at least 55 per cent.

The Finnish government programme 2019–2023 includes highly ambitious climate goals aimed at transforming Finland into a low-carbon society within the next ten years. Circular and bioeconomy, improved energy efficiency and new technologies play a central role in the implementation of this transition. The government uses investment subsidies and a sustainable development tax reform are used as means to speed up the development.

A waste regulation package was confirmed by the European Commission in 2018, setting out even more ambitious goals for the recycling of municipal waste and packaging waste. To achieve the future recycling targets, Finland must direct more than 600,000 tonnes of material from energy recovery to material recycling over the next 15 years. This will significantly increase the sorting-at-source of waste, separate collection and the processing of waste into secondary raw materials. The Finnish Ministry of the Environment is drafting amendments to the Waste Act that include the necessary measures for the implementation of the EU's waste directives in Finland's national waste legislation. The amendments to the Waste Act are scheduled to be discussed by the parliament in the spring and enter into force on 1 July 2021.

## Strategy

L&T's strategy was updated in autumn 2019, at which time the company also set new targets for the strategy period 2019–2024. The new strategy coincides with a period of time in which we must find solutions to major societal challenges related to combating climate change and the adequacy of virgin natural resources. These social challenges open up new business operations for solutions of the circular economy. L&T wants to play an active role in the resolution of these challenges together with its customers. In practice, this means keeping the materials and properties of customers in profitable use for as long as possible and improving the efficiency of the use of raw materials and energy in co-operation with the customer.

The implementation of strategy continued in spite of the COVID-19 pandemic. The focus in 2020 was on improving the company's productivity, the customer experience and the employee experience. New service solutions were developed in all business operations to promote the circular economy and to ensure future growth.

In **Environmental Services**, we offered our customers new circular economy services to improve digital customer experience and the management of their environmental targets. Innovative digital service solutions enabled smooth co-operation and a good customer experience even during the pandemic. The Environmental Services division expanded its operations in the Kuusamo region through an acquisition. Preparations for the deployment of the new ERP system moved forward.

**Industrial Services** continued to actively develop various service and method solutions promoting the circular economy. A new material efficiency centre was completed in Northern Finland. It processes industrial side streams and contaminated soil from the region into materials that can be reused. Geographical expansion continued with the acquisition of the share capital of Oakland Service Ltd, which specialises in industrial cleaning. The transaction strengthened the Industrial Services division's position, particularly in Southern and Southeastern Finland.

**Facility Services Finland** developed new enhanced cleaning and hygiene cleaning services to support the safe use of customer premises during the pandemic. The division launched the L&T Smartti service for improving the energy efficiency of properties and introduced modern sensor technology that enables the optimisation of conditions in various types of properties.

**Facility Services Sweden** strengthened its position in hygiene cleaning services for the food industry. The division's position remained strong in the hospital and retail segments. The Swedish businesses switched to a common ERP system, which enhanced co-operation between the businesses. The division's updated strategy aims for strong growth through both acquisitions and organic growth. It focuses on developing new services and solutions.

## Targets for the strategy period

L&T published its long-term targets for the strategy period 2019–2024 in connection with the update of the strategy in autumn 2019.

| Indicator | Target | 2020 | 2019 |
|---|---|---|---|
| Growth in net sales | 5% | -4.1% | -2.2% |
| Return on invested capital | 15% | 7.5% | 12.4% |
| Gearing | Less than 125% | 70.9% | 66.8% |

The following long-term sustainability and stakeholder targets are monitored alongside the financial targets:

| Indicator | Target | 2020 |
|---|---|---|
| Net Promoter Score | > 25 | 2/4 business areas reached the target |
| Employee recommendation rate | > 80% | 82% |
| Carbon footprint intensity* | -50% by the year 2030 in relation to the year 2018 | -14.1%* |
| Carbon handprint intensity | Grows faster than net sales | 9.6% |

* Emissions from own activities (Scope 1 and 2) per kilometre driven, expressed as a percentage reduction from the comparison year (2018).

## Group net sales and financial performance

Net sales for 2020 amounted to EUR 751.9 million (784.3), down 4.1 per cent year-on-year. Operating profit was EUR 28.2 million (45.0), representing 3.8 per cent (5.7) of net sales. Adjusted operating profit was EUR 39.0 million (40.5), representing 5.2 per cent (5.2) of net sales. Earnings per share were EUR 0.50 (0.90).

The difference between operating profit and adjusted operating profit in 2020 consists of the cost effect of EUR 9 million recognised in relation to the discontinuation of Russian operations and costs of EUR 1.7 million arising from the incorporation of business divisions. The costs arising from the incorporation of the business divisions were due to Lassila & Tikanoja plc's decision to incorporate the divisions as separate legal entities effective from 1 January 2021. The difference between operating profit and adjusted operating profit in the comparison period consists of the EUR 4.5 million positive profit impact of the sale of L&T Korjausrakentaminen Ltd.

The impact of the COVID-19 pandemic on net sales is estimated to have been approximately negative EUR 23 million and on operating profit approximately negative EUR 6 million. The negative profit impact of the COVID-19 pandemic was mitigated by active adjustment measures, the temporary reduction of pension insurance contributions by 2.6 percentage points from 1 May to 31 December 2020, which was implemented as a COVID-19 recovery measure and had a positive impact of approximately EUR 3.8 million, as well as lower fuel prices.

The Group's operating profit was improved by a gain of EUR 5.7 million recognised in the first quarter on the sale of property included in property, plant and equipment. Non-recurring costs totalling EUR 4.7 million were recognised during the financial year 2020, including impairment related to fixed assets. The non-recurring items had a positive net effect of EUR 1.0 million on the Group's operating profit. The items in question are not included in the figures of the business segments. Net profit was negatively affected by the depreciation of the Russian rouble and Swedish krona. Exchange differences amounted to EUR -1.4 million (0.7).

The decrease in operating profit was also attributable to a cost effect of EUR 9 million arising from the impairment of balance sheet items in relation to the discontinuation of operations in Russia. The discontinuation of Russian operations will have a negative impact of EUR 6.5 million on the Group's equity. The year-on-year decrease in operating profit was also attributable to the EUR 4.5 million positive profit impact from the sale of L&T Korjausrakentaminen Ltd recognised in 2019.

### Net sales of international operations by country

| MEUR | 2020 | 2019 |
|---|---|---|
| Sweden | 134.5 | 132.4 |
| Russia | 4.1 | 10.4 |

### Segment information by quarter

| MEUR | 10–12/2020 | 7–9/2020 | 4–6/2020 | 1–3/2020 | 10–12/2019 |
|---|---|---|---|---|---|
| **Net sales** | | | | | |
| Environmental Services | 72.9 | 67.5 | 71.9 | 77.1 | 79.8 |
| Industrial Services | 27.6 | 30.6 | 23.4 | 20.2 | 26.0 |
| Facility Services Finland | 60.5 | 56.9 | 56.7 | 58.2 | 59.4 |
| Facility Services Sweden | 40.0 | 31.5 | 32.7 | 30.3 | 35.8 |
| Interdivision net sales | -1.4 | -1.6 | -1.6 | -1.5 | -2.0 |
| Total | 199.6 | 184.8 | 183.2 | 184.4 | 198.9 |
| **Operating profit** | | | | | |
| Environmental Services | 7.6 | 10.3 | -2.6 | 4.7 | 8.2 |
| Industrial Services | 1.5 | 4.5 | 1.3 | -0.3 | 1.9 |
| Facility Services Finland | 1.9 | 3.6 | -0.4 | -1.8 | -1.3 |
| Facility Services Sweden | 1.5 | 1.5 | 0.3 | 0.2 | 0.9 |
| Group administration and other | -2.7 | -2.3 | -0.8 | 0.1 | -0.8 |
| Total | 9.9 | 17.6 | -2.2 | 2.9 | 8.9 |

## Segment information by quarter

| MEUR | 10–12/2020 | 7–9/2020 | 4–6/2020 | 1–3/2020 | 10–12/2019 |
|---|---|---|---|---|---|
| **EBITDA** | | | | | |
| Environmental Services | 14.1 | 16.5 | 3.8 | 11.2 | 14.6 |
| Industrial Services | 4.4 | 6.9 | 3.7 | 2.2 | 4.3 |
| Facility Services Finland | 3.1 | 6.5 | 2.7 | 1.2 | 1.8 |
| Facility Services Sweden | 2.7 | 2.7 | 1.5 | 1.5 | 2.3 |
| Group administration and other | -0.8 | -2.3 | -0.8 | 4.3 | -0.5 |
| Total | 23.5 | 30.4 | 10.8 | 20.4 | 22.4 |
| **Operating margin** | | | | | |
| Environmental Services | 10.5 | 15.3 | -3.6 | 6.1 | 10.3 |
| Industrial Services | 5.6 | 14.8 | 5.7 | -1.5 | 7.3 |
| Facility Services Finland | 3.2 | 6.3 | -0.7 | -3.2 | -2.3 |
| Facility Services Sweden | 3.8 | 4.7 | 0.9 | 0.7 | 2.6 |
| Total | 5.0 | 9.5 | -1.2 | 1.6 | 4.5 |
| **EBITDA %** | | | | | |
| Environmental Services | 19.3 | 24.5 | 5.2 | 14.6 | 18.3 |
| Industrial Services | 15.9 | 22.6 | 15.9 | 11.0 | 16.6 |
| Facility Services Finland | 5.1 | 11.5 | 4.8 | 2.0 | 3.0 |
| Facility Services Sweden | 6.8 | 8.5 | 4.5 | 4.9 | 6.3 |
| Total | 11.8 | 16.4 | 5.9 | 11.1 | 11.3 |

## Division reviews

### Environmental Services

The Environmental Services division's net sales decreased to EUR 289.4 million (311.2). The decline in net sales was attributable to the lower prices and volumes of secondary raw materials, the decrease in service demand caused by the COVID-19 pandemic and the discontinuation of Russian operations. Operating profit declined to EUR 20.0 million (32.8) due to the cost effect of EUR 9.0 million recognised in relation to the discontinuation of Russian operations. Excluding Russia, the operating profit of Environmental Services declined to EUR 28.4 million (30.5). However, profitability remained at a good level due to active adjustment measures and improved productivity.

### Industrial Services

The Industrial Services division's net sales increased to EUR 101.8 million (98.9). Operating profit declined to EUR 7.1 million (9.9). In Industrial Services, demand for services fluctuated heavily and was difficult to predict throughout the year. Fluctuating demand and lower prices for recycled raw materials reduced operating profit from the comparison period. In the second half of the year, the division's net sales increased due to new customer agreements and annual maintenance projects postponed from the first half of the year, and operating profit was at the previous year's level.

### Facility Services Finland

The net sales of Facility Services Finland decreased to EUR 232.3 million (249.1). Operating profit improved substantially and amounted to EUR 3.2 million (-4.1). The operating profit of Facility Services Finland grew significantly due to improved operational efficiency and quality. Operating profit increased in all service branches, especially in the cleaning business. The COVID-19 pandemic weakened demand in all service branches, especially in the maintenance of technical systems. However, Facility Services Finland was able to take advantage of the market opportunities created by the COVID-19 pandemic and adapt its operations to the lower demand conditions resulting from the pandemic. Employee and customer satisfaction improved significantly, rising to record levels.

### Facility Services Sweden

Net sales of Facility Services Sweden grew to EUR 134.5 million (131.8). Operating profit declined to EUR 3.5 million (3.8). The profit of Facility Services Sweden was good considering the difficult COVID-19 situation in Sweden. The impact of the pandemic was visible throughout the year. Operating profit during the review period was weighed down by a higher-than-usual sickness rate and the resulting increase in subcontracting costs, on the one hand, and the reduced orders of part of the customer base, on the other hand. The Swedish state's support measures for businesses slightly compensated for the impacts of the COVID-19 pandemic starting from the beginning of May.

### Net sales by division

| MEUR | 2020 | 2019 | Change % |
|---|---|---|---|
| Environmental Services | 289.4 | 311.2 | -7.0 |
| Industrial Services | 101.8 | 98.9 | 3.0 |
| Facility Services Finland | 232.3 | 249.1 | -6.8 |
| Facility Services Sweden | 134.5 | 131.8 | 2.1 |
| Eliminations | -6.1 | -6.7 | -8.3 |
| Total | 751.9 | 784.3 | -4.1 |

### Operating profit by division

| MEUR | 2020 | % | 2019 | % | Change % |
|---|---|---|---|---|---|
| Environmental Services | 20.0 | 6.9 | 32.8 | 10.5 | -39.0 |
| Industrial Services | 7.1 | 7.0 | 9.9 | 10.1 | -28.6 |
| Facility Services Finland | 3.2 | 1.4 | -4.1 | -1.6 | 178.5 |
| Facility Services Sweden | 3.5 | 2.6 | 3.8 | 2.9 | -6.8 |
| Group administration and other | -5.6 | | 2.5 | | |
| Total | 28.2 | 3.8 | 45.0 | 5.7 | -37.2 |

## Financing and capital expenditure

Net cash flow from operating activities amounted to EUR 44.0 million (69.4). A total of EUR 2.1 million (14.2) in working capital was released. Cash flow during the review period was improved by the sale of property included in property, plant and equipment. Cash flow was reduced by an increase of EUR 9.2 million in inventories that was primarily due to the strengthening of the contract portfolio in Renewable Energy Sources. Cash flow in the comparison period in 2019 was increased by the sale of L&T Korjausrakentaminen Ltd.

At the end of the period, interest-bearing liabilities amounted to EUR 186.7 million (177.4). Net interest-bearing liabilities totalled EUR 136.5 million (135.6). The average interest rate on long-term loans excluding IFRS 16 liabilities, with interest rate hedging, was 1.3 per cent (1.3).

Of the EUR 100 million commercial paper programme, EUR 15 million (0.0) was in use at the end of the year. A committed credit limit totalling EUR 30 million was not in use, as was the case in the comparison period. The Group renewed the credit limit during the financial year. The newly signed credit facility will mature in the second quarter of 2022.

Net financial expenses in 2020 amounted to EUR 4.9 million (3.0). Exchange rate changes accounted for EUR -1.4 million (0.7) of net financial expenses. Net financial expenses were 0.7 per cent (0.4) of net sales. The exchange rate changes were caused by changes in the exchange rates of the Russian rouble and Swedish krona.

The equity ratio was 33.0 per cent (35.6) and the gearing rate was 70.9 per cent (66.8). Liquid assets at the end of the period amounted to EUR 50.2 million (41.8). The Group took measures to ensure its liquidity in response to the COVID-19 pandemic. Overdue trade receivables and credit losses did not increase during the pandemic.

Gross capital expenditure for 2020 totalled EUR 48.2 million (46.1), consisting primarily of machine and equipment purchases as well as investments in information systems and buildings. The Group has also invested in the construction of strategically important final disposal locations.

## Loans, liabilities and contingent liabilities to related parties

Related-party transactions are accounted for in Note 5.4 Related-party transactions.

## Changes in Group structure

Lassila & Tikanoja plc decided to incorporate its three divisions as separate limited liability companies. The Environmental Services and Industrial Services divisions were each incorporated as separate companies named L&T Ympäristöpalvelut Ltd and L&T Teollisuuspalvelut Ltd respectively. The Facility Services division's new companies were named L&T Siivous Ltd, L&T Kiinteistöhuolto Ltd and L&T Kiinteistötekniikka. The newly established companies started their operations on 1 January 2021.

In response to a significant change in the business environment, the Group decided to discontinue its operations in Russia.

### Key figures for financing

| | 2020 | 2019 |
|---|---|---|
| Interest-bearing liabilities, EUR million | 186.7 | 177.4 |
| Net interest-bearing liabilities, EUR million | 136.5 | 135.6 |
| Net finance costs, EUR million | -4.9 | -3.0 |
| Net finance costs, % of net sales | 0.7 | 0.4 |
| Net finance costs, % of operating profit | 17.4 | 6.7 |
| Equity ratio, % | 33.0 | 35.6 |
| Gearing, % | 70.9 | 66.8 |
| Cash flow from operating activities, EUR million | 83.0 | 94.5 |
| Change in working capital in the cash flow statement, EUR million | 2.1 | 14.2 |

### Invested capital

| MEUR | 2020 | 2019 |
|---|---|---|
| Non-current assets | 399.4 | 400.7 |
| Inventories and receivables | 147.0 | 141.1 |
| Liquid assets | 50.2 | 41.8 |
| Deferred tax liability | -28.3 | -29.2 |
| Trade and other payables | -178.0 | -165.3 |
| Provisions | -9.5 | -7.1 |
| Other non-interest-bearing liabilities | -1.5 | -1.6 |
| Invested capital | 379.2 | 380.5 |

### Capital expenditure by balance sheet item

| MEUR | 2020 | 2019 |
|---|---|---|
| Real estate | 6.6 | 5.1 |
| Machinery, equipment and other property, plant and equipment | 35.2 | 37.0 |
| Goodwill and other intangible rights arising from business acquisitions | 1.1 | 0.5 |
| Other intangible assets | 5.3 | 3.5 |
| L&T total | 48.2 | 46.1 |

### Capital expenditure by division

| MEUR | 2020 | 2019 |
|---|---|---|
| Environmental Services | 23.7 | 28.2 |
| Industrial Services | 17.4 | 12.3 |
| Facility Services Finland | 5.1 | 4.7 |
| Facility Services Sweden | 1.5 | 0.8 |
| Group administration and other | 0.6 | 0.2 |
| L&T total | 48.2 | 46.1 |

## Members of the Group Executive Board 31 December 2020

- Eero Hautaniemi, President and CEO
- Sirpa Huopalainen, General Counsel
- Jorma Mikkonen, Senior Vice President, Public Affairs and Sustainability
- Tuomas Mäkipeska, Senior Vice President, Facility Services Finland
- Valtteri Palin, CFO
- Hilppa Rautpalo, Senior Vice President, Human Resources
- Petri Salermo, Senior Vice President, Environmental Services
- Erik Sundström, Senior Vice President, Facility Services Sweden
- Antti Tervo, Senior Vice President, Industrial Services

## Personnel

**Employees by country at year end**

| Full-time and part-time, total | 2020 | 2019 |
|---|---|---|
| Finland | 6,673 | 6,479 |
| Sweden | 1,370 | 1,355 |
| Russia | 96 | 373 |
| Total | 8,139 | 8,207 |

In 2020, the average number of employees converted into full-time equivalents was 7,197 (7,308). At the end of the period, L&T's had 8,139 (8,207) full-time and part-time employees. Of these, 6,673 (6,479) worked in Finland and 1,466 (1,728) in other countries. Information on wages and other remuneration paid to the personnel is presented in the financial statements in Note 1.3 Employee benefit expenses.

## Resolutions by the Annual General Meeting

The Annual General Meeting, which was held on 12 March 2020, adopted the financial statements and consolidated financial statements for 2019 and released the members of the Board of Directors and the President and CEO from liability. The Annual General Meeting resolved that a dividend of EUR 0.92 per share, totalling EUR 35.0 million, be paid on the basis of the balance sheet adopted for the financial year 2019. It was decided that the dividend be paid on 23 March 2020.

The Annual General Meeting confirmed the number of members of the Board of Directors as seven. Heikki Bergholm, Teemu Kangas-Kärki, Laura Lares, Sakari Lassila, Miikka Maijala and Laura Tarkka were re-elected to the Board until the end of the following Annual General Meeting, and Pasi Tolppanen was elected as a new member.

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

The Annual General Meeting resolved to establish a permanent Shareholders' Nomination Board. The Nomination Board shall be responsible for preparing and presenting proposals covering the remuneration and number of members of the Company's Board of Directors as well as proposals on the members of the Board of Directors to the Annual General Meeting and, where needed, to an Extraordinary General Meeting. The Nomination Board shall also be responsible for identifying successors to existing Board members.

The resolutions of the Annual General Meeting were announced in more detail in a stock exchange release on 12 March 2020.

# Statement of non-financial information

Sustainability is an integral aspect of Lassila & Tikanoja's strategy, decision-making and day-to-day business. Through sustainable circular economy solutions, the Group strengthens its competitiveness and creates diverse value for its key stakeholders.

Mitigating climate change is the greatest challenge of the 2020s. The correction towards a sustainable economy to be achieved over the next decade will mean structural changes in energy systems and the material economy. Circular economy will play a critical role in achieving this change, and L&T's business solutions support this change.

The most significant value creation impacts of L&T's operations are reflected in sustainability benefits produced for customers. In its divisions – Environmental Services, Industrial Services and Facility Services – the Group continuously seeks better results in the utilisation of customer materials, the reduction of emissions and energy consumption as well as the utilisation of new, environmentally sustainable methods and the development of services that promote the circular economy.

Environmental Services helps customers make the circular economy a reality through waste management and recycling services as well as services related to environmental management and renewable energy sources. Industrial Services serves customers in the waste and side stream value chain from the creation of waste to their reuse and material recycling. The division's services include process cleaning, sewer maintenance, hazardous waste services and environmental construction. Facility Services produces circular economy service solutions by providing cleaning and support services as well as technical services in Finland and Sweden. The Facility Services Finland division's operations also include property maintenance services.

The circular economy and climate change mitigation are the starting point of L&T's business operations and sustainability efforts. The Group's strategic objective is to increase the carbon handprint of its actions, which refers to its positive climate impact, and to simultaneously reduce its carbon footprint.

As a service company, L&T is a significant employer. The Group bears social responsibility by looking after the occupational well-being and work ability of its employees as well as promoting diversity. L&T believes that a good employee experience goes hand in hand with a good customer experience. Furthermore, L&T wants to promote fair treatment in the society together with its customers through employment. This is achieved, for example, by offering work to people for whom it is difficult to find employment.

The Group takes an uncompromising approach to ensuring the compliance and sustainability of its operations. L&T observes its obligations regarding the environment and as an employer and minimises the negative environmental impacts of its operations. The Group requires that its suppliers operate in accordance with laws, regulations and its sustainability principles.

## Sustainability reporting

L&T reports on its sustainability efforts and related progress annually in its sustainability report, which is published as part of the Annual Review. The sustainability report for 2020 has been drawn up in accordance with GRI (Global Reporting Initiative) standards. The key performance indicators for environmental responsibility and responsibility for personnel are verified by a third party. As part of its sustainability report, the Group also reports the climate impacts of its operations according to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

L&T's sustainability report is available at www.vuosikertomus.lt.fi/en/.

## Sustainability programme guides L&T's sustainability efforts

L&T's sustainability efforts are managed and developed under the framework of the Group's sustainability programme. Approved by the Board of Directors, the programme takes into account the material aspects of L&T's sustainability and sets measurable targets where applicable. The focus areas of the programme are determined

## L&T corporate responsibility - key elements

### Circular economy and climate change mitigation

**STRATEGIC GOALS:**

1. **We increase the carbon handprint of our operations faster than net sales.**
2. **We will reduce our own carbon footprint by 50% per kilometre driven from the 2018 level by 2030.**

We promote the sustainable use of materials and energy and reduce the amount of waste generated by our customers.

### A healthy, diverse and productive workplace community

**STRATEGIC GOAL:**

1. **Increasing the employee promoter score to 80%.**

We look after the well-being, work ability and occupational safety of our personnel.

We provide employment to special groups and persons with disabilities.

We create economic growth and well-being.

### Sustainable industry and cities

We promote the development of industrial infrastructure in line with the principles of sustainable development, the recovery of industrial side streams and closed cycles.

We find innovative solutions to build sustainable cities and create healthy and safe environments.

### Legal and regulatory compliance

We ensure that everything we do complies with our legal and ethical responsibilities.
We ensure that all our goods and services are responsibly sourced.

based on the impacts of the Group's operations, the expectations of key stakeholders and the Group's strategic priorities. L&T has also taken into account the special characteristics of the operations and business environment of a service company in the environmental sector as well as the UN Sustainable Development Goals and the objectives of the Global Compact initiative.

The key sustainability targets laid out in the sustainability programme, i.e. L&T's climate impacts and the employee recommendation rate, have been incorporated into L&T's long-term strategic goals.

## Managing sustainability at L&T

At L&T, sustainability is integrated into the Group's strategy. The Board of Directors monitors the progress of the sustainability programme annually. Starting from the beginning of 2021, the Board's Personnel Committee is replaced by the Personnel and Sustainability Committee, which will discuss sustainability issues at least three times per year.

The Group Executive Board steers and regularly monitors the implementation of the sustainability programme. Development primarily takes place in business-driven working groups, but the Director of Corporate Relations and Sustainability and the communications and sustainability organisation operating under their supervision are in charge of the practical coordination and reporting of sustainability efforts. The businesses and other functions are in charge of the sustainability and compliance of their operations in accordance with the Group's management system.

L&T's management system has been certified in accordance with the ISO 9001, ISO 14001 and ISO 45001 standards.

## Sustainability principles and risk management

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. L&T's operations are also guided by the policies and operating principles approved by the Board of Directors or the Group Executive Board.

The guidelines on authorisation on the basis of position specify the decision-making rules and authorities applied at L&T. To ensure the regulatory compliance of its operations, L&T has documented its sustainable business principles in its Code of Conduct, which applies to all L&T employees as well as contract suppliers. Supervisors are responsible for ensuring the personnel's familiarity with the Code of Conduct and monitoring compliance with the guidelines. Violations of the Code of Conduct are primarily reported to the immediate supervisor, who assist in the interpretation of the Code 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 2020, 79 per cent of our salaried employees had completed the online training on the Code of Conduct. The online training is part of the induction training programme for new L&T employees and its implementation is promoted in all personnel groups.

Managing sustainability-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.

## Environmental responsibility

L&T's environmental responsibility is realised particularly through the services it produces for customers. The primary goal is always to direct materials collected from customers towards reuse or recycling, guided by the order of priority as stipulated by law and the circular economy approach.

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 Group's operations are founded on an uncompromising compliance with environmental legislation and standards as well as on the principle of continuous improvement in accordance with the ISO 14001 certified environmental management system.

L&T requires the sustainable management of environmental issues of its partners and suppliers. This requirement is factored into the procurement process e.g. in the form of self-assessments. Waste is only handed over to operators that are authorised to receive or process it. Acquisitions are subject to detailed due diligence processes.

The Group's strategic goal is to improve its customers' energy and material efficiency and increase the carbon handprint of its operations. This is achieved when customers replace primary raw materials with secondary raw materials and fossil fuels with bio and solid recovered fuels (SRF). As the carbon handprint of L&T's operations increases, the carbon footprint of its customers decreases. The Group thereby supports its customers in reaching their environmental goals. L&T's carbon handprint, or the emission reductions created by its operations, remained at the previous year's level in 2020 and totalled about 1.2 million (1.2) $CO_2$ equivalent tonnes. The carbon handprint intensity was -1,638 $tCO_2e$/MEUR, representing a year-on-year increase of 9.6 per cent.

L&T also aims to reduce the environmental impacts of its own operations. The most significant direct environmental impacts of L&T's operations are the emissions generated by collection and transport services. The Group works actively to reduce them by means of, for instance, developing an economic driving style and improving the efficiency of routes. In 2020, the absolute emissions generated by L&T's own operations totalled 36.7 thousand $CO_2$ equivalent tonnes (43.1). The Group has set Science Based Targets and committed to halving the carbon footprint of its operations per kilometre driven by 2030, compared to 2018, and by reducing the emissions generated by its supply chain. In 2020, the emissions intensity of the Group's own operations amounted to 818 $gCO_2eq$/kilometre driven, representing a decrease of 14.1 per cent relative to the comparison year (2018). The Group will continue to engage its supply chain in the achievement of the Science Based Target for emission reductions with the aim of having 70 per cent of its largest suppliers and subcontractors (based on spending) set targets for reducing their emissions by 2025.

Professional waste treatment operations are subject to environmental permits and regulatory compliance. In 2020, L&T had 68 (67) environmental permits that determined how the Group managed and monitored environmental matters. Facilities subject to environmental permits have contingency plans and rescue plans that specify how they are prepared for significant environmental incidents. Environmental issues are also covered in regularly conducted internal audits. L&T's objective is that no serious incidents of environmental damage result from the Group's own operations. This objective was achieved in 2020.

To reduce the environmental impact of the materials collected from customers and to promote the circular economy, L&T continuously strives to find new solutions to recover materials at the highest possible refining rate and in accordance with the order of priority in waste management. In 2020, the reuse and recycling rate of material collected from customers and managed by L&T rose to 58.6 per cent (54.8). More than 430 000 tonnes of materials were delivered to reuse and recycling. Reporting covers municipal waste collected from corporate customers, hazardous waste, industrial waste and construction waste in Finland.

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.

## Social responsibility: employees and human rights

In 2020, L&T had 8,139 employees in Finland, Sweden and Russia. 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 its employees include increasing job satisfaction, strengthening the work ability of the personnel, developing diversity and improving occupational safety. The Group also wants to work actively to promote the employment of special groups, such as immigrants and persons with reduced work ability.

The Group does not tolerate any kind of discrimination, harassment, bullying, racism or inappropriate treatment or the use of child labour, any form of forced labour or any other practices in violation with basic human rights in its own operations or as part of its supply chain.

L&T observes the Universal Declaration of Human Rights, workers' rights as defined by the International Labour Organisation as well as international agreements. L&T is committed to supporting the UN Global Compact initiative and its principles pertaining to human rights and labour.

National legislation, agreements and other obligations are applied in employment relationships. L&T respects the employees' freedom to unionise. L&T monitors its personnel's compliance with collective agreements, environmental legislation, labour law, occupational safety legislation and regulations pertaining to financial management. The Group is also compliant with the applicable legislation governing contractors' obligations and liability, and requires the same of its suppliers.

The operations are guided by the Group's personnel policy, the ISO 45001-certified management system and the principles governing occupational safety management and sustainability (Code of Conduct).

L&T's strategic target is to have an employee recommendation rate of at least 80 per cent. Employee satisfaction is measured by means of a satisfaction survey, which goes by the name Fiilinki in Finland and Pulsen in Sweden. The Group's employee recommendation rate rose to 82 per cent in 2020 (73).

As part of work ability management, L&T's targets are to reduce sickness-related absences to 4.5 per cent, increase the employee health rate to 45 per cent and increase the average retirement age to 65 years in the long term. In 2020, the sickness-related absence rate was 4.7 per cent (5.0) in Finland, 6.0 per cent (5.2) in Sweden and 5.2 per cent (2.4) in Russia. In order to turn the development of sickness-related absences to a decrease, the purposeful implementation of the action plan for promoting health will continue. The employee health rate was 50 per cent in Finland. The average retirement age (including retirement on old-age pension and disability pension) was 63.5 years (63.1) in Finland and 63.7 years (63.2) in the Group as a whole.

In occupational safety, L&T pursues continuous improvement with an ultimate goal of zero accidents. In 2020, the overall accident frequency was in line with the target and was 24 (target: 25) in the Group as a whole. LTA, which measures accidents leading to lost time, continued to evolve but fell short of the ambitious target being 13 (target: 10). The Group will continue its purposeful development efforts to engage employees in the promotion of safety.

In 2020, there were no fatal accidents. One case of occupational illnesses was recorded. There were no recorded grievances related to human rights or incidents of discrimination at L&T.

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 costs related to disabilities and accidents. Risks related to human rights are assessed as part of the risk management process.

L&T mainly operates in Finland and Sweden with local partners and the risk of human rights violations is low in these countries. There was public discussion in 2020 regarding the exploitation of employees that occurred in a few companies in the cleaning industry in Finland. The discussion did not concern Lassila & Tikanoja or its subsidiaries. Several of L&T's customers conduct audits of L&T's social responsibility practices and, based on the audits carried out in 2020, there were no observed shortcomings in the Group's performance as regards social responsibility. L&T complies with laws and collective labour agreements in its operations. The company exercises particular care with regard to employment relationships with employees who are in a vulnerable position. Risks and their management are described in more detail under Risks and risk management.

## Anti-corruption and bribery

L&T's procurement processes are transparent and procurement decisions are based on competitive supply contracts. Procurement is guided by the Group's procurement principles and the more detailed procurement guidelines. Mandates and the limits for decision-making in terms of procurement are defined in the company's guidelines on authorisation on the basis of position.

In case of potential conflicts of interests in procurement processes, the persons concerned are disqualified from the decision-making. Supplier co-operation must not involve any bribery or the kind of hospitality or exchange of gifts that could influence procurement decisions.

L&T is committed to supporting the UN Global Compact initiative and its anti-corruption principles. The prevention of corruption and bribery is based on national legislation and agreements. Internally, operations are guided by L&T's sustainable 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. The company also adheres to a separately defined permit procedure to ensure that all customer events are appropriate and that all sponsorships and supporting marketing operations are transparent.

L&T mainly operates with local partners in Finland and Sweden, which improves transparency with respect to its partners' sustainability. The Group's purchases in 2020 were focused on domestic companies. In Finland, 96 per cent of purchases were made from companies operating in Finland. The corresponding figure for Sweden was 98 per cent. Operations with significant suppliers are managed through regular supplier co-operation and monitored according to separately agreed performance indicators. Contract suppliers are required to comply with L&T's Code of Conduct. We ensure the responsibility of our suppliers' operating methods through self-assessment surveys, supplier audits, analyses of suppliers' financial circumstances or other appropriate means.

Our primary assurance measures are targeted at our most significant suppliers. There were no reported incidents of bribery or corruption at L&T in 2020.

## 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 Group's current capitalised development expenditure is mainly related to software and system projects. Development expenditure of EUR 4.1 million (3.2) on software projects was capitalised in the balance sheet. 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.

## 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. The risk management process also aims to assess the opportunities associated with risks.

### 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.

### 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 4.1 Financial risk management.

## Strategic and operative risks

### The COVID-19 pandemic

The measures and recommendations issued by the authorities to restrict the COVID-19 pandemic and the resulting customer-specific production restrictions and adjustment measures are expected to still continue to cause disruptions in service production in 2021. This is expected to be most apparent in separately ordered services, such as the maintenance of technical systems. The decline in industrial volume caused by the pandemic, the general economic uncertainty and the import restrictions imposed by China have reduced the demand for, and prices of, key secondary raw materials. This market disruption is anticipated to continue to affect the net sales and profitability of the Environmental Services division in 2021.

### Sustainability

As an environmental services company and a major employer, operating sustainably is essential for the company's reputation and stakeholder trust. The Group continuously monitors changes and trends affecting its business environment in relation to, for example, climate targets, human rights and supply chain sustainability, with the aim of identifying the related risks and opportunities.

To manage climate risks, the Group set Science Based Targets, which were validated as science based emission reduction targets by the Science Based Targets initiative (SBTi) in March 2020. The Group also takes active practical measures to directly reduce its environmental impacts. This includes fleet replacements and monitoring the driving style index. Risks related to personnel and responsibility for personnel are described in more detail in the Personnel section.

### ICT systems

If realised, risks associated with information and communications systems and their implementation can affect 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. The introduction of new systems and operating models related to them are planned carefully, learning from previous experience, so that the implementation would not disturb L&T's operations.

The risks related to ICT systems are also managed by developing the system architecture and making long-term investments aimed at eliminating the repair backlog and increasing competitiveness.

### Markets and renewal

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. L&T's strategies are systematically implemented with a long-term perspective. They take into account potential changes in the industry as well as the need for renewal 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

Challenges related to the availability of workforce are a significant risk related to employees. Any reduction of personnel satisfaction may also become a strategic risk for the company because L&T's competitive advantage is largely based on the work of skilled and motivated personnel. These risks are managed by investing in diversity, the employee experience, recruitment and L&T's employer image.

Improving the employee experience is the whole company's strategic goal. The company influences it by developing job orientation and supervisor work and by promoting job rotation and promotion opportunities. The company actively works with various schools to ensure the availability of workforce. It also strives to promote work-based immigration and the employment of special groups.

An increase in sickness rates and the personnel's disability and accident pension costs may materially affect L&T's competitiveness and profitability. The company invests actively on the occupational safety and the maintenance of the ability work of its employees. It aims to minimise sickness-related absences and disability pensions as well as minimise their related costs.

L&T regularly conducts job-specific and site-specific risk assessments and workplace surveys, and supports the work ability and well-being of employees through activities that promote work ability. L&T has its own sickness fund that supports L&T's work ability management and complements occupational health care. The company also uses 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. 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

The Corporate Governance Statement for the financial year 2020 is provided as a separate report.

## Shares and shareholders

### Share capital and number of shares

There were no changes in Lassila & Tikanoja's share capital and number of shares in 2020.

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 38,102,992. 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

At the end of the period, the company had 20,731 (15,524) shareholders. Nominee-registered holdings accounted for 10.1 per cent (19.5%) 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 978,104 shares in the company on 31 December 2020. They represented 2.6 per cent of the total number of shares and votes.

### Trading in shares in 2020

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

The volume of trading during the year 2020 was 12.3 million shares, which is 32.2 per cent (21.3) of the average number of outstanding shares. The value of trading was EUR 166.1 million (122.3). The highest share price was EUR 16.76 and the lowest EUR 10.06. The closing price was EUR 15.06. At the end of the review period, the market capitalisation excluding the shares held by the company was EUR 573.9 million (599.6).

### Own shares

At the end of the period, the company held 693,589 of its own shares, representing 1.8 per cent of all shares and votes.

### Authorisations for the Board of Directors

The Annual General Meeting held on 12 March 2020 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 per cent 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 possibly held by the company through a share issue and/or issuance of option rights or other special rights entitling 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 per cent of the total number of shares) may be issued and/or conveyed. The authorisation is effective for 18 months.

### Breakdown of shareholding by sector on 31 December 2020

| | Number of shareholders | Percentage | Number of shares | Percentage of shares and votes |
|---|---|---|---|---|
| Non-financial corporations and housing corporations | 907 | 4.37% | 3,243,736 | 8.36% |
| Financial and insurance corporations | 53 | 0.26% | 6,794,938 | 17.51% |
| General Government | 19 | 0.009% | 3,956,253 | 10.20% |
| Households | 19,417 | 93.66% | 15,023,370 | 38.72% |
| Non-profit institutions serving households | 270 | 1.3% | 5,653,311 | 14.57% |
| Foreign shareholders | 66 | 0.32% | 162,975 | 0.42% |
| Of which nominee-registered | 12 | | 3,923,763 | 10.11% |
| Shares not transferred to the book-entry securities system | | | 40,528 | 0.10% |
| Own shares | 1 | | 693,589 | 1.79% |
| **Total** | **20,732** | | **38,798,874** | **100.0%** |

### Breakdown of shareholding by size of holding on 31 December 2020

| Number of shares | Number of shareholders | Percentage | Number of shares | Percentage of shares and votes |
|---|---|---|---|---|
| 1–1,000 | 18,568 | 89.57% | 4,248,367 | 10.95% |
| 1,001–5,000 | 1,716 | 8.28% | 3,666,441 | 9.45% |
| 5,001–10,000 | 213 | 1.03% | 1,504,414 | 3.88% |
| 10,001–100,000 | 200 | 0.97% | 5,734,280 | 14.78% |
| 100,001–500,000 | 20 | 0.10% | 4,438,740 | 11.44% |
| over 500,000 | 14 | 0.07% | 18,472,515 | 47.61% |
| Shares registered in a nominee's name | 12 | | 3,923,763 | 10.11% |
| Shares not transferred to the book-entry securities system | | | 40,528 | 0.1% |
| Own shares | 1 | | 693,589 | 1.79% |
| **Total** | **20,732** | **100.0%** | **38,798,874** | **100.0%** |

**Major shareholders on 31 December 2020, excluding shares registered in a nominee's name**

| | Shareholder | Number of shares | Percentage of shares and votes |
|---|---|---|---|
| 1 | Mandatum Life Insurance Company Limited | 3,033,249 | 7.8 |
| 2 | Evald and Hilda Nissi Foundation | 2,413,584 | 6.2 |
| 3 | Nordea investment funds | 1,912,577 | 4.9 |
| 4 | Maijala Juhani | 1,529,994 | 3.9 |
| 5 | Elo Mutual Pension Insurance Company | 1,072,133 | 2.8 |
| 6 | Åbo Akademi University Foundation | 1,066,282 | 2.8 |
| 7 | Ilmarinen Mutual Pension Insurance Company | 1,024,836 | 2.6 |
| 8 | Bergholm Heikki | 833,451 | 2.2 |
| 9 | Varma Mutual Pension Insurance Company | 729,791 | 1.9 |
| 10 | Maijala Mikko | 720,000 | 1.9 |
| 11 | Lassila & Tikanoja plc | 693,589 | 1.8 |
| 12 | Kristiina Turjanmaa | 529,200 | 1.4 |
| 13 | The State Pension Fund | 512,000 | 1.3 |
| 14 | Veritas Pension Insurance | 444,091 | 1.2 |
| 15 | Kaleva Mutual Insurance Company | 400,000 | 1.0 |
| 16 | Oy Chemec Ab | 356,320 | 0.9 |
| 17 | Maijala Eeva | 351,000 | 0.9 |
| 18 | Samfundet folkhälsan i Svenska Finland rf | 336,800 | 0.9 |
| 19 | Taaleritehdas Mikro Markka investment fund | 300,000 | 0.8 |
| 20 | Church Pension Fund | 271,093 | 0.7 |
| | **Total** | **18,529,990** | **47.8** |

## 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 2020, the Group's earnings per share were EUR 0.50 (0.90) and cash flow from operating activities per share amounted to EUR 2.18 (2.46). The Board of Directors proposed a dividend of EUR 0.40 per share to the Annual General Meeting to be held on 18 March 2021. A dividend of EUR 0.92 per share was paid for the financial year 2019.

### Near-term uncertainties

The measures and recommendations issued by the authorities to restrict the COVID-19 pandemic and the resulting customer-specific production restrictions and adjustment measures are expected to still continue to cause disruptions in service production in 2021. This is expected to be most apparent in separately ordered services, such as the maintenance of technical systems and process cleaning.

The decline in industrial volume caused by the COVID-19 pandemic, the general economic uncertainty and the import restrictions imposed by China on recyclable materials have reduced the demand for, and prices of, key secondary raw materials. This market disruption is anticipated to continue to affect the net sales and profitability of the Environmental Services division in 2021.

The decrease in the price of oil reduces fuel costs. At the same time, however, it has a negative effect on the prices of oil-based secondary raw materials, such as recycled plastic and regenerated lubricants. However, the net effect of the lower oil price is positive at the Group level.

In the long term, challenges associated with the availability of labour may restrict business growth and increase production costs.

The company has several ERP system reform projects under way. Temporary additional costs arising from system deployments and establishing the operating model may weigh down the company's result.

In June, a draft tax audit by the Large Taxpayers Office proposed that approximately EUR 1.1 million in waste tax would be payable by L&T for 2018. Based on the response submitted by the Group, the tax authorities have lowered the amount to approximately EUR 0.2 million. The Group considers the tax authorities' interpretation to still be erroneous and the matter remains under review.

### Outlook for the year 2021

Net sales in 2021 are estimated to be at the same level and adjusted operating profit at the same level or better compared to the previous year

### 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

## Key figures on shares

| | | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| 1 | Earnings per share (EPS), EUR | 0.50 | 0.90 | 0.89 | 0.87 | 1.13 |
| 2 | Earnings per share (EPS), diluted, EUR | 0.50 | 0.90 | 0.89 | 0.87 | 1.13 |
| 3 | Equity per share, EUR | 5.05 | 5.33 | 5.44 | 5.66 | 5.81 |
| 4 | Dividend per share, EUR * | 0.40 | 0.92 | 0.92 | 0.92 | 0.92 |
| 5 | Payout ratio, % | 79.7 | 101.7 | 103.7 | 105.4 | 81.3 |
| 6 | Effective dividend yield, % | 2.7 | 5.8 | 6.1 | 5.1 | 4.8 |
| 7 | P/E ratio, % | 30.0 | 17.4 | 16.9 | 20.7 | 17.0 |
| 8 | Cash flow from operating activities per share, EUR | 2.18 | 2.46 | 2.35 | 1.61 | 1.99 |
| | Share price adjusted for issues: | | | | | |
| 9 | lowest, EUR | 10.06 | 12.92 | 14.34 | 17.22 | 14.37 |
| 10 | highest, EUR | 16.76 | 16.40 | 20.00 | 20.89 | 19.59 |
| 11 | average, EUR | 13.55 | 14.41 | 16.78 | 18.52 | 16.96 |
| 12 | closing, EUR | 15.06 | 15.74 | 14.96 | 18.06 | 19.20 |
| 13 | Market capitalization 31 December, MEUR | 573.9 | 610.7 | 580.4 | 700.7 | 744.9 |
| | Number of shares adjusted for issue: | | | | | |
| 14 | average during the year | 38,102,992 | 38,354,267 | 38,404,842 | 38,394,955 | 38,375,007 |
| 15 | at year end | 38,105,285 | 38,094,466 | 38,405,922 | 38,398,012 | 38,378,006 |
| 16 | average during the year, diluted | 38,118,287 | 38,368,388 | 38,418,963 | 38,409,829 | 38,389,881 |
| 17 | Adjusted number of shares traded during the year | 12,265,978 | 8,172,082 | 4,994,631 | 5,480,149 | 6,475,324 |
| 18 | As a percentage of the average | 32.2 | 21.3 | 13.0 | 14.3 | 16.9 |
| 19 | Volume of shares traded, MEUR | 166.1 | 122.3 | 83.8 | 101.6 | 110.1 |

* 2020 proposal by the Board of Directors

# Key figures on financial performance

| | | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| 20 | Net sales, MEUR | 751.9 | 784.3 | 802.2 | 709.5 | 661.8 |
| 21 | Operating profit, MEUR | 28.2 | 45.0 | 47.6 | 44.0 | 50.5 |
| 22 | % of net sales | 3.8 | 5.7 | 5.9 | 6.2 | 7.6 |
| 23 | Adjusted operating profit, MEUR | 39.0 | 40.5 | - | - | - |
| 24 | % of net sales | 5.2 | 5.2 | - | - | - |
| 25 | EBITDA, MEUR | 85.2 | 99.4 | 90.1 | - | - |
| 26 | % of net sales | 11.3 | 12.7 | 11.2 | - | - |
| 27 | Profit before tax, MEUR | 23.3 | 42.0 | 42.7 | 42.5 | 50.1 |
| 28 | % of net sales | 3.1 | 5.4 | 5.3 | 6.0 | 7.6 |
| 29 | Profit for the period, MEUR | 19.0 | 34.7 | 34.1 | 33.5 | 43.4 |
| 30 | % of net sales | 2.5 | 4.4 | 4.2 | 4.7 | 6.6 |
| 31 | Profit for the period attributable to the equity holders of the parent company, MEUR | 19.1 | 34.7 | 34.1 | 33.5 | 43.4 |
| 32 | % of net sales | 2.5 | 4.4 | 4.2 | 4.7 | 6.6 |
| 33 | EVA, MEUR | 3.7 | 19.8 | 24.2 | 21.1 | 30.7 |
| 34 | Cash flow from operating activities, MEUR | 83.0 | 94.5 | 90.1 | 61.8 | 76.4 |
| 35 | Balance sheet total, MEUR | 596.6 | 583.6 | 561.3 | 577.3 | 452.8 |
| 36 | Return on equity, % (ROE) | 9.6 | 16.8 | 16.1 | 15.2 | 20.0 |
| 37 | Invested capital, MEUR | 379.2 | 380.5 | 361.1 | - | - |
| 38 | Return on invested capital, % (ROI) | 7.5 | 12.4 | 12.8 | 13.3 | 17.4 |
| 39 | Equity ratio, % | 33.0 | 35.6 | 38.1 | 38.6 | 50.4 |
| 40 | Gearing, % | 70.9 | 66.8 | 46.8 | 54.2 | 17.3 |
| 41 | Net interest-bearing liabilities, MEUR | 136.5 | 135.6 | 97.8 | 117.9 | 38.7 |
| 42 | Capital expenditure, MEUR | 48.2 | 46.1 | 37.8 | 113.2 | 41.6 |
| 43 | % of net sales | 6.4 | 5.9 | 4.7 | 16.0 | 6.3 |
| 44 | Average number of employees in full-time equivalents | 7,197 | 7,308 | 7,566 | 7,875 | 7,199 |
| 45 | Total number of full-time and part-time employees at year end | 8,139 | 8,207 | 8,600 | 8,663 | 7,931 |

# Matching of alternative performance measures

### Matching the EVA result to operating profit

| 1 January–31 December MEUR | 2020 | 2019 |
|---|---|---|
| Operating profit | 28.2 | 45.0 |
| Invested capital (rolling 12-month quarterly average) | 369.7 | 384.6 |
| Cost calculated on invested capital | -24.5 | -25.2 |
| EVA | 3.7 | 19.8 |

### Matching adjusted operating profit to operating profit

| 1 January–31 December MEUR | 2020 | 2019 |
|---|---|---|
| Operating profit | 28.2 | 45.0 |
| Items affecting comparability: | | |
| • Costs arising from the discontinuation of business | 9.0 | - |
| • Costs arising from business restructuring | 1.7 | - |
| • Gains or losses arising from divestments | 0.0 | -4.5 |
| Adjusted operating profit | 39.0 | 40.5 |

# Calculation of the key figures

## Key figures on shares

| | | | | |
|---|---|---|---|---|
| 1 | Earnings per share (EPS) | = | Profit attributable to equity holders of the parent company / Adjusted average basic number of shares | |
| 2 | Earnings per share (EPS), diluted | = | Profit attributable to equity holders of the parent company / Adjusted average diluted number of shares | |
| 3 | Equity per share | = | Equity attributable to equity holders of the parent company / Adjusted basic number of shares at the balance sheet date | |
| 4 | Dividend per share* | = | Dividend for the financial period / Adjusted basic number of shares at the balance sheet date | |
| 5 | Payout ratio, % * | = | Dividend per share / Earnings per share | x 100 |
| 6 | Effective dividend yield, % * | = | Dividend per share / Closing price of the financial period | x 100 |
| 7 | P/E ratio, % | = | Closing price of the financial period / Earnings per share | |
| 8 | Cash flow from operating activities per share | = | Cash flows from operating activities as in the cash flow statement / Adjusted average basic number of shares | |
| 13 | Market capitalization, MEUR | = | 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

| | | | | |
|---|---|---|---|---|
| 23 | Adjusted operating profit, MEUR | = | Operating profit +/- items affecting comparability | |
| 25 | EBITDA, MEUR | = | Operating profit + depreciation + impairment | |
| 33 | EVA, MEUR | = | 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 2020: 6.64 %
WACC 2019: 6.55 %
WACC 2018: 6.60 %
WACC 2017: 6.69 %
WACC 2016: 6.56 %

| | | | | |
|---|---|---|---|---|
| 36 | Return on equity, % (ROE) | = | Profit for the period / Equity (average) | x 100 |
| 37 | Invested capital, MEUR | = | Equity + Interest-bearing financial liabilities | |
| 38 | Return on invested capital, % (ROI) | = | Profit before tax + finance costs / Equity + Interest-bearing finanicial liabilities (average) | x 100 |
| 39 | Equity ratio, % | = | Equity / Balance sheet total - advances received | x 100 |
| 40 | Gearing, % | = | Net interest-bearing liabilities / Equity | x 100 |
| 41 | Net interest-bearing liabilities, MEUR | = | Interest-bearing liabilities - cash and cash equivalents | |

# FINANCIAL STATEMENTS



Notes to the consolidated financial statements form an essential part of the financial statements.

# Consolidated income statement

| 1 January–31 December MEUR | 2020 | 2019 | Note |
|---|---|---|---|
| **Net sales** | 751.9 | 784.3 | 1.1, 1.2 |
| Other operating income | 9.3 | 10.6 | 1.4 |
| Change of inventory | 8.7 | 0.3 | |
| Materials and services | -263.9 | -270.4 | |
| Employee benefit expenses | -315.1 | -327.1 | 1.3 |
| Other operating expenses | -105.6 | -98.3 | 1.4 |
| Depreciation and impairment | -57.0 | -54.4 | |
| **Operating profit** | 28.2 | 45.0 | |
| Financial income and expenses | -4.9 | -3.0 | 1.8 |
| Share of the result of associated companies | 0.0 | 0.0 | |
| **Profit before tax** | 23.3 | 42.0 | |
| Income taxes | -4.3 | -7.3 | 1.9 |
| **Profit for the period** | 19.0 | 34.7 | |
| **Attributable to:** | | | |
| Equity holders of the company | 19.1 | 34.7 | |
| Non-controlling interest | -0.1 | 0.0 | |
| **Earnings per share attributable to equity holders of the parent company:** | | | |
| Basic earnings per share, EUR | 0.50 | 0.90 | 1.10 |
| Diluted earnings per share, EUR | 0.50 | 0.90 | |

# Consolidated statement of comprehensive income

| 1 January–31 December MEUR | 2020 | 2019 | Note |
|---|---|---|---|
| **Profit for the period** | 19.0 | 34.7 | |
| **Items not to be recognised through profit or loss** | | | |
| Items arising from re-measurement of defined benefit plans | 0.0 | 0.0 | 2.6 |
| Items not to be recognised through profit or loss, total | 0.0 | 0.0 | |
| **Items potentially to be recognised through profit or loss** | | | |
| Hedging reserve, change in fair value | 0.1 | -0.3 | |
| Currency translation differences | 2.9 | -0.6 | |
| Currency translation differences recognised through profit or loss | 2.6 | - | |
| Currency translation differences, non-controlling interest | -0.1 | 0.0 | |
| Items potentially to be recognised through profit or loss, total | 5.4 | -0.9 | |
| **Total comprehensive income, after tax** | 24.4 | 33.8 | |
| **Attributable to:** | | | |
| Equity holders of the company | 24.6 | 33.8 | |
| Non-controlling interest | -0.2 | 0.0 | |

More information on taxes in consolidated statement of comprehensive income is presented in Note 1.9 Income taxes.

# Consolidated statement of financial position

| 31 December MEUR | 2020 | 2019 | Note |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | | | 3.1 |
| Goodwill | 154.0 | 151.9 | |
| Other intangible assets | 28.9 | 36.2 | |
| | 182.9 | 188.0 | |
| Tangible assets | 139.8 | 129.5 | 3.3 |
| Right-of-use assets | 70.9 | 77.2 | 3.4 |
| | 210.7 | 206.7 | |
| Other non-current assets | | | |
| Deferred tax assets | 4.5 | 4.6 | 1.9 |
| Other receivables | 1.3 | 1.4 | 2.1 |
| | 5.8 | 6.0 | |
| **Total non-current assets** | 399.4 | 400.7 | |
| **Current assets** | | | |
| Inventories | 30.7 | 21.5 | 2.2 |
| Trade receivables | 82.9 | 84.2 | 2.1, 4.2 |
| Contract assets | 19.4 | 22.0 | 1.2, 2.1, 4.2 |
| Other receivables | 14.0 | 13.4 | 2.1, 4.2, 4.8 |
| Cash and cash equivalents | 50.2 | 41.8 | 4.2, 4.3 |
| **Total current assets** | 197.2 | 182.9 | |
| **Total assets** | 596.6 | 583.6 | |

| 31 December MEUR | 2020 | 2019 | Note |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Equity attributable to equity holders of the parent company | | | 4.4 |
| Share capital | 19.4 | 19.4 | |
| Other reserves | -5.0 | -10.4 | |
| Invested unrestricted equity reserve | 0.6 | 0.6 | |
| Retained earnings | 177.5 | 193.2 | |
| | 192.6 | 202.8 | |
| Non-controlling interests | - | 0.2 | |
| **Total equity** | 192.6 | 203.0 | |
| **Liabilities** | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | 28.3 | 29.2 | 1.9 |
| Retirement benefit obligations | 1.4 | 1.3 | 2.6 |
| Provisions | 7.1 | 5.4 | 2.5 |
| Financial liabilities | 155.4 | 161.6 | 4.2, 4.6 |
| Other liabilities | 0.1 | 0.3 | 2.4 |
| | 192.3 | 197.8 | |
| Current liabilities | | | |
| Financial liabilities | 31.3 | 15.8 | 4.2, 4.6 |
| Trade and other payables | 178.0 | 165.3 | 2.3, 4.2, 4.8 |
| Provisions | 2.4 | 1.7 | 2.5 |
| | 211.8 | 182.8 | |
| **Total liabilities** | 404.0 | 380.6 | |
| **Total equity and liabilities** | 596.6 | 583.6 | |

# Consolidated statement of cash flows

| 1 January–31 December MEUR | 2020 | 2019 | Note |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | 19.0 | 34.7 | |
| Adjustments | 70.0 | 58.3 | 1.11 |
| Net cash generated from operating activities before change in working capital | 89.0 | 93.0 | |
| Change in working capital | | | |
| Change in trade and other receivables | 0.6 | 7.3 | |
| Change in inventories | -9.2 | -0.5 | |
| Change in trade and other payables | 10.7 | 7.4 | |
| Change in working capital | 2.1 | 14.2 | |
| Interest paid | -3.9 | -3.9 | |
| Interest received | 0.4 | 0.2 | |
| Income tax paid | -4.5 | -9.1 | |
| **Net cash generated from operating activities** | 83.0 | 94.5 | |
| **Cash flows from investing activities** | | | |
| Acquisitions of subsidiaries and businesses, net of cash acquired | -1.6 | -0.4 | 5.4 |
| Proceeds from sale of subsidiaries and businesses, net of sold cash | - | 11.8 | |
| Purchases of property, plant and equipment and intangible assets | -45.0 | -37.6 | |
| Proceeds from sale of property, plant and equipment and intangible assets | 7.5 | 0.7 | |
| Investments in associated companies | - | 0.0 | |
| Change in other non-current receivables | 0.1 | 0.4 | |
| **Net cash used in investing activities** | -39.0 | -25.1 | |
| **Net cash from operating and investing activities** | 44.0 | 69.4 | |
| **Cash flows from financing activities** | | | |
| Proceeds from short-term borrowings | 35.0 | 10.0 | |
| Repayments of short-term borrowings | -20.0 | -10.0 | |
| Repayments of long-term borrowings | 0.1 | -28.8 | |
| Repayments of lease liabilities | -16.2 | -13.3 | |
| Dividends paid | -35.0 | -35.3 | |
| Acquisition of own shares | - | -4.5 | |
| **Net cash generated from financing activities** | -36.2 | -81.9 | |
| **Net change in liquid assets** | 7.8 | -12.5 | |
| Liquid assets at beginning of period | 41.8 | 54.3 | |
| Effect of changes in foreign exchange rates | 0.6 | 0.0 | |
| **Liquid assets at end of period** | 50.2 | 41.8 | 4.3 |

The liquid assets in the cash flow statement are comprised from cash and cash equi valents specified in Note 4.3 Cash and cash equivalents.

# 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 on 1 January 2019** | 19.4 | -9.1 | -0.4 | 0.6 | 198.3 | 208.8 | 0.2 | 208.9 | |
| Total comprehensive income | | | | | | | | | |
| Result for the period | | | | | 34.7 | 34.7 | 0.0 | 34.7 | |
| Other comprehensive income items | | -0.6 | -0.3 | - | 0.0 | -0.9 | 0.0 | -0.9 | |
| Total comprehensive income | | -0.6 | -0.3 | | 34.7 | 33.8 | 0.0 | 33.8 | |
| Transactions with shareholders | | | | | | | | | |
| Share-based benefits | | | | 0.0 | 0.1 | 0.1 | | 0.1 | 1.6 |
| Dividends paid | | | | | -35.3 | -35.3 | | -35.3 | |
| Returned dividend | | | | | 0.0 | 0.0 | | 0.0 | |
| Acquisition of own shares | | | | | -4.5 | -4.5 | | -4.5 | |
| Transactions with shareholders, total | | | | 0.0 | -39.7 | -39.6 | | -39.6 | |
| Other changes | | | | | 0.0 | 0.0 | | 0.0 | |
| **Equity on 31 December 2019** | 19.4 | -9.7 | -0.7 | 0.6 | 193.2 | 202.8 | 0.2 | 203.0 | |
| Total comprehensive income | | | | | | | | | |
| Result for the period | | | | | 19.1 | 19.1 | -0.1 | 19.0 | |
| Other comprehensive income items | | 5.4 | 0.1 | | 0.0 | 5.4 | -0.1 | 5.4 | |
| Total comprehensive income | | 5.4 | 0.1 | | 19.1 | 24.6 | -0.2 | 24.4 | |
| Transactions with shareholders | | | | | | | | | |
| Share-based benefits | | | | 0.0 | 0.2 | 0.2 | | 0.2 | 1.6 |
| Dividends paid | | | | | -35.0 | -35.0 | | -35.0 | |
| Returned dividend | | | | | 0.0 | 0.0 | | 0.0 | |
| Acquisition of own shares | | | | | - | - | | - | |
| Transactions with shareholders, total | | | | 0.0 | -34.9 | -34.9 | | -34.9 | |
| Other changes | | | | | 0.0 | 0.0 | | 0.0 | |
| **Equity on 31 December 2020** | 19.4 | -4.3 | -0.7 | 0.6 | 177.5 | 192.6 | - | 192.6 | |

More information on equity is shown in Note 4.4 Equity, and on taxes recognised in equity in Note 1.9 Income taxes.

# 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 and Sweden.

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 27 January 2021. 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 2019. 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.

## Application of new or amended IFRS standards

### New and amended standards adopted in 2020

The impact from new and amended standards issued during financial year 2020 are not considered to be material to the Group's financial reporting.

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

The impact from other new and amended standards issued but not yet effective is not considered to be material to the Group's financial reporting.

## Critical judgments in applying the Group's accounting policies

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.

Considerations based on discretion apply, in particular, to cases where the applicable IFRS standards provide for alternative methods of recognition, measumerement or presentation. The mos significant area where management has used the judgement described above relates to the recognition of assets and liabilities for acquired business operations and to fair value measurement.

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 in the following notes:


- 1.2 Revenue from contracts with customers
- 2.1 Trade and other receivables
- 2.5 Provisions
- 3.1 Goodwill and other intangible assets
- 3.2 Goodwill impairment tests
- 3.3 Property, plant and equipment
- 3.4 Right-of-use assets
- 4.2 Financial assets and liabilities by category
- 5.3 Business acquisitions


## The effects of the coronavirus pandemic on financial reporting

The company's management has closely monitored the effects of the coronavirus pandemic and evaluated its potential effects on forecasts and the valuation of balance sheet items. Based on the management's monitoring and evaluation activities, the effects of the COVID-19 pandemic have been found to be moderate and short-term, affecting the current financial year. According to the current information, the effects of the pandemic have not led to a need to adjust the company's long-term forecasts.

Based on the sensitivity analysis conducted as part of goodwill impairment testing in the final quarter of the financial year 2020, the value-in-use relative to the carrying amount was exceeded by 50 per cent for all cash-generating units. Based on the company's assessment, provided that future cash flow forecasts remain unchanged, no change in the central assumptions that would be considered as somewhat likely could result in the accounting value of a cash-generating unit exceeding the value-in-use. The analysis of the current financial impacts of the COVID-19 pandemic suggests that they do not affect the future cash flow forecasts used in testing calculations.

The monitoring of the lease portfolio has not indicated pandemic-related changes in the size or duration of the portfolio. Consequently, the remeasurement of the right-of-use asset item has not been considered necessary.

The company has monitored customer receivables on a weekly basis during the COVID-19 pandemic. The pandemic has not resulted in an increase in overdue customer receivables and the analysis of the maturity distribution of receivables has not indicated a negative effect on receivables turnover. Consequently, the company has not found it necessary to change the definition principles concerning provisions for expected credit losses.

The company's financial position is good and, based on the current information, the coronavirus pandemic is not expected to have a negative impact on the financial position. The company signed an agreement on a new binding credit limit of EUR 30 million in the second quarter to further strengthen its good liquidity.

## The impact of the discontinuation of Russian operations on the consolidated balance sheet

On 24 April 2020, Lassila & Tikanoja issued a stock exchange release to announce that its Russian operations will be discontinued within 2020. Due to waste management reforms introduced by the Russian state in 2019, the company's operating area in Russia was allocated to two operators. In April 2020, the company was informed that one of the two operators will start operating waste logistics in the area, which will reduce Lassila & Tikanoja's net sales in Russia by more than half by the beginning of September.

In connection with the decision to discontinue the Group's business in Russia, the management assessed that the value of the balance sheet items in Russia had materially reduced to the extent that the liquidation of the assets would only cover the liabilities of the Russian subsidiaries. Based on this assessment, the company recognised a write-down of EUR 8.0 million on the balance sheet items in question as at 30 June 2020. In addition, the cumulative exchange difference of EUR -2.6 million associated with the Russian operations was recognised through profit or loss in its entirety because, following the impairment of balance sheet items and the measures required to discontinue the business, the effect of the remaining operations has been judged to be immaterial for the Group. A further provision of EUR 0.3 million was recognised with regard to the costs of discontinuing the operations and presented in current provisions on the balance sheet.

The costs of the discontinuation, totalling EUR 10.8 million, is recognised in other operating expenses in the income statement. In final two quarters the costs related to the discontinuation were revised by EUR +1.9 million.

On the balance sheet date, the discontinuation of the Russian operations is still in process. The management estimates that the process is finalized during the financial year 2021.

### Effect of the write-down on the result for the financial period

| MEUR | |
|---|---|
| Original write-down | -10.8 |
| Change | 1.9 |
| Write-down 1–12/2020 | -8.9 |

| | Write-down 6/2020 |
|---|---|
| **Non-current assets** | |
| Intangible assets | -0.1 |
| Property, plant and equipment | -3.2 |
| Other non-current assets | -0.3 |
| **Current assets** | |
| Inventories | -0.2 |
| Trade receivables | -3.3 |
| Other receivables | -0.9 |
| Cash and cash equivalents | |
| **Total assets** | -8.0 |
| **Equity** | |
| Other reserves | 2.6 |
| Profit for the period | -10.8 |
| **Liabilities** | |
| Non-current liabilities | |
| Deferred tax liabilities | 0.0 |
| Current liabilities | |
| Trade and other payables | |
| Provisions | 0.3 |
| **Total liabilities** | 0.3 |
| **Total equity and liabilities** | -8.0 |

**Net sales**

**751.9**

**MEUR**

**Operating profit**

**28.2**

**MEUR**

# 1 Financial result

# 1.1 Segment reporting

### Accounting policy

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. Transactions between segments are based on market prices.

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, 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 financial income and tax receivables. Unallocated liabilities consist of financial liabilities, 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

The Group has four reportable segments, which are the Group's business divisions - Environmental Services, Industrial Services, Facility Services Finland and Facility Services Sweden.

Environmental Services division consists of the waste management and recycling business, selling of receptacles and their maintenance business and new circular economy solutions and the business of renewable energy sources (L&T Biowatti) is included in the division. Renewable energy sources provides its customers with wood-based fuels, recycled fuels and wood raw materials. It also provides forest services to forest owners.

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.

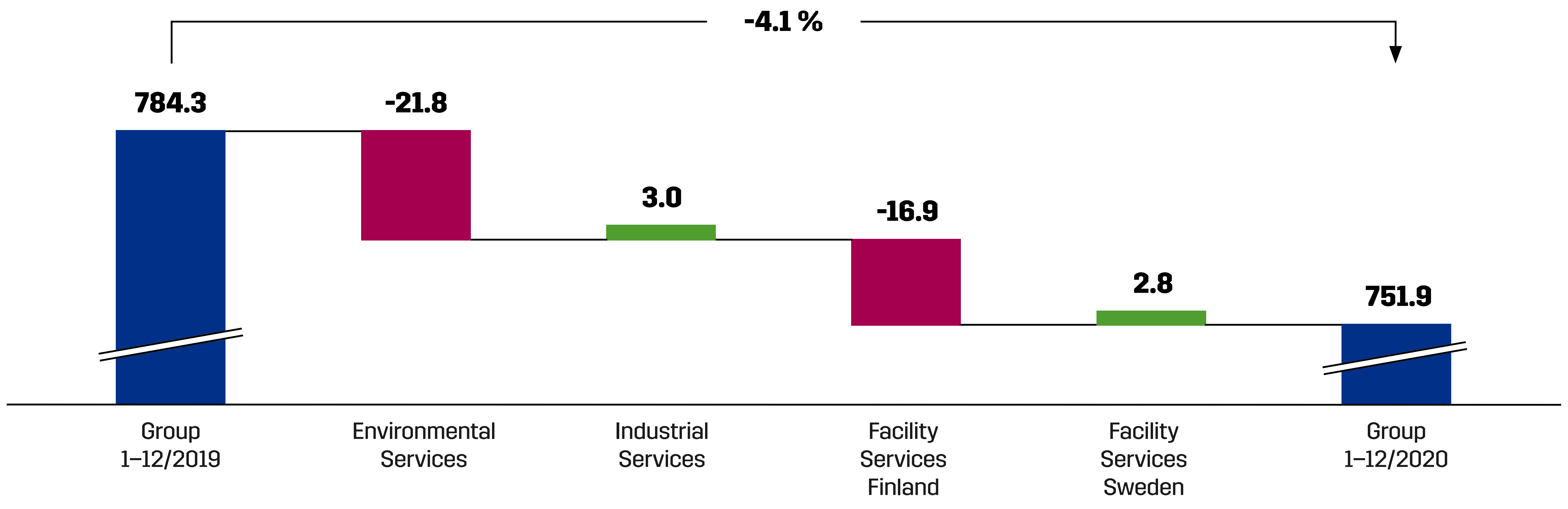
Facility Services Finland division provides support services and services for cleaning, property maintenance, real estate management as well as repair and renovation services and the division includes also the business of building automation, refrigeration technology and energy management.

Facility Services Sweden division provides support services and services for cleaning and technical services in Sweden.

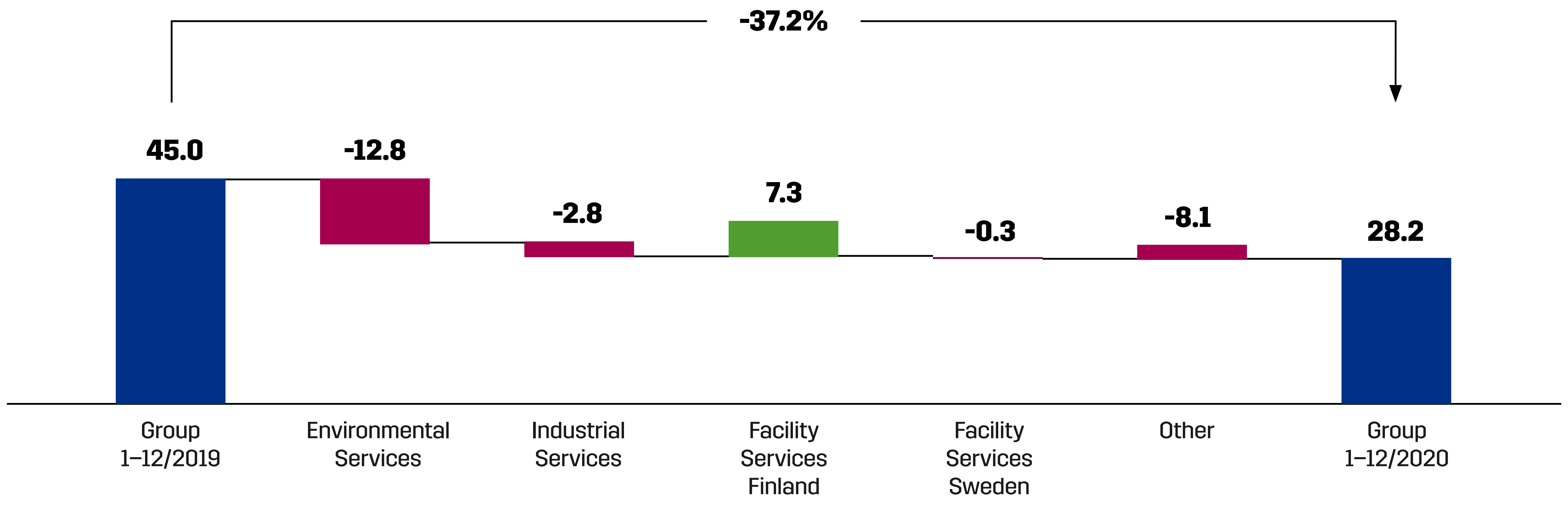
Group Administration and Other segment includes expenses associated with Group management, as well as costs incurred from operating as a public company, and the assets and liabilities corresponding to this income and expenses. Group administration assets also include available-for-sale investments.

### Net sales by division

**Net sales**




**Operating profit**



| 2020 MEUR | Environmental Services | Industrial Services | Facility Services, Finland | Facility Services, Sweden | Group administration and other | Eliminations | Group |
|---|---|---|---|---|---|---|---|
| **Net sales** | | | | | | | |
| External net sales | 287.9 | 99.9 | 229.6 | 134.5 | | | 751.9 |
| Inter-division net sales | 1.5 | 2.0 | 2.6 | 0.0 | | -6.1 | 0.0 |
| Total net sales | 289.4 | 101.8 | 232.3 | 134.5 | | -6.1 | 751.9 |
| | | | | | | | |
| Operating profit | 20.0 | 7.1 | 3.2 | 3.5 | -5.6 | | 28.2 |
| Operating margin, % | 6.9 | 7.0 | 1.4 | 2.6 | | | 3.8 |
| | | | | | | | |
| Financial income and expenses | | | | | | | -4.9 |
| Profit before tax | | | | | | | 23.3 |
| Income taxes | | | | | | | -4.3 |
| Profit for the period | | | | | | | 19.0 |
| | | | | | | | |
| **Assets** | | | | | | | |
| Segment assets | 264.9 | 101.8 | 79.8 | 91.4 | 0.2 | | 538.0 |
| Unallocated assets | | | | | | | 58.6 |
| Total assets | | | | | | | 596.6 |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Segment liabilities | 72.3 | 36.0 | 50.3 | 20.0 | 8.6 | | 187.3 |
| Unallocated liabilities | | | | | | | 216.7 |
| Total liabilities | | | | | | | 404.0 |
| | | | | | | | |
| **Capital expenditure** | 23.7 | 17.4 | 5.1 | 1.5 | 0.6 | | 48.2 |
| **Depreciation and amortisation *** | 25.6 | 10.2 | 10.3 | 4.9 | 6.1 | | 57.0 |

*Group administration and other includes impairments of EUR 4.7 million recognized in the financial year 2020.

| **2019 MEUR** | **Environmental Services** | **Industrial Services** | **Facility Services, Finland** | **Facility Services, Sweden** | **Group administration and other**** | **Eliminations** | **Group** |
|---|---|---|---|---|---|---|---|
| **Net sales** | | | | | | | |
| External net sales | 309.4 | 96.7 | 246.4 | 131.8 | | | 784.3 |
| Inter-division net sales | 1.8 | 2.1 | 2.7 | 0.0 | | -6.7 | 0.0 |
| Total net sales | 311.2 | 98.9 | 249.1 | 131.8 | | -6.7 | 784.3 |
| | | | | | | | |
| Operating profit | 32.8 | 9.9 | -4.1 | 3.8 | 2.5 | | 45.0 |
| Operating margin, % | 10.5 | 10.1 | -1.6 | 2.9 | | | 5.7 |
| | | | | | | | |
| Financial income and expenses | | | | | | | -3.0 |
| Profit before tax | | | | | | | 42.0 |
| Income taxes | | | | | | | -7.3 |
| Profit for the period | | | | | | | 34.7 |
| | | | | | | | |
| **Assets** | | | | | | | |
| Segment assets | 263.8 | 86.8 | 82.5 | 92.4 | 7.1 | | 532.6 |
| Unallocated assets | | | | | | | 51.1 |
| Total assets | | | | | | | 583.6 |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Segment liabilities | 68.4 | 33.3 | 47.7 | 16.0 | 7.4 | | 172.9 |
| Unallocated liabilities | | | | | | | 207.7 |
| Total liabilities | | | | | | | 380.6 |
| | | | | | | | |
| **Capital expenditure** | 28.2 | 12.3 | 4.7 | 0.8 | 0.2 | | 46.1 |
| **Depreciation and amortisation** | 25.2 | 9.2 | 13.5 | 5.6 | 1.0 | | 54.4 |

**Group administration and other includes a capital gain of EUR 7.0 million recognized in the second quarter of 2019 on the divestment of L&T Korjausrakentaminen Oy.

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

| MEUR | 2020 | 2019 |
|---|---|---|
| Segment assets for reportable segments | 537.9 | 525.4 |
| Other segments' assets | 0.2 | 7.1 |
| | 538.0 | 532.6 |
| **Unallocated assets** | | |
| Liquid assets | 50.2 | 41.8 |
| Tax assets | 7.6 | 8.5 |
| Other unallocated assets | 0.7 | 0.8 |
| Total | 58.6 | 51.1 |
| **Total assets** | 596.6 | 583.6 |

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

| MEUR | 2020 | 2019 |
|---|---|---|
| Segment liabilities for reportable segments | 178.7 | 165,5 |
| Other segments' liabilities | 8.6 | 7,4 |
| | 187.3 | 172.9 |
| **Unallocated liabilities** | | |
| Liabilities of interest rate and foreign currency derivatives | 187.5 | 178.3 |
| Accrued interest and other financing liabilities | 0.5 | 0.1 |
| Tax liabilities | 28.7 | 29.3 |
| Total | 216.7 | 207.7 |
| **Total liabilities** | 404.0 | 380.6 |

### Accounting policy

**Accounting policy**

The Group operates in Finland and Sweden. The Group divested its Russian operations during the financial year 2020. Net sales of geographical areas are reported based on the geographical location of the customer, and assets are reported by geographical location.

| MEUR | 2020 | 2019 |
|---|---|---|
| **Net sales** | | |
| Finland | 603.2 | 629.4 |
| Sweden | 139.0 | 137.7 |
| Other countries | 9.7 | 17.2 |
| Total | 751.9 | 784.3 |
| **Assets** | | |
| Finland | 469.5 | 470.9 |
| Sweden | 68.5 | 50.5 |
| Other countries | - | 11.1 |
| Unallocated assets | 58.6 | 51.1 |
| Total | 596.6 | 583.6 |
| **Capital expenditure** | | |
| Finland | 46.5 | 44.5 |
| Other countries | 1.7 | 1.6 |
| Total | 48.2 | 46.1 |

# 1.2 Revenue from contracts with customers

### Accounting policy

IFRS 15 defines a five-step model for recognising revenue from contracts with customers. The main objective of the standard is to provide useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customers.

Revenue from contracts with customers is recognised when or as the performance obligation is satisfied by transferring a promised good or service to the customer. A good or a service is transferred when the customer obtains control of the good or service. Revenue is recognised based on the transaction price to which L&T expects to be entitled in exchange for transferring the good or service.

The Group acts as a principal in all of its contracts with customers. The Group applies the practical expedient of IFRS 15 and does not disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period. This is because the contract period in the Group's customer contracts for project deliveries, is typically short. However, in long-term service agreements the contract period can be several years. For these contracts the Group applies the practical exedient according to which the Group is entitled to a consideration from the customer that corresponds directly with the value to the customer from Groups performance completed to date. In these contracts the Group recognises revenue for the amount that it is entitled to invoice.

### Critical judgments by Management

The amount and timing of revenue recognition involves significant management's judgement especially in the following areas:

- Identification of performance obligations for services business
- Timing of revenue recognition in services and project business
- Treatment of repurchase agreements relating to compactors and balers in Environmental Services business including the assessment of the existence of a significant financing component
- Measurement of a variable consideration

These judgments have been described in more detail in the description relating to revenue recognition.

## Services business

Services business comprises of long-term service agreements and separately ordered services.

Long-term service agreements include for example waste management and recycling services which is part of Environmental Services as well as cleaning and property maintenance services included in Facility Services. Long-term service agreements include one or more performance obligations depending on the amount of distinct services provided to the customer. A typical characteristic of long-term services is that services are delivered evenly throughout the contract term. With one contract customer can order for example inside cleaning services, outside cleaning and upkeep services and property maintenance services that are distinct performance obligations. Each service is a distinct performance obligation as the customer can benefit from the services on its own and could order the services from different service providers. If a contract contains more than one distinct performance obligation, the transaction price is allocated to each performance obligation based on the stand-alone selling prices.

In addition to the long-term service agreements, L&T offers services which are separately ordered as part of Industrial Services and Facility Services. Compared to the long-term service agreements, services that are ordered separately are typically short-term in nature and they are provided either occasionally or on a non-recurring basis.

Revenue from services business is recognised over time, as the customer simultaneously receives and consumes the benefits provided by the Group performance. Revenue from services that are invoiced with a fixed monthly fee is recognised evenly over the contract term as also the work is performed evenly over the term. Revenue from services that are invoiced based on hourly fees is recognised based on the work performed. The management has identified that there may be seasonal fluctuation especially in the long-term service agreements of Facility Services as the work performed differs between seasons during the year. Management has estimated that the costs for these services incur evenly throughout the period and, thus, revenue is recognised evenly over the period.

Industrial Services receives contaminated soil from customers, for which the performance obligation is the receipt and processing of soil. Measuring progress towards complete satisfaction of the performance obligation is based on the output method. Revenue is recognised based on the amount of processed soil. Customer is invoiced when soil is received and the payment received from the customer is treated as a contract liability.

## Project business

Project business includes for example projects for industrial process cleaning and closing of landfills which are part of Industrial Services business and renovation and building technology projects as well as refrigeration and cooling service projects for retailers and energy management projects included in Facility Services. In project business the customer orders the entire project at once and the project is considered as a single performance obligation. In some cases, a contract can also consist of several different locations and each location creates a distinct performance obligation. If the contract contains more than one distinct performance obligation, the transaction price is allocated to each performance obligation based on the stand-alone selling prices.

Revenue from project business is recognised over time as the projects mainly relate to enhancing an asset that the customer controls. In project business the input method based on costs incurred is used for measuring the progress towards complete satisfaction of the performance obligation. The management has estimated that the costs incurred for a project can be determined reliably. Also, due to the contract structure in project business the management has determined that L&T has an enforceable right to payment for performance completed to date. In project business invoicing is typically made based on a predetermined payment schedule.

## Sale of equipment and materials

Sale of equipment consists of sale of compactors and balers to customers included in Environmental Services business. Sale of materials consists of sale of wood-based fuels, recycled fuels and delivery of wood raw materials and of sale of recycled raw materials in Environmental Services business. Each equipment or material delivery creates a distinct performance obligation in the sale of equipment and materials. The equipment delivered by the Group does not involve any additional warranties that would be considered as a distinct performance obligation.

Control of the delivered product is transferred when the physical possession of the product has been transferred to the customer, which typically occurs at delivery.

Environmental Services business delivers wood-based fuels, recycled fuels and wood raw materials to customers. The consideration received from a customer is based on the amount of delivered fuel and the energy level of the fuel or on the amount of the delivered material. In some cases, the final transaction price is determined after the customer has measured the fuel's energy value or amount of fuel delivered, and, thus, there is uncertainty relating to the amount of final transaction price. Management has estimated that the level of uncertainty related to the transaction price is low and any adjustments to be made to the transaction price when the uncertainty is resolved are not considered to be material.

## Lease income

In addition to the sale of compactors and balers, customers can also lease the equipment through an external financing company. The agreement made between the Group and the financing company includes a repurchase obligation at the end of the lease period with a predetermined residual value. Due to the repurchase obligation management has determined that all the risks and rewards incidental to ownership of the assets are not transferred substantially to the customer and, thus, the leased equipment is treated as tangible assets. In the beginning of the lease term an amount corresponding to the lease income and the residual value of the asset received from the financing company is presented as a liability. Lease income is recognised monthly during the lease term. Management has estimated that the amount of payment received from the financing company does not Include a significant financing component.

## Estimating variable consideration

The contracts with customers may include components of variable considerations, such as bonuses and penalties for delay. Management has determined that the level of uncertainty relating to the variable consideration is typically low. The estimate of the amount of variable considerations is reassessed at the end of each reporting period.

## Contract balances

### Contract assets and trade receivables

A contract asset is the right to consideration in exchange for goods or services that are transferred to a customer. If goods or services are transferred to a customer before the invoice is sent to the customer, the amount is presented as a contract asset. If the company has an unconditional right to the consideration a trade receivable is presented in the statement of financial position.

Contract assets and trade receivables are assessed for impairment in accordance with IFRS 9. The general payment term for customers is 14 days, but it can vary depending on the specific case.

### Contract liabilities

A contract liability is an obligation to transfer goods or services to a customer for which L&T has received consideration from the customer. If a customer pays consideration before goods or services are transferred to the customer, a contract liability is presented in the statement of financial position when the payment is made by the customer.

### Incremental costs of obtaining a contract

The company does not have material incremental costs to obtain a contract. The company applies a practical expedient which allows the costs to obtain a contract to be recognised when they occur since amortisation period of these assets would have been one year or less.

## Disaggregation of revenue

| 2020 MEUR | Revenue recognised over time: Long-term service agreements | Revenue recognised over time: Separately ordered services | Revenue recognised over time: Project business | Revenue recognised at a point in time: Sales of equipment and materials | Rent: Lease income | Total net sales |
|---|---|---|---|---|---|---|
| Environmental Services | 199.3 | | | 87.1 | 3.0 | 289.4 |
| Industrial Services | 44.6 | 47.0 | 7.5 | 2.7 | | 101.8 |
| Facility Services Finland | 161.5 | 64.7 | 6.0 | | | 232.3 |
| Facility Services Sweden | 61.5 | 67.4 | 5.6 | | | 134.5 |
| Total | 467.0 | 179.1 | 19.1 | 89.8 | 3.0 | 758.0 |
| Interdivision | | | | | | -6.1 |
| External net sales | | | | | | 751.9 |

| 2019 MEUR | Revenue recognised over time: Long-term service agreements | Revenue recognised over time: Separately ordered services | Revenue recognised over time: Project business | Revenue recognised at a point in time: Sales of equipment and materials | Rent: Lease income | Total net sales |
|---|---|---|---|---|---|---|
| Environmental Services | 212.0 | | | 96.8 | 2.4 | 311.2 |
| Industrial Services | 47.0 | 42.0 | 6.0 | 3.8 | | 98.9 |
| Facility Services Finland | 162.7 | 68.6 | 17.8 | | | 249.1 |
| Facility Services Sweden | 48.1 | 80.1 | 3.6 | | | 131.8 |
| Total | 469.8 | 190.7 | 27.4 | 100.6 | 2.4 | 791.0 |
| Interdivision | | | | | | -6.7 |
| External net sales | | | | | | 784.3 |

### Contract balances

| MEUR | 2020 | 2019 |
|---|---|---|
| Trade receivables | 82.9 | 84.2 |
| Contract assets | 19.4 | 22.0 |
| Contract liabilities | 10.1 | 10.1 |

As the contracts are generally short-term, contract liabilities are recognised as revenue entirely during the following period. Contract liabilities are included in the balance sheet item Trade and other payables.

# 1.3 Employee benefit expenses

| MEUR | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 256.8 | 261.4 |
| Pension costs | | |
| Defined contribution plans | 50.5 | 56.5 |
| Defined benefit plans | 0.1 | 0.0 |
| Share-based payment | 0.2 | 0.2 |
| Other personnel expenses | 7.6 | 8.9 |
| Total | 315.1 | 327.1 |

The negative profit impact of the COVID-19 pandemic was mitigated by the temporary reduction of pension insurance contributions by 2.6 percentage points from 1 May to 31 December 2020, which had an impact of approximately EUR 3.8 million to pension costs.
Details on share-based payment are presented in Note 1.6 Share-based payment.
The employee benefits of the top management are presented in Note 5.4 Related-party transactions.
Details on the items of defined benefit pension plans in the consolidated statement of financial position are presented in Note 2.6 Retirement benefit obligations.

## Average number of employees in full-time equivalents

| | 2020 | 2019 |
|---|---|---|
| White collar | 1,345 | 1,259 |
| Blue collar | 5,852 | 6,049 |
| Total | 7,197 | 7,308 |
| | | |
| Finland | 5,853 | 5,946 |
| Sweden | 1,109 | 1,020 |
| Russia | 235 | 342 |
| Total | 7,197 | 7,308 |

# 1.4 Other operating income and expenses

### Accounting policy

Other operating income and expenses includes income and expenses that are not considered as being directly linked to the group's business operations. They include, for instance, income and expenses resulting from the sales of assets and business operations, expenses and allowances for credit losses and the corresponding cancellations as well as expenses resulting from the use of vehicles and machines. The items also include the realised and unrealised losses from derivatives used for hedging against commodity risks.

**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.

| MEUR | 2020 | 2019 |
|---|---|---|
| **Other operating income** | | |
| Gains on sales of property, plant and equipment | 7.7 | 1.1 |
| Annual discounts | 0.2 | 0.3 |
| Reimbursements and government grants | 0.6 | 0.4 |
| Gain on sale of shares | - | 7.5 |
| Other | 0.8 | 1.4 |
| Total | 9.3 | 10.6 |
| **Other operating expenses** | | |
| ICT costs | 16.2 | 14.8 |
| Travel costs | 9.5 | 11.5 |
| Change in bad debt provision | -0.3 | 0.2 |
| Vehicles and machinery | 40.5 | 41.8 |
| Rents and real estate costs | 4.9 | 3.5 |
| Expert fees | 7.4 | 6.7 |
| Voluntary social security costs | 5.7 | 6.5 |
| Discontinuation of Russian operations | 9.0 | - |
| Other | 12.7 | 13.3 |
| Total | 105.6 | 98.3 |

# 1.5 Research and development expenses

### Accounting policy

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 Note 3.1 Goodwill and other intangible assets.

EUR 1.7 million (1.9) research and development expenses arising from centralised development projects are included in the income statement.

# 1.6 Share-based payment

### Accounting policy

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 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 was based on the EVA result of Lassila & Tikanoja group.

Based on the programme a maximum of 31,900 shares of the company could be granted.

Under the programme, a total of 2,584 Lassila & Tikanoja plc's shares were granted in 2018. The shares paid out as rewards were transferred from the shares held by the company. The programme covered 10 persons.

## Share-based incentive programme 2018

Lassila & Tikanoja plc's Board of Directors decided at a meeting held on 13 December 2017 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 28,600 shares of the company could be granted.

Under the programme, a total of 11,233 Lassila & Tikanoja Plc's shares were granted in 2019. The shares paid out as rewards were transferred from the shares held by the company. The programme covered 8 persons.

## Share-based incentive programme 2019

Lassila & Tikanoja plc's Board of Directors decided at a meeting held on 12 December 2018 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 32,850 shares of the company could be granted.

Under the programme, a total of 1,092 Lassila & Tikanoja Plc's shares were granted in 2020. The shares paid out as rewards were transferred from the shares held by the company. The programme covered 8 persons.

## Share-based incentive programme 2020

Lassila & Tikanoja plc's Board of Directors decided at a meeting held on 28 January 2020 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 40,050 shares of the company could be granted.

Based on the decision by the board of directors no Lassila & Tikanoja Plc's shares will be granted in 2021 from the share-based incentive programme of year 2020. The programme covers 9 persons.

### Share-based incentive programmes 2017, 2018, 2019 ja 2020

| Share-based incentive programme | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| Grant date | 2016-12-13 | 2017-12-13 | 2018-12-12 | 2020-01-28 |
| Start of earnings period | 2017-01-01 | 2018-01-01 | 2019-01-01 | 2020-01-01 |
| End of earnings period | 2017-12-31 | 2018-12-31 | 2019-12-31 | 2020-12-31 |
| Average share price at grant date | 18,92 | 17,72 | 16,16 | 15,18 |
| Realisation on closing date, shares | 2,584 | 11,233 | 1,092 | - |
| Obligation to hold shares, years | 2 | 2 | 2 | 2 |
| Release date of shares | 2020-03-31 | 2021-03-31 | 2022-03-31 | 2023-03-31 |
| Number of persons included | 10 | 8 | 8 | 9 |

### Expenses arising from share-based incentive programme, MEUR

| MEUR | 2020 | 2019 |
|---|---|---|
| Share component | 0.2 | 0.1 |
| Cash component | - | 0.1 |
| Total | 0.2 | 0.2 |

## 1.7 Lease expenses

### Accounting policy

L&T leases production and office premises including related land areas and vehicles. The Group's lease agreements were mainly classified as operating leases, for which a lease expense is recognised in the income statement in accordance with IAS 17 for the periods before 2019. IFRS 16 changed the accounting treatment of those lease agreements from 1.1.2019 on. Commodities are also leased under a finance lease contract. These assets have been capitalised in the balance sheet during previous periods and recognition and presentation of these leases will not change in the transition to IFRS 16.

IFRS 16 requires that essentially all leasing contracts shall be recognised in the balance sheet. At the commencement date of the contract, a lessee recognises a lease liability and a corresponding right-of-use asset in the balance sheet. The lease liability is measured at the present value of the remaining lease payments. In the income statement, instead of lease expenses, depreciation on right-of-use assets and interest expense on the lease liability is regonised.

The standard includes two practical exemptions relating to short-term leases for which the lease term is 12 months or less and leases for which the underlying asset is of low value. In addition, contracts relating to certain intangible assets have been excluded from the scope of IFRS 16, and application of IFRS 16 for lease contracts relating to other intangible assets is optional. L&T has decided to apply the practical exemptions for short-term leases and low-value assets and will thus not recognise a right-of-use asset for these leases. Furthermore, IFRS 16 will not be applies to intangible assets. For lessors, the lease accounting requirements remained substantially unchanged compared with IAS 17.

| MEUR | 2020 | 2019 |
|---|---|---|
| Depreciation expense of right-of-use assets | -17.3 | -16.4 |
| Interest expense of lease liabilities | -1.5 | -1.5 |
| Expense related to short term leases | 0.0 | -0.1 |
| Expense related to leases of low-value assests | -4.0 | -1.9 |
| Total | -22.8 | -19.9 |

## 1.8 Financial income and expenses

### Accounting policy

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.

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.

| MEUR | 2020 | 2019 |
|---|---|---|
| **Financial income** | | |
| Interest income on loans and other receivables | 0.4 | 0.2 |
| Foreign exchange gains | - | 0.7 |
| Total financial income | 0.4 | 0.9 |
| **Financial expenses** | | |
| Interest expenses on borrowings measured at amortised cost | 3.4 | 3.4 |
| Other financial expenses | 0.6 | 0.5 |
| Losses on foreign exchange | 1.4 | - |
| Total financial expenses | 5.3 | 3.9 |
| **Financial income and expenses** | -4.9 | -3.0 |

# 1.9 Income taxes

### Accounting policy

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 and depreciation on property, plant and equipment.

### Income tax in the income statement

| MEUR | 2020 | 2019 |
|---|---|---|
| Income tax for the period | -5.9 | -7.4 |
| Income tax for previous periods | 0.4 | 0.0 |
| Change in deferred tax | 1.2 | 0.1 |
| Total | -4.3 | -7.3 |

### The differences between income tax expense recognised in the income statement and income tax calculated at the statutory tax rate in Finland

| MEUR | 2020 | 2019 |
|---|---|---|
| Profit before tax | 23.3 | 42.0 |
| Income tax at Finnish tax rate 20 % | -4.7 | -8.4 |
| Difference between tax rate in Finland and in other countries | -0.1 | -0.2 |
| Expenses not deductible for tax purposes | -0.5 | -0.2 |
| Tax exempt income | 0.7 | 1.5 |
| Income tax for previous periods | 0.4 | 0.0 |
| Unrecognised deferred tax on loss for the period | 0.0 | 0.0 |
| Use of previous years losses | 0.0 | 0.0 |
| Other items | -0.1 | -0.2 |
| Total | -4.3 | -7.3 |

### Tax effects of components of other comprehensive income

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| MEUR | Before tax | Tax expense/ benefit | After tax | Before tax | Tax expense/ benefit | After tax |
| Items arising from re-measurement of defined benefit plans | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Hedging reserve, change in fair value | 0.1 | 0.0 | 0.1 | -0.4 | 0.1 | -0.3 |
| Currency translation differences | 5.4 | 0.0 | 5.4 | -0.6 | 0.0 | -0.6 |
| Currency translation differences non-controlling interest | -0.1 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 |
| Components of other comprehensive income | 5.4 | 0.0 | 5.4 | -1.0 | 0.1 | -0.9 |

| MEUR | At 1 Jan 2020 | Recognised in income statement | Recognised in equity | Other changes | Business acquisitions | At 31 Dec 2020 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Pension benefits | 0.2 | 0.0 | 0.0 | | | 0.2 |
| Provisions | 1.4 | 0.6 | 0.0 | | | 2.0 |
| Fair value adjustments | 0.2 | | 0.0 | | | 0.2 |
| Deferred depreciation | 1.3 | 0.0 | | | | 1.3 |
| Other tax deductible temporary differences | 1.5 | -0.5 | | -0.2 | | 0.8 |
| Total | 4.6 | 0.2 | 0.0 | -0.2 | | 4.5 |
| **Deferred tax liabilities** | | | | | | |
| Dissolution losses | -23.6 | 0.7 | 0.0 | 0.0 | | -22.9 |
| Depreciation differences | -4.6 | -0.1 | | | | -4.7 |
| Share-based benefits | 0.0 | 0.0 | | | | 0.0 |
| Other tax deductible temporary differences | -0.9 | 0.4 | | 0.0 | -0.1 | -0.6 |
| Total | -29.2 | 1.0 | 0.0 | 0.0 | -0.1 | -28.3 |
| Net deferred tax liability | -24.6 | 1.2 | 0.0 | -0.2 | -0.1 | -23.8 |

| MEUR | At 1 Jan 2019 | Recognised in income statement | Recognised in equity | Other changes | Business acquisitions | At 31 Dec 2019 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Pension benefits | 0.2 | 0.0 | 0.0 | | | 0.2 |
| Provisions | 1.3 | 0.0 | 0.0 | 0.1 | | 1.4 |
| Fair value adjustments | 0.1 | | 0.1 | | | 0.2 |
| Deferred depreciation | 1.2 | 0.1 | 0.0 | | | 1.3 |
| Other tax deductible temporary differences | 1.6 | -0.1 | 0.0 | 0.0 | | 1.5 |
| Total | 4.4 | 0.0 | 0.2 | 0.1 | | 4.6 |
| **Deferred tax liabilities** | | | | | | |
| Dissolution losses | -23.2 | -0.5 | 0.0 | 0.0 | | -23.6 |
| Depreciation differences | -5.2 | 0.6 | 0.0 | | | -4.6 |
| Share-based benefits | 0.1 | -0.1 | | | | 0.0 |
| Other tax deductible temporary differences | -0.9 | 0.0 | | 0.0 | 0.0 | -0.9 |
| Total | -29.2 | 0.1 | 0.0 | 0.0 | 0.0 | -29.2 |
| Net deferred tax liability | -24.9 | 0.0 | 0.1 | 0.1 | 0.0 | -24.6 |

## Deferred taxes in the statement of financial position

| MEUR | 2020 | 2019 |
|---|---|---|
| Deferred tax assets | 4.5 | 4.6 |
| Deferred tax liabilities | -28.3 | -29.2 |
| Net deferred tax liabilities | -23.8 | -24.6 |

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.

# 1.10 Earnings per share

### Accounting policy

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.

| | 2020 | 2019 |
|---|---|---|
| Profit attributable to equity holders of the company, MEUR | 19.1 | 34.7 |
| Adjusted weighted average number of ordinary shares outstanding during the year, million shares | 38.1 | 38.4 |
| Earnings per share, EUR | 0.50 | 0.90 |
| | | |
| 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 | 38.1 | 38.4 |
| Earnings per share, diluted, EUR | 0.50 | 0.90 |

# 1.11 Notes to the consolidated statement of cash flows

| MEUR | 2020 | 2019 |
|---|---|---|
| **Adjustments to cash flows from operating activities** | | |
| Taxes | 4.3 | 7.3 |
| Depreciation, amortisation and impairment | 57.0 | 54.4 |
| Finance income and costs | 4.9 | 3.0 |
| Gains and losses of sale | -5.7 | -7.0 |
| Provisions | 2.0 | 1.8 |
| Other | 7.5 | -1.2 |
| Total | 70.0 | 58.3 |

# 2 Operational assets and liabilities

# 2.1 Trade and other receivables

### Accounting policy

Trade and other receivables are recognised in the balance sheet at historical cost less credit losses. The receivables are non-interest bearing and the general payment term for customers is 14 days. The recognition corresponds with the the fair value of the receivables as the periods for payment are short and thus the discounting effect is not essential. Trade receivables are classified as financial assets, that are presented in Note 4.1 Financial risk management and 4.2 Financial assets and liabilities by category.

The simplified approach to impairment in accordance with IFRS 9 applies to the recognition of credit losses. Expected credit losses are calculated by dividing trade receivables into categories based on maturity and by dividing said categories with the credit loss percentage based on historical data on credit losses realised from trade receivables. This impairment model concerns the company's trade receivables and assets based on agreement and the previous recognition of their credit losses.

Based on historical data and the outlook for the short-term future, a credit loss impairment of 0.1–20 per cent is recognised for trade receivables which are not past due or which are past due less than 180 days. For trade receivables which are past due more than 180 days, a credt loss impairment of 45 per cent is recognised and trade receivables due over 360 days are written down completely. If the customer has become insolvent, such as in the case of bankruptcy or debt restructuring, the trade receivable is written down as a final credit loss when a payment can no longer be expected with reasonable certainty.

### Critical judgments by Management

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.

| MEUR | 2020 | 2019 |
|---|---|---|
| Trade receivables | 82.9 | 84.2 |
| Contract assets | 19.4 | 22.0 |
| Loan receivables | 0.1 | 0.3 |
| Accruals | 9.2 | 8.6 |
| Prepayments | 0.0 | 0.3 |
| Tax receivables | 3.1 | 3.9 |
| Other receivables | 1.6 | 0.3 |
| Total | 116.3 | 119.6 |
| | | |
| Accruals include the following: | | |
| Employees' health care compensation | 1.4 | 1.3 |
| Statutory pension insurances | - | 0.0 |
| Licences | 2.0 | 2.0 |
| Other | 5.8 | 5.3 |
| Total | 9.2 | 8.6 |

The receivables are not collaterised. Impairment losses and their reversals recognised in trade receivables are shown in Note 1.4 Other operating income and expenses.

### Maturity of trade receivables, contract assests and credit loss impairments

| MEUR | 2020 Trade receivables | 2020 of which the credit loss impairment | 2019 Trade receivables | 2019 of which the credit loss impairment |
|---|---|---|---|---|
| Trade receivables and contract assests not past due | 94.7 | 0.1 | 92.6 | 0.2 |
| Past due 1–90 days | 6.8 | 0.1 | 12.0 | 0.4 |
| Past due 91–365 days | 1.1 | 0.3 | 2.4 | 0.2 |
| Past due over 365 days | 0.3 | 0.2 | 1.6 | 1.5 |
| Total | 102.9 | 0.6 | 108.6 | 2.4 |

### Change of expected credit loss

| MEUR | 2020 | 2019 |
|---|---|---|
| Expected credit loss, 1 January | 2.4 | 2.3 |
| Change in profit of the period | -1.8 | 0.1 |
| Expected credit loss, 31 December | 0.6 | 2.4 |

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 1.4 Other operating income and expenses.

Financial assets are not collateralised. No impairment was recognised on other financial assets.

## 2.2 Inventories

### Accounting policy

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 in Emvironmental Services are measured using the weighted average cost method. The value of other inventories is determined using the FIFO method.

At its recycling plants, recyclable materials are processesed 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.

| MEUR | 2020 | 2019 |
|---|---|---|
| Raw materials and consumables | 23.9 | 15.2 |
| Finished goods | 3.0 | 2.7 |
| Other inventories | 3.8 | 3.6 |
| Total | 30.7 | 21.5 |

The acquisition cost recognised as cost of inventories was EUR 30.3 million (29.4), which includes a change in inventories of EUR 8.7 million (0.3).

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.

## 2.3 Trade and other current payables

**Accounting policy**

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. Trade payables are classified as financial liabilities that are presented in Note 4.1 Financial risk management and 4.2 Financial assets and liabilities by category.

| MEUR | 2020 | 2019 |
|---|---|---|
| Advances received | 13.4 | 12.4 |
| Trade payables | 64.1 | 59.1 |
| Derivative liabilities | 0.8 | 0.9 |
| Current tax liabilities | 0.3 | 0.1 |
| Other liabilities | 22.7 | 21.7 |
| Accrued expenses and deferred income | 76.7 | 71.1 |
| Total | 178.0 | 165.3 |
| **Accrued expenses and deferred income** | | |
| Liabilities related to personnel expenses | 62.0 | 56.5 |
| Other accrued expenses | 14.8 | 14.6 |
| Total | 76.7 | 71.1 |

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

## 2.4 Other non-current liabilities

| MEUR | 2020 | 2019 |
|---|---|---|
| Advances received | 0.1 | 0.3 |
| Other liabilities | 0.0 | 0.0 |
| Total | 0.1 | 0.3 |

# 2.5 Provisions

### Accounting policy

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.

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.

### Critical judgments by Management

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.

## The environmental provisions cover the following obligations:

The Group 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.

On the balance sheet date, only a provision for follow-up monitoring is included for the Kerava landfill.

During the financial year 2020, the Group commissioned a new landfill area in Oulu. The material recycling centre receives, processes and recovers various types of waste and side streams, such as industrial waste, contaminated soil, construction and demolition waste as well as municipal waste.

Other provisions consists mainly of provision for for restructuring and accident insurance contribution.

| MEUR | Environmental provisions | Other provisions | Total |
|---|---|---|---|
| Provisions at 1 Jan 2020 | 5.3 | 1.8 | 7.1 |
| Additional provisions | 1.7 | 1.2 | 2.9 |
| Used during the year | -0.1 | -0.5 | -0.6 |
| Effect of discounting | 0.1 | 0.0 | 0.1 |
| Provisions at 31 Dec 2020 | 7.0 | 2.4 | 9.5 |

| MEUR | Environmental provisions | Other provisions | Total |
|---|---|---|---|
| Provisions at 1 Jan 2019 | 4.7 | 1.9 | 6.6 |
| Additional provisions | 0.8 | 1.7 | 2.5 |
| Used during the year | -0.2 | -1.8 | -2.0 |
| Effect of discounting | 0.1 | 0.0 | 0.1 |
| Provisions at 31 Dec 2019 | 5.3 | 1.8 | 7.1 |

| MEUR | 2020 | 2019 |
|---|---|---|
| Non-current provisions | 7.1 | 5.4 |
| Current provisions | 2.4 | 1.7 |
| Total | 9.5 | 7.1 |

# 2.6 Retirement benefit obligations

### Accounting policy

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. The Group operates pension schemes in accordance with local regulations and practices in the countries in which it operates, and these are mainly defined contribution plans.

The company 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 AA 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.

The expense (pension expense) based on the work performed during the period and the net interest of the defined benefit plan's net debt are recognised in the profit and loss statement and included in employee benefit expenses. 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.

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 | 2020 | 2019 |
|---|---|---|
| **Amounts recognised in the statement of financial position:** | | |
| Present value of funded obligations | 0.4 | 0.5 |
| Fair value of plan assets | -0.4 | -0.4 |
| | 0.0 | 0.1 |
| Present value of unfunded obligations | 1.3 | 1.2 |
| Closing net liability | 1.4 | 1.3 |
| **Changes in present value of obligation** | | |
| Opening defined benefit obligation | 1.7 | 1.9 |
| Current service cost | 0.0 | 0.0 |
| Interest cost | 0.1 | 0.0 |
| Actuarial gain (-) and loss (+) on obligation | 0.0 | 0.0 |
| Benefits paid | -0.1 | -0.1 |
| Closing value of obligation | 1.7 | 1.7 |
| **Changes in fair value of plan assets** | | |
| Opening fair value of plan assets | 0.4 | 0.5 |
| Interest income | 0.0 | 0.0 |
| Employers' contributions | 0.0 | 0.0 |
| Actuarial gain (+) and loss (-) | 0.0 | 0.0 |
| Benefits paid | 0.0 | 0.0 |
| Closing fair value of plan assets | 0.4 | 0.4 |

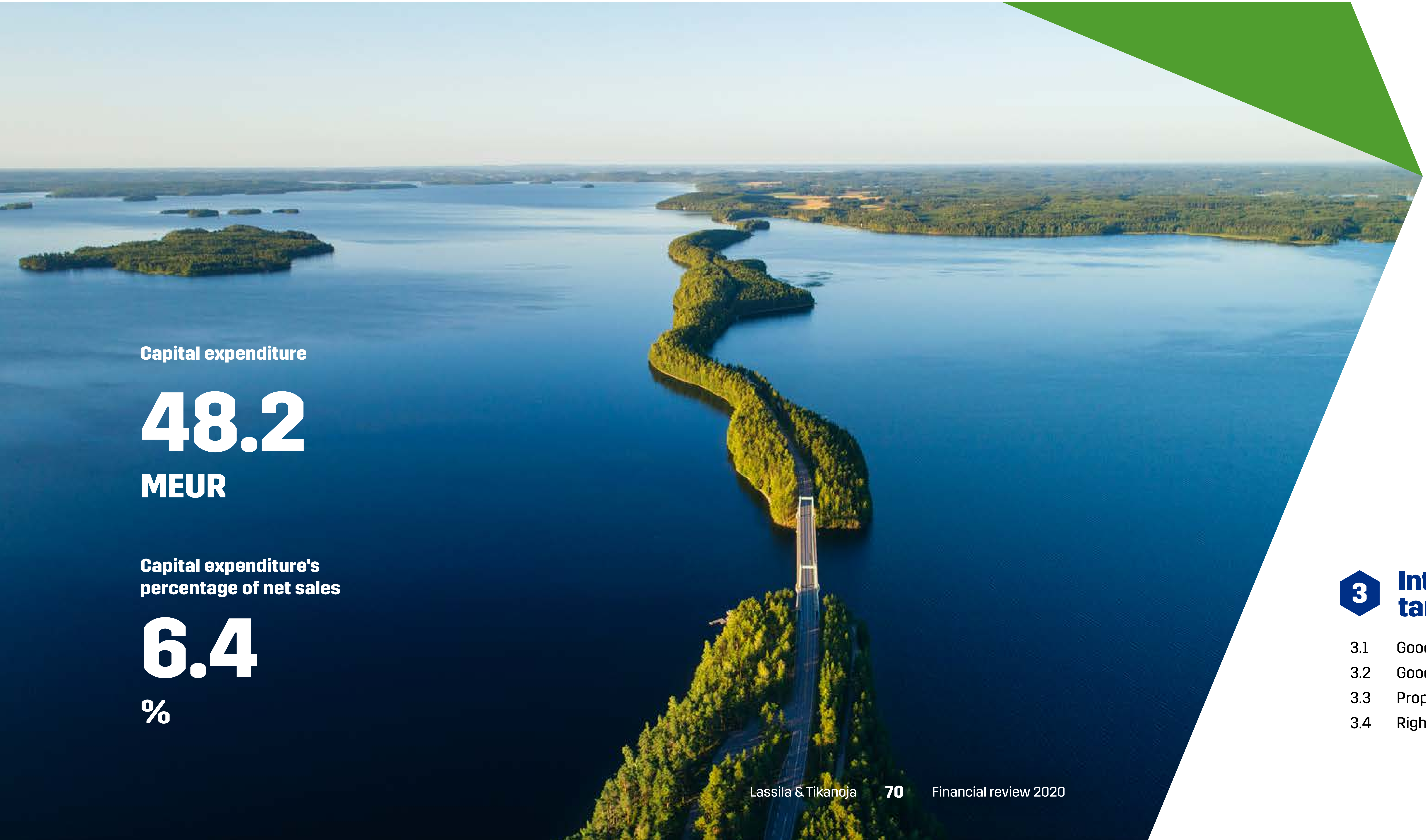
| MEUR | 2020 | 2019 |
|---|---|---|
| **Movements in the liability recognised in the statement of financial position:** | | |
| Opening liability | 1.3 | 1.4 |
| Expense recognised in the income statement | 0.1 | 0.0 |
| Employers' contributions | 0.0 | 0.0 |
| Actuarial gain (-) and loss (+) | 0.1 | 0.0 |
| Contributions paid | -0.1 | -0.1 |
| Closing liability | 1.4 | 1.3 |
| **Amounts recognised in the income statement:** | | |
| Current service cost | 0.0 | 0.0 |
| Interest cost | 0.1 | 0.0 |
| Interest income | 0.0 | 0.0 |
| Actuarial gain (-) and loss (+) | 0.1 | 0.0 |
| Total | 0.1 | 0.0 |

The Group estimates that it will contribute EUR 74 thousand to defined benefit plans in 2021.

| MEUR | 2020 | 2019 |
|---|---|---|
| Present value of obligation | 1.7 | 1.7 |
| Fair value of plan assets | -0.4 | -0.4 |
| Deficit | 1.4 | 1.3 |
| **Principal actuarial assumptions used** | | |
| Discount rate | 0.4% | 0.5% |
| Expected rate of return on plan assets | 1.2% | 1.5% |
| Expected rate of salary increase | 3.4% | 3.7% |
| Expected rate of inflation | 0.9% | 1.2% |

## Defined contribution maturity of the obligation

| MEUR | 2020 | 2019 |
|---|---|---|
| Maturity of less than one year | 0.1 | 0.1 |
| 1–5 years | 0.6 | 0.6 |
| 5–10 years | 0.5 | 0.5 |
| 10–15 years | 0.2 | 0.2 |
| 15–20 years | 0.1 | 0.2 |
| 20–25 years | 0.1 | 0.1 |
| 25–30 years | 0.1 | 0.1 |
| over 30 years | 0.1 | 0.1 |
| Total | 1.8 | 1.8 |



**Capital expenditure**

**48.2**

**MEUR**

**Capital expenditure's percentage of net sales**

**6.4**

**%**

# 3 Intangible and tangible assets

# 3.1 Goodwill and other intangible assets

### Accounting policy

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.

### Critical judgments by Management

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.

| MEUR | Goodwill | Customer contracts arising from acquisitions | Agreements on prohibition of competition | Other intangible assets arising from acquisitions | Intangible rights | Other intangible assets | Prepayments and construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| Acquisition cost, 1 Jan 2020 | 166.3 | 47.4 | 23.9 | 10.1 | 10.5 | 51.8 | 1.7 | 311.6 |
| Additions | | | | | 1.2 | 0.8 | 3.3 | 5.3 |
| Business acquisitions | 0.7 | 0.4 | 0.1 | | | | | 1.1 |
| Disposals | -0.1 | | | | -3.2 | -11.2 | 0.5 | -14.0 |
| Impairments | | | | | -0.1 | -10.8 | -0.9 | -11.8 |
| Transfers between items | 0.0 | | | | | 1.9 | -1.9 | 0.0 |
| Exchange differences | 1.8 | 0.8 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 2.8 |
| Acquisition cost, 31 Dec 2020 | 168.7 | 48.6 | 24.0 | 10.1 | 8.3 | 32.4 | 2.8 | 295.0 |
| Accumulated amortisation and impairment at 1 Jan 2020 | -14.5 | -30.9 | -23.9 | -9.7 | -7.9 | -36.8 | | -123.6 |
| Accumulated amortisation on disposals and transfers | 0.1 | | | | 3.1 | 14.7 | | 17.9 |
| Amortisation charge | 0.0 | -2.9 | 0.0 | -0.1 | -0.8 | -8.9 | | -12.6 |
| Impairments | | | | | 0.1 | 6.9 | | 7.0 |
| Exchange differences | -0.4 | -0.4 | 0.0 | 0.0 | 0.0 | 0.0 | | -0.9 |
| Accumulated amortisation and impairment at 31 Dec 2020 | -14.7 | -34.3 | -24.0 | -9.7 | -5.4 | -24.0 | | -112.1 |
| Book value, 31 Dec 2020 | 154.0 | 14.3 | 0.1 | 0.4 | 2.9 | 8.4 | 2.8 | 182.9 |

Other intangible assets arising from acquisitions include mainly patents and permits.
Contractual commitments related to intangible assets totalled EUR 3.2 million (2.2).

| MEUR | Goodwill | Customer contracts arising from acquisitions | Agreements on prohibition of competition | Other intangible assets arising from acquisitions | Intangible rights | Other intangible assets | Prepayments and construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| Acquisition cost, 1 Jan 2019 | 166.0 | 47.4 | 23.9 | 10.1 | 15.3 | 51.0 | 0.6 | 314.3 |
| Additions | 0.0 | | | | 0.5 | 0.4 | 2.5 | 3.5 |
| Business acquisitions | 0.1 | 0.4 | 0.0 | | | | | 0.5 |
| Disposals | 0.0 | | | | -5.4 | -1.1 | 0.0 | -6.4 |
| Impairments | | | | | - | - | - | - |
| Transfers between items | | | | | 0.0 | 1.4 | -1.4 | 0.0 |
| Exchange differences | 0.2 | -0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.2 |
| Acquisition cost, 31 Dec 2019 | 166.3 | 47.4 | 23.9 | 10.1 | 10.5 | 51.8 | 1.7 | 311.6 |
| Accumulated amortisation and impairment at 1 Jan 2019 | -14.5 | -28.2 | -23.9 | -9.6 | -12.5 | -32.0 | | -120.8 |
| Accumulated amortisation on disposals and transfers | 0.0 | | | | 5.3 | 1.0 | | 6.4 |
| Amortisation charge | 0.0 | -2.8 | 0.0 | -0.1 | -0.7 | -5.8 | | -9.4 |
| Impairments | | | | | - | - | | - |
| Exchange differences | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.2 |
| Accumulated amortisation and impairment at 31 Dec 2019 | -14.5 | -30.9 | -23.9 | -9.7 | -7.9 | -36.8 | | -123.6 |
| Book value, 31 Dec 2019 | 151.9 | 16.4 | 0.0 | 0.4 | 2.6 | 15.0 | 1.7 | 188.0 |

# 3.2 Goodwill impairment tests

### Accounting policy

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.

### Critical judgments by Management

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.

## Goodwill allocation

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

| MEUR | 2020 | 2019 |
|---|---|---|
| Environmental Services | 74.1 | 73.7 |
| Industrial Services | 19.8 | 19.5 |
| Facility Services, Finland | 22.5 | 22.6 |
| L&T Service AB | 2.9 | 2.7 |
| L&T FM AB | 34.7 | 33.4 |
| Total | 154.0 | 151.9 |

## Impairment tests in 2020

Impairment testing has been prepared based on value-in-use calculations in which future cash flows are discounted to current value. The growth assumption used in the value-in-use calculations of cashflow-generating units is 1.9 per cent, which corresponds to the mid-term inflation goal of the European Central Bank. Long-term growth rates used in the value-in-use calculations of cash-generating units.

| % | 2020 | 2019 |
|---|---|---|
| Environmental Services | 1.9 | 1.9 |
| Industrial Services | 1.9 | 1.9 |
| Facility Services, Finland | 1.9 | 1.9 |
| L&T Service AB | 1.9 | 1.9 |
| L&T FM AB | 1.9 | 1.9 |

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 definition of WACC has been clarified during the financial year 2019. There are no grounds for the determination of separate division-specific risk allowances in addition to the sector-specific risk included in the WACC components as the management does not consider that the company's operations include a risk higher than the division-specific risk. Furthermore, Finland and Sweden are similar geographic areas in terms of business operations.

**Discount rates used in the calculations:**

| % | 2020 | 2019 |
|---|---|---|
| Environmental Services | 7.9 | 7.8 |
| Industrial Services | 7.9 | 7.7 |
| Facility Services, Finland | 7.7 | 7.7 |
| L&T Service AB | 8.3 | 8.2 |
| L&T FM AB | 8.1 | 8.0 |

No instances of impairment were identified during impairment testing.

## Sensitivity analyses of impairment testing

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. Based on the results of the test, a change in the central assumptions which would be considered as somewhat likely could not result in the accounting value of a cashflow-generating unit exceeding the value-in-use. At the time of testing, all cashflow-generating units exceeded the accounting value by over 50 per cent.

**Value in use in relation to book value:**

| | 2020 | 2019 |
|---|---|---|
| Environmental Services | Over 50% | Over 50% |
| Industrial Services | Over 50% | Over 50% |
| Facility Services, Finland | Over 50% | Over 50% |
| L&T Service AB | Over 50% | Over 50% |
| L&T FM AB | Over 50% | Over 50% |

# 3.3 Property, plant and equipment

### Accounting policy

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.

### Critical judgments by Management

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 recognised in prior periods is reversed if there is a change in circumstances and the recoverable amount has changed.

| MEUR | Land | Buildings and constructions | Machinery and equipment | Other | Prepayments and construction in progress | Total |
|---|---|---|---|---|---|---|
| Acquisition cost, 1 Jan 2020 | 6.3 | 130.4 | 403.6 | 0.1 | 4.2 | 544.6 |
| Additions | | 1.8 | 13.2 | | 26.5 | 41.4 |
| Business acquisitions | | 0.2 | 0.7 | | | 0.9 |
| Disposals | -0.1 | -3.2 | -31.6 | | 0.0 | -34.9 |
| Impairments | -0.4 | -1.7 | -6.2 | | 0.0 | -8.3 |
| Transfers between items | | 7.3 | 14.4 | | -21.7 | 0.0 |
| Exchange differences | 0.0 | -0.2 | -0.8 | 0.0 | 0.0 | -1.0 |
| Acquisition cost, 31 Dec 2020 | 5.8 | 134.4 | 393.3 | 0.1 | 8.9 | 542.6 |
| | | | | | | |
| Accumulated depreciation at 1 Jan 2020 | -0.5 | -96.0 | -318.5 | -0.1 | | -415.1 |
| Accumulated depreciation on disposals and transfers | | 2.6 | 31.0 | | | 33.6 |
| Depreciation for the period | | -6.2 | -21.0 | | | -27.1 |
| Impairments | | 1.0 | 4.2 | | | 5.2 |
| Exchange differences | | 0.1 | 0.5 | 0.0 | | 0.6 |
| Accumulated depreciation at 31 Dec 2020 | -0.5 | -98.4 | -303.8 | -0.1 | | -402.8 |
| Net book value at 31 Dec 2020 | 5.3 | 36.0 | 89.5 | 0.1 | 8.9 | 139.8 |

The book value of machinery and equipment includes EUR 11.5 million (10.1) of compactors and balers sold through an external financing company. Due to the repurchase obligation the leased equipment is treated as tangible assets.

Contractual commitments related to property, plant and equipment totalled EUR 10.1 million (7.5).

| MEUR | Land | Buildings and constructions | Machinery and equipment | Other | Prepayments and construction in progress | Total |
|---|---|---|---|---|---|---|
| Acquisition cost, 1 Jan 2019 | 5.6 | 124.9 | 438.5 | 0.1 | 5.2 | 574.4 |
| IFRS 16 implementation | | | -28.5 | | | -28.5 |
| Additions | 0.7 | 2.7 | 13.2 | | 11.2 | 27.8 |
| Business acquisitions | | 0.1 | 0.1 | | | 0.2 |
| Disposals | 0.0 | -1.0 | -29.4 | 0.0 | 0.0 | -30.4 |
| Impairments | - | - | - | | - | - |
| Transfers between items | | 3.4 | 8.9 | | -12.3 | 0.0 |
| Exchange differences | 0.1 | 0.2 | 0.8 | 0.0 | 0.0 | 1.1 |
| Acquisition cost, 31 Dec 2019 | 6.3 | 130.4 | 403.6 | 0.1 | 4.2 | 544.6 |
| | | | | | | |
| Accumulated depreciation at 1 Jan 2019 | -0.5 | -90.8 | -327.8 | -0.1 | | -419.2 |
| IFRS 16 implementation | | | 4.9 | | | 4.9 |
| Accumulated depreciation on disposals and transfers | | 0.9 | 27.6 | | | 28.5 |
| Depreciation for the period | | -6.0 | -22.7 | | | -28.7 |
| Impairments | | - | - | | | - |
| Exchange differences | | -0.1 | -0.5 | 0.0 | | -0.6 |
| Accumulated depreciation at 31 Dec 2019 | -0.5 | -96.0 | -318.5 | -0.1 | | -415.1 |
| Net book value at 31 Dec 2019 | 5.8 | 34.4 | 85.1 | 0.1 | 4.2 | 129.5 |

## 3.4 Right-of-use assets

### Accounting policy

A right-of-use asset is recognised from a lease contract at the commencement date of the lease, which is the date that the underlying asset is made available for use. Right-of-use assets are measured at cost less any cumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The cost of the right-of-use asset includes the amount of lease liability recognised, any initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Possible asset retirement obligations are also considered in the cost of the right-of-use asset. Right-of-use assets are subject to impairment testing in future periods.

Under IFRS 16, the lessee recognises the lease liability at the inception of the contract by discounting the future minimum lease payments to the present value. Since the interest rate implicit in the lease is not readily available in most of the Group's lease contracts, the future minimum lease payments are discounted using The Group's incremental borrowing rate. IFRS 16 defines the incremental borrowing rate as the interest rate that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic situation. The Group has determined the incremental borrowing rate taking into consideration the lease term and the financial environment of the lease.

The Group's lease liability covers the lease liabilities of commodities leased through a financial company as well as the lease liabilities of other lease agreements. The company's lease agreements do not include any significant variable leases or residual value guarantees.

### Critical judgments by Management

IFRS 16 requires lessees to determine the lease term as the non-cancellable period of a lease adjusted with any option to extend or terminate the lease, if the use of such option is reasonably certain. The expected lease term is assessed on a lease-by-lease basis and thereby assesses whether it is reasonably certain that any options to extend or terminate the contract will be exercised.

The Group has lease contracts relating mainly to real estate and land areas which are valid until further notice. For such contracts, the management evaluates the lease term on a lease-by-lease basis. In evaluating the lease term the Group considers e.g. any significant leasehold improvements undertaken over the lease term, costs relating to the termination of the lease and the importance of the underlying asset to the Group's operations taking into account, for example, whether the underlying asset is a specialised asset, the location of the underlying asset and the availability of suitable alternatives. The lease term is reassesed in future periods to ensure that the lease term reflects the current circumstances.

| MEUR | Land | Buildings and constructions | Machinery and equipment | Total |
|---|---|---|---|---|
| Acquisition cost, 1 Jan 2020 | 12.4 | 38.3 | 47.8 | 98.5 |
| Additions | 1.3 | 9.8 | 4.5 | 15.7 |
| Disposals | -0.2 | -7.4 | -0.5 | -8.0 |
| Exchange differences | | 0.1 | 0.2 | 0.3 |
| Acquisition cost, 31 Dec 2020 | 13.5 | 40.9 | 52.0 | 106.4 |
| | | | | |
| Accumulated depreciation at 1 Jan 2020 | -1.1 | -8.6 | -11.7 | -21.3 |
| Accumulated depreciation on disposals and transfers | 0.0 | 2.7 | 0.5 | 3.3 |
| Depreciation for the period | -1.2 | -8.6 | -7.5 | -17.3 |
| Exchange differences | | -0.1 | -0.1 | -0.2 |
| Accumulated depreciation at 31 Dec 2020 | -2.2 | -14.5 | -18.9 | -35.6 |
| Net book value at 31 Dec 2020 | 11.3 | 26.4 | 33.1 | 70.9 |

| MEUR | Land | Buildings and constructions | Machinery and equipment | Total |
|---|---|---|---|---|
| Acquisition cost, 1 Jan 2019 | 12.2 | 36.3 | 5.3 | 53.8 |
| IFRS 16 implementation | | | 28.5 | 28.5 |
| Additions | 0.2 | 2.1 | 14.0 | 16.3 |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 |
| Exchange differences | | -0.1 | -0.1 | -0.1 |
| Acquisition cost, 31 Dec 2019 | 12.4 | 38.3 | 47.8 | 98.5 |
| | | | | |
| Accumulated depreciation at 1 Jan 2019 | 0.0 | 0.0 | 0.0 | 0.0 |
| IFRS 16 implementation | | | -4.9 | -4.9 |
| Depreciation for the period | -1.1 | -8.5 | -6.8 | -16.4 |
| Exchange differences | | 0.0 | 0.0 | 0.0 |
| Accumulated depreciation at 31 Dec 2019 | -1.1 | -8.6 | -11.7 | -21.3 |
| Net book value at 31 Dec 2019 | 11.3 | 29.8 | 36.1 | 77.2 |

On the balance sheet date, no new lease agreements are known which will become valid in the coming financial years that would have a significant impact on the amount of debt resulting from a right-of-use asset or a lease agreement.
For more information about the lease agreement expenses, see Note 1.7 Lease expenses.


# 4 Financial risk and capital structure

# 4.1 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

The Group consists of a parent company operating in Finland and subsidiaries operating in Finland, Sweden and Russia. 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.

## Translation risk

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

## Transaction risk

The business operations of the Group's foreign subsidiaries are carried out almost completely in their functional currency and 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.

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

| MEUR | 2020 | 2019 |
|---|---|---|
| RUB-denominated internal loan capital and accrued interest | - | 8.1 |
| Netto | - | 8.1 |

Changes in exchange rates in 2020 resulted in translation differences of EUR 5.4 million in equity (-0.6). Net investments by currency are presented in the table below. The translation difference for the financial year 2020 includes only the Swedish business due to the discontinuation of the Russian business.

**Translation exposure of net investments**

| MEUR | 2020 | 2019 |
|---|---|---|
| SEK | 38.3 | 32.2 |
| RUB | - | 1.7 |
| Total | 38.3 | 33.9 |

## Price risk of investments

The Group has not invested in listed securities, the value of which changes as the market prices change, and is thus not exposed to securities price risk. The Group 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 IFRS 9 has been applied to these derivatives. During the financial period 2019 the Group decided to no longer hedge of future diesel oil purchases. There are no hedging contracts valid at the end of the financial period.

The Group manages the raw material price risk for environmental products through fixing sales prices for a period not exceeding the period for which the suppliers' purchase prices are valid.

## Interest rate risk

The Group'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 the Group's services or their prices are not significantly dependent on fluctuations in economic trends, the Group tries to keep interest costs steady. On account of this, over 50 per cent of the cash flow associated with variable-rate borrowings is hedged against interest rate risk with interest rate swaps.

At end of the financial period, 80 per cent (80) of the company's borrowings were either fixed interest rate borrowings or hedged with interest rate swaps. Variable-rate borrowings accounted for 20 per cent (20). 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 IFRS 9 is applied to all contracts. Most of the Group's net sales are generated by long-term service agreements. Due to good cash flow predictability, the Group'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. No impairment is expected on any outstanding investments at the balance sheet date.

The Group 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.The Group 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.

According to the requirements of the IFRS 9 expected credit loss model, loss allowance must be recognized based on expected credit losses. A simplified model is used for trade receivables and contract assets and the amount of expected credit losses is based on the life-time expected credit losses of receivables. The model is based on historical observed default amounts over the expected life of the trade receivables and is adjusted for forward-looking estimates depending on the overdue of the receivables.

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.

## Liquidity and refinancing risk

Liquidity risk management ensures that the Group continuously will be able to answer for its financial obligations associated with operations at the lowest possible cost. The Group 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 group uses a group bank account system which facilitates the management of cash funds. To ascertain the availability of funding, the Group 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 for at least two years.

The Group 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, the Group has EUR 10 million account limit and committed credit limits (totalling EUR 30 million) and a commercial paper programme (EUR 100 million). At the end of the financial period, the Group's liquid assets and investments amounted to EUR 50.2 million (41.8). The commercial paper programme EUR 100 million was in all unused (comparison period used 20.0).

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.

### Credit risk related to financial assets

| MEUR | 2020 | 2019 |
|---|---|---|
| Other non-current receivables | 1.3 | 1.4 |
| Trade receivables | 82.9 | 84.2 |
| Contract assets | 19.4 | 22.0 |
| Other current receivables | 14.0 | 13.1 |
| Prepayments | 0.0 | 0.3 |
| Derivative receivables | 0.0 | 0.0 |
| Cash and cash equivalents | 50.2 | 41.8 |

## Maturity of financial liabilities

| MEUR 2020 | Carrying amount | Contractual cash flows | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 and later |
|---|---|---|---|---|---|---|---|---|
| Bank borrowings and loans from pension institutions | 49.9 | 51.6 | 0.4 | 0.4 | 0.4 | 50.4 | - | - |
| Bonds | 49.8 | 51.9 | 0.6 | 0.6 | 50.6 | - | - | - |
| Commercial paper liabilities | 15.0 | 15.0 | 15.0 | | | | | |
| Lease liabilities | 72.0 | 76.6 | 17.0 | 14.9 | 13.6 | 9.7 | 8.0 | 13.4 |
| Derivative liabilities | 0.8 | 0.7 | 0.2 | 0.2 | 0.2 | 0.2 | - | - |
| Trade and other payables | 86.8 | 86.8 | 86.8 | - | - | - | - | - |
| Total | 274.2 | 282.5 | 119.9 | 16.1 | 64.7 | 60.3 | 8.0 | 13.4 |

| MEUR 2019 | Carrying amount | Contractual cash flows | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 and later |
|---|---|---|---|---|---|---|---|---|
| Bank borrowings and loans from pension institutions | 49.9 | 52.0 | 0.4 | 0.4 | 0.4 | 0.4 | 50.4 | - |
| Bonds | 49.7 | 52.5 | 0.6 | 0.6 | 0.6 | 50.6 | - | - |
| Commercial paper liabilities | - | - | | | | | | |
| Lease liabilities | 77.8 | 83.1 | 16.7 | 15.2 | 14.2 | 10.1 | 9.2 | 17.7 |
| Derivative liabilities | 0.9 | 0.8 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | - |
| Trade and other payables | 80.7 | 80.7 | 80.7 | - | - | - | - | - |
| Total | 259.0 | 269.2 | 98.6 | 16.4 | 15.4 | 61.3 | 59.8 | 17.7 |

## Maturity of lease liabilities

| MEUR | 2020 | 2019 |
|---|---|---|
| Lease liabilities | | |
| – minimum lease payments by maturity | | |
| Not later than one year | 17.0 | 16.7 |
| Later than one year and not later than five years | 46.2 | 48.8 |
| Later than five years | 13.4 | 17.7 |
| Total minimum lease payments | 76.6 | 83.1 |
| Future finance charges | -4.6 | -5.3 |
| Present value of lease liabilities | 72.0 | 77.8 |
| | | |
| Maturity of present value of lease liabilities | | |
| Not later than one year | 16.3 | 15.8 |
| Later than one year and not later than five years | 44.0 | 45.5 |
| Later than five years | 11.6 | 16.5 |
| Total | 72.0 | 77.8 |

### Breakdown of borrowings and facilites

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| **MEUR** | **In use** | **Undrawn** | **Total** | **In use** | **Undrawn** | **Total** |
| Bank borrowings and loans from pension institutions | 49.9 | - | 49.9 | 49.9 | - | 49.9 |
| Bonds | 49.8 | - | 49.8 | 49.7 | - | 49.7 |
| Committed credit facility | - | 30.0 | 30.0 | - | 30.0 | 30.0 |
| Commercial paper programme | 15.0 | 85.0 | 100.0 | - | 100.0 | 100.0 |
| Lease liabilities from financial institutes | 31.2 | 18.8 | 50.0 | 32.5 | 17.5 | 50.0 |
| Other lease liabilities | 40.8 | - | 40.8 | 45.3 | - | 45.3 |
| Total | 186.7 | 133.8 | 320.5 | 177.4 | 147.5 | 324.9 |

## 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, 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, interest rate swaps and commodity derivatives.

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **MEUR** | **Profit after tax** | **Equity** | **Profit after tax** | **Equity** |
| Derivatives: | | | | |
| + 0.5% change in market interest rates | -0.1 | 0.1 | -0.1 | 0.4 |
| - 0.2% change in market interest rates | 0.0 | 0.0 | 0.0 | -0.1 |
| + 10% change in diesel oil | | - | | 0.0 |
| - 10% change in diesel oil | | - | | 0.0 |
| Group's internal loans: | | | | |
| +10% change in SEK exchange rate | - | | - | |
| -10% change in SEK exchange rate | - | | - | |
| +10% change in RUB exchange rate | - | | 0.7 | |
| -10% change in RUB exchange rate | - | | -0.6 | |

# 4.2 Financial assets and liabilities by category

### Accounting policy

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 the Group.

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.

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.

## 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.

## Lease liabilities

Due to the implementation of IFRS 16 standard the finance lease liability has been changed to lease liability in the balance sheet. 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.

## 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. Financial instruments of hierarchy level 1 are shares and interest-bearing investments which are recognised at fair value through other comprehensive income. Financial instruments of hierarchy level 2 are over-the-counter (OTC) derivatives which are categorised into those which are recognised at fair value in the profit and loss statement and those which are recognised through other comprehensive income in case they meet the requirements for hedge accounting. A financial instrument is categorised to level 3 if it's fair value cannot be determined based on observable market information.

In the Group, only derivatives are recognised at fair value. 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.

### Critical judgments by Management

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.

| | 2020 | | | 2019 | | | | |
|---|---|---|---|---|---|---|---|---|
| **MEUR** | **Amortised cost** | **Derivatives under hedge accounting** | **Carrying amounts by balance sheet item** | **Amortised cost** | **Derivatives under hedge accounting** | **Carrying amounts by balance sheet item** | **Fair value hierarchy level** | **Note** |
| **Non-current financial assets** | | | | | | | | |
| Other receivables | 1.3 | | 1.3 | 1.4 | | 1.4 | | |
| **Current financial assets** | | | | | | | | |
| Trade and other receivables | 104.0 | | 104.0 | 106.8 | | 106.8 | | 2.1 |
| Finance lease receivables | - | | - | - | | - | | |
| Derivative receivables | - | - | - | - | 0.0 | 0.0 | | |
| Cash and cash equivalents | 50.2 | | 50.2 | 41.8 | | 41.8 | | |
| Total financial assets | 155.5 | - | 155.5 | 150.0 | 0.0 | 150.0 | | |
| **Non-current financial liabilities** | | | | | | | | |
| Borrowings | 99.7 | | 99.7 | 99.6 | | 99.6 | 2 | |
| Lease liabilities | 55.7 | | 55.7 | 62.0 | | 62.0 | | 4.1 |
| **Current financial liabilities** | | | | | | | | |
| Borrowings | 15.0 | | 15.0 | - | | - | 2 | |
| Lease liabilities | 16.3 | | 16.3 | 15.8 | | 15.8 | | 4.1 |
| Trade and other payables | 86.8 | | 86.8 | 80.7 | | 80.7 | | 2.3 |
| Derivative liabilities | - | 0.8 | 0.8 | - | 0.9 | 0.9 | 2 | |
| Total financial liabilities | 273.5 | 0.8 | 274.3 | 258.2 | 0.9 | 259.0 | | |

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

## 4.3 Cash and cash equivalents

### Accounting policy

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.

| MEUR | 2020 | 2019 |
|---|---|---|
| Cash on hand and in banks | 50.2 | 41.8 |
| Total | 50.2 | 41.8 |

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

## 4.4 Equity

### Accounting policy

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.

### 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 2020 | 38,094 | 19.4 | 0.6 | -10.8 | 9.2 |
| 25 February 2020 Transfer of own shares | 1 | | | 0.0 | 0.0 |
| 20 March 2020 Transfer of own shares | 10 | | | 0.1 | 0.1 |
| Recognition of share-based benefits as expenses | | | 0.0 | | 0.0 |
| At 31 Dec 2020 | 38,105 | 19.4 | 0.6 | -10.7 | 9.3 |

| MEUR | Number of outstanding shares, 1,000 shares | Share capital | Invested non-restricted equity reserve | Own shares | Total |
|---|---|---|---|---|---|
| At 1 Jan 2019 | 38,406 | 19.4 | 0.6 | -6.5 | 13.5 |
| 15 February 2019 Return of own shares | -7 | | | -0.1 | -0.1 |
| 25 February 2019 Transfer of own shares | 11 | | | 0.1 | 0.1 |
| 20 March 2019 Transfer of own shares | 6 | | | 0.1 | 0.1 |
| 29 August 2019 Return of own shares | -1 | | | 0.0 | 0.0 |
| Acquisition of own shares | -320 | | | -4.5 | -4.5 |
| Recognition of share-based benefits as expenses | | | 0.0 | | 0.0 |
| At 31 Dec 2019 | 38,094 | 19.4 | 0.6 | -10.8 | 9.2 |

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.

The Annual General Meeting held on 12 March 2020 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.

At the end of the financial year 2020, the company held 693,589 of its own shares (704,408) representing 1.8% of all shares and votes.

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 | 2020 | 2019 |
|---|---|---|
| Equity in the consolidated statement of financial position | 192.6 | 203.0 |
| Statement of financial position total | 596.6 | 583.6 |
| Current advances received | -13.4 | -12.4 |
| Non-current advances received | -0.1 | -0.3 |
| Total | 583.1 | 570.9 |
| Equity ratio, % | 33.0 % | 35.6 % |

| MEUR | 2020 | 2019 |
|---|---|---|
| Equity in the consolidated statement of financial position | 192.6 | 203.0 |
| Non-current borrowings | 155.4 | 161.6 |
| Current borrowings | 31.3 | 15.8 |
| Cash and cash equivalents | -50.2 | -41.8 |
| Net interest-bearing liabilities | 136.5 | 135.6 |
| Gearing, % | 70.9 % | 66.8 % |

## 4.5 Dividend per share

At the Annual General Meeting on 18 March 2021, the Board of Directors will propose that a dividend of EUR 0.40 per share be paid for the 2020 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 2019.

## 4.6 Financial liabilities

| MEUR | 1 Jan 2020 | Cash flow | Non-cash flow adjustments: Transfer from non-current to current | Non-cash flow adjustments: Other non-cash flow adjustments | 31 Dec 2020 |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| Bank borrowings | 49.9 | | | 0.0 | 49.9 |
| Bonds | 49.7 | | | 0.1 | 49.8 |
| Lease liability | 62.0 | | -22.0 | 15.7 | 55.7 |
| Total | 161.6 | 0.0 | -22.0 | 15.8 | 155.4 |
| **Current** | | | | | |
| Repayments of long-term borrowings | - | | | | - |
| Bonds | - | | | | - |
| Lease liability | 15.8 | -16.2 | 22.0 | -5.3 | 16.3 |
| Current bank borrowings | - | 15.0 | | | 15.0 |
| Total | 15.8 | -1.2 | 22.0 | -5.3 | 31.3 |

| MEUR | 1 Jan 2019 | Cash flow | Non-cash flow adjustments: Transfer from non-current to current | Non-cash flow adjustments: Other non-cash flow adjustments | 31 Dec 2019 |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| Bank borrowings | 74.9 | -25.0 | | 0.0 | 49.9 |
| Bonds | 49.6 | | | 0.1 | 49.7 |
| Lease liability | 20.3 | | -28.4 | 70.1 | 62.0 |
| Total | 144.8 | -25.0 | -28.4 | 70.2 | 161.6 |
| **Current** | | | | | |
| Repayments of long-term borrowings | 0.9 | -0.9 | | | - |
| Bonds | 2.9 | -2.9 | | | - |
| Lease liability | 3.5 | -13.3 | 28.4 | -2.8 | 15.8 |
| Current bank borrowings | - | | | | - |
| Total | 7.4 | -17.2 | 28.4 | -2.8 | 15.8 |

Fair values of financial liabilities are presented in Note 4.2 Financial assets and liabilities by category.
Maturity of long-term bank borrowings and financial lease liabilities is presented in Note 4.1 Financial risk management.

## 4.7 Contingent liabilities

| MEUR | 2020 | 2019 |
|---|---|---|
| **Collaterals for own commitments** | | |
| Mortgages on rights of tenancy | 0.1 | 0.1 |
| Other securities | 0.0 | 0.1 |
| Bank guarantees required for environmental permits | 12.4 | 11.1 |
| Other bank guarantees | 10.6 | 8.4 |

Other securities are guarantee deposits.

# 4.8 Derivative financial instruments and hedge accounting

## Accounting policy

In accordance with the financing policy, derivatives agreements are used for the reduction of financial risks related to changes in interest and commodity rates. The derivatives agreements concluded were interest rate swaps which have been implemented to protect the cashflow of floating rate loans from the interest rate risk, and commodity swaps which were implemented to balance the variation in price of future diesel fuel purchases.

Derivatives are recorded in the balance sheet initially at fair value. After the acquisition they will, however, be recorded at the fair value applicable on the balance sheet date. The fair values of are based on market prices on the balance sheet date. Any profits and losses created from the valuation at fair value are processed in accounting as specified by the purpose of use of the derivatives agreement.

All interest and commodity hedges meet the requirements of effective hedging stated in the group's risk management. Any profits and losses resulting from derivatives included in hedging are recorded like the underlying asset. Derivative agreements are initially specified as hedging of future cashflows and forecast purchases (cashflow hedging) or as derivatives agreements to which hedging does not apply (financial hedging). Cashflow hedging applies to all interest swap and commodity derivative agreements.

The efficiency of hedging relationships is registered initially and in conjunction with each interim report by evaluating the hedging instrument's ability to reverse the changes in the cashflow of the hedged item. If the hedging is effective, the changes in the fair value of hedging instruments are recorded in the hedging reserve under capital and reserves. When a hedging instrument matures, it is sold or when the criteria for hedge accounting no longer meet the group's risk management requirements, the profit or loss generated from the hedging instrument remains in equity until the hedged cashflow is realised. If the hedged cashflow is no longer expected to become realised, the profit or loss generated from the hedging instrument is recorded in the income statement with immediate effect. Any ineffective part of a hedging relationship is also recorded in the income statement with immediate effect.

The positive fair values of all derivatives are recorded in the balance sheet as derivative receivables. Correspondingly, the negative fair values of derivatives are recorded as derivative liabilities. All fair values of derivatives are included in short-term assets or liabilities.

The company has used hedge accounting in accordance with IFRS 9 for the commodity swap agreements related to purchases of diesel fuel. The goal of IFRS 9 is that an entity gives information in its financial statements which allows the users of the financial statements to evaluate the significance of the financial instruments on the entity's financial position and result, the types and extent of risks related to the financial instruments to which the entity is exposed during the period and on the last day of the reporting period as well as what means the entity uses to control such risks.

## Interest rate swaps

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **MEUR** | **Nominal value** | **Fair value** | **Nominal value** | **Fair value** |
| **Maturity of interest rate swaps under hedge accounting** | | | | |
| Not later than one year | - | - | - | - |
| Later than one year and not later than five years | 30.0 | -0.9 | 30.0 | -1.0 |
| Later than five years | - | - | - | - |
| Total | 30.0 | -0.9 | 30.0 | -1.0 |

The interest rate swaps are used to hedge cash flow related to a floating rate loan, and hedge accounting under IFRS 9 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 fixed interest rates of the interest rate swaps at 31 December 2020 were 0.8 per cent (0.8). The floating interest rate was 6-month Euribor.

## Commodity derivatives

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **MEUR** | **Nominal value** | **Fair value** | **Nominal value** | **Fair value** |
| **Maturity of diesel swaps under hedge accounting** | | | | |
| Not later than one year | - | - | 0.6 | 0.0 |
| Later than one year and not later than five years | - | - | - | - |
| Total | - | - | 1.6 | 0.0 |

Commodity derivative contracts were signed for the hedging of future diesel oil purchases. IFRS 9 compliant hedge accounting is applied to these contracts, and the effective change in fair value is recognised in the hedging reserve within equity. The fair values of commodity derivatives are based on market prices on the balance sheet date. During the financial period 2019 the Group decided to no longer hedge of future diesel oil purchases.

# 5 Consolidation and other notes

# 5.1 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. The treatment of goodwill from acquisition of subsidiaries is presented in Note 3.1 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 transactions. The 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. L&T 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. The Group 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.

## 5.2 Group companies

| | Group holding of shares and votes, % |
|---|---|
| **Group's parent company** | |
| Lassila & Tikanoja Plc | |
| **Finnish subsidiaries** | |
| L&T Relations Oy, Helsinki | 100.0 |
| L&T Toimi Oy, Helsinki | 100.0 |
| L&T Biowatti Oy, Helsinki | 100.0 |
| L&T Hankinta Ky, Helsinki | 100.0 |
| L&T Työllistämispalvelu Oy, Helsinki | 100.0 |
| L&T Kiinteistöpalvelut tukitoiminnot Oy, Helsinki | 100.0 |
| L&T Kiinteistöhuolto Oy, Helsinki | 100.0 |
| L&T Kiinteistötekniikka Oy, Helsinki | 100.0 |
| L&T Siivous Oy, Helsinki | 100.0 |
| L&T Ympäristöpalvelut Oy, Helsinki | 100.0 |
| L&T Teollisuuspalvelut Oy, Helsinki | 100.0 |
| Oakland Service Oy, Lappeenranta | 100.0 |
| **Foreign subsidiaries** | |
| Lassila & Tikanoja Service AB, Stockholm, Sweden | 100.0 |
| Lassila & Tikanoja FM AB, Stockholm, Sweden | 100.0 |
| Lassila & Tikanoja Services OÜ, in voluntary liquidation, 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** | |
| Suomen Keräystuote Oy, Helsinki | 40.0 |

## 5.3 Business acquisitions

### Accounting policy

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.

### Critical judgments by Management

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. The carrying amounts of assets are reviewed continuously for impairment. More information on this is provided in Notes 3.1–3.3.

## Business acquisitions

Lassila & Tikanoja plc acquired the waste management and recycling business of Kuusamon Jätehuolto Oy on 1 June 2020.

On 1 July 2020, Lassila & Tikanoja plc acquired the entire share capital of Oakland Service Oy, which specialises in industrial cleaning. Oakland Service Oy provides demanding special cleaning services for industrial facilities, the construction sector and the maritime trade as well as sewer maintenance services for businesses and housing companies.

The business acquisition of M.E. Jäte & Trans Oy was completed on 1 November 2020. As a result of the acquisition, the company's waste service in the Parainen area was transferred to L&T.

Lassila & Tikanoja acquired Keski-Uudenmaan Keräyspaperi Oy's business operations on 1 January 2019. The acquisition covered the waste collection, transport, sorting, storage and processing operations. On the same day, the acquisition of Jätehuolto Jorma Eskolin Oy business operations was completed, transferring the company's paper collection, transport and processing operations to L&T.

Lassila & Tikanoja Oyj acquired Tank Service Finland Oy's entire share stock on 10 June 2019, resulting in the transfer of Tank Service Finland Oy's transport tank washing, maintenance and repair operations in the Hamina region to L&T.

The figures for acquired businesses are stated in aggregate, as none of them is of material importance when considered separately.

Business acquisitions had EUR 1.4 million effect on the company's net sales for the financial period (0.5) and EUR 0.0 million (0.0) on operating profit.

### Business acquisitions, combined

| MEUR | 2020 | 2019 |
|---|---|---|
| Intangible assets | 0.5 | 0.4 |
| Property, plant and equipment | 0.9 | 0.2 |
| Non-current available-for-sale financial assets | 0.0 | 0.0 |
| Trade and other receivables | 0.6 | 0.1 |
| Cash and cash equivalents | 0.1 | 0.4 |
| Total assets | 2.1 | 1.0 |
| | | |
| Trade and other payables | 1.0 | 0.1 |
| Deferred tax liabilities | 0.0 | 0.1 |
| Total liabilities | 1.0 | 0.2 |
| | | |
| Total identifiable net assets | 1.0 | 0.9 |
| | | |
| Total consideration | 1.7 | 1.0 |
| Goodwill | 0.7 | 0.1 |
| | | |
| Impact on cash flow | | |
| Paid in cash | -1.7 | -1.0 |
| Cash acquired | 0.1 | 0.4 |
| Outstanding payments | 0.0 | 0.2 |
| Cash flows from investing activities | -1.6 | -0.4 |

## Divested businesses

The Group had no divested businesses during the financial period.

During the comparison year on 30 April 2019, L&T sold the entire share capital of L&T Korjausrakentaminen Oy to Recover Nordic Group.

The debt-free price was EUR 13.9 million and the Group recognised a capital gain of EUR 7.0 million on the sale. The gain on the sale is presented under other operating income.

| MEUR | 2020 | 2019 |
|---|---|---|
| Tangible and intangible fixed assets | - | 1.4 |
| Trade and other receivables | - | 7.7 |
| Cash and cash equivalents | - | 1.7 |
| Trade and other payables | - | -6.0 |
| Net assets | - | 4.8 |
| | | |
| Effect on cash flow | | |
| Consideration received in cash | - | 13.9 |
| Selling expenses | - | -0.4 |
| Cash and cash equivalents of the divested company | - | -1.7 |
| Cash flow from investing activities | - | 11.8 |

## 5.4 Related-party transaction

The related parties of the Lassila & Tikanoja Group are the senior management, Suomen Keräystuote 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 5.2. 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).

### Employee benefits of top management

| MEUR | 2020 | 2019 |
|---|---|---|
| Salaries and other short-term employee benefits | 1.7 | 1.9 |
| Share-based payment | 0.0 | 0.6 |
| Total | 1.7 | 2.5 |

Top management consists of the members of the Board of Directors, President and CEO and the Group Executive Board. An expense of EUR 0.6 million (0.2) 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 | 2020 | 2019 |
|---|---|---|
| Heikki Bergholm, Chairman of the Board | 77 | 76 |
| Sakari Lassila, Deputy Chairman of the Board | 53 | 53 |
| Teemu Kangas-Kärki | 39 | 39 |
| Laura Lares | 39 | 39 |
| Miikka Maijala | 39 | 39 |
| Laura Tarkka | 39 | 39 |
| Pasi Tolppanen* | 37 | - |

* Board member since 12 March 2020.

On 20 March 2020, 9,727 shares were transferred to the members of the Board of Directors as part of the remuneration of the Board (20 March 2019: 5,903).

In 2020, the remuneration paid to the President and CEO totalled EUR 441 thousand (420), consisting of salaries and benefits of EUR 456 thousand (420) and a bonus of EUR thousand (0). The President and CEO was paid EUR 14 thousand in rewards on the basis of the achievement of the targets of the share-based incentive programme in 2020 (0).

The remuneration paid to the other members of the Group Executive Board totalled EUR 1,233 thousand (1,310), which includes salaries and benefits of EUR 1,135 thousand (1,160) and bonuses of EUR 39 thousand (150). In addition, the other members of the Group Executive Board were paid rewards amounting to EUR 17 thousand on the basis of the achievement of the targets of the share-based incentive programme in 2019 (342). 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 2020, EUR 1 thousand (3) 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 2020, 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 132 thousand (70).

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.

## 5.5 Auditing costs

| MEUR | 2020 | 2019 |
|---|---|---|
| Auditing | 0,2 | 0,2 |
| Other assignments in accordance with the auditing act | 0,0 | 0,0 |
| Tax consulting services | 0,0 | 0,0 |
| Other services | 0,0 | 0,0 |
| Total | 0,3 | 0,3 |

Non-audit services performed by the statutory auditor KPMG Oy Ab in the financial year 2020 totalled EUR 0.0 million (0.1).

## 5.6 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.

## 5.7 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.

# Financial statements of the parent company

# Income statement of the parent company

| MEUR | 2020 | 2019 | Note |
|---|---|---|---|
| **Net sales** | 546.5 | 563.1 | 1 |
| Other operating income | 5.0 | 11.2 | 4 |
| Change of inventory | 1.6 | -0.8 | |
| Materials and services | -154.7 | -163.4 | |
| Employee benefit expenses | -242.3 | -247.3 | 2 |
| Other operating expenses | -94.4 | -92.9 | 3,4 |
| Depreciation and impairment | -37.7 | -35.5 | |
| **Operating profit before goodwill amortisation** | 24.1 | 34.3 | 4 |
| Goodwill amortisation | -0.5 | -1.6 | |
| **Operating profit** | 23.5 | 32.7 | |
| Financial income and expenses | -2.7 | -2.2 | 5 |
| **Profit before appropriations and taxes** | 20.9 | 30.4 | |
| Appropriations | | | |
| Increase/decrease in accumulated depreciation | -0.5 | 2.5 | |
| Group contribution | -2.7 | 1.0 | 6 |
| Income tax | -3.6 | -5.8 | 7 |
| **Profit for the period** | 14.0 | 28.2 | |

# Balance sheet of the parent company

| MEUR | 2020 | 2019 | Note |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| Intangible assets | | | 8 |
| Intangible rights | 0.9 | 1.2 | |
| Goodwill | 1.3 | 1.1 | |
| Other intangible assets | 8.0 | 14.4 | |
| Advance payments and construction in progress | 2.6 | 1.7 | |
| | 12.7 | 18.3 | |
| Tangible assets | | | 9 |
| Land | 5.2 | 5.2 | |
| Buildings and constructions | 32.9 | 30.4 | |
| Machinery and equipment | 100.2 | 99.0 | |
| Other tangible assets | 0.0 | 0.0 | |
| Advance payments and construction in progress | 8.9 | 4.1 | |
| | 147.2 | 138.8 | |
| Financial assets | | | 10 |
| Shares in Group companies | 31.1 | 23.9 | |
| Receivables from Group companies | - | 12.5 | |
| Shares in joint ventures | 0.0 | 0.0 | |
| Other shares and holdings | 0.3 | 0.3 | |
| | 31.4 | 36.7 | |
| **Total fixed assets** | 191.3 | 193.8 | |

| MEUR | 2020 | 2019 | Note |
|---|---|---|---|
| **Current assets** | | | |
| Inventories | | | |
| Raw materials and consumables | 3.1 | 1.7 | |
| Finished products/goods | 1.3 | 1.2 | |
| Other inventories | 3.8 | 3.6 | |
| | 8.2 | 6.5 | |
| Non-current receivables | | | |
| Loan receivables from Group companies | 69.7 | 105.7 | |
| Loan receivables | - | 0.1 | |
| Prepayments | 0.3 | 0.3 | |
| Deferred tax assets | 2.7 | 2.5 | 17 |
| | 72.8 | 108.6 | |
| Current receivables | | | 11 |
| Receivables from Group companies | 16.4 | 1.2 | |
| Trade receivables from Associated companies | 0.1 | 0.1 | |
| Trade receivables | 66.6 | 67.2 | |
| Other receivables | 0.1 | 0.4 | |
| Prepaid expenses and accrued income | 9.1 | 9.2 | 11 |
| | 92.4 | 78.1 | |
| Cash and cash equivalents | 30.4 | 25.8 | |
| **Total current assets** | 203.7 | 219.0 | |
| **Total assets** | 395.0 | 412.8 | |

# Balance sheet of the parent company

| MEUR | 2020 | 2019 | 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 | 0.7 | |
| Retained earnings | 54.3 | 61.1 | |
| Profit for the period | 14.0 | 28.2 | |
| **Total shareholders' equity** | 88.4 | 109.3 | |
| | | | |
| **Accumulated appropriations** | | | |
| Depreciation difference | 22.2 | 21.7 | |
| | | | |
| **Obligatory provisions** | | | 13 |
| Non-current | 7.0 | 5.4 | |
| Current | 1.4 | 0.8 | |
| | 8.4 | 6.3 | |

| MEUR | 2020 | 2019 | Note |
|---|---|---|---|
| **Liabilities** | | | 14 |
| Non-current | | | |
| Bank borrowings | 50.0 | 50.0 | |
| Bonds | 49.8 | 49.7 | |
| Finance lease liabilities | 18.7 | 23.3 | |
| Accrued income | 0.1 | 0.3 | |
| | 118.5 | 123.3 | |
| Current | | | |
| Bank borrowings | 15.0 | 0.0 | |
| Finance lease liabilities | 4.8 | 4.6 | |
| Advances received | 10.2 | 10.1 | |
| Trade payables | 45.0 | 44.6 | |
| Trade payables to Associated companies | 0.1 | 0.1 | |
| Liabilities to Group companies | 11.4 | 25.9 | |
| Other liabilities | 16.5 | 16.6 | |
| Accruals and deferred expenses | 54.4 | 50.3 | |
| Accruals and deferred expenses on commodity derivatives | 0.0 | 0.0 | |
| | 157.4 | 152.2 | |
| | | | |
| **Total liabilities** | 276.0 | 275.5 | |
| | | | |
| **Total shareholders' equity and liabilities** | 395.0 | 412.8 | |

# Cash flow statement of the parent company

| MEUR | 2020 | 2019 |
|---|---|---|
| **Operations** | | |
| Operating profit | 23.5 | 32.7 |
| Adjustments: | 0.0 | 0.0 |
| Depreciation and amortisation | 38.2 | 37.1 |
| Gains and losses on sales | -2.8 | -7.4 |
| Provisions | 1.7 | 0.0 |
| Other adjustments | -0.2 | -1.3 |
| Cash flow before change in working capital | 60.4 | 61.1 |
| | | |
| Change in working capital | | |
| Increase/decrease in current non-interest-bearing receivables | 4.9 | 1.6 |
| Increase/decrease in inventories | -1.7 | 0.8 |
| Increase/decrease in current non-interest-bearing liabilities | 3.8 | 8.3 |
| Cash flow from operations before financial income/expenses and tax | 67.5 | 71.8 |
| | | |
| Interest expenses and other financial expenses | -2.7 | -1.4 |
| Interest income from operations | 0.4 | 0.1 |
| Direct taxes paid | -7.0 | -8.0 |
| **Cash flow from operating activities** | 58.2 | 62.6 |
| | | |
| **Investments** | | |
| Acquired businesses | -0.8 | - |
| Investments in subsidiaries and associated companies and acquired businesses | 0.0 | - |
| Proceeds from sale of subsidiaries and businesses | 2.2 | 13.8 |
| Investments in tangible and intangible assets | -40.7 | -23.9 |
| Proceeds from sale of tangible and intangible assets | 0.8 | 0.9 |
| Proceeds from long-term receivables | 0.1 | 0.3 |
| Proceeds from/repayments of current liabilities to Group companies | 8.2 | -0.9 |
| **Cash flow from investing activities** | -30.2 | -9.8 |

| MEUR | 2020 | 2019 |
|---|---|---|
| **Financing** | | |
| Paid Group contributions | 0.0 | -0.4 |
| Received Group contributions | 1.0 | 1.6 |
| Proceeds from short-term borrowings | 35.0 | 10.0 |
| Repayments of short-term borrowings | -20.0 | -10.0 |
| Repayments of long-term loans | - | -28.9 |
| Repayments of finance lease liabilities | -4.4 | -4.2 |
| Capital repayment and other distribution of profit paid | -35.0 | -35.3 |
| Acquisition of own shares | - | -4.5 |
| **Cash flow from financing activities** | -23.5 | -71.7 |
| | | |
| **Changes in cash and cash equivalents** | 4.6 | -18.9 |
| **Cash and cash equivalents at 1 January** | 25.8 | 44.6 |
| **Cash and cash equivalents at 31 December** | 30.4 | 25.8 |
| | | |
| **Cash and cash equivalents at 31 December** | | |
| Cash and cash equivalents | 30.4 | 25.8 |
| | 30.4 | 25.8 |

# 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.

At the end of financial year 2019 the booking of finance leases to the parent company's bookkeeping has ended as the partial application in parent company's bookkeeping is no longer possible due to implementation of IFRS 16 standard. Due to this change the items relating to finance leases are not comparable between the financial year and the comparison period. The contracts already booked in parent company's bookkeeping before the change are processed as before in the above described manner.

## 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.

During the comparison year commodity swap agreements were 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 were recorded in the income statement, and similarly when the agreements mature or the hedged risk materialised. During the financial period 2019 the Group decided to no longer hedge of future diesel oil purchases.

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 taxes

During the financial year 2019 the company has changed its accounting policy relating to deferred taxes. Deferred tax liabilities and receivables have been calculated based on temporary differences in taxation and the financial statement. The statement of financial position includes deferred tax receivables to the amount of the probable receivable and deferred tax liabilities are stated in the notes to the financial statements.

# Notes to the financial statements of the parent company

## 1. Net sales

| MEUR | 2020 | % | 2019 | % |
|---|---|---|---|---|
| **Net sales by division** | | | | |
| Environmental Services | 226.8 | 41.5 | 243.2 | 43.2 |
| Industrial Services | 96.0 | 17.6 | 93.1 | 16.5 |
| Facility Services | 223.7 | 40.9 | 226.9 | 40.3 |
| Total | 546.5 | 100.0 | 563.1 | 100.0 |
| **Net sales by market** | | | | |
| Finland | 538.6 | 98.6 | 552.7 | 98.2 |
| Other countries | 7.9 | 1.4 | 10.4 | 1.8 |
| Total | 546.5 | 100.0 | 563.1 | 100.0 |

## 2. Personnel and administrative bodies

| | 2020 | 2019 |
|---|---|---|
| **Average personnel** | | |
| Salaried employees | 1,129 | 1,100 |
| Non-salaried employees | 4,478 | 4,599 |
| Total | 5,607 | 5,699 |

| MEUR | 2020 | 2019 |
|---|---|---|
| **Personnel expenses** | | |
| Salaries and bonuses | 203.7 | 203.2 |
| Pension expenditure | 31.3 | 35.7 |
| Other salary-related expenses | 7.3 | 8.4 |
| Total | 242.3 | 247.3 |

Salaries, bonuses and pension benefits of the management are described in the Note 5.4 Related-party transactions of the consolidated financial statement.
No loans were granted to the related parties of the Group companies.

## 3. Auditor's fees

| MEUR | 2020 | 2019 |
|---|---|---|
| **KPMG** | | |
| Auditing | 0.2 | 0.1 |
| Other assignments in accordance with the auditing act | 0.0 | - |
| Tax consulting services | 0.0 | - |
| Other services | 0.0 | 0.0 |
| Total | 0.2 | 0.2 |

## 4. Other operating income and expenses

| MEUR | 2020 | 2019 |
|---|---|---|
| **Other operating income** | | |
| From Group companies | | |
| Compensation for administration costs | 0.5 | 0.8 |
| From others | | |
| Profit on sale of other fixed assets | 0.8 | 0.9 |
| Government grants | 0.5 | 0.3 |
| Recovery of bad debt | 0.0 | 0.1 |
| Annual discounts | 0.2 | 0.3 |
| Change in value of commodity derivatives | 0.0 | 0.0 |
| Gains on sale of subsidiary | 2.2 | 7.6 |
| Other operating income | 0.8 | 1.2 |
| Total | 5.0 | 11.2 |
| **Other operating expenses** | | |
| To others | | |
| ICT costs | 13.8 | 12.6 |
| Travel costs | 6.1 | 6.9 |
| Vehicles and machinery | 34.9 | 35.8 |
| Rents and real estate costs | 18.0 | 15.9 |
| Expert fees | 7.2 | 5.4 |
| Voluntary social security costs | 4.9 | 5.3 |
| Other | 9.4 | 11.0 |
| Total | 94.4 | 92.9 |

## 5. Financial income and expenses

| MEUR | 2020 | 2019 |
|---|---|---|
| Other interest and financial income | 0.4 | 0.3 |
| Other interest and financial costs | -3.0 | -2.5 |
| Total financial income and costs | -2.7 | -2.2 |
| Financial income and costs include: | | |
| Interest income | | |
| from Group companies | 0.1 | 0.2 |
| from others | 0.2 | 0.2 |
| Foreign exchange gains | | |
| from others | 0.0 | 0.0 |
| Interest costs | | |
| to Group companies | -0.3 | -0.1 |
| to others | -1.8 | -1.8 |
| Other financial expenses | | |
| to others | -1.0 | -0.6 |
| | -2.7 | -2.2 |

## 6. Appropriations

| MEUR | 2020 | 2019 |
|---|---|---|
| **Increase/decrease in accumulated depreciation Intangible assets** | | |
| Tangible assets | 1.5 | 0.7 |
| Total extraordinary income and expenses | -2.1 | 1.8 |
| | -0.5 | 2.5 |
| **Group contribution** | | |
| Group contribution received | 0.3 | 1.0 |
| Group contribution paid | -3.1 | 0.0 |
| Total extraordinary income and expenses | -2.7 | 1.0 |
| **Total Appropriations** | -3.3 | 3.5 |

## 7. Income taxes

| MEUR | 2020 | 2019 |
|---|---|---|
| Income taxes on operations for the financial year | 3.6 | 5.8 |
| Total | 3.6 | 5.8 |

## 8. Intangible assets

| MEUR | Intangible rights | Goodwill | Other intangible assets | Prepayments and construction in progress | Total |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Cost at 1 January | 5.1 | 113.8 | 60.0 | 1.7 | 180.6 |
| Additions | 0.1 | 0.9 | 0.6 | 3.1 | 4.6 |
| Disposals | -3.2 | -0.1 | -15.4 | 0.0 | -18.6 |
| Impairments | 0.0 | | -10.8 | -0.9 | -11.7 |
| Transfers between items | 0.0 | -0.1 | 1.5 | -1.3 | 0.0 |
| Cost at 31 December | 2.0 | 114.5 | 35.9 | 2.6 | 155.0 |
| Accumulated depreciation at 1 January | -4.0 | -112.7 | -45.6 | | -162.3 |
| Accumulated depreciation on disposals and transfers | 3.1 | 0.1 | 15.9 | | 19.1 |
| Impairments | 0.0 | | 6.9 | | 6.9 |
| Depreciation during the period | -0.4 | -0.5 | -5.0 | | -6.0 |
| Accumulated depreciation at 31 December | -1.2 | -113.2 | -27.9 | | -142.2 |
| Total book value | 0.9 | 1.3 | 8.0 | 2.6 | 12.7 |
| **2019** | | | | | |
| Cost at 1 January | 10.3 | 113.7 | 59.4 | 0.6 | 184.0 |
| Additions | 0.1 | 0.1 | 0.2 | 2.5 | 3.0 |
| Disposals | -5.3 | | -1.1 | | -6.3 |
| Impairments | - | | - | - | - |
| Transfers between items | 0.0 | | 1.4 | -1.4 | 0.0 |
| Cost at 31 December | 5.1 | 113.8 | 60.0 | 1.7 | 180.6 |
| Accumulated depreciation at 1 January | -8.9 | -111.1 | -41.1 | | -161.0 |
| Accumulated depreciation on disposals and transfers | 5.3 | | 1.0 | | 6.3 |
| Impairments | - | | - | | - |
| Depreciation during the period | -0.4 | -1.6 | -5.6 | | -7.5 |
| Accumulated depreciation at 31 December | -4.0 | -112.7 | -45.6 | | -162.3 |
| Total book value | 1.2 | 1.1 | 14.4 | 1.7 | 18.3 |

Other intangible assets includes several ICT projects.

Contractual commitments related to intangible assets totalled EUR 3.2 million (1.9).

# 9. Tangible assets

| MEUR | Land | Buildings and constructions | Machinery and equipment | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Cost at 1 January | 5.2 | 100.1 | 366.1 | 4.1 | 475.6 |
| Additions | 0.0 | 0.6 | 10.9 | 26.3 | 37.8 |
| Disposals | 0.0 | -0.5 | -29.6 | - | -30.1 |
| Transfers between items | 0.0 | 7.3 | 14.2 | -21.5 | 0.0 |
| Cost at 31 December | 5.2 | 107.5 | 361.6 | 8.9 | 483.2 |
| Accumulated depreciation at 1 January | | -69.7 | -267.1 | | -336.8 |
| Accumulated depreciation on disposals and transfers | | 0.5 | 29.0 | | 29.5 |
| Depreciation during the period | | -5.4 | -23.3 | | -28.7 |
| Accumulated depreciation at 31 December | | -74.6 | -261.4 | | -336.0 |
| Total book value | 5.2 | 32.9 | 100.2 | 8.9 | 147.2 |

| MEUR | Land | Buildings and constructions | Machinery and equipment | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Cost at 1 January | 4.5 | 95.5 | 357.3 | 5.2 | 462.5 |
| Additions | 0.7 | 1.9 | 18.6 | 10.4 | 31.6 |
| Disposals | 0.0 | -0.6 | -17.6 | 0.0 | -18.3 |
| Transfers between items | 0.0 | 3.4 | 7.9 | -11.4 | -0.2 |
| Cost at 31 December | 5.2 | 100.1 | 366.1 | 4.1 | 475.6 |
| Accumulated depreciation at 1 January | | -65.3 | -259.8 | | -325.1 |
| Accumulated depreciation on disposals and transfers | | 0.6 | 17.3 | | 17.9 |
| Depreciation during the period | | -5.0 | -24.6 | | -29.6 |
| Accumulated depreciation at 31 December | | -69.7 | -267.1 | | -336.8 |
| Total book value | 5.2 | 30.4 | 99.0 | 4.1 | 138.8 |

The additions of machinery and equipment includes EUR 23.0 million in assets leased under a finance lease contract (27.6).
Contractual commitments related to property, plant and equipment totalled EUR 10.1 million (7.5).

# 10. Investments

| MEUR | Shares in Group companies | Other shares and holdings | Capital loan receivable | Total |
|---|---|---|---|---|
| **2020** | | | | |
| Cost at 1 January | 23.9 | 0.4 | 12.5 | 36.7 |
| Additions | 12.5 | | | 12.5 |
| Disposals | -5.3 | 0.0 | -12.5 | -17.8 |
| Cost at 31 December | 31.1 | 0.3 | 0.0 | 31.4 |
| Total book value | 31.1 | 0.3 | 0.0 | 31.4 |

| MEUR | Shares in Group companies | Other shares and holdings | Capital loan receivable | Total |
|---|---|---|---|---|
| **2019** | | | | |
| Cost at 1 January | 30.2 | 0.4 | 12.5 | 43.1 |
| Additions | - | | | - |
| Disposals | -6.3 | 0.0 | 0.0 | -6.3 |
| Cost at 31 December | 23.9 | 0.4 | 12.5 | 36.7 |
| Total book value | 23.9 | 0.4 | 12.5 | 36.7 |

| | Holding of shares and votes, % |
|---|---|
| **Holdings in Group companies** | |
| L&T Biowatti Oy, Helsinki | 100.0 |
| L&T Relations Oy, Helsinki | 100.0 |
| L&T Toimi Oy, Helsinki | 100.0 |
| L&T Työllistämispalvelu Oy, Helsinki | 100.0 |
| L&T Kiinteistöpalvelut tukitoiminnot Oy | 100.0 |
| L&T Kiinteistöhuolto Oy | 100.0 |
| L&T Kiinteistötekniikka Oy | 100.0 |
| L&T Siivous Oy | 100.0 |
| L&T Ympäristöpalvelut Oy | 100.0 |
| L&T Teollisuuspalvelut Oy | 100.0 |
| **Associated companies** | |
| Suomen Keräystuote Oy, Helsinki | 40.0 |

## 11. Short-term receivables

| MEUR | 2020 | 2019 |
|---|---|---|
| **From Group companies** | | |
| Loan receivables | 16.0 | 1.0 |
| Trade receivables | 0.4 | 0.2 |
| Total | 16.4 | 1.2 |
| **Prepaid expenses and accrued income** | | |
| Employees' health care compensation | 1.4 | 1.3 |
| Statutory personnel insurance | - | 0.0 |
| Annual discounts | 0.8 | 1.1 |
| Licences | 2.0 | 2.0 |
| Taxes | 3.1 | 3.9 |
| Other | 1.7 | 0.9 |
| Total | 9.1 | 9.2 |

## 12. Shareholders' equity

| MEUR | 2020 | 2019 |
|---|---|---|
| Share capital at 1 January / 31 December | 19.4 | 19.4 |
| Fair value reserve 1 January | 0.0 | 0.0 |
| Valuation of commodity derivatives | 0.0 | 0.0 |
| Fair value reserve 31 December | 0.0 | 0.0 |
| Invested non-restricted equity reserve 1 January | 0.7 | 0.7 |
| Expense recognition of share-based benefits | 0.0 | 0.0 |
| Invested non-restricted equity reserve 31 December | 0.7 | 0.7 |
| Retained earnings at 1 January | 89.2 | 100.7 |
| Dividend | -35.0 | -35.3 |
| Expired dividends | 0.0 | 0.0 |
| Expense recognition of share-based benefits | 0.1 | 0.1 |
| Acquisition of own shares | - | -4.5 |
| Retained earnings at 31 December | 54.3 | 61.1 |
| Profit for the period | 14.0 | 28.2 |
| Shareholders' equity at 31 December | 88.4 | 109.3 |
| **Distributable assets** | | |
| Retained earnings | 54.3 | 61.1 |
| Profit for the period | 14.0 | 28.2 |
| Invested non-restricted equity reserve | 0.7 | 0.7 |
| Total distributable assets | 69.0 | 89.9 |

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## 13. Obligatory provisions

| MEUR | 2020 | 2019 |
|---|---|---|
| Environmental provision | 7.2 | 4.9 |
| Pension liabilities | 0.4 | 0.4 |
| Provision for accident compensation | 0.7 | 0.8 |
| Other provision | 0.1 | 0.1 |
| Total | 8.4 | 6.3 |

Environmental provisions are landfill after-care costs.

## 14. Liabilities

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

| MEUR | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| Bank borrowings | - | - | - | 50.0 | - |
| Bonds | - | - | 50.0 | - | - |

| MEUR | 2020 | 2019 |
|---|---|---|
| **Liabilities to Group companies** | | |
| Trade payables | 1.7 | 2.4 |
| Other liabilities | 9.7 | 23.5 |
| Total | 11.4 | 25.9 |
| **Accruals and deferred expenses** | | |
| Personnel expenses | 52.3 | 48.2 |
| Other expenses | 2.1 | 2.1 |
| Total | 54.4 | 50.3 |

### Maturity of financial lease liabilities

| MEUR | 2020 | 2019 |
|---|---|---|
| Finance lease liabilities | | |
| – minimum lease payments by maturity | | |
| Not later than one year | 4.9 | 4.9 |
| Later than one year and not later than five years | 18.7 | 20.2 |
| Later than five years | 0.4 | 4.3 |
| Total minimum lease payments | 24.0 | 29.4 |
| Future finance charges | -0.5 | -1.5 |
| Present value of finance lease liabilities | 23.5 | 27.9 |
| | | |
| Maturity of present value of finance lease liabilities | | |
| Not later than one year | 4.8 | 4.6 |
| Later than one year and not later than five years | 14.4 | 19.0 |
| Later than five years | 4.3 | 4.3 |
| Total | 23.5 | 27.9 |

Finance lease liability is related to finance lease on heavy machinery.

## 15. Contingent liabilities

| MEUR | 2020 | 2019 |
|---|---|---|
| **For own commitments** | | |
| Mortgages on rights of tenancy | 0.1 | 0.1 |
| Other securities | 0.0 | 0.0 |
| **Liabilities related to leasing and leases** | | |
| Falling due next year | 9.8 | 10.3 |
| Falling due in subsequent years | 31.9 | 33.6 |
| Total | 41.7 | 43.9 |
| Bank guarantees required for environmental permits | 12.4 | 11.1 |
| Other bank quarantees | 4.9 | 3.7 |

## 16. Derivatives

### Interest rate contracts

| MEUR | 2020 | 2019 |
|---|---|---|
| Nominal value | 30.0 | 30.0 |
| Fair value | -0.9 | -1.0 |

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 | 2020 | 2019 |
|---|---|---|
| Nominal value of diesel swaps | - | 0.6 |
| Fair value | - | 0.0 |

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. During the financial period 2019 the company decided to no longer hedge of future diesel oil purchases.

## 17. Deferred tax assets

| MEUR | 2020 | 2019 |
|---|---|---|
| Deferred depreciation | 1.0 | 0.9 |
| Obligatory provisions | 1.7 | 1.2 |
| From writing down property, plant and equipment | 0.0 | 0.4 |
| Total | 2.7 | 2.5 |

## 18. Deferred tax liabilities

| MEUR | 2020 | 2019 |
|---|---|---|
| From depreciation difference | 4.4 | 4.3 |

# 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 69,045,502.61 with the profit for the period representing EUR 14,002,740.00. There were no substantial changes in the financial standing of the company after the end of the period, and the solvency test referred to in Chapter 13, section 2 of the Companies Act does not affect the amount of distributable assets.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.40 per share be paid on the basis of the balance sheet to be adopted for the financial year 2020.

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, 22 March 2021. The Board of Directors proposes to the Annual General Meeting that the dividend be paid on 29 March 2021.

No dividend shall be paid on share held by the company on the record date of dividend payment, 22 March 2021.

On the day the proposal for the distribution of assets was made, the number of shares entitling to dividend was 38,105,285, which means

| | |
|---|---|
| the total amount of the dividend would be | EUR 15,242,114.00 |
| To be retained and carried forward | EUR 53,803,388.61 |
| Total | EUR 69,045,502.61 |

## Signatures to the Report of the Board of Directors and the Financial Statements for the year 2020

Helsinki on 27 January 2021

Heikki Bergholm Sakari Lassila Teemu Kangas-Kärki Laura Lares

Miikka Maijala Laura Tarkka Pasi Tolppanen

Eero Hautaniemi
President and CEO

# The Auditor's Note

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

Helsinki on 10 February 2021

KPMG Oy Ab

Leenakaisa Winberg
*APA*

# Auditor's Report

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

## 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, 2020. 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 are disclosed in Note 5.5 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 |
|---|---|
| **Impairment of goodwill and other acquisition-related intangible assets (Accounting policies and Notes 3.1 and 3.2 to the consolidated financial statements)** | |
| The Group has expanded 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 31.12.2020 the Group had €154.0 million in goodwill and €14.8 million in other acquisition-related intangible assets.<br><br>Goodwill and other intangible assets are tested for impairment annually.<br><br>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.<br><br>Overall, due to the high level of management judgment involved, and the significant carrying amounts involved, impairment of goodwill and other acquisition-related intangible assets is considered one of the key areas of our audit. | Our audit procedures regarding impairment testing included, among others:<br>• We evaluated the key assumptions used in respect of profitability levels, discount rate and long-term growth rate.<br>• 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.<br><br>In addition, we considered the appropriateness of the related notes to the consolidated financial statements. |

| THE KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|
| **Revenue recognition (Accounting policies and Notes 1.1 and 1.2 to the consolidated financial statements)** | |
| Revenue recognition is one of our focus areas for example due to following:<br>• Revenue consists of numerous individual service transactions generated in multiple business locations.<br>• 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.<br>• The collection of basic data for invoicing purposes is based on various processes and IT systems, too.<br>• 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.<br><br>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.<br><br>We tested the functionality of the sales-related recording, recognition, invoicing and pricing processes and went through pricing and contract models. We also assessed the accuracy of the recognition of revenues on accrual basis.<br><br>In addition, we considered the appropriateness of the Group's disclosures in respect of revenues. |

| THE KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|
| **Accounting of employee benefits (Accounting policies and Notes 1.3 and 5.4 to the consolidated financial statements)** | |
| Accounting of employee benefits is one of our focus areas for example due to following:<br>• The Group operates in highly labor-intensive business and accordingly significant part of the Group's operating expenses consists of employee-related costs.<br>• 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.<br>• Considering 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 testing the operating effectiveness of the related key controls.<br><br>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.<br><br>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 9 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 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 Managing Director should be discharged from liability for the financial period audited by us.

Helsinki 10 February 2021

KPMG OY AB

Leenakaisa Winberg
*Authorised Public Accountant, KHT*

# LEADER OF THE REGENERATIVE SOCIETY

**Lassila & Tikanoja Plc**

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