LASSILA & TIKANOJA PLC
Financial review 2018

CREATING VALUE BY MAKING THE CIRCULAR ECONOMY A REALITY

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Introduction

Lassila & Tikanoja plc ("L&T" or "the company") is a public limited liability company that is registered in Finland and listed on Nasdaq Helsinki Ltd. 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, charters of L&T's Board of Directors and its committees and the rules and guidelines of Nasdaq Helsinki Ltd.

Corporate Governance Statement 2018

L&T complies with the Finnish Corporate Governance Code approved by the Securities Market Association valid at any given time. This statement was prepared in accordance with the Finnish Corporate Governance Code that entered into force on 1 January 2016 ("Corporate Governance Code"). The company has also published a separate Remuneration Statement in accordance with the Corporate Governance Code. The full Corporate Governance Code is available at www.cgfinland.fi. L&T has not deviated from the recommendations of the Code.

This separate statement has been published in connection with the Report of the Board of Directors. 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.

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. According to the Articles of Association, at a General Meeting no shareholder may cast more than one fifth of the total number of votes represented at the meeting.

Governance structure

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

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

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

Board of Directors

Composition and election of the Board of Directors

In accordance with the Articles of Association, the Board of Directors of Lassila & Tikanoja plc comprises a minimum of three members and a maximum of seven. The members of the Board of Directors are elected by the General Meeting. The practice applied in the preparation of the proposal concerning the composition of the Board of Directors is to have major shareholders prepare proposals concerning the Board, including a proposal for the number of Board members, their remuneration and, if necessary, Board members to the General Meeting. The term of each member of the Board of Directors expires at the end of the next Annual General Meeting of Shareholders following his/her election. A person who has attained the age of 70 cannot be elected to the Board of Directors. The Board elects a Chairman and a Vice Chairman from among its members.

Board members

The following six members were elected to the Board of Directors by the Annual General Meeting of 2018:

Chairman Heikki Bergholm
born 1956
Independent of the company and major shareholders
Board member: since 2008
Board Committees: Chairman of the Personnel Committee
Education: M.Sc. (Eng.)
Key work experience: Suominen Corporation Oyj: President and CEO (2002–2006); the former Lassila & Tikanoja Group: President and CEO (1998–2001), Vice President (1997–1998), President of business units (1986–1997), Lassila & Tikanoja Oy: CFO (1985–1986); Industrialisation Fund of Finland Ltd: Researcher and development manager (1980–1985)
Current key memberships of other Boards: Lakan Betoni Oy (1986–, COB); MB Funds (2002–); Finnish Foundation for Cardiovascular Research (2013–)
Past key memberships of other Boards: 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)

Vice Chairman Sakari Lassila
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 memberships of other Boards: Evald and Hilda Nissi Foundation, Vice Chairman of the Board (member 1987–); Aplagon Oy, Chairman of the Board (2009–)

Teemu Kangas-Kärki
born 1966
Independent of the company and major shareholders
Board member: since 2016
Board committees: Member of the Audit Committee
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 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 memberships of other Boards:
Ablers Oy (2018–)
Past key memberships of other Boards:
Lappeenranta University of Technology (2009–2017); Woikoski Oy (2012–2016)

Miikka Maijala
born 1967
Independent of the company and major shareholders
Board member: since 2010
Board Committees: Member of the Personnel Committee
Primary occupation: CEO of Clinius Ltd
Education: M.Sc. (Eng.)
Key work experience: GE Healthcare Finland Oy: Business Segment Manager 2004–2006); Instrumentarium Corporation (now GE Healthcare Finland Oy): Director, Business Development (2000–2004); Instrumentarium Corporation: supervisory and executive positions within sales, marketing and financial management (1992–2000)
Current key memberships of other Boards:
Healthtech Finland (2008–)

Laura Tarkka
born 1970, M.Sc. (Eng.), CEFA
Independent of the company and major shareholders
Board member: since 2017
Board committees: Member of the Audit Committee
Primary occupation: CEO of Kämp Group/ Kämp Collection Hotels
Education: M.Sc. (Eng.)
Key work experience: Diacor Terveyspalvelut Oy: CFO and deputy CEO (2013–2014); Fazer Group: Director (2007–2012); Icecapital Securities Ltd: investment banker (2001–2007); Mandatum Stockbrokers Ltd: investment banker (1997–2001)
Current key memberships of other Boards:
Docrates Oy (2016–)

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 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 2018, two of the six Board members were female, so the less represented gender accounted for 33% 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 has been a member of the Board of Directors for more than 10 years consecutively. The Board of Directors has not identified any reasons why Heikki Bergholm 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 2018

Heikki Bergholm	829,506
Sakari Lassila	16,079
Teemu Kangas-Kärki	1,933
Laura Lares	3,256
Miikka Maijala	74,443
Laura Tarkka	1,284
Total	**926,501**

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

Information about the Board members' remuneration is disclosed in the Remuneration Statement published in connection with the Report of the Board of Directors and is available at www.lt.fi/en/annual-report-2018.

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 2018 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 Reports by the Board of Directors
- 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 corporate responsibility programme
- nominating and dismissing the President and CEO and monitoring and evaluating his work
- deciding on the nomination, remuneration and other financial benefits of the President and CEO's immediate subordinates

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

Meetings of the Board of Directors

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

The Board of Directors convenes as often as its tasks require. It confirms its annual, regular meetings. Meetings held annually prior to the publication of the financial statements and each interim report as well as strategy, budget and other meetings confirmed in the annual programme of the Board are considered regular meetings. In addition to regular meetings, the Board can hold extraordinary meetings.

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

Minutes are prepared of Board meetings, subject to the signature of members of the Board of Directors participating in the meeting as well as the President and CEO of the company and secretary to the Board. These minutes are kept at the company's headquarters.

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

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

Activities of the Board of Directors in 2018

The Board of Directors had 15 meetings in 2018, three of which were held remotely. The average attendance rate of the members at the meetings was 100%.

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

Meeting attendance of Board members in 2018

	Board of Directors	Audit Committee	Personnel Committee
Heikki Bergholm	15/15		4/4
Sakari Lassila	15/15	6/6	
Teemu Kangas-Kärki	15/15	6/6	
Laura Lares	15/15		4/4
Miikka Maijala	15/15		4/4
Laura Tarkka	15/15	5/6	

Committees of the Board of Directors

The Board has an Audit Committee and a Personnel Committee, both of which consist of three (3) Board members. After the end of the Annual General Meeting, the Board of Directors elects chairmen and members of the Committees from among its members 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 first meeting after the Annual General Meeting of 15 March 2018, the Board of Directors appointed Sakari Lassila (Chairman), Teemu Kangas-Kärki and Laura Tarkka 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 responsibility programme
- monitoring the statutory audit of the financial statements and consolidated financial statements
- evaluating the independence of the auditing company
- evaluating the provision of non-audit services to the company by the auditing firm
- preparing the proposal and/or recommendation concerning the selection of 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 six times in 2018. The attendance rate of the members at the meetings was 94.4%.

Personnel Committee

In its first meeting after the Annual General Meeting of 15 March 2018, the Board of Directors appointed Heikki Bergholm (Chairman), Miikka Maijala and Laura Lares as members of the Personnel Committee. All of the members of the Personnel Committee are independent of the company and its major shareholders.

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 proposals to the Board regarding them
- handling and preparing executive appointment issues for consideration by the Board of Directors.
- reviewing and preparing the personnel-related matters of the corporate responsibility programme
- reviewing the Remuneration Statement.

The Personnel Committee met four times in 2018. The attendance rate of the members at the meetings was 100%.

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.

Eero Hautaniemi, M.Sc. (Econ.), was appointed as the company's new President and CEO on 15 November 2018 and he took up his post on 1 January 2019. CFO Tuomas Mäkipeska served as interim President and CEO from 24 November to 31 December 2018. From 1 November 2011 to 23 November 2018, the company's President and CEO was Pekka Ojanpää, M.Sc. (Econ.). 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: President and 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: Posti Group Corporation (2017–); Finnish Commerce Federation (2014–)
Past key Board memberships: Lassila & Tikanoja Plc (2007–2017); Nurminen Logistics Plc (2009–2012)

Tuomas Mäkipeska
born 1978
CFO
Member of the Group Executive Board since: 14 February 2012
Education: M.Sc. (Econ.)
Key work experience: Lassila & Tikanoja plc: Development Director (2012–2017), Vice President, Renewable Energy Sources (2015–2017); Deloitte: Management Consultant, Strategy & Operations (2005–2012); Fiskars Corporation: Project Manager (2004–2005); Rieter Automotive Management AG: Market Analyst (2003)

Petri Salermo
born 1970
Vice President, Environmental Services
Member of the Group Executive Board since: 1 January 2013
Education: QBA
Key work experience: Lassila & Tikanoja plc: Business Director, Environmental Services (2009–2012), Sales Director, Environmental Services (2003–2009), Sales Manager, Environmental Services (2001–2003); Europress Oy: Sales Director (1998–2001), managerial positions in sales (1995–1998)

Tutu Wegelius-Lehtonen
born 1970
Vice President, Facility Services
Member of the Group Executive
Board since: 16 February 2015
Education: Lic. Tech.
Key work experience: Lassila & Tikanoja plc: Chief Procurement Officer (2015–2016); Hartwall Oy: Operations and Supply Chain Director (2014); Rexel Finland Oy: Director of Marketing and Business Development (2011–2014); YIT: managerial positions in procurement and logistics (2004–2008) and in YIT's Building Services and Building and Industrial Services divisions (2009–2011); Ensto: Director, Production and Logistics (1998–2004)
Membership on other Boards: Kiinteistötyönantajat ry (Employers' association of property management) (2017–)

Antti Tervo
born 1978
Vice President, Industrial Services
Member of the Group Executive
Board since: 14 February 2012
Education: M.Sc. (Econ.)
Key work experience: Lassila & Tikanoja plc: Chief Officer responsible for procurement and supply chain (2012–2014); Siemens, North West Europe: Head of Commodity Management (2009–2012), Project Manager, Procurement and Supply Chain Management (2008–2009); Siemens Oy Finland and Baltics: Director, Procurement (2005–2009), Procurement Manager (2003–2005), Supply Chain Consultant (2001–2003)

Kirsi Matero
born 1968
HR Director
Member of the Group Executive
Board since: 1 January 2012
Education: M.Sc. (Econ.)
Key work experience: Atria Oyj: Group Vice President, Human Resources (2010–2011); Pfizer Oy: HR Director (2007–2010); Nokia Mobile Phones: Senior Business HR Manager (2004–2007); Nokia Mobile Phones and Nokia Networks: Business HR Manager and Competence Development Manager (1998–2003); Adulta Oy: Programme Manager (1996–1998); Shell Oil Products: Product Manager (1994–1995)

Jorma Mikkonen
born 1963
Director, Corporate Relations and Responsibility
Member of the Group Executive
Board since: 1 June 2015
Education: Master of Laws
Key work experience: Lassila & Tikanoja plc: Division Manager, Environmental Services (2009–2012), Division Manager, Industrial Services (2000–2009); Säkkiväline Oy: Administrative Director (1999–2000), Corporate Lawyer (1992–1999); Helsingin Suomalainen Säästöpankki: Corporate Lawyer (1991–1992)

Pekka Ojanpää served as the company's President and CEO until 23 November 2018. His information is presented as per the situation on the date he ceased to be the company's President and CEO.

Pekka Ojanpää
born 1966
President and CEO
Member of the Group Executive
Board since: 1 November 2011
Education: M.Sc. (Econ.)
Key work experience: Kemira Oyj: President, Municipal & Industrial segment (2008–2011), President, Kemira Specialty business area (2006–2008), Executive Vice President of Procurement & Logistics (2005–2006); Nokia Corporation: Vice President, Electromechanics Supply Line Management (2001–2004), Managing Director of Nokia Hungary (1998–2001), sales and logistics managerial positions in Nokia Mobile Phones (1994–1998)
Past key Board memberships: Ilmarinen Mutual Pension Insurance Company: Supervisory Board member (2012–2018); Kiinteistötyönantajat ry (Employers' association of property management) (2013–2016); Technopolis Plc (2014–2018)

Group Executive Board members' shareholding 31 December 2018

	31 Dec 2018
Eero Hautaniemi *	10,403
Petri Salermo	12,578
Antti Tervo	6,396
Kirsi Matero	6,078
Tuomas Mäkipeska	6,250
Tutu Wegelius-Lehtonen	2,185
Jorma Mikkonen	4,837
Pekka Ojanpää **	42,471
Total	**91,198**

*Member of the Group Executive Board from 1 January 2019.

**Member of the Group Executive Board until 23 November 2018.

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

Information about the remuneration paid to the President and CEO and the Group Executive Board is disclosed in the Remuneration Statement published in connection with the Report of the Board of Directors and is available at www.lt.fi/en/investors/annual-report-2018.

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

The Group's financial reporting

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

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

Audit Committee

The Board of Directors' Audit Committee supervises and monitors the efficiency of L&T's financial reporting process and internal control systems. The Audit Committee has reviewed L&T's internal control policy and the Board of Directors has approved it.

The Audit Committee meets at least four times a year before the publication of interim reports and the financial statements release. In its meetings, the Audit Committee reviews the financial information presented by the Chief Financial Officer, as well as interim and half-yearly reports and financial statements releases. The auditor is also invited to attend the meetings. The Audit Committee is presented in more detail in the Committees section.

L&T's financial reporting process

L&T conducts a significant proportion of its business in Finland. Functions related to accounting, accounts payable and receivable, payments and financing in the financial reporting process in Finland are centralised. Organisation of these functions into different teams allows the separation of various finance-related tasks. To support the consistent process in Finland, L&T also runs a centralised accounting system and common account framework.

L&T Korjausrakentaminen Oy and 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 Korjausrakentaminen Oy and the foreign subsidiaries submit a monthly reporting package to the Group according to the Group's instructions. Financial controllers supervise L&T Korjausrakentaminen Oy's and the foreign subsidiaries' financial reports.

L&T's Group financial management is responsible for preparing and updating the Group accounting policies and instructions, and for preparing reporting schedules. The financial management department consolidates subsidiaries' financial statements into consolidated financial statements, which include notes to the financial statements, and prepares interim and half-yearly reports and financial statement releases and the annual financial statements. Public financial reporting is realised with the same principles and it is subject to the same control methods as monthly internal financial reporting. The Audit Committee reviews the interim report, half-yearly report and financial statements and proposes its recommendation on their processing to the Board of Directors. The Board of Directors approves the interim report, half-yearly report, financial statements release and financial statements prior to their publication.

Internal control

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

The company's Board of Directors has ratified L&T's internal control policy. The Board of Directors and the 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 risk management process that includes a review of financial, strategic, operational and damage-related risks.

Key Risk Management Principles

Risk management at L&T aims to identify significant risk factors, prepare for them and manage them in an optimal way so that the company's strategic and financial objectives are achieved. Comprehensive risk management endeavours to manage the Group's risk as a whole and not just individual risk factors.

Responsibilities

The principles of L&T's risk management are approved by the company's Board of Directors. The Board monitors the implementation of risk management and assesses the efficiency of the methods employed. The President and CEO is responsible for the organisation and implementation of risk management. Risk management at L&T Group is controlled by the risk management 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 division and company level and in central functions considered to be critical. The significance of risks is assessed by a risk matrix. Measures for managing and minimising the identified risks are prepared and responsibility for these measures is allocated to specified individuals or units. The most significant risks identified and the preparations for them are regularly reported to the President and CEO and the Board of Directors.

Other information disclosed in the CG statement

Internal audit

Internal audit enhances the realisation of the monitoring responsibility of L&T's Board of Directors. It is the task of L&T's internal audit to support the company and its senior management in the achievement of strategic and financial goals by providing a systematic approach to assessing and developing the effectiveness of the organisation's internal control, risk management and governance systems and the 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 Directors and 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 32 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 2018.

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 for procedures for ensuring that the company's insider management has been arranged in a consistent and reliable way. The General Counsel is responsible for insider issues in the company.

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

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

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

Auditor

L&T has one auditor that must be a firm of auditors approved by the Finland Chamber of Commerce. The auditor is elected by the Annual General Meeting. KPMG Oy Ab, Authorised Public Accountants, was elected by the Annual General Meeting of 2018 as the company's auditor, with Lasse Holopainen, Authorised Public Accountant, as the principal auditor.

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

In 2018, the fees paid for the Group's statutory auditing to KPMG group totalled EUR 168,000 (209,000). The fees paid to the auditing company and companies belonging to the same group for non-audit services totalled EUR 30,000 (439,000). Such other services were related to M&A projects and the assurance of the sustainability report.

Remuneration Statement 2018

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

Board of Directors

Decision-making on remuneration

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

Key remuneration principles

In accordance with the resolution of the Annual General Meeting on 15 March 2018, it was decided to pay the Chairman EUR 60,000, the Vice Chairman EUR 40,000 and each member EUR 30,000 per year as of the 2018 Annual General Meeting. The fees are paid so that 40% of the annual fee is in Lassila & Tikanoja's shares held by the company or, if this is not feasible, shares acquired from the markets, and 60% in cash. Shares are to be issued to Board members and, where necessary, acquired directly from the markets on behalf of Board members within the next 14 trading days, free from restrictions on trading, from the Annual General Meeting. In addition, meeting fees are paid to the members of the Board of Directors as follows: EUR 1,000 to the Chairman, EUR 700 to the Vice Chairman and EUR 500 to each member for each meeting. Meeting fees are also paid to the Chairmen and members of committees established by the Board of Directors: EUR 700 to the Chairman of a committee and EUR 500 to each member for each meeting.

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

Remuneration-related authorisations

The Annual General Meeting decided on 15 March 2018 in accordance with the proposal of the Board of Directors to authorise the Board of Directors to decide on a share issue and issuance of option rights or other special rights conferring entitlement to shares, referred to in Chapter 10, Section 1 of the Finnish Limited Liability Companies Act, as follows:

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

In 2018, the company's Board of Directors decided to transfer a total of 2,584 company shares under the authorisation as part of the company's share-based incentive programme and 5,326 shares as part of the remuneration of the members of the Board of Directors (directed issue).

President and CEO and Group Executive Board

Decision-making on remuneration

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

Key remuneration principles

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

Short-term incentive programme

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

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

Share-based incentive programmes

The share-based incentive programme is the long-term incentive scheme for the President and CEO and other members of the Group Executive Board. The company's Board of Directors decides on the share-based incentive programme to form a part of the incentive and commitment scheme for the company's key personnel. The earnings period of the programme is the calendar year. The Board of Directors decides on the earnings criteria, target group and maximum share-based incentives on the proposal of the Personnel Committee. The final numbers of shares issued based on meeting the earnings criteria are decided by the Board of Directors at the beginning of the year following the earnings period. Rewards will be paid in February of the calendar year following the earnings period. The rewards will be paid partly as shares and partly in cash. The maximum share-based payment may equal 6–12 months' salary depending on the responsibilities of the member of the Group Executive Board.

The precondition for payment is that the person be employed by the company at the time. Any shares earned through the incentive programme must be held for a minimum period of two years following the payment (commitment period). After that, the members of the Group Executive Board are still required to hold company shares with a value equal to their gross salary for six months and the other programme participants with a value equal to their gross salary for three months as long as they are employed by the company. If a programme participant resigns during the commitment period at their own initiative, they are obligated to return the received shares without compensation.

The share-based incentive programmes with years 2018 and 2017 as the earnings periods are described below:

- The share-based incentive programme 2018 began in 2017. The rewards were based on the Group's EVA result and they were paid in 2018.
- The share-based incentive programme 2019 began in 2018. The rewards were based on the Group's EVA result and they will be paid in 2019.

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

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

Remuneration report

This remuneration report is included in Lassila & Tikanoja plc's ("L&T" or "the Company") remuneration statement published in connection with the Report by the Board of Directors. The remuneration report describes the emoluments and other financial benefits paid to members of the Board of Directors, CEO and other Group Executive Board members during the financial year 2018.

Board of Directors and its Committees

The Annual General Meeting held on 15 March 2018 resolved on the remuneration of the Board of Directors as follows:

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

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

Information about remuneration paid to those who were members of the Board of Directors during the financial years 2018 and 2017 is presented in the table below.

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

	2018			2017		
	Annual fee	Meeting fees	Total	Annual fee	Meeting fees	Total
Heikki Bergholm	60,000	15,800	75,800	46,250	15,800	62,050
Sakari Lassila	40,000	13,300	53,300	30,500	12,000	42,500
Teemu Kangas-Kärki	30,000	9,500	39,500	25,750	9,000	34,750
Laura Lares	30,000	8,500	38,500	25,750	8,000	33,750
Miikka Maijala	30,000	8,500	38,500	25,750	8,500	34,250
Laura Tarkka	30,000	9,000	39,000	25,750	7,500	33,250

* 40% of the annual fee is paid in Lassila & Tikanoja's shares held by the company or, if this is not feasible, shares acquired from the markets.

President and CEO

In 2018, the fixed annual salary of President and CEO Pekka Ojanpää including benefits was EUR 430,746 (in 2017: EUR 424,104). The short-term incentive determined based on 2017 amounted to EUR 60,588 (2017: EUR 96,941). In 2018, the President and CEO received 1,003 shares as rewards for 2017 (2017: 5,944 shares), the value of which at the time of transfer was EUR 18,682 (2017: EUR 112,105) and monetary compensation relating to the taxes for the share rewards, amounting to EUR 18,682 (2017: EUR 112,105), or a total of EUR 37,364 (2017: EUR 224,210). The President and CEO's wages and fees for 2018 thus totalled EUR 528,698 (2017: EUR 745,255).

Other Executive Board members

Other Group Executive Board members were paid fixed annual salary and fringe benefits of EUR 1,024,028 in 2018 (2017: EUR 1,300,359) and short-term incentives based on performance in 2017 totalling EUR 95,634 (2017: EUR 167,303). In 2018, the members of the Executive Board received a total of 1,581 shares as rewards for 2017 (2017: 9,317 shares), the value of which was EUR 26,736 (2017: EUR 175,694) and monetary compensation relating to the taxes for the share rewards, amounting to EUR 26,736 (2017: EUR 175,694), or a total of EUR 53,472 (2017: EUR 351,388). The wages and fees paid to other members of the Group Executive Board thus totalled EUR 1,173,134 (2017: EUR 1,819,050).

In 2018, EUR 5,300 arising from the pension agreement of Jari Sarjo, who served as the President and CEO until 13 June 2011, was recognised in the income statement.

Information about remuneration paid to the President and CEO and those who were members of the Board of Directors during the financial years 2018 and 2017 is presented in the table below.

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

	2018				2017			
	Fixed salary	Incentives	Share-based incentives	Total	Fixed salary	Incentives	Share-based incentives	Total
President and CEO*	430,746	60,588	37,364	528,698	424,104	96,941	224,210	745,255
Other Group Executive Board members total	1,024,028	95,634	53,472	1,173,134	1,300,359	167,303	351,388	1,819,050

* Pekka Ojanpää served as the company's President and CEO until 23 November 2018. CFO Tuomas Mäkipeska served as interim President and CEO from 24 November to 31 December 2018. He was not paid any additional compensation and his wages and fees are not included in the figures reflecting the wages and fees paid to the President and CEO.

REPORT BY THE BOARD OF DIRECTORS

Strategy

L&T is a practical doer in the circular economy whose services are aimed at helping customers make efficient and sustainable use of their resources. This enables the company to pursue profitable growth – both for customers and itself. By executing its strategy, the company aims to become the most advanced and useful service company in its industry.

L&T's strategy emphasises the improvement of productivity through new operating models and systems as well as a strong focus on the customer and employee experience. In all of its businesses, L&T focuses on developing new service solutions to ensure future growth. Growth is also pursued through potential acquisitions.

Progress made in the implementation of strategy in 2018

At the beginning of 2018, L&T implemented major restructuring measures by taking a significant proportion of the business support services produced by the Group and shifting them to the divisions. This change in the management model is aimed at improving the competitiveness and agility of businesses and allocating more resources to the company's work with customers. In connection with the restructuring, the Technical Services business was separated into a division of its own.

In connection with updating the strategy in 2018, L&T assessed the market attractiveness of each business as well as their performance and potential in relation to the market. The company also assessed the necessary measures to improve the availability and retention of competent personnel and began the verification of the effectiveness of its services and value creation for key stakeholders.

The focus of strategic development was on adding detail to business-level strategies and ensuring effective execution. Measures to improve the customer and employee experience were also implemented in accordance with the strategy of each business.

The **Environmental Services** division investigated new business opportunities in the circular economy and expanded the geographical coverage of new circular economy services. The division also evaluated future business positioning alternatives in the environmental services value chain. In the latter half of the year, an investment decision was made to increase the capacity of the division's plastic recycling plant and expand its services to include the processing of dirty plastics.

The **Industrial Services** division evaluated its market position and defined alternative paths to growth. The division also focused on service development and defining the operating model that will be used as the foundation of the new ERP system. The implementation of the system began in the autumn and its deployment will start gradually in 2019.

The **Facility Services** division explored the improvement of productivity and alternative future growth paths. A new operating model and an ERP system (KIITO) that supports it were deployed in the property maintenance and cleaning businesses. The Facility Services division will use KIITO to achieve leadership in the management and transparency of service production and to promote data-driven management.

In the **Technical Services** division, a competitive strategy for the Swedish businesses was created as part of the integration of the Swedish operations acquired in September 2017. The division's Finnish businesses specified the position they aim to achieve in the market and deployed a new operating model along with an ERP system (KIITO) to support it, with the aim of improving production management and the customer experience.

The **Renewable Energy Sources** division analysed the dramatically changing business environment and specified its market positioning. The procurement organisation was developed and strengthened in response to growing demand. Efforts to increase supply chain efficiency continued in line with strategy.

Progress in regulation that supports the circular economy

The EU continued the implementation of its multi-year circular economy package in 2018. The package is a comprehensive set of strategies and regulatory reforms aimed at the sustainable and efficient use of existing resources. The shift to a circular economy will take place over the next 10–15 years and it will provide all of L&T's businesses a wealth of new market opportunities.

In the area of energy and climate policy, concerns about the adequacy of climate change mitigation measures grew following a new report by the IPCC. At the EU and national level, this is reflected in a desire to eliminate fossil fuels on an even faster schedule than previously agreed. Achieving the targets calls for radical reforms to increase the use of renewable energy, improve energy efficiency, promote the reuse of materials and introduce lower-emission transport solutions. This presents opportunities for L&T, as the company's services are closely linked to helping customers realise their environmental responsibility objectives.

Financial targets for the strategy period

The progress made in the implementation of strategy did not warrant any changes to L&T's strategic targets in 2018. The targets will be reviewed in conjunction with the development of strategy in 2019.

	Target	2018	2017
Growth	5%	**13.1%**	7.2%
Return on invested capital	20%	**12.7%**	13.3%
Operating profit	9%	**5.9%**	6.2%
Gearing	0–70%	**46.1%**	54.2%

Group net sales and financial performance

Net sales for 2018 increased by 13.1% to EUR 802.2 million (709.5). The rate of organic growth was 3.2%. Operating profit totalled EUR 47.6 million (44.0), representing 5.9% (6.2) of net sales. Earnings per share were EUR 0.89 (0.87).

Of the growth in net sales, 3.2% was organic and the remainder was due to the L&T FM acquisition. Full-year net sales grew in all divisions except Facility Services. The Environmental Services division's market position improved particularly in the retail and industrial segments. In Industrial Services, both net sales and operating profit showed year-on-year growth thanks to new customer accounts. The net sales and operating profit of Facility Services decreased particularly due to intensified price competition in the cleaning business and the ERP system's deployment phase. In the Technical Services division, business developed favourably, particularly in Sweden, thanks to strong demand and improved productivity.

Income statement by quarter

EUR million	10–12/2018	7–9/2018	4–6/2018	1–3/2018	10–12/2017
Net sales					
Environmental Services	68.5	69.6	69.3	62.8	66.0
Industrial Services	25.2	25.9	26.3	19.2	23.9
Facility Services	62.1	63.2	66.0	65.8	70.2
Technical Services	41.6	34.8	35.6	36.4	38.4
Renewable Energy Sources	12.1	5.5	8.4	14.7	10.7
Interdivision net sales	-3.1	-2.6	-2.7	-2.4	-3.2
Total	206.5	196.3	203.0	196.5	206.1
Operating profit					
Environmental Services	8.3	10.6	8.4	4.4	6.9
Industrial Services	2.6	3.7	3.3	0.4	2.6
Facility Services	0.0	4.1	1.4	-0.5	1.4
Technical Services	1.6	1.6	0.6	0.7	1.2
Renewable Energy Sources	0.1	0.1	-0.3	0.1	0.2
Group administration and other	-0.9	-0.6	-0.7	-1.3	-0.9
Total	11.7	19.6	12.6	3.7	11.4
Adjusted operating profit					
Environmental Services	8.4	10.7	8.5	4.5	7.0
Industrial Services	2.6	3.8	3.3	0.4	2.6
Facility Services	0.0	4.1	1.4	-0.5	1.5
Technical Services	2.2	2.1	1.2	1.3	2.0
Renewable Energy Sources	0.1	0.1	-0.3	0.1	0.2
Group administration and other	-0.9	-0.6	-0.7	-1.3	-0.9
Total	12.4	20.3	13.4	4.5	12.4
Operating margin					
Environmental Services	12.0	15.2	12.1	7.0	10.4
Industrial Services	10.4	14.4	12.4	2.2	10.7
Facility Services	0.0	6.5	2.1	-0.8	2.0
Technical Services	3.8	4.5	1.7	1.9	3.1
Renewable Energy Sources	0.6	2.6	-3.3	0.5	2.1
Total	5.7	10.0	6.2	1.9	5.5
Financial income and expenses, net	-1.0	-1.4	-1.1	-0.9	-1.3
Share of the result of associated companies	0.0	0.0	-0.3	-0.1	0.0
Profit before tax	10.6	18.2	11.1	2.8	10.0

Net sales of international operations by country

MEUR	2018	2017
Sweden	**134.4**	61.2
Russia	**8.9**	8.1

Division reviews

Environmental Services

The Environmental Services division's net sales for 2018 amounted to EUR 270.2 million (262.8). Operating profit was EUR 31.6 million (31.6).

The division's net sales grew and its market position improved particularly in the retail and industrial segments. Fuel costs were higher than in the previous year, but other measures compensated for their impact.

Industrial Services

The Industrial Services division's full-year net sales grew by 6.5% to EUR 96.5 million (90.7). Operating profit grew by 15.3% year-on-year and amounted to EUR 10.0 million (8.7).

The division's net sales growth was attributable to robust demand and a strengthened market position. Improvements in service development and the efficiency of operations increased operating profit and supported new customer acquisition, which was reflected in a higher market share.

Facility Services

The Facility Services division's net sales for 2018 amounted to EUR 257.2 million (260.6). Operating profit was EUR 5.0 million (5.2).

In the cleaning business, increased price competition led to the loss of customers, which decreased net sales and operating profit. The division focused on major changes in its operating model to improve its competitiveness. The deployment phase of the ERP system decreased the full-year operating profit of the cleaning business.

In the renovation business, operating profit increased year-on-year due to the improved efficiency of operations.

Technical Services

The Technical Services division's net sales for 2018 amounted to EUR 148.4 million (71.8). The increase was mainly due to the L&T FM acquisition. Operating profit was EUR 4.5 million (1.6) and adjusted operating profit was EUR 6.8 million (2.6).

In Sweden, business developed favourably thanks to strong demand and improved productivity. In Finland, the increase in net sales was particularly attributable to the public sector and industry. Operating profit was weighed down by the deployment phase of a new operating model and ERP system, which mainly took place in the latter part of the year.

The order book remained strong and the contract portfolio strengthened in both Finland and Sweden.

Net sales by division

EUR million	2018	2017	Change %
Environmental Services	**270.2**	262.8	2.8
Industrial Services	**96.5**	90.7	6.5
Facility Services	**257.2**	260.6	-1.3
Technical Services	**148.4**	71.8	106.6
Renewable Energy Sources	**40.7**	34.9	16.6
Eliminations	**-10.8**	-11.3	
Total	**802.2**	709.5	13.1

Operating profit by division

EUR million	2018	%	2017	%	Change %
Environmental Services	**31.6**	11.7	31.6	12.0	- 0.1
Industrial Services	**10.0**	10.4	8.7	9.6	15.3
Facility Services	**4.5**	1.9	5.2	2.0	-4.5
Technical Services	**4.5**	3.0	1.6	2.3	172.4
Renewable Energy Sources	**0.0**	0.0	0.7	2.0	-99.1
Group administration and other	**-3.5**		-3.9		
Total	**47.6**	5.9	44.0	6.2	8.2

Renewable Energy Sources

The full-year net sales of the Renewable Energy Sources division totalled EUR 40.7 million (34.9). Operating profit was EUR 0.0 million (EUR 0.7 million)

The market of Renewable Energy Sources remained challenging. Operating profit was lower than in the comparison period during the early part of the year due to the low energy content of fuels caused by the large amount of rain in 2017. Operating profit was also decreased by higher wood procurement prices and contracting costs.

Financing and capital expenditure

Cash flow from operating activities amounted to EUR 90.1 million (61.8). Net cash flow from operating activities improved year-on-year due to successful measures to improve the efficiency of working capital management. A total of EUR 9.9 million in working capital was released. In the comparison period, EUR 10.8 million in working capital was committed.

At the end of the period, interest-bearing liabilities amounted to EUR 152.2 million (165.9).

Net interest-bearing liabilities totalled EUR 97.8 million (117.9), a decrease of EUR 21.3 million from July–September and EUR 20.1 million year-on-year.

In September, the company issued senior unsecured notes in the amount of EUR 50 million, maturing in 2023. The funds from the issue were used for partial redemption of Lassila & Tikanoja's outstanding EUR 30 million notes due 2019 and for the repayment of a EUR 20 million loan provided by Danske Bank A/S.

Net financial expenses in 2018 amounted to EUR 4.5 million (1.4). Net financial expenses were 0.6% (0.2) of net sales. Net financial expenses in the comparison period were substantially reduced by exchange rate gains realised from currency hedging related to the L&T FM acquisition.

The average interest rate on long-term loans (with interest rate hedging) was 1.2% (1.1). Loans totalling EUR 3.9 million will mature in 2019.

The equity ratio was 38.6% (38.6) and the gearing rate was 46.1 (54.2). Liquid assets at the end of the period amounted to EUR 54.3 million (48.1).

The EUR 100 million commercial paper programme was entirely unused at the end of the period. EUR 20 million was in use in the comparison period. A committed limit totalling EUR 30.0 million was not in use, as was the case in the comparison period.

Gross capital expenditure in 2018 totalled EUR 37.8 million (113.2), consisting primarily of machine and equipment purchases and investments in information systems. The most significant investment in the comparison period was the acquisition of L&T FM AB.

Key figures for financing

	2018	2017
Interest-bearing liabilities, EUR million	**152.2**	165.9
Net interest-bearing liabilities, EUR million	**97.8**	117.9
Net finance costs, EUR million	**-4.5**	-1.4
Net finance costs, % of net sales	**0.6**	0.2
Net finance costs, % of operating profit	**9.4**	3.2
Equity ratio, %	**38.6**	38.6
Gearing, %	**46.1**	54.2
Cash flow from operating activities, EUR million	**90.1**	61.8
Change in working capital in the cash flow statement, EUR million	**9.9**	-10.8

Invested capital

EUR million	31.12.2018	31.12.2017
Non-current assets	**356.0**	367.2
Inventories and receivables	**153.2**	162.1
Liquid assets	**54.3**	48.1
Deferred tax liability	**-29.3**	-29.2
Trade and other payables	**-162.4**	-156.0
Provisions	**-5.3**	-7.0
Other non-interest-bearing liabilities	**-1.9**	-1.8
Invested capital	**364.5**	383.3

Capital expenditure by balance sheet item

EUR million	2018	2017
Real estate	**1.2**	2.8
Machinery, equipment and other property, plant and equipment	**31.0**	33.7
Goodwill and other intangible rights arising from business acquisitions	**0.3**	69.2
Other intangible assets	**5.2**	7.1
Other non-current assets	**0.0**	0.5
L&T total	**37.8**	113.2

Capital expenditure by division

EUR million	2018	2017
Environmental Services	**20.6**	24.8
Industrial Services	**8.4**	9.0
Facility Services	**6.9**	10.1
Technical Services	**1.7**	68.6
Renewable Energy Sources	**0.2**	0.2
Group administration and other	**0.0**	0.4
L&T total	**37.8**	113.2

Loans, liabilities and contingent liabilities to related parties

Related-party transactions are accounted for in the consolidated financial statements, in Note 32: Related-party transactions.

Changes in Group structure

The Group acquired the business operations of Kymen Talopalvelu Oy.

Changes in L&T's management

On 3 August, L&T announced that Pekka Ojanpää was to leave his post as the company's President and CEO on 3 February 2019 at the latest to become the President and CEO of Suominen Corporation. On 15 November, the company announced that Eero Hautaniemi, M.Sc. (Econ.), had been appointed as L&T's new President and CEO starting from 1 January 2019. On 24 November, the company announced that President and CEO Pekka Ojanpää had died in an aviation accident. CFO Tuomas Mäkipeska was appointed as L&T's interim President and CEO.

Personnel

In 2018, the average number of employees converted into full-time equivalents was 7,566 (7,875). At the end of the period, L&T's had 8,600 (8,663) full-time and part-time employees. Of these, 6,871 (7,041) worked in Finland and 1,729 (1,622) in other countries.

Resolutions by the Annual General Meeting

The Annual General Meeting, which was held on 15 March 2018, adopted the financial statements and consolidated financial statements for 2017 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 35.3 million, be paid on the basis of the balance sheet adopted for the financial year 2017. It was decided that the dividend be paid on 26 March 2018.

The Annual General Meeting confirmed the number of members of the Board of Directors as six. 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.

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

The resolutions of the Annual General Meeting were announced in more detail in a stock exchange release on 15 March 2018.

Statement of non-financial information

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

In 2018, the company made a commitment to support the UN Global Compact initiative and its principles pertaining to human rights, labour, the environment and anti-corruption.

Employees by country at year end

Full-time and part-time, total	2018	2017
Finland	**6,871**	7,041
Sweden	**1,422**	1,332
Russia	**307**	290
Total	**8,600**	8,663

Managing corporate responsibility

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

The Group Executive Board is responsible for the strategic management of corporate responsibility, and operational measures are governed by the corporate responsibility programme. The Group Executive Board regularly monitors the progress of the programme and the projects launched to support its implementation. The Group Executive Board also evaluates and, if necessary, updates the targets of the programme. The corporate responsibility programme is confirmed by the Board of Directors.

In 2018, L&T revised its corporate responsibility programme to link it even more closely to the company's strategic priorities and stakeholder expectations. The company's focus in the development of responsibility was shifted to the impact of operations and the value that the company creates together with its customers for its key stakeholders, society, the environment and the climate. At the same time, the responsibility programme was linked to the UN Sustainable Development Goals (SDGs) and the Global Compact.

L&T's corporate responsibility programme and activities are described in more detail in the 2018 corporate responsibility report, which is published as part of the company's Annual Report 2018. The report has been prepared in compliance with the Global Reporting Initiative (GRI) reporting guidelines. Key environmental responsibility and responsibility for personnel indicators are assured by a third party.

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

All new L&T employees studied the Code of Conduct as part of their induction training programme in 2018. In autumn 2018, the Code of Conduct and the online course that supports its practical application were updated to correspond to the GDPR requirements concerning the processing of personal data. In addition, certain other sections, such as the anti-discrimination guidelines, were specified further in the spirit of the UN Global Compact. 93.3% of salaried employees in Finland completed the updated online course by the end of the year. In 2019, employees in Sweden and Finland will familiarise themselves with the revised Code of Conduct as applicable.

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

Environmental responsibility

L&T puts environmental responsibility into practice particularly through the services it produces for customers. The primary goal is always to direct materials collected from customers to reuse or recycling, guided by the order of priority stipulated by law and the circular economy approach. L&T aims to mitigate climate change not only by reducing the transport emissions of its own operations, but even more significantly, by replacing fossil fuels with biofuels and solid recovered fuels and replacing virgin natural resources with secondary raw materials. A further objective is that no environmental offences or serious incidents of environmental damage should result from the Group's own operations.

L&T's environmental policy specifies the environmental aspects and principles that the Group observes in both its own operations as well as in the services it produces for customers. The 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.

Professional waste treatment operations are subject to environmental permits and regulatory compliance. In 2018, L&T had 73 (70) environmental permits that determined how the Group managed and monitored environmental matters. Facilities subject to environmental permits have contingency plans and rescue plans that determine how they are prepared for significant environmental incidents. Environmental issues are also covered in regularly conducted internal audits.

L&T requires responsible 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 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".

Compliance with the operating principles, results and performance indicators

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 2018, the reuse and recycling rate of waste collected from the company's customers rose to 54.2% (53.8). At L&T's volume, this meant that the total amount of materials reused and recycled was nearly 40,000 tonnes higher than in the previous year. The report covers municipal waste collected from corporate customers, hazardous waste, industrial waste and construction waste both in Finland and in Russia.

To mitigate climate change, L&T strives to reduce its customers' emissions as well as the emissions arising from its own operations. The company's operations have a considerable carbon handprint, meaning that it generates significant emission reductions for customers by enabling them to replace virgin raw materials with secondary raw materials, fossil fuels with biofuels and solid recovered fuels, or reduce waste. L&T's carbon handprint, or the emission reductions created by its operations, totalled about 1.2 million (1.1) CO_2 equivalent tonnes in 2018.

The emissions generated by collection and transport services are the most significant direct environmental impact of L&T's operations. In 2018, L&T's own operations generated 64.4 thousand CO_2 equivalent tonnes of emissions (59.6). Absolute emissions increased year-on-year due to the L&T FM acquisition and the higher volume of collection and transport operations. However, the emission intensity, or the ratio of emissions to net sales, fell to 59.5 CO_2 equivalent tonnes (66.2) per million euros.

In the CDP Climate report, which evaluates companies' climate-related efforts, L&T again achieved the Leadership level with a rating of A-, the second-best rating in the system. The company has also made a commitment to set Science-Based Targets for its long-term climate efforts.

No major environmental damage incidents occurred in the company's operations in 2018.

Social responsibility: employees and human rights

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 maintaining the work ability of L&T personnel, improving occupational safety, increasing job satisfaction and promoting diversity in employment. The company does not tolerate 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 UN Declaration of Human Rights and workers' rights as defined by the International Labour Organisation (ILO). 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 OHSAS 18001 certified management system and the principles governing occupational safety management and responsible business (Code of Conduct).

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 have been assessed as part of the risk management process. However, as L&T mainly operates in Finland and Sweden with local partners, no significant risks related to human rights have been identified in the Group's operations. These risks and their management are described in more detail under "Risks and risk management" in this document.

Compliance with the operating principles, results and performance indicators

As part of work ability management, L&T's objectives are to reduce sickness-related absences and raise the average retirement age. In 2018, the sickness-related absence rate was 5.0% (4.8) in Finland, 5.1% (4.5) in Sweden and 2.7% (2.5) in Russia. The development of the rates of absence was not in line with the company's objectives. A detailed action plan will be drafted in 2019 to reduce sickness-related absences by investigating the root causes of absences and ways to promote health. However, the average retirement age (including retirement on old-age pension and disability pension) developed more favourably, rising to 63.2 years (63.0) in Finland and 63.2 years in the Group as a whole (63,0). The long-term target is to increase the retirement age to 65.0 years.

In occupational safety, L&T pursues continuous improvement with an ultimate goal of zero accidents. The overall accident rate in Finland developed favourably in 2018 and stood at 28 (30). The Group-level overall accident rate remained on a par with the previous year at 25 (25). LTA, which measures accidents leading to lost time, was also unchanged at 14 (14). The number of proactive measures to promote occupational safety reached another new record. One of the development areas for 2019 is to make more effective use of proactive measures by targeting activities where they are needed the most.

One fatal accident occurred late in the year when an experienced L&T employee died in an accident while cleaning a production line at a food production facility. The company immediately conducted an in-depth investigation of the accident and its causes. Based on the results of the investigation, we have taken the necessary measures to prevent similar incidents from occurring. The official investigation of the incident had not been completed by the date of publication of this report. L&T is co-operating with the authorities on the investigation.

Employee satisfaction showed positive development in 2018. According to an employee satisfaction survey conducted in Finland and Sweden, the employees' confidence in the company and its future has improved. L&T employees feel their work is meaningful and 72% of them are prepared to recommend the company as an employer. The company aims to increase the employee promoter score further by investing in improving the employee experience.

In 2018, L&T joined Society's Commitment to Sustainable Development, a Finnish initiative, under which the company committed to taking goal-driven action to extend careers as well as employ young people, immigrants and people who struggle to find jobs. The company also joined forces with the Kide Foundation, which promotes human rights and participation, to launch Meaningful Work, a two-year project that will provide new ways to prevent the risk of disability retirement. The project aims to create innovative methods to support traditional rehabilitation and provide people at risk of retirement with opportunities to work in appropriate proportion to their abilities and resources.

There were no grievances related to human rights or reported incidents of discrimination at L&T in 2018.

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 responsible business principles (Code of Conduct), which include anti-bribery and corruption guidelines related to, among other things, accepting and offering gifts and hospitality as well as the avoidance of conflicts of interest. 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' responsibility. Operations with significant suppliers are managed through regular supplier co-operation and monitored according to category-specific 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 incidents of bribery or corruption at L&T in 2018.

Research and development

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

The company's current capitalised development expenditure is mainly related to software and system projects. Development expenditure of EUR 4.6 million (5.7) 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 Note 35 Financial Risk Management.

Strategic and operative risks

Responsibility

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

In 2018, the potential human rights risks associated with L&T's operations were reviewed as part of the risk management process. To manage climate risks, the company has made a commitment to set Science-Based Targets within the next two years. The company is also active in taking 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 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 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. To prepare for market risks, L&T pays special attention to productivity improvement and customer care. 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 due diligence processes and particularly by carrying out efficient integration programmes after transactions are completed.

Personnel

The availability of competent and motivated workers is a significant personnel-related risk due to the labour-intensive nature of the industry and the seasonality of the demand for labour. The population age structure also intensifies the competition for labour. The potential deterioration of employee satisfaction is also a strategic risk for the company if the organisation fails to respond to it in a timely manner. L&T aims to be the most attractive employer in its sector. Risks are managed by investing in employee availability and retention through the development of the employee experience and employer image. These measures include facilitating career paths and job rotation as well as the development of induction training processes and employee engagement as well as supporting effective managerial work. The company is also active in recruiting people with immigrant backgrounds. In addition, L&T focuses on fostering a good work community, management and leadership, improving multicultural skills, job rotation and occupational safety.

An increase in the personnel's disability and accident pension costs could materially affect L&T's competitiveness and profitability because, as a major employer, L&T is liable for the full pension costs arising from employee disability. The company's Sirius programme is designed to promote the health of employees and to manage occupational health care services. It aims to minimise sickness-related absences and disability pensions as well as manage their related costs. 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 workplace 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.

Risk of fire

A fire at a recycling plant may result in a momentary or extended interruption of the plant's operations. However, the significance of the risk is reduced by the fact that individual plants or production lines have no substantial impact on L&T's overall profitability. In addition to taking out insurance, L&T strives to minimise the risks of fire damage by using contingency planning, developing first-hand fire extinguishing preparedness and training personnel to prepare for emergencies.

Risk of environmental damage

L&T's business includes the collection and transport of hazardous waste, as well as processing at the company's own plants. Incorrect handling of hazardous waste or damage to equipment may result in harmful substances being released into the environment. L&T may become liable for damages due to this. In addition to taking out insurance, L&T manages environmental damage risks through systematic environmental surveys of its plants, preventive equipment maintenance plans, audits and the long-term training of personnel.

Corporate Governance

The Corporate Governance Statement for the financial year 2018 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 2018. 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 38,404,842. Each share carries one vote. The Articles of Association do not set an upper limit on the share capital and number of shares. A share has neither a nominal value nor a book equivalent value.

The company's shares are included in the book-entry system of securities maintained by Euroclear Finland Ltd. Euroclear Finland maintains the company's official list of shareholders.

Shareholders

Lassila & Tikanoja plc had 13,207 (12,208) registered shareholders at the end of 2018. Nominee-registered holdings accounted for 19.5% (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 932,751 shares in the company on 31 December 2018. They represent 2.4% of the number of shares and votes.

Trading in shares in 2018

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

The volume of trading on Nasdaq Helsinki Ltd in 2018, excluding the shares held by the company in Lassila & Tikanoja plc, was 4,994,631 shares, which is 13% (14.3) of the average number of outstanding shares. The value of trading was EUR 83.8 million (101.6). The highest share price was EUR 20.0 and the lowest EUR 14.34. The closing price was EUR 14.96.

At the end of the review period, the market capitalisation excluding the shares held by the company was EUR 574.6 million (693.5).

Own shares

At the end of the period, the company held 392,952 of its own shares, representing 1.0% of all shares and votes.

Authorisation for the Board of Directors

The Annual General Meeting held on 15 March 2018 authorised Lassila & Tikanoja plc's Board of Directors to make decisions on the repurchase of the company's own shares using the company's unrestricted equity. In addition, the Annual General Meeting authorised the Board of Directors to decide on a share issue and the issuance of special rights entitling their holders to shares.

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

The Board of Directors is authorised to decide on the issuance of new shares or shares 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% of the total number of shares) may be issued and/or conveyed. The authorisation is effective for 18 months.

Restrictions in voting power

According to the Articles of Association, at a General Meeting of Shareholders no shareholder may cast more than one fifth of the total number of votes represented at the meeting.

Breakdown of shareholding by sector on 31 December 2018

	Number of shareholders	Percentage	Number of shares	Percentage of shares and votes
Non-financial corporations and housing corporations	707	5.3%	2,558,136	6.6%
Financial and insurance corporations	57	0.4%	6,409,393	33.4%
General Government	23	0.2%	3,680,244	9.5%
Households	12,100	91.6%	12,203,821	31.5%
Non-profit institutions serving households	268	2.0%	6,217,204	16.0%
Foreign shareholders	52	0.4%	138,344	2.9%
Of which nominee-registered	11		7,551,054	19.5%
Shares not transferred to the book-entry securities system			40,528	0.1%
Own shares	1		392,952	1.0%
Total	**13,208**		**38,798,874**	**100.0%**

Breakdown of shareholding by size of holding on 31 December 2018

Number of shares	Number of shareholders	Percentage	Number of shares	Percentage of shares and votes
1 – 1,000	11,615	88.0%	2,853,131	7.4%
1,001 – 5,000	1,196	9.1%	2,612,446	6.7%
5,001 – 10,000	177	1.3%	1,292,903	3.3%
10,001 – 100,000	180	1.4%	5,131,614	13.2%
100,001 – 500,000	23	0.2%	4,648,997	12.0%
over 500,000	16	0.1%	21,826,303	56.3%
Shares registered in a nominee's name	11		7,551,054	19.5%
Shares not transferred to the book-entry securities system			40,528	0.1%
Own shares	1		392,952	1.0%
Total	**13,208**	**100.0%**	**38,798,874**	**100.0%**

Major shareholders on 31 December 2018, excluding nominee-registered shareholders

	Shareholder	Number of shares	Percentage of shares and votes
1	Evald and Hilda Nissi Foundation	2,413,584	6.2
2	Mandatum Life Insurance Company Limited	2,311,238	6.0
3	Nordea investment funds	1,742,245	4.5
4	Maijala Juhani	1,529,994	3.9
5	Elo Mutual Pension Insurance Company	1,229,073	3.2
6	Åbo Akademi University Foundation	942,882	2.4
7	Ilmarinen Mutual Pension Insurance Company	934,836	2.4
8	Föreningen Konstsamfundet R.F.	855,721	2.2
9	Bergholm Heikki	829,506	2.1
10	Maijala Mikko	720,000	1.9
11	The State Pension Fund	562,000	1.5
12	Turjanmaa Kristiina	529,200	1.4
13	Lassila & Tikanoja plc	392,952	1.0
14	Fondita investment funds	360,000	0.9
15	Oy Chemec Ab	353,200	0.9
16	Varma Mutual Pension Insurance Company	349,791	0.9
17	Maijala Eeva	345,000	0.9
18	Aktia investment funds	283,280	0.7
19	Church Pension Fund	281,604	0.7
20	Veritas Pension Insurance	238,012	0.6
	Total	**17,204,118**	**44.3**

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 2018, the Group's earnings per share were EUR 0.89 (0.87) and cash flow from operating activities per share amounted to EUR 2.35 (1.61). The Board of Directors proposed a dividend of EUR 0.92 per share to the Annual General Meeting to be held on 14 March 2019. A dividend of EUR 0.92 per share was paid for the financial year 2017.

Near-term uncertainties

Challenges related to the availability of labour may increase production costs and slow down the growth of net sales.

A decline in the volume of the construction industry and a slowing down of investment growth may have an unfavourable effect on the Group's operations and business growth and lead to lower profitability. In addition, market price development for emission rights, secondary raw materials or oil products may have a negative impact on the company's business environment.

Temporary additional costs arising from establishing the operating model related to the new ERP system may weigh down on the company's result.

Outlook for 2019

All of Lassila & Tikanoja's divisions except Facility Services have good outlook for 2019. Net sales and operating profit of Facility Services are expected to decrease compared to 2018 due to costs related to implementation of the new operating model and decrease in the division's contract base.

Lassila & Tikanoja's full-year net sales and operating profit in 2019 are expected to be on par with 2018.

Events after the balance sheet date

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

KEY FIGURES

Key figures on shares

		2018	2017	2016**	2015**	2014**
1	Earnings per share (EPS), EUR	**0.89**	0.87	1.13	0.98	0.47
2	Earnings per share (EPS), diluted, EUR	**0.89**	0.87	1.13	0.98	0.47
3	Equity per share, EUR	**5.53**	5.66	5.81	5.51	5.34
4	Dividend per share, EUR *	**0.92**	0.92	0.92	0.85	0.75
5	Payout ratio, %	**103.7**	105.4	81.3	86.5	160.0
6	Effective dividend yield, %	**6.1**	5.1	4.8	4.7	5.0
7	P/E ratio, %	**16.9**	20.7	17.0	18.4	32.3
8	Cash flow from operating activities per share, EUR	**2.35**	1.61	1.99	2.33	2.06
	Share price adjusted for issues:					
9	lowest, EUR	**14.34**	17.22	14.37	14.54	12.75
10	highest, EUR	**20.00**	20.89	19.59	18.74	15.84
11	average, EUR	**16.78**	18.52	16.96	17.25	14.31
12	closing, EUR	**14.96**	18.06	19.20	18.12	15.14
13	Market capitalization 31 December, MEUR	**580.4**	700.7	744.9	703.0	584.7
	Number of shares adjusted for issue:					
14	average during the year	**38,404,842**	38,394,955	38,375,007	38,589,658	38,728,721
15	at year end	**38,405,922**	38,398,012	38,378,006	38,361,153	38,617,980
16	average during the year, diluted	**38,418,963**	38,409,829	38,389,881	38,604,906	38,739,668
17	Adjusted number of shares traded during the year	**4,994,631**	5,480,149	6,475,324	10,271,667	10,191,394
18	As a percentage of the average	**13.0**	14.3	16.9	26.6	26.3
19	Volume of shares traded, MEUR	**83.8**	101.6	110.1	177.2	147.2

* 2018 proposal by the Board of Directors
** IFRS 15 has not been adjusted to comparison years

Key figures on financial performance

		2018	2017	2016**	2015**	2014**
20	Net sales, MEUR	**802.2**	709.5	661.8	646.3	639.7
21	Operating profit, MEUR	**47.6**	44.0	50.5	49.9	48.5
22	% of net sales	**5.9**	6.2	7.6	7.7	7.6
23	Adjusted operating profit, MEUR	**50.5**	45.7	-	-	-
24	% of net sales	**6.3**	6.4	-	-	-
25	Profit before tax, MEUR	**42.7**	42.5	50.1	47.7	26.6
26	% of net sales	**5.3**	6.0	7.6	7.4	4.2
27	Profit for the period, MEUR	**34.1**	33.5	43.4	37.9	18.1
28	% of net sales	**4.2**	4.7	6.6	5.9	2.8
29	Profit for the period attributable to the equity holders of the parent company, MEUR	**34.1**	33.5	43.4	37.9	18.1
30	% of net sales	**4.2**	4.7	6.6	5.9	2.8
31	EVA, MEUR	**24.0**	21.1	30.7	30.3	29.1
32	Cash flow from operating activities, MEUR	**90.1**	61.8	76.4	89.8	79.6
33	Balance sheet total, MEUR	**563.5**	577.3	452.8	465.8	458.3
34	Return on equity, % (ROE)	**15.9**	15.2	20.0	18.2	8.7
35	Return on invested capital, % (ROI)	**12.7**	13.3	17.4	16.5	15.4
36	Equity ratio, %	**38.6**	38.6	50.4	46.5	46.3
37	Gearing, %	**46.1**	54.2	17.3	19.8	25.2
38	Net interest-bearing liabilities, MEUR	**97.8**	117.9	38.7	41.8	52.0
39	Capital expenditure, MEUR	**37.8**	113.2	41.6	49.6	44.7
40	% of net sales	**4.7**	16.0	6.3	7.7	7.0
41	Average number of employees in full-time equivalents	**7,566**	7,875	7,199	7,099	7,257
42	Total number of full-time and part-time employees at year end	**8,600**	8,663	7,931	8,085	7,830

** IFRS 15 has not been adjusted to comparison years

ALTERNATIVE PERFORMANCE MEASURES

Matching the EVA result to operating profit

1 January - 31 December MEUR	2018	2017
Operating profit	**47.6**	44.0
Invested capital (rolling 12-month quarterly average)	**357.7**	342.0
Cost calculated on invested capital	**-23.6**	-22.9
EVA	**24.0**	21.1

Matching adjusted operating profit to operating profit

1 January - 31 December MEUR	2018	2017
Operating profit	**47.6**	44.0
Purchase price allocation amortisation		
Environmental Services	**0.5**	0.6
Industrial Services	**0.1**	0.1
Facility Services	**0.1**	0.1
Technical Services	**2.3**	0.9
Adjusted operating profit	**50.5**	45.7

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 / share issue adjustment factor for issues made after the financial period	
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	=	basic number of shares at the balance sheet date x closing price of the financial period	

Key figures on financial performance

23	Adjusted operating profit, MEUR	=	operating profit + purchase price allocation amortisation	
31	EVA	=	operating profit - cost calculated on invested capital (average of four quarters) before taxes	

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

WACC 2018: 6.60%
WACC 2017: 6.69%
WACC 2016: 6.56%
WACC 2015: 6.51%
WACC 2014: 6.58%

34	Return on equity, % (ROE)	=	profit for the period / equity (average)	x 100
35	Return on invested capital, % (ROI)	=	profit before tax + finance costs / Balance sheet total - non-interest-bearing liabilities (average)	x 100
36	Equity ratio, %	=	equity / balance sheet total - advances received	x 100
37	Gearing, %	=	net interest-bearing liabilities / equity	x 100
38	Net interest-bearing liabilities	=	Interest-bearing liabilities - cash and cash equivalents	

* The calculations are also applied with capital repayment.

CONSOLIDATED INCOME STATEMENT

1 January – 31 December MEUR	2018	2017	Note
Net sales	**802.2**	709.5	2, 3
Other operating income	**5.2**	5.7	6
Change of inventory	**-2.4**	-1.0	
Materials and services	**-282.0**	-231.9	
Employee benefit expenses	**-324.2**	-296.9	
Other operating expenses	**-108.7**	-100.3	6
Depreciation and impairment	**-42.5**	-41.1	
Operating profit	**47.6**	44.0	
Financial income and expenses	**-4.5**	-1.4	8
Share of the result of associated companies	**-0.4**	-0.1	
Profit before tax	**42.7**	42.5	
Income taxes	**-8.7**	-8.9	9
Profit for the period	**34.1**	33.5	
Attributable to:			
Equity holders of the company	**34.1**	33.5	
Non-controlling interest	**0.0**	0.0	
Earnings per share attributable to equity holders of the parent company:			
Basic earnings per share, EUR	**0.89**	0.87	10
Diluted earnings per share, EUR	**0.89**	0.87	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 January – 31 December MEUR	2018	2017	Note
Profit for the period	**34.1**	33.5	
Items not to be recognised through profit or loss			
Items arising from re-measurement of defined benefit plans	**0.0**	0.1	23
Items not to be recognised through profit or loss,total	**0.0**	0.1	
Items potentially to be recognised through profit or loss			
Hedging reserve, change in fair value	**-0.2**	-0.1	
Currency translation differences	**-3.4**	-2.7	
Currency translation differences, non-controlling interest	**0.0**	0.0	
Items potentially to be recognised through profit or loss, total	**-3.6**	-2.8	
Total comprehensive income, after tax	**30.4**	30.7	
Attributable to:			
Equity holders of the company	**30.4**	30.7	
Non-controlling interest	**0.0**	0.0	

More information on taxes in consolidated statement of comprehensive income is presented in Note 9 Income taxes.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December MEUR	2018	2017	Note
ASSETS			
Non-current assets			
Intangible assets			12
Goodwill	**151.5**	150.2	13
Customer contracts arising from acquisitions	**19.2**	22.6	
Agreements on prohibition of competition	**0.0**	0.0	
Other intangible assets arising from acquisitions	**0.5**	0.5	
Other intangible assets	**22.4**	22.9	
	193.6	196.3	
Property, plant and equipment			14
Land	**5.1**	5.3	
Buildings and constructions	**35.5**	40.3	
Machinery and equipment	**110.9**	113.0	
Other tangible assets	**0.1**	0.1	
Prepayments and construction in progress	**5.2**	2.0	
	156.8	160.5	
Other non-current assets			
Finance lease receivables	**0.1**	0.3	16, 28
Deferred tax assets	**3.6**	6.8	17
Other receivables	**1.9**	3.3	19
	5.6	10.3	
Total non-current assets	**356.0**	367.2	
Current assets			
Inventories	**21.0**	23.9	18
Trade receivables	**88.1**	96.0	19, 28
Contract assets	**31.9**	30.9	2, 19, 28
Other receivables	**12.2**	11.2	19, 28, 29
Cash and cash equivalents	**54.3**	48.1	20, 28
Total current assets	**207.5**	210.2	
Total assets	**563.5**	577.3	

31 December MEUR	2018	2017	Note
EQUITY AND LIABILITIES			
Equity			
Equity attributable to equity holders of the parent company			21
Share capital	**19.4**	19.4	
Other reserves	**-9.5**	-5.9	
Invested unrestricted equity reserve	**0.6**	0.6	
Retained earnings	**167.7**	169.7	
Profit for the period	**34.1**	33.5	
	212.2	217.2	
Non-controlling interests	**0.2**	0.2	
Total equity	**212.4**	217.4	
Liabilities			
Non-current liabilities			
Deferred tax liabilities	**29.3**	29.2	17
Retirement benefit obligations	**1.4**	1.4	23
Provisions	**4.6**	5.0	24
Borrowings	**144.8**	140.9	25, 28
Other liabilities	**0.5**	0.4	26, 28
	180.6	177.0	
Current liabilities			
Borrowings	**7.4**	25.0	25, 28
Trade and other payables	**162.4**	156.0	27, 28, 29
Provisions	**0.7**	1.9	24
	170.5	183.0	
Total liabilities	**351.1**	359.9	
Total equity and liabilities	**563.5**	577.3	

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

CONSOLIDATED STATEMENT OF CASH FLOWS

1 January – 31 December MEUR	2018	2017	Note
Cash flows from operating activities			
Profit for the period	**34.1**	33.5	
Adjustments	**55.6**	51.8	31
Net cash generated from operating activities before change in working capital	**89.6**	85.3	
Change in working capital			
Change in trade and other receivables	**1.5**	-14.6	
Change in inventories	**3.0**	1.0	
Change in trade and other payables	**5.4**	2.8	
Change in working capital	**9.9**	-10.8	
Interest paid	**-3.4**	-2.7	
Interest received	**0.4**	0.5	
Income tax paid	**-6.4**	-10.5	
Net cash generated from operating activities	**90.1**	61.8	
Cash flows from investing activities			
Acquisitions of subsidiaries and businesses, net of cash acquired	**1.2**	-67.2	4
Purchases of property, plant and equipment and intangible assets	**-29.0**	-25.5	
Proceeds from sale of property, plant and equipment and intangible assets	**2.2**	1.7	
Investments in associated companies	**0.0**	-0.8	
Change in other non-current receivables	**0.8**	-0.3	
Net cash used in investing activities	**-24.7**	-92.1	
Cash flows from financing activities			
Changes in short-term borrowings	**-22.6**	19.9	
Proceeds from long-term borrowings	**49.6**	69.9	25
Repayments of long-term borrowings	**-47.7**	-2.6	
Repayments of leasing liabilities	**-2.9**	-1.6	
Dividends paid	**-35.3**	-35.3	
Net cash generated from financing activities	**-58.9**	50.3	
Net change in liquid assets	**6.6**	20.0	
Liquid assets at beginning of period	**48.1**	28.2	
Effect of changes in foreign exchange rates	**-0.3**	-0.1	
Liquid assets at end of period	**54.3**	48.1	20

Liquid assets in the Consolidated statement of cash flows are according to the Consolidated statement of financial position and are specified in Note 20. Cash and cash equivalents.
The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

MEUR	Share capital	Currency translation differences	Hedging reserve	Invested unrestricted equity reserve	Retained earnings	Equity attributable to equity holders of the parent company	Non-controlling interest	Total equity	Note
Equity at 1 January 2017	19.4	-3.0	-0.1	0.4	206.1	222.8	0.2	223.0	
IFRS 15 adjustment to opening balance					-1.1	-1.1		-1.1	
Adjusted equity at 1 January 2017	19.4	-3.0	-0.1	0.4	205.0	221.8	0.2	221.9	
Comprehensive income									
Profit for the period					33.5	33.5	0.0	33.5	
Other comprehensive income		-2.7	-0.1	0.0	0.1	-2.8	0.0	-2.8	
Total comprehensive income		-2.7	-0.1		33.6	30.7	0.0	30.7	
Transactions with equity holders of the company									
Expense recognition of share-based benefits				0.1	-0.2	0.0		0.0	22
Dividend payment					-35.3	-35.3		-35.3	
Total transactions with equity holders of the company				0.1	-35.5	-35.4		-35.4	
Other					0.1	0.1		0.1	
Equity at 31 December 2017	19.4	-5.7	-0.2	0.6	203.2	217.2	0.2	217.4	
IFRS 9 adjustment to opening balance					**-0.4**	**-0.4**		**-0.4**	
Equity at 1 January 2018	**19.4**	**-5.7**	**-0.2**	**0.6**	**202.8**	**216.9**	**0.2**	**217.1**	
Comprehensive income									
Profit for the period					**34.1**	**34.1**	**0.0**	**34.1**	
Other comprehensive income		**-3.4**	**-0.2**		**0.0**	**-3.6**	**0.0**	**-3.7**	
Total comprehensive income		**-3.4**	**-0.2**		**34.0**	**30.4**	**0.0**	**30.4**	
Transactions with equity holders of the company									
Expense recognition of share-based benefits				**0.0**	**0.2**	**0.2**		**0.2**	**22**
Dividend payment					**-35.3**	**-35.3**		**-35.3**	
Returned dividens					**0.0**	**0.0**		**0.0**	
Total transactions with equity holders of the company				**0.0**	**-35.2**	**-35.1**		**-35.1**	
Other					**0.0**	**0.0**		**0.0**	
Equity at 31 December 2018	**19.4**	**-9.1**	**-0.4**	**0.6**	**201.7**	**212.2**	**0.2**	**212.4**	

More information on equity is shown in Note 21 Equity, and on taxes recognised in equity in Note 9 Income taxes.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

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

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

Lassila & Tikanoja plc is listed on the Nasdaq Helsinki Ltd.

The consolidated financial statements are available on the company website at www.lassila-tikanoja.com or from the parent company's head office, address Valimotie 27, 00380 Helsinki, Finland.

These consolidated financial statements have been approved for issue by the Board of Directors of Lassila & Tikanoja plc on 30 January 2018. Under the Finnish Limited Liability Companies Act, the shareholders may accept or reject the financial statements at the general meeting of shareholders held after their publication. The meeting also has the power to make a decision to amend the financial statements.

Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), with application of the IFRS and IAS standards as well as IFRIC and SIC interpretations in effect on 31 December 2018. 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. Individual figures are rounded in a way that may lead to rounding deviations in calculations.

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

Application of new or amended IFRS standards

As of 1 January 2018, the Group has applied the following new and amended standards and interpretations in preparing these consolidated financial statements:

IFRS 9 Financial Instruments replaces the previous guidance included in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. IFRS 9 carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The impacts of IFRS 9 are described in Note 1, Transition to IFRS 9 and IFRS 15. The company has not applied the standard retrospectively.

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). L&T has adopted the new IFRS 15 Revenue from Contracts with Customers standard starting 1 January 2018. The new standard replaces the previous standards IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. L&T adopted the new standard using the full retrospective application method for each previous reporting period presented in accordance with IAS 8, taking into consideration the practical expedients of IFRS 15. The adoption of the new standard impacted the Group's accounting policies to a small extent. The impact of the application of the standard has been presented in Note 1, Transition to IFRS 9 and IFRS 15. The new IFRS 15 standard has increased the amount of revenue recognition related disclosures.

Amendments to IFRS 2 - Clarification and Measurement of Share-based Payment Transactions. The amendments clarify the accounting for certain types of arrangements. Three accounting areas are covered: measurement of cash-settled share-based payments; classification of share-based payments settled net of tax withholdings; and accounting for a modification of a share-based payment from cash-settled to equity-settled. The amendments have no impact on the consolidated financial statements.

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

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

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

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

Accounting policies

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 "Goodwill and other intangible assets".

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

The profit or loss for the period and the comprehensive income are attributed to the parent company's shareholders and non-controlling interests, even if this would result in the non-controlling interest being negative. Equity attributable to non-controlling interests is presented as a separate item in the statement of financial position, as an equity component. Changes in the parent company's holdings in the subsidiary and not resulting in loss of controlling interest are presented as equity transactionsThe Group has no material non-controlling interests.

In an acquisition achieved in stages, the previous holdings are measured at fair value and the resulting gains or losses are recognised through profit or loss. If the Group loses its controlling interest in the subsidiary, its remaining holdings are measured at fair value on the date when control ceases, and the difference is recognised through profit or loss.

All intra-Group transactions, receivables, liabilities and unrealised gains, as well as distribution of profits within the Group, are eliminated in the consolidated financial statements. Unrealised losses are not eliminated if the losses are attributable to impairment. The distribution of profit or loss for the period between equity holders of the parent company and the non-controlling interest is presented in a separate income statement and the statement of comprehensive income, and the share of equity belonging to the non-controlling interest is presented as a separate item in the consolidated statement of financial position under equity.

Associates

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

Foreign currency translation

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

Any transactions in foreign currencies have been recognised in the functional currency using the exchange rate in effect on the transaction date. In practice, it is customary to use a rate that is close enough to the transaction day rate. Monetary assets denominated in foreign currency are translated into euros using the exchange rates in effect on the balance sheet date. Non-monetary assets are translated using the exchange rate in effect on the transaction date. L&T has no non-monetary assets denominated in foreign currency that are measured at fair value. Exchange rate gains and losses arising from foreign-currency transactions and the translation of monetary items are recognised in the income statement. Foreign exchange gains and losses on business transactions are included in the respective items above operating profit. Foreign exchange gains and losses on financial assets and liabilities are included in financial income and costs.

The income statements of the Group entities whose functional currency is not the euro are translated into euros at average exchange rates for the period, and the statements of financial position at the exchange rates in effect on the balance sheet date. The difference in exchange rates applicable to the translation of profit in the income statement and statement of comprehensive income result in a translation difference recognised in the translation reserve within equity. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries, as well as translation differences in equity items accumulating after the acquisition, are recognised in the translation difference reserve.

Goodwill and fair value adjustments to the carrying amounts of the assets and liabilities arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated into euros at the closing rate.

Goodwill and other intangible assets

Goodwill represents the portion of the acquisition cost by which the aggregate of the consideration given, the share of non-controlling owners in the acquired entity and the previously owned share exceed the fair value of the acquired entities at the time of acquisition. Goodwill is not amortised, but is tested annually for impairment. Goodwill is presented in the statement of financial position at original cost less impairment losses, if any.

Intangible assets acquired in a business combination are measured at fair value. The useful lives of intangible assets are estimated to be either finite or indefinite. In L&T, the intangible assets recognised in business combinations include items such as customer relations, non-competition agreements and environmental permits. They have finite useful lives, varying between three and thirteen years.

Other intangible assets consist primarily of software and software licences.

The costs of software projects are recognised in other intangible assets starting from the time when the projects move out of the research phase into the development phase and the outcome of a project is an identifiable intangible asset. Such an intangible asset must provide L&T with future economic benefit that exceeds the costs of its development. The cost comprises all directly attributable costs necessary for preparing the asset to be capable of operating in the manner intended by the management. The largest cost items are consultancy fees paid to third parties, as well as salaries and other expenses for the Group's personnel.

The depreciation period for computer software and software licences is five years.

Depreciation will cease when an intangible asset is classified as held for sale (or included in a disposal group held for sale) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Property, plant and equipment

Property, plant and equipment are recognised at acquisition cost less accumulated depreciation and impairment losses. The historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment. Borrowing costs immediately arising from the acquisition, construction or manufacture of property, plant and equipment that meet the conditions are capitalised as part of the asset's acquisition cost.

In business combinations, property, plant and equipment are measured at fair value on the acquisition date. In the statement of financial position, property, plant and equipment are shown less accumulated depreciation and impairment, if any.

Property, plant and equipment are depreciated using the straight-line method over their expected useful lives, excluding new landfills. The expected useful lives are reviewed on each balance sheet date, and, if expectations differ materially from previous estimates, the depreciation periods are adjusted to reflect the changes in expectations of future economic benefits.

Depreciation in the financial statements is based on the following expected useful lives:

Buildings and structures ....5–30 years
Vehicles ....6–15 years
Machinery and equipment.....................4–15 years

For completed landfills the Group applies the units of production method, which involves depreciation on the basis of the volume of waste received. Land is not depreciated.

When an asset included in property, plant and equipment consists of several components with different estimated useful lives, each component is treated as a separate asset. Ordinary repair and maintenance costs are recognised in the income statement during the period in which they are incurred. Costs of significant modification and improvement projects are capitalised if it is probable that the projects will result in future economic benefits to the Group. When a tangible asset is classified as held for sales in accordance with IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations, depreciation will no longer be recorded. Gains and losses on sales and disposal of property, plant and equipment are recognised through profit or loss and are presented in other operating income or expenses.

Impairment of tangible and intangible assets

On each closing day of a reporting period, the Group assesses the balance sheet values of its assets for any impairment. If any indication exists, an estimate of the asset's recoverable amount is made. The need for recognition of impairment is assessed at the level of cash generating units – that is, the lowest level of unit that is primarily independent of other units and that generates cash flows that are separately identifiable.

The recoverable amount is the higher of an asset's fair value less selling costs and its value in use. Value in use refers to the estimated future net cash flows available from an asset or cash-generating unit, discounted to the present value. The discount rate used is the pre-tax rate, which reflects the market view of the time value of money and the risks associated with the asset.

An impairment loss is recognised in the income statement when an asset's carrying amount exceeds its recoverable amount. Impairment losses attributable to a cash-generating unit are used for deducting first the goodwill allocated to the cash-generating unit and, thereafter, the other assets of the unit on an equal basis.

An impairment loss for an asset other than goodwill recognised in prior periods is reversed if there is a change in circumstances and the recoverable amount has changed. An impairment loss recognised for goodwill is not reversed.

Goodwill is tested for impairment annually or whenever there is any indication of impairment. Recoverable amount calculations based both on values in use and on the net sales price are made for the cash-generating units to which the goodwill has been allocated.

Intangible assets under construction are software projects that cannot be tested separately for impairment, as they do not generate separate cash flow. There is no need for impairment if, at the end of the financial period, it is clear that the projects will be completed and the software will be introduced. Intangible assets under construction are, however, tested for impairment as part of the cash generating unit to which they belong.

Leases

The Group as a lessee

Assets leased under a finance lease are recognised in property, plant and equipment at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. They are depreciated over the term of the lease or over their expected useful lives, if shorter. However, when there is reasonable assurance that the ownership of the leased asset will transfer to L&T by the end of the lease term, the asset will be depreciated using the method applied for a corresponding asset owned by the company. Liabilities arising from the leases are recorded under loans. Each lease payment is apportioned between financial cost and loan repayment. Financial costs are allocated to each period of the leasing term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The Group as a lessor

The Environmental Services division leases out equipment, such as waste compactors, to customers under long-term leases that transfer the material risks and rewards associated with ownership to the lessee. Such leases are classified as finance leases, and net investment in them is recognised as a lease receivables upon commencement of the lease term. Each lease payment is apportioned between financial income and repayment of trade receivables. Financial income is allocated over the lease term on the basis of a pattern that reflects a constant periodic rate of return on the net investment.

Leases of assets and premises that do not transfer the material risks and rewards associated with ownership to the lessee are classified as operating leases. The lease payments are recognised on a straight-line basis over the term of the lease as income or cost, depending on whether L&T is the lessor or the lessee. Assets leased out under operating leases are recognised in property, plant and equipment and are depreciated over their expected useful lives using the method applied for corresponding property, plant and equipment owned by the company.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) and assets and liabilities associated with discontinued operations are classified as held for sale if the amount corresponding to their carrying amount will be principally recovered through their sale instead of continued use. An asset is considered to meet the conditions specified for an asset to be classified as held for sale when the asset (or disposal group) is immediately available for sale in its present condition under standard and conventional terms, when management is committed to a plan to sell, and the sale is expected within one year of the classification.

Immediately before the initial classification of the asset or disposal group as held for sale, the assets and liabilities will be measured in accordance with applicable IFRSs. After classification as held for sale, non-current assets (or disposal groups) are measured at the lower of the carrying amount and fair value, less selling costs. Depreciation of these assets will be discontinued upon classification. If the asset does not meet the classification conditions, the classification is cancelled and the asset is measured at pre-classification balance sheet value less depreciation and impairment, or the recoverable amount, whichever is lower. Non-current assets, or the assets and liabilities of a disposal group, classified as held for sale must be presented separately in the statement of financial position. Similarly, any liabilities of disposal groups must be presented separately from other liabilities. The profit or loss of discontinued operations must be presented in a separate line in the income statement. Comparison data shown in the income statement is adjusted for operations classified as discontinued during the most recent financial period presented. The profit or loss of discontinued operations must be shown in a separate line, including comparison data. There were no discontinued operations iin the current or comparison financial years.

Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The inventories of L&T Biowatti and Environmental Products are measured using the weighted average cost method. The value of other inventories is determined using the FIFO method.

At its recycling plants, L&T processes recyclable materials into secondary raw materials for sale. The cost of the inventories of these materials comprises raw materials, direct labour costs, other direct costs of manufacturing and a proportion of variable and fixed production overheads based on normal operating capacity.

Financial assets and liabilities

Financial assets and liabilities are classified as amortised costs and hedge accounting items. The classification is based on their cash flow properties and business models used to manage them.

A financial asset is derecognised when the rights to the cash flows from the asset expire, or when all material risks and rewards of the ownership of the asset have been transferred outside L&T.

Borrowings and other receivables are measured at amortised cost using the effective interest method. Trade and other receivables are included in this category and are recognised in the statement of financial position at historical cost less credit adjustments and impairment losses.

Financial assets and liabilities at fair value through profit or loss are derivative financial instruments to which hedge accounting is not applied. Accounting policies applied to them are described below under Derivative financial instruments and hedge accounting.

Borrowings are recognised in the statement of financial position on the settlement date at fair value, on the basis of the consideration received, including transaction costs directly attributable to the acquisition or issue. These financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Trade and other current non-interest-bearing payables are recognised in the statement of financial position at cost.

Derivative instruments and hedge accounting

As specified in its financial policy, L&T uses derivative instruments to reduce the financing risks associated with interest rate and commodity rate fluctuations. L&T's derivative instruments include interest rate swaps to hedge the cash flow of variable-rate borrowings against interest rate risk and commodity swaps made to balance price fluctuations in future diesel purchases.

Derivatives are recognised initially in the statement of financial position at fair value. After acquisition, they are measured at fair value on each balance sheet date. The fair values are based on market quotations on the balance sheet date. Any gains and losses arising from measurement at fair value are accounted for in the manner determined by the purpose of the derivative instrument.

All interest rate and commodity hedges meet the criteria set for efficient hedging in the Group's risk management policy. The profits and losses from derivatives covered by hedge accounting are recorded consistently with the underlying commodity. Derivative agreements are defined as hedging instruments for future cash flows and anticipated purchases (cash flow hedging), or as derivative agreements to which hedge accounting is not applied (financial hedging).

L&T applies cash-flow hedge accounting to all interest rate swaps and commodity derivatives. When hedge accounting is initiated, L&T documents the relationship between the hedged item and the hedging instrument, as well as the Group's risk management objectives and hedging strategy. The Group does not use derivatives to hedge net investments made in independent foreign units.

When hedging begins and in connection with each interim report, L&T documents and estimates the effectiveness of the hedging relationships by assessing the hedging instrument's ability to cancel any changes in the cash flows of the hedged item.

To the extent that cash flow hedging is efficient, changes in fair values of hedging instruments are recognised in the hedging reserve within equity. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for Group's management policy, the gain or loss on the hedging instrument remains in equity until the hedged cash flow materialises. If the hedged cash flow is no longer expected to materialise, the gain or loss incurred on the hedging instrument is recognised in the income statement immediately. The ineffective portion of hedging relationship is also recognised immediately in the income statement.

Foreign currency forward instruments and changes in the fair values of these items were recognised in the income statement as financial income or costs. Derivatives to which hedge accounting is not applied are categorised as financial assets and liabilities held for trading.

The positive fair values of all derivatives are recorded in the statement of financial position under derivative receivables. Similarly, the negative fair values of derivatives are recorded under derivative payables. All fair values of derivatives are included in current assets or liabilities.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank deposits redeemable on demand and other short-term liquid investments. Their maturity is no longer than three months from the acquisition date. They are recognised as of the settlement date and measured at historical cost. Foreign currency transactions are translated into euros using the exchange rates prevailing on the balance sheet date.

Impairment of financial assets

The Group assesses on each balance sheet date whether there is objective evidence that any financial asset item is impaired. If there is evidence of impairment, the cumulative loss in the fair value reserve is recognised in profit or loss. Impairment losses on shares classified as financial assets available for sale are not reversed through profit or loss, as is the case with impairment losses recognised on fixed income instruments that are subsequently reversed.

Doubtful debts are reviewed each month. If there is objective evidence that the balance sheet values of the receivables exceed their recoverable amounts, the difference is recognised as an impairment loss in other operating expenses in the income statement. The criteria for recognising an impairment loss on a receivable include the debtor's substantial financial difficulties, corporate restructuring, a credit loss recommendation issued by a collection agency or extended default on payments. If the difference between the balance sheet value of receivables and the recoverable amounts is reduced later, the impairment loss shall be reversed through profit or loss.

Borrowing costs

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

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be included in the acquisition cost of that asset.

Transaction costs directly attributable to borrowing have been included in the historical cost of the liability and recognised as an interest expense during the expected life of the liability applying the effective interest method.

Equity

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

Provisions

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

Environmental provisions are recognised when the Group has an existing obligation that is likely to result in a payment obligation, the amount of which can be reliably estimated. Environmental provisions related to the restoration of sites are made at the commencement of each project. The costs recognised as a provision, as well as the original acquisition cost of assets, are depreciated over the useful life of the asset, and provisions are discounted to present value. The most significant provisions recognised in the statement of financial position are the site restoration provisions for landfills and the contaminated soil processing site.

Revenue recognition

Revenue from contracts with 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.

L&T acts as a principal in all of its contracts with customers.

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 existen of a significant financing component
- Measurement of a variable consideration

These judgments have been described in more detail in the accounting policies 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, Facility Services and Technical 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 L&T's performance as L&T performs the services. 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. L&T's 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.

L&T's 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

L&T's project business include for example projects for industrial process cleaning and closing of landfills which are part of Industrial Services business, renovation and building technology projects included in Facility Services as well as refrigeration and cooling service projects for retailers and energy management projects included in Technical Services business. 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, L&T allocates the transaction price to each performance obligation based on the stand-alone selling prices.

Revenue from project business is recognised over time as L&T's 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. L&T's management has estimated that the costs incurred for a project can be determined reliably. Also, due to L&T's 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 in Renewable Energy Sources business 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 L&T 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.

Renewable Energy Sources business (L&T Biowatti) 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. L&T's 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 L&T 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 L&T's management has determined that L&T does not transfer substantially all the risks and rewards incidental to ownership of the assets 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. L&T's management has estimated that the amount of payment received from the financing company does not Include a significant financing component.

Estimating variable consideration

L&T's contracts with customers may include components of variable considerations, such as bonuses and penalties for delay. L&T's

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 customer pays a consideration, the amount is presented as a contract asset. If L&T 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. L&T's general payment term for customers is 14 days, but it can vary depending on the specific case.

Contract liabilities

A contract liability is L&T's 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

L&T does not have material incremental costs to obtain a contract. L&T applies the 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.

Research and development

Research expenditure is recognised as an expense during the period in which it is incurred. The gains from new service concepts can only be verified at such a late stage that the revenue recognition criteria are not considered fulfilled before the service delivery. Computer software development costs recognised as an asset in the statement of financial position are described in more detail in the following chapter.

Government grants

Government grants or other grants relating to actual costs are recognised in the income statement when the group complies with the conditions attached to them and there is reasonable assurance that the grants will be received. They are presented in other operating income. Government grants directly associated with the recruitment of personnel, such as employment grants, apprenticeship grants and the like, are recognised as reductions in personnel expenses.

Grants for acquisition of property, plant and equipment are recognised as deductions of historical cost. The grant is recognised as revenue over the economic life of a depreciable asset, by way of a reduced depreciation charge.

Employee benefits

Pension benefit obligations

Pension plans are categorised as defined benefit and defined contribution plans. Under defined contribution plans, the Group pays fixed contributions for pensions, and it has no legal or factual obligation to pay further contributions. All pension arrangements that do not fulfil these conditions are considered defined benefit plans. Contributions to defined contribution plans are recognised in the income statement in the financial period to which they relate. L&T operates pension schemes in accordance with local regulations and practices in the countries in which it operates, and these are mainly defined contribution plans.

L&T operates some minor defined benefit plans originating mainly from business acquisitions. The Group is responsible for some of these defined benefit pension plans, while others are covered by pension insurance. The obligations have been calculated for each plan separately, using the projected unit credit method. Pension costs are recognised in the income statement over employees' periods of service, in accordance with actuarial calculations. When calculating the present value of pension obligations, the discount rate is based on the market yield of the high-quality bonds issued by the company, whose maturity materially corresponds to the estimated maturity of the pension obligation. The risk premium is based on bonds issued by companies with an 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.

Service cost (pension costs) and the net interest of the net liabilities of the defined benefit plan are recognised as expenses through profit or loss and recognised under 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.

Share-based payment

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

Income taxes

The Group's income taxes consist of current tax and deferred tax. Tax expenses are recognised in the income statement, with the exception of items directly recognised in equity or comprehensive result, in which case the tax effect is recognised corresponding item. Current tax is determined for the taxable profit for the period according to prevailing tax rates in each country. Taxes are adjusted by current tax rates for previous periods, if any.

Deferred tax assets and liabilities are recognised for all temporary differences between the tax bases of assets and liabilities and their carrying amounts. Calculation of deferred taxes is based on the tax rates in effect on the closing day. If the rates change, it is based on the new tax rate. No deferred tax is recognised for impairment of goodwill that is not tax-deductible. A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilised.

The most significant temporary differences arise e.g. from goodwill amortisation performed under FAS and from depreciation on property, plant and equipment.

Distribution of dividend

The dividend liability to the company's shareholders is recognised as a liability in the consolidated financial statements, after the Annual General Meeting has decided on the dividend distribution.

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

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

Considerations based on discretion apply, in particular, to cases where the applicable IFRS standards provide for alternative methods of recognition, measurement or presentation. The most significant area where management has used the judgment 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 below:

Fair value measurement of assets and liabilities acquired in business combinations

Assets and liabilities acquired in business combinations are measured at fair value according to IFRS 3. Whenever possible, the management uses available market values when determining the fair values. When this is not possible, the measurement is based on the historical revenues from the asset. In particular, the measurement of intangible assets is based on discounted cash flows and requires the management to make estimates on future cash flows. Although these estimates are based on the management's best knowledge, actual results may differ from the estimates (Note 3 Business acquisitions). The carrying amounts of assets are reviewed continuously for impairment. More information on this is provided in the section "Impairment of tangible and intangible assets" under the accounting policies.

Goodwill impairment testing

In testing of goodwill for impairment, the recoverable amounts of the cash-generating units to which the goodwill is allocated are determined on the basis of value-in-use calculations. These calculations require management judgements. Though the assumptions used are appropriate according to the management's judgement, the estimated cash flows may differ fundamentally from those realised in the future. More information on the sensitivity of recoverable amounts is provided in the notes to the financial statements (Note 13 Goodwill impairment tests).

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

The Group has not yet applied the following new or revised standards and interpretations published by IASB. The Group will adopt them as of their effective date or, if the effective date is not the first day of the financial year, as of the beginning of the financial period following the effective date.

*= The provisions had not been approved for application in the EU by 31 December 2018.

- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leases. The new standard replaces IAS 17 Leases and the related interpretations. L&T will adopt the new standard as of 1 January 2019 using the modified retrospective approach. This means that the cumulative effect resulting from implementation of IFRS 16 is presented in the opening balance as at 1 January 2019, and the comparative figures will not be restated for the period ending

31 December 2018. In transition to IFRS 16, L&T will recognise a lease liability measured at the present value of the remaining lease payments for leases previously classified as operating leases under IAS 17. L&T measures the right-of-use assets at an amount equal to lease liability, which means that the transition will not have any impact on equity.

L&T leases production and office premises including related land areas and vehicles. Lassila & Tikanoja's lease agreements are mainly classified as operating leases, for which a lease expense is recognised in the income statement in accordance with IAS 17. IFRS 16 will change the accounting treatment of those lease agreements. In addition, L&T has assets leased under finance lease contracts. 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.

FRS 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, L&T recognises depreciation on right-of-use assets and interest expense on the lease liability.

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, L&T will not apply IFRS 16 to intangible assets. For lessors, the lease accounting requirements remain substantially unchanged compared with IAS 17.

In accordance with IFRS 16, the lessee shall 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 an option is reasonably certain. L&T has made a contract-by-contract analysis and assessed whether it is reasonably certain that any options to extend or terminate the lease will be exercised. L&T has ongoing contracts especially related to real estate and land areas. Lease term for ongoing contracts will be determined based on the management's estimate when the lease contract will be terminated. Going forward, management will assess the lease term of the assets regularly.

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 L&T's lease contracts, the future minimum lease payments are discounted using L&T'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. L&T has determined the incremental borrowing rate taking into consideration the lease term and the financial environment of the lease.

The impact of adoption of IFRS 16 on L&T's lease liabilities and right-of-use assets as at 1 January 2019 is estimated to be approximately 50–60 million euros. The estimated amount to be recognised as right-of-use assets in accordance with IFRS 16 and the undiscounted lease payments amounting to EUR 39.0 million disclosed in note 30 differ from each other. The difference is mainly derived from the fact that according to IAS 17 the amount of remaining lease payments for ongoing lease contracts is determined based on a lease term measured until the first possible termination date. Under the new standard the lease term for the ongoing lease contracts will be determined based on the management's estimate when the lease contract will be terminated. In addition, the discount rate and the exemptions related to short-term contracts and low value assets result in differences compared with the previous practice.

- IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial years beginning on or after 1 January 2019). The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The interpretation has no impact on the consolidated financial statements.
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective for financial years beginning on or after 1 January 2019 The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The amendments have no impact on the consolidated financial statements.
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures* (effective for financial years beginning on or after 1 January 2019). The amendments clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments have no impact on the consolidated financial statements.

- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement* (effective for financial years beginning on or after 1 January 2019) The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments has no significant impact on the consolidated financial statements.
- Annual Improvements to IFRSs (2014-2017 cycle)* (effective for financial years beginning on or after 1 January 2019). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments have no impact on the consolidated financial statements.
- Amendments to References to Conceptual Framework in IFRS Standards* (effective for financial years beginning on or after 1 January 2020) The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs. The amendments has no significant impact on the consolidated financial statements.
- Amendments to IFRS 3 Definition of a Business* (effective for financial years beginning on or after 1 January 2020) The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments has no significant impact on the consolidated financial statements.
- Amendments to IAS 1 and IAS 8 Definition of Material* (effective for financial years beginning on or after 1 January 2020) The amendments clarify the definition of material and include guidance for the definition. In addition, the explanations accompanying the definition have been improved. The amendments aim also to ensure that the definition of material is consistent across all IFRS Standards. The amendments has no significant impact on the consolidated financial statements.
- IFRS 17 Insurance Contracts* (effective for financial years beginning on or after 1 January 2021). The new standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. This standard replaces IFRS 4-standard. The standard has no impact on the consolidated financial statements.

1. Transition to IFRS 9 and IFRS 15

The Group has applied the new IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers standards from 1 January 2018 onwards. Other new and revised standards has not had effect on previously reported periods.

Consolidated income statement	Reported	IFRS 15 adjustment	IFRS 9 adjustment	Adjusted
MEUR	2017			2017
Net sales	712.1	-2.5		709.5
Operating profit	44.2	-0.2		44.0
Profit before tax	42.7	-0.2		42.5
Profit for the period	33.7	-0.2		33.5
Consolidated statement of financial position				
MEUR	31 December 2016			1 January 2017
Property, plant and equipment	156.1	4.1		160.3
Deferred tax assets	5.5	0.3		5.8
Total equity	223.0	-1.1		221.9
Trade and other payables	129.9	5.5		135.3
MEUR	31 December 2017			1 January 2018
Property, plant and equipment	154.1	6.4		160.5
Deferred tax assets	6.5	0.3	0.1	6.9
Trade and other receivables	137.6		-0.4	137.1
Total equity	218.7	-1.3	-0.4	217.1
Trade and other payables	147.7	8.0		155.7

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. The core principle of IFRS 15 is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers. The amount of revenue to be recognised reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The effect of application of the standard on Lassila & Tikanoja's equity in the opening balance sheet of 1 January 2018 was EUR -1.3 million (1 January 2017: EUR -1.1 million).

In addition to the sale of equipment, the Group also leases compactors and balers to customers through an external financing company. Previously the Group has recognised the payment received from the financing company as revenue at the beginning of contract period. In the transition to IFRS 15, L&T's management has determined that due to the repurchase obligation L&T does not transfer substantially all of the risks and rewards incidental to ownership of the assets to the customer and, thus, the leased equipment is treated as tangible assets. The payment received from the financing company in the beginning of the lease contract is presented as a liability. Lease income is recognised as revenue on a monthly basis over the lease term.

The objective of IFRS 9 is that the entity presents in its financial statements information that enables users of the financial statements to assess the significant impact of financial instruments on the financial position and performance of the entity. It also allows the users to assess the nature and extent of the risks to which the entity is exposed during and at the end of the reporting period and how the entity manages those risks.

The hedge accounting model introduced by IFRS 9 simplifies the application of hedge accounting and brings hedge accounting closer to the Group's risk management strategy and objectives. Effectiveness of hedging of future diesel oil purchases - retrospective efficiency testing and efficiency requirement of 80-125% in accordance with IAS 39 will be eliminated by IFRS 9. Lassila & Tikanoja will continue hedge accounting for commodity swap contracts for diesel oil purchases in accordance with IFRS 9.

According to the new impairment model, provisions for impaired receivables must be recognized following an expected credit loss model. For Lassila & Tikanoja, the new impairment model is applied to trade receivables and contract assets and past recognition of their credit losses. The effect of the application of the standard on Lassila & Tikanoja's equity in the opening balance sheet of 1 January 2018 was EUR -0.4 million.

The following table describes the reclassification of financial intruments and changes in valuation as a result of the application of IFRS 9.

Reclassifications of financial instruments of the application of IFRS 9	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount, IAS 39 31 December 2017	Carrying amount, IFRS 9 31 December 2018	Change
Non-current financial assets					
Other receivables	Loans and other receivables	Amortised cost	3.3	3.3	
Current financial assets					
Trade and other receivables	Loans and other receivables	Amortised cost	137.6	137.1	-0.4
Derivative receivables	Hedge accounting	Hedge accounting	0.1	0.1	
Cash and cash equivalents	Loans and other receivables	Amortised cost	48.1	48.1	
Non-current financial liabilities					
Borrowings	Loans and other receivables	Amortised cost	125.6	125.6	
Current financial liabilities					
Borrowings	Loans and other receivables	Amortised cost	22.6	22.6	
Derivative liabilities	Hedge accounting	Hedge accounting	0.2	0.2	

2. Revenue from contracts with customers

Disaggregation of revenue

	Revenue recognised over time			Revenue recognised at a point in time	Rent	
2018 MEUR	**Long-term service agreements**	**Separately ordered services**	**Project business**	**Sales of equipment and materials**	**Lease income**	**Total net sales**
Environmental Services	210.5			57.8	2.0	270.2
Industrial Services	44.5	41.5	5.4	5.1		96.5
Facility Services	187.9	35.3	34.0			257.2
Technical Services	41.4	95.5	11.5			148.4
Renewable Energy Sources				40.7		40.7
Total	484.3	172.3	50.9	103.6	2.0	813.0
Interdivision						-10.8
External net sales						802.2

	Revenue recognised over time			Revenue recognised at a point in time	Rent	
2017 MEUR	**Long-term service agreements**	**Separately ordered services**	**Project business**	**Sales of equipment and materials**	**Lease income**	**Total net sales**
Environmental Services	204.0			57.3	1.4	262.8
Industrial Services	43.5	39.8	3.1	4.2		90.7
Facility Services	194.7	30.9	35.1			260.6
Technical Services	15.9	47.7	8.2			71.8
Renewable Energy Sources				34.9		34.9
Total	458.1	118.5	46.3	96.4	1.4	720.8
Interdivision						-11.3
External net sales						709.5

Contract balances

MEUR	2018	2017	1 January 2017
Trade receivables	88.1	96.0	67.0
Contract assets	31.9	30.9	16.0
Contract assets	10.0	9.9	8.9

Trade receivables and contract assets have increased during 2017 due to the acquisition of L&T FM AB.

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.

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 L&T'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.

3. Segment reporting

The Group has five reportable segments, which are the Group's business divisions.

The Group changed the segment reporting as of 1 January 2018. In the change, the Technical services was separated into an independent reporting segment from the Facility Services division. The reporting segments in 2017 were Environmental Services, Industrial Services, Facility Services and Renewable Energy Sources.

Transactions between segments are based on market prices. Segment information is reported to the highest operational decision-maker, consistent with internal reporting. The highest operational decision-maker is Lassila & Tikanoja plc's President and CEO. Group Administration and Other segment includes expenses associated with Group management, as well as costs incurred from operating as a public company, and the assets and liabilities corresponding to this income and expenses. Group administration assets also include available-for-sale investments.

Segment assets are those operating assets that are employed by a segment in its operating activities and that can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of the segment and can be allocated to the segment on a reasonable basis. Segment assets consist of intangible assets, property, plant and equipment, finance lease receivables, inventories and trade and other receivables excluding accrued receivables from interests and tax receivables. Segment liabilities consist of provisions and retirement benefit obligations and such non current liabilities as prepayments, accrued liabilities and acquisition price liabilities, and such current liabilities as trade and other payables excluding accrued liabilities related to interests and tax liabilities.

Unallocated assets consist of liquid assets, receivables of interest rate and foreign currency derivatives, accrued interest receivables and other finance income and tax receivables. Unallocated liabilities consist of borrowings, liabilities of interest rate and foreign currency derivatives, accrued interest and other financing liabilities and tax liabilities.

The Group's operating segments during the financial year:

Environmental Services division consists of the waste management and recycling business, selling of receptacles and their maintenance business and new circular economy solutions.

Industrial Services division covers solutions for industrial material flows and their utilisation, industrial process cleaning solutions, collection and disposal of hazardous waste and sewer system maintenance and repair solutions.

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

Technical Services -division provides building automation, refrigeration technology and energy management.

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

2018 MEUR	Environmental Services	Industrial Services	Facility Services	Technical Services	Renewable Energy Sources	Group administration and other	Eliminations	Group
Net sales								
External net sales	267.0	93.7	254.4	146.6	40.5			802.2
Inter-division net sales	3.2	2.9	2.8	1.8	0.2		-10.8	0.0
Total net sales	270.2	96.5	257.2	148.4	40.7		-10.8	802.2
Operating profit	31.6	10.0	5.0	4.5	0.0	-3.5		47.6
Operating margin, %	11.7	10.4	1.9	3.0	0.0			5.9
Financial income and expenses								-4.9
Profit before tax								42.7
Income taxes								-8.7
Profit for the period								34.1
Assets								
Segment assets	216.7	72.8	89.0	101.7	20.9	0.6		501.7
Unallocated assets								61.8
Total assets								563.5
Liabilities								
Segment liabilities	59.2	29.9	46.7	19.4	8.5	4.7		168.3
Unallocated liabilities								182.8
Total liabilities								351.1
Capital expenditure	20.6	8.4	6.9	1.7	0.2	0.0		37.8
Depreciation and amortisation	20.2	7.5	10.7	3.9	0.3	0.0		42.5

2017 MEUR	Environmental Services	Industrial Services	Facility Services	Technical Services	Renewable Energy Sources	Group administration and other	Eliminations	Group
Net sales								
External net sales	259.2	87.4	258.0	70.2	34.7			709.5
Inter-division net sales	3.5	3.3	2.6	1.7	0.2		-11.3	0.0
Total net sales	262.8	90.7	260.6	71.8	34.9		-11.3	709.5
Operating profit	31.6	8.7	5.2	1.6	0.7	-3.9		44.0
Operating margin, %	12.0	9.6	2.0	2.3	2.0			6.2
Financial income and expenses								-1.5
Profit before tax								42.5
Income taxes								-9.0
Profit for the period								33.5
Assets								
Segment assets	218.4	74.1	103.5	98.8	22.7	2.1		519.5
Unallocated assets								57.8
Total assets								577.3
Liabilities								
Segment liabilities	55.3	27.4	52.2	15.9	7.6	5.3		163.7
Unallocated liabilities								196.2
Total liabilities								359.9
Capital expenditure	24.8	9.0	10.1	68.6	0.2	0.4		113.2
Depreciation and amortisation	19.9	7.3	11.3	2.3	0.3			41.1

Reconciliation of reportable segments' assets to total assets

MEUR	2018	2017
Segment assets for reportable segments	501.2	517.4
Other segments' assets	0.6	2.1
	501.7	519.5
Unallocated assets		
Liquid assets	54.3	48.1
Tax assets	6.0	7.7
Other unallocated assets	1.4	2.0
Total	61.8	57.8
Total assets	563.5	577.3

Reconciliation of reportable segments' liabilities to total liabilities

MEUR	2018	2017
Segment liabilities for reportable segments	163.6	158.4
Other segments' liabilities	4.7	5.3
	168.3	163.7
Unallocated liabilities		
Liabilities of interest rate and foreign currency derivatives	149.8	166.2
Accrued interest and other financing liabilities	3.4	0.7
Tax liabilities	29.6	29.3
Total	182.8	196.2
Total liabilities	351.1	359.9

Geographical segments

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

MEUR	2018	2017
Net sales		
Finland	644.3	627.6
Other countries	157.9	81.9
Total	802.2	709.5
Assets		
Finland	437.3	451.9
Other countries	64.5	67.9
Unallocated assets	61.8	57.5
Total	563.5	577.3
Capital expenditure		
Finland	36.3	43.7
Other countries	1.5	69.5
Total	37.8	113.2

4. Business acquisitions

In business combinations, all property, plant and equipment acquired is measured at fair value on the basis of the market prices of similar assets, taking into account the age of the assets, wear and tear and similar factors. Tangible assets will be depreciated over their useful life according to the management's estimate, taking into account the depreciation principles observed within the Group.

Intangible assets arising from business combinations are recognised separately from goodwill at fair value at the time of acquisition if they are identifiable. In connection with acquired business operations, the Group mostly has acquired agreements on prohibition of competition and customer relationships. The fair value of customer agreements and customer relationships associated with them has been determined on the basis of estimated duration of customer relationships and discounted net cash flows arising from current customer relationships. The value of agreements on prohibition of competition is calculated in a similar manner through cash flows over the duration of the agreement. Other intangible assets will be amortised over their useful life according to agreement or the management's estimate.

In addition to the skills of the personnel of the acquired businesses, goodwill arising from business combinations comprises other intangible items. These unidentified items include the potential for gaining new customers in the acquired businesses and the opportunities for developing new products and services, as well as the regionally strong position of an acquired business. All business combinations also create synergy benefits that consist primarily of savings in fixed production costs.

Changes in acquisition costs may arise on the basis of terms and conditions related to the acquisition price in the deeds of sale. In many acquisitions a small portion of the acquisition price is contingent on future events (less than 12 months).These conditional acquisition prices are recognised at fair value at the time of acquisition, and any changes are recorded without profit impact through the acquisition cost calculation.

Lassila & Tikanoja acquired the business operations of Kymen Talopalvelu Oy on 1 December 2018. The aquisistion includes property maintenance and the cleaning business in Kouvola area.

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

The figures regarding the acquisition of L&T FM AB is shown separately. The figures for other acquired businesses are stated in aggregate, because none of them is of material importance when considered separately. Fair values have been determined as of the time the acquisition was realised. No business operations have been divested as a consequence of any acquisition. All acquisitions have been paid for in cash. With share acquisitions, L&T was able to gain 100% of the voting rights. The acquisition of L&T FM AB was completed on 31 August 2017 and the acquired entity has been included in the consolidated financial statements as of 1 September 2017 based on the preliminary acquisition price calculation. The IFRS calculation of the acquisition price on 31 December 2018 is final.

In the first quarter of 2018, a transaction price refund of EUR 2.2 million was received, which affects cash flow from investing activities by EUR 1.6 million. In the Consolidated Statement of Cash Flows this is shown on a row Acquisitions of subsidiaries and businesses, net of cash acquired netted with the acquisition of the 2018 business. In addition, the value of the acquired balance sheet items was adjusted by SEK 34.5 million in the third quarter. The adjustments are presented as an increase in property, plant and equipment.

Business acquisitions made during 2018 had no effect on the company's net sales (comparison period EUR 39.9 million) and EUR 0.0 million (1.0) on operating profit.

L&T FM AB

MEUR	2018	2017
Intangible assets	19.0	19.0
Property, plant and equipment	0.1	0.1
Non-current available-for-sale financial assets	0.0	-
Trade and other receivables	27.5	32.2
Cash and cash equivalents	0.8	0.8
Total assets	47.5	52.1
Trade and other payables	16.8	16.8
Deferred tax liabilities	3.9	4.2
Total liabilities	20.7	21.0
Total identifiable net assets	26.8	31.2
Total consideration	63.4	64.9
Goodwill	36.6	33.7
Impact on cash flow		
Paid in cash	-63.4	-64.9
Cash acquired	0.8	0.8
Cash flows from investing activities	-62.6	-64.1

OTHER BUSINESS ACQUISITIONS, COMBINED

MEUR	2018	2017
Intangible assets	0.2	0.6
Property, plant and equipment	0.1	1.0
Non-current available-for-sale financial assets	-	0.0
Trade and other receivables	-	0.3
Cash and cash equivalents	-	1.0
Total assets	0.2	2.9
Trade and other payables	-	0.3
Deferred tax liabilities	-	0.0
Total liabilities	-	0.3
Total identifiable net assets	0.2	2.6
Total consideration	0.4	4.1
Goodwill	0.2	1.5
Impact on cash flow		
Paid in cash	-0.4	-4.1
Cash acquired	-	1.0
Outstanding payments	0.1	0.2
Cash flows from investing activities	-0.3	-3.0

5. Employee benefit expenses

MEUR	2018	2017
Wages and salaries	259.3	237.0
Pension costs		
Defined contribution plans	56.4	49.4
Defined benefit plans	0.0	0.0
Share-based payment	0.2	0.2
Other personnel expenses	8.3	10.4
Total	324.2	296.9

Details on share-based payment are presented in Note 22 Share-based payment.
The employee benefits of the top management are presented in Note 32 Related-party transactions.
Details on the items of defined benefit pension plans in the consolidated statement of financial position are presented in Note 23 Retirement benefit obligations.

Average number of employees in full-time equivalents

	2018	2017
White collar	1,279	1,326
Blue collar	6,287	6,549
Total	7,566	7,875
Finland	6,199	6,288
Other countries	1,367	1,587
Total	7,566	7,875

6. Other operating income and expenses

MEUR	2018	2017
Other operating income		
Gains on sales of property, plant and equipment	1.3	1.5
Annual discounts	1.5	1.7
Reversals of impairment losses on trade receivables	0.5	0.3
Reimbursements and government grants	0.6	0.4
Change in commodity derivatives	0.4	0.2
Other	0.8	1.6
Total	5.2	5.7
Other operating expenses		
ICT costs	13.9	12.1
Travel costs	11.6	10.7
Vehicles and machinery	40.5	36.3
Rents and real estate costs	16.7	14.5
Expert fees	6.4	7.4
Voluntary social security costs	6.1	6.3
Other	13.6	12.8
Total	108.7	100.3

7. Research and development expenses

EUR 1.8 million (2.0) research and development expenses arising from centralised development projects are included in the income statement.

8. Financial income and expenses

MEUR	2018	2017
Financial income		
Interest income on loans and other receivables	0.4	0.2
Foreign exchange gains	-	0.8
Total financial income	0.4	1.0
Financial expenses		
Interest expenses on borrowings measured at amortised cost	2.4	2.0
Other financial expenses	1.4	0.4
Losses on foreign exchange	1.1	-
Total financial expenses	4.9	2.4
Financial income and expenses	-4.5	-1.4

9. Income taxes

Income tax in the income statement

MEUR	2018	2017
Income tax for the period	-5.1	-10.0
Income tax for previous periods	0.0	0.0
Change in deferred tax	-3.6	1.1
Total	-8.7	-8.9

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

MEUR	2018	2017
Profit before tax	42.7	42.5
Income tax at Finnish tax rate 20 %	-8.5	-8.5
Difference between tax rate in Finland and in other countries	0.0	0.0
Expenses not deductible for tax purposes	-0.2	-0.4
Tax exempt income	0.0	0.0
Income tax for previous periods	0.0	0.0
Unrecognised deferred tax on loss for the period	-0.1	-0.1
Use of previous years losses	0.1	0.1
Other items	0.1	-0.1
Total	-8.7	-8.9

Tax effects of components of other comprehensive income

MEUR	2018 Before tax	2018 Tax expense/ benefit	2018 After tax	2017 Before tax	2017 Tax expense/ benefit	2017 After tax
Items arising from re-measurement of defined benefit plans	-0.1	0.0	0.0	0.1	0.0	0.1
Hedging reserve, change in fair value	-0.3	0.1	-0.2	-0.1	0.0	-0.1
Currency translation differences	-3.4	0.0	-3.4	-2.7	0.0	-2.7
Currency translation differences non-controlling interest	0.0	0.0	0.0	0.0	0.0	0.0
Components of other comprehensive income	-3.7	0.1	-3.7	-2.8	0.0	-2.8

10. Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the parent company by the adjusted weighted average number of ordinary shares outstanding during the period excluding ordinary shares purchased by the company and held as treasury shares.

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

MEUR	2018	2017
Profit attributable to equity holders of the company	34.1	33.5
Adjusted weighted average number of ordinary shares outstanding during the year, million shares	38.4	38.4
Earnings per share, EUR	0.89	0.87
Dilutive effect of the share-based incentive programme, million shares	0.0	0.0
Adjusted average number of shares during the period, diluted, million shares	38.4	38.4
Earnings per share, diluted, EUR	0.89	0.87

11. Dividend per share

At the Annual General Meeting on 14 March 2018, the Board of Directors will propose that a dividend of EUR 0.92 per share be paid for the 2018 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 2017.

12. Intangible assets

MEUR	Goodwill	Customer contracts arising from acquisitions	Agreements on prohibition of competition	Other intangible assets arising from acquisitions	Intangible rights	Other intangible assets	Prepayments	Total
Acquisition cost, 1 Jan 2018	164.9	48.1	24.0	10.1	14.8	45.3	3.6	310.8
Additions	0.1				0.9	1.2	3.1	5.3
Business acquisitions	2.9	0.2	0.0					3.1
Disposals					-0.4	-1.6		-1.9
Transfers between items					0.0	6.2	-6.1	0.1
Exchange differences	-1.9	-0.9	0.0	0.0	-0.1		0.0	-2.9
Acquisition cost, 31 Dec 2018	166.0	47.4	23.9	10.1	15.3	51.1	0.6	314.4
Accumulated amortisation and impairment at 1 Jan 2018	-14.7	-25.5	-23.9	-9.6	-12.3	-28.5		-114.5
Accumulated amortisation on disposals and transfers	0.0	0.0	0.0	0.0	0.4	1.6	0.0	1.9
Amortisation charge	0.0	-2.9	0.0	-0.1	-0.6	-5.1	0.0	-8.6
Exchange differences	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.4
Accumulated amortisation and impairment at 31 Dec 2018	-14.5	-28.2	-23.9	-9.6	-12.5	-32.0		-120.8
Book value, 31 Dec 2018	151.5	19.2	0.0	0.5	2.8	19.1	0.6	193.6
Acquisition cost, 1 Jan 2017	131.2	29.3	23.9	10.1	13.7	42.6	0.7	251.6
Additions					0.7	1.0	5.3	7.1
Business acquisitions	34.0	18.9	0.0		0.0			53.0
Disposals	0.0				-0.3	0.0		-0.4
Transfers between items					0.8	1.7	-2.4	0.0
Exchange differences	-0.4	-0.1	0.0	0.0	0.0		0.0	-0.6
Acquisition cost, 31 Dec 2017	164.9	48.1	24.0	10.1	14.8	45.3	3.6	310.8
Accumulated amortisation and impairment at 1 Jan 2017	-14.8	-24.1	-23.9	-9.5	-12.3	-24.0		-108.5
Accumulated amortisation on disposals and transfers					0.3	0.0		0.4
Amortisation charge		-1.5	-0.1	-0.1	-0.4	-4.6		-6.6
Exchange differences	0.1	0.1	0.0	0.0	0.0	0.0		0.3
Accumulated amortisation and impairment at 31 Dec 2017	-14.7	-25.5	-23.9	-9.6	-12.3	-28.5		-114.5
Book value, 31 Dec 2017	150.2	22.6	0.0	0.5	2.5	16.8	3.6	196.3

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

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

13. Goodwill impairment tests

Goodwill allocation

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

MEUR	2018	2017
Environmental Services, Finland	73.7	73.7
Industrial Services	19.4	19.4
Facility Services, Finland	19.0	22.4
Technical Services, Finland	3.6	-
L&T Service AB	1.8	2.2
L&T FM AB	34.0	32.6
Total	151.5	150.2

Impairment tests

In impairment tests, recoverable amounts are estimated on the basis of an asset's value in use. Future cash flows are based on annual estimates of income statements and upkeep investments made by the management in connection with the budgeting process for a four-year period. The management bases its estimates on actual development and views on the growth outlook for the industry (general market development and unit profitability, pricing, municipalisation decisions, personnel costs and raw material costs). Approved investment decisions are taken into account in the growth estimates.

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

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

%	2018	2017
Environmental Services, Finland	1.3	1.5
Industrial Services	1.5	1.5
Facility Services, Finland	1.5	1.5
Technical Services, Finland	2.0	-
L&T Service AB	1.5	1.5
L&T FM AB	2.0	2.0

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

Discount rates used in the calculations:

%	2018	2017
Environmental Services, Finland	8.8	8.5
Industrial Services	8.9	8.5
Facility Services, Finland	10.3	9.8
Technical Services, Finland	10.1	-
L&T Service AB	10.7	10.0
L&T FM AB	10.3	10.3

No instances of impairment were identified during impairment testing.

Sensitivity analyses of impairment testing

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

Value in use in relation to book value:

	2018	2017
Environmental Services, Finland	Over 50%	Over 50%
Industrial Services	Over 50%	Over 50%
Facility Services, Finland	Over 50%	Over 50%
Technical Services, Finland	Over 50%	-
L&T Service AB	Over 50%	Over 50%
L&T FM AB	10–25%	10-25%

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

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

%	2018	2017
L&T FM AB	6.0	6.0

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

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

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

	2018		2017	
%	Discount rate	EBITDA percentage used in the calculation of terminal value	Discount rate	EBITDA percentage used in the calculation of terminal value
L&T FM AB	11.8	4.9	11.9	4.5

14. Property, plant and equipment

MEUR	Land	Buildings and constructions	Machinery and equipment*	Other	Prepayments and construction in progress	Total
Acquisition cost, 1 Jan 2018	5.8	125.2	436.7	0.2	2.0	569.7
Additions		0.5	25.4		6.3	32.2
Business acquisitions			0.1			0.1
Disposals	-0.1	-0.3	-24.4		0.0	-24.8
Transfers between items		1.1	1.8		-3.0	-0.1
Exchange differences	-0.1	-0.3	-0.9	0.0	0.0	-1.2
Acquisition cost, 31 Dec 2018	5.6	126.3	438.7	0.2	5.2	575.9
Accumulated depreciation at 1 Jan 2018	-0.5	-84.9	-323.7	-0.1		-409.2
Accumulated depreciation on disposals and transfers		0.2	23.1			23.3
Depreciation for the period		-6.2	-27.7			-33.9
Exchange differences		0.1	0.5	0.0		0.6
Accumulated depreciation at 31 Dec 2018	-0.5	-90.8	-327.8	-0.1		-419.2
Net book value at 31 Dec 2018	5.1	35.5	110.9	0.1	5.2	156.8
Acquisition cost, 1 Jan 2017	5.8	120.4	420.6	0.2	5.3	552.4
Additions		1.9	30.0		3.4	35.4
Business acquisitions			1.1			1.1
Disposals		-1.9	-16.5		0.0	-18.4
Transfers between items		4.9	1.9		-6.8	0.0
Exchange differences	0.0	-0.2	-0.5	0.0	0.0	-0.7
Acquisition cost, 31 Dec 2017	5.8	125.2	436.7	0.2	2.0	569.7
Accumulated depreciation at 1 Jan 2017	-0.5	-79.8	-311.7	-0.1		-392.1
Accumulated depreciation on disposals and transfers		1.1	16.0			17.1
Depreciation for the period		-6.3	-28.2			-34.5
Exchange differences		0.1	0.3	0.0		0.4
Accumulated depreciation at 31 Dec 2017	-0.5	-84.9	-323.7	-0.1		-409.2
Net book value at 31 Dec 2017	5.3	40.3	113.0	0.1	2.0	160.5

*Acquisition cost and accumulated depreciation of 1 January 2017 has been adjusted due to implementation of IFRS 15 -standard.

The book value of machinery and equipment includes EUR 23.6 million (17.6) in assets leased under a finance lease contract and EUR 8.6 million (6,4) of compactors and balers sold through an external financing company. Due to the repurchase obligation the leased equipment is treated as tangible assets. The Group has changed its booking principle due to the implementation of IFRS 15 standard. The impact of the application of the standard has been presented in Note 1 Transition to IFRS 9 and IFRS 15.

Contractual commitments related to property, plant and equipment totalled EUR 8.9 million (1.9).

15. Group companies

Group's parent company
Lassila & Tikanoja Plc

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

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

Associated companies	Group holding of shares and votes, %
Suomen Keräystuote Oy, Helsinki	40.0
Moppicom Oy, in voluntary liquidation, Helsinki	43.7

16. Finance lease receivables

MEUR	2018	2017
Maturity of minimum lease payments		
Not later than one year	0.2	0.6
Later than one year and not later than five years	0.1	0.3
Later than five years	0.0	0.0
Gross investment in finance lease agreements	0.3	0.9
Maturity of present value of minimum lease payments		
Not later than one year	0.2	0.6
Later than one year and not later than five years	0.1	0.3
Later than five years	0.0	0.0
Total present value of minimum lease payments	0.3	0.8
Unearned finance income	0.0	0.0
Gross investment in finance lease agreements	0.3	0.9

Finance lease receivables result from leases of compactors, balers and other assets to customers. The minimum payments include the payment of the transfer of the title to the asset at the end of lease term if the option to purchase is such that it is reasonably certain at the commencement of the lease term that the option will be exercised or if a binding contract has been made on the purchase.

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

MEUR	At 1 Jan 2018	Recognised in income statement	Recognised in equity	Other changes	Business acquisitions	At 31 Dec 2018
Deferred tax assets						
Pension benefits	0.2	0.0	0.0			0.2
Provisions	1.0	-0.1				0.8
Fair value adjustments	0.0	0.0	0.1			0.1
Deferred depreciation	1.0	0.2				1.2
Other tax deductible temporary differences	6.5	-3.3	0.0	-0.1	0.0	3.2
Total	8.7	-3.3	0.1	-0.1	0.0	5.4
Deferred tax liabilities						
Depreciation differences and dissolution losses	-31.0	0.6	0.0	-0.8	0.0	-31.2
Finance leasing agreements	-0.1	0.0				0.0
Share-based benefits	0.1	0.0	0.0			0.1
Other tax deductible temporary differences	0.0	0.0	0.0	0.0	0.0	0.0
Total	-31.0	0.7	0.0	-0.8	0.0	-31.2
Net deferred tax liability	-22.3	-2.6	0.1	-0.9	0.0	-25.7

MEUR	At 1 Jan 2017	Recognised in income statement	Recognised in equity	Other changes	Business acquisitions	At 31 Dec 2017
Deferred tax assets						
Pension benefits	0.2	0.0	0.0			0.2
Provisions	0.9	0.0				1.0
Fair value adjustments	0.0	0.0	0.0			0.0
Deferred depreciation	0.9	0.1				1.0
Other tax deductible temporary differences	5.7	-0.1	0.0		0.7	6.4
Total	7.7	0.1	0.1	0.0	0.7	8.6
Deferred tax liabilities						
Depreciation differences and dissolution losses	-26.6	0.9	0.0	0.0	-5.2	-31.0
Finance leasing agreements	-0.2	0.1				-0.1
Share-based benefits	0.0	0.0	0.0			0.1
Other tax deductible temporary differences	0.0	-0.1	0.0	0.0	0.0	0.0
Total	-26.7	0.9	0.0	0.0	-5.2	-31.0
Net deferred tax liability	-19.0	1.1	0.1	0.0	-4.5	-22.4

Deferred taxes in the statement of financial position

MEUR	2018	2017
Deferred tax assets	3.6	6.8
Deferred tax liabilities	-29.3	-29.2
Net deferred tax liabilities	-25.7	-22.4

Deferred tax is recognised in the statement of financial position as tax assets and tax liabilities. Deferred tax assets and deferred tax liabilities are set off if both the assets and the liabilities relate to the same taxable entity and if the amount is not significant.

Other tax deductible temporary differences include a deferred tax asset related to revenue recognition of amortisation on dissolution losses, which amounts to EUR 2.0 million (2.0).

18. Inventories

MEUR	2018	2017
Raw materials and consumables	14.6	16.9
Finished goods	2.8	3.1
Other inventories	3.6	3.9
Total	21.0	23.9

The acquisition cost recognised as cost of inventories was EUR 32.3 million (29.9), which includes a change in inventories of EUR -2.4 million (-1.0).

EUR 1.6 million (0.9) 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.

19. Trade and other receivables

MEUR	2018	2017
Trade receivables	88.1	96.0
Contract assets	31.9	30.9
Current finance lease receivables	0.2	0.6
Loan receivables	0.3	0.3
Accruals	8.1	7.4
Prepayments	0.6	0.5
Tax receivables	2.4	1.0
Other receivables	0.5	1.5
Total	132.2	138.2
Accruals include the following:		
Employees' health care compensation	1.4	1.3
Statutory pension insurances	2.2	1.8
Licences	0.7	0.7
Other	3.8	3.6
Total	8.1	7.4

The receivables are not collaterised. Impairment losses and their reversals recognised in trade receivables are shown in Note 6 Other operating income and expenses.

20. Cash and cash equivalents

MEUR	2018	2017
Cash on hand and in banks	54.3	48.1
Total	54.3	48.1

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

21. 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 2018	38,398	19.4	0.6	-6.6	13.4
23 February 2018 Transfer of own shares	3			0.1	0.1
21 March 2018 Transfer of own shares	5			0.0	0.0
Recognition of share-based benefits as expenses			0.0		0.0
At 31 Dec 2018	38,406	19.4	0.6	-6.5	13.5

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

Lassila & Tikanoja plc has one share series. There is no maximum to the number of the shares and the share capital in the Articles of Association. A share has neither a nominal value nor a book equivalent value. All issued shares have been paid for in full.

At 31 December 2018 the company held 392,952 of its own shares (400,862).

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	2018	2017
Equity in the consolidated statement of financial position	212.4	217.4
Statement of financial position total	563.5	577.3
Current advances received	-13.2	-13.5
Non-current advances received	-0.3	-0.3
Total	550.0	563.6
Equity ratio, %	38.6%	38.6%

MEUR	2018	2017
Equity in the consolidated statement of financial position	212.4	217.4
Non-current borrowings	144.8	140.9
Current borrowings	7.4	25.0
Cash and cash equivalents	-54.3	-48.1
Net interest-bearing liabilities	97.8	117.9
Gearing, %	46.1%	54.2%

22. Share-based payment

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

Share-based incentive programme 2015

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

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

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

Share-based incentive programme 2016

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

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

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

Share-based incentive programme 2017

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

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

Under the programme, a total of 2,584 Lassila&Tikanoja Plc's shares were granted in 2018. 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 will be based on the EVA result of Lassila & Tikanoja group.

Based on the programme a maximum of 28,600 shares of the company can be granted. The shares to be paid out as potential rewards will be transferred from the shares held by the company.

Under the programme, an estimated total of 11,233 Lassila&Tikanoja Plc's shares will be granted in 2019. The programme covered 8 persons.

Share-based incentive programmes 2015, 2016, 2017 and 2018

Instrument

Share-based incentive programme	2015	2016	2017	2018
Grant date	17.12.2014	11.1.2016	13.12.2016	13.12.2017
Start of earnings period	1.1.2015	1.1.2016	1.1.2017	1.1.2018
End of earnings period	31.12.2015	31.12.2016	31.12.2017	31.12.2018
Average share price at grant date	14.69	17.79	18.92	17.72
Realisation on closing date, shares*	12,324	16,110	2,584	11,233
Obligation to hold shares, years	2	2	2	2
Release date of shares	31.3.2018	31.3.2019	31.3.2020	31.3.2021
Number of persons included	10	10	10	8

Expenses arising from share-based incentive programme, MEUR	2018	2017
Share component	0.1	0.2
Cash component	0.1	0.0
Total	0.2	0.2

* The realisation of 2018 is an estimation.

23. Retirement benefit obligations

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

MEUR	2018	2017
Amounts recognised in the statement of financial position:		
Present value of funded obligations	0.6	0.6
Fair value of plan assets	-0.5	-0.5
	0.1	0.1
Present value of unfunded obligations	1.3	1.3
Closing net liability	1.4	1.4
Changes in present value of obligation		
Opening defined benefit obligation	1.9	1.3
Current service cost	0.0	0.0
Interest cost	0.0	0.0
Actuarial gain (-) and loss (+) on obligation	0.1	0.1
Increases from acquisitions	-	0.5
Benefits paid	-0.1	-0.1
Closing value of obligation	1.9	1.9
Changes in fair value of plan assets		
Opening fair value of plan assets	0.5	0.4
Interest income	0.0	0.0
Employers' contributions	0.0	0.0
Actuarial gain (+) and loss (-)	0.0	0.2
Benefits paid	0.0	0.0
Closing fair value of plan assets	0.5	0.5

MEUR	2018	2017
Movements in the liability recognised in the statement of financial position		
Opening liability	1.4	1.0
Expense recognised in the income statement	0.0	0.0
Employers' contributions	0.0	0.0
Actuarial gain (-) and loss (+)	0.0	-0.1
Increases from acquisitions	-	0.5
Contributions paid	-0.1	-0.1
Closing liability	1.4	1.4

MEUR	2018	2017
Amounts recognised in the income statement:		
Current service cost	0.0	0.0
Interest cost	0.0	0.0
Interest income	0.0	0.0
Actuarial gain (-) and loss (+)	0.0	0.1
Total	0.1	0.1

The Group estimates that it will contribute EUR 72 thousand to defined benefit plans in 2019.

MEUR	2018	2017
Present value of obligation	1.9	1.9
Fair value of plan assets	-0.5	-0.5
Deficit	1.4	1.4
Principal actuarial assumptions used		
Discount rate	1.2%	1.5%
Expected rate of return on plan assets	1.9%	1.8%
Expected rate of salary increase	4.1%	4.0%
Expected rate of inflation	1.6%	1.5%

Defined contribution maturity of the obligation

MEUR	2018	2017
Maturity of less than one year	0.1	0.1
1–5 years	0.3	0.3
5–10 years	0.3	0.3
10–15 years	0.3	0.3
15–20 years	0.2	0.2
20–25 years	0.1	0.2
25–30 years	0.1	0.1
over 30 years	0.1	0.1
Total	1.5	1.6

24. Provisions

MEUR	Environmental provisions	Other provisions	Total
Provisions at 1 Jan 2018	6.1	0.8	7.0
Additional provisions	0.0	0.6	0.6
Used during the year	-1.2	-0.9	-2.0
Write-down of unused provisions	-0.4	0.0	-0.4
Effect of discounting	0.1	0.0	0.1
Provisions at 31 Dec 2018	4.7	0.6	5.3

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

MEUR	2018	2017
Non-current provisions	4.6	5.0
Current provisions	0.7	1.9
Total	5.3	7.0

The environmental provisions cover the following obligations:

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

The Group has leased site that it uses as landfill from the city of Kotka. In Varkaus the Group uses a site for intermediate storing, processing and final disposal of contaminated soil. At the expiry of the leases or at the discontinuation of operations, the Group is responsible for site restoration comprising landscaping and post-closure environmental monitoring called for in the terms and conditions of environmental permits.

The site restoration provision for the Kerava landfill is divided into three parts. For one part, future expenditure has been measured at the price level of the time of calculation adjusted by a change in cost index of civil engineering and by an annual inflation rate of 2% because the cost level will be higher at the moment when the provision will be used than during the construction of the landfill. The expenditure adjusted by inflation has been discounted to the date of construction of the landfill. The interest rate used is the yield expectation of a risk-free five-year government bond at the time of construction plus L&T's loan margin at the time in question. This part arising from the construction of the landfill is recognised at present value in the balance sheet as a part of the cost of the site and it is depreciated using the straightline method. A corresponding amount has been recognised as a provision in liabilities. This amount is increased annually by a discount interest recognised in finance costs. The second part of the provision is calculated on the basis of the tonnage taken to the landfill. The third portion of the provision is a part for post-closure environmental monitoring.

The site restoration provision for the Kotka landfill consists of two parts. For one part, the construction expenditure is recognized at present value in the balance sheet as a part of the cost of the site as the provision for the Kerava landfill. The accrual method, however, is applied to the depreciations on the Kotka landfill, and it will be depreciated on the basis of the volume of the waste taken to the site. The other part consists of a provision for post-closure environmental monitoring, which is based on depreciation where the straight-line method is used. Future expenditure is measured at the price level of the time of calculation adjusted by an annual inflation rate of 2%.

The principle applied for the Kerava site has been applied to the restoration provision of the processing and final disposal site of contaminated soil in Varkaus.

The same principle has been applied to the treatment of the site restoration provision for the Munaistenmetsä final disposal site as for the Kotka site. In connection with the business transaction concluded with the City of Uusikaupunki, the post-closure environmental monitoring obligation of the old, closed-down landfill was also transferred to L&T. This old provision has been written down during the reporting period as the measurements are done from same points for the whole area. The obligation only covers sampling and analysis, not the remediation of any contaminated soil. Future expenditure has been measured at the price level of the time of calculation adjusted by an annual inflation rate of 2 %.

The Group also has provisions on its balance sheet for the potential costs of cleaning land areas that have been disposed of.

Other provisions consists mainly of provision for restructuring.

25. Borrowings

MEUR	1.1.2018	Cash flow	Non-cash flow adjustments: Transfer from non-current to current	Non-cash flow adjustments: Other non-cash flow adjustments	31 Dec 2018
Non-current					
Bank borrowings	95.7	-20.0	-0.9	0.1	74.9
Bonds	29.9	22.0	-2.9	0.7	49.6
Finance lease liabilities	15.3		-4.0	9.0	20.3
Loans from pension institutions	0.0				0.0
Total	140.9	2.0	-7.8	9.7	144.8
Current					
Repayments of long-term borrowings	2.6	-2.6	0.9		0.9
Bonds	-		2.9		2.9
Finance lease liabilities	2.4	-2.9	4.0		3.5
Current bank borrowings	20.0	-20.0			0.0
Total	25.0	-25.5	7.8	0.0	7.4

MEUR	1.1.2017	Cash flow	Non-cash flow adjustments: Transfer from non-current to current	Non-cash flow adjustments: Other non-cash flow adjustments	31 Dec 2017
Non-current					
Bank borrowings	27.7	69.9	-1.8	-0.1	95.7
Bonds	29.8			0.1	29.9
Finance lease liabilities	5.2		-3.2	13.4	15.3
Loans from pension institutions	0.8		-0.8		0.0
Total	63.5	69.9	-5.8	13.4	140.9
Current					
Repayments of long-term borrowings	2.6	-2.6	2.6		2.6
Finance lease liabilities	0.8	-1.6	3.2		2.4
Current bank borrowings	0.0	19.9		0.1	20.0
Total	3.4	15.7	5.8	0.1	25.0

Fair values of financial liabilities are presented in Note 28 Financial assets and liabilities by category.

Maturity of long-term bank borrowings and financial lease liabilities is presented in Note 35 Financial risk management.

26. Other non-current liabilities

MEUR	2018	2017
Advances received	0.3	0.3
Other liabilities	0.2	0.2
Total	0.5	0.4

27. Trade and other current payables

MEUR	2018	2017
Advances received	13.2	13.5
Trade payables	62.8	56.4
Derivative liabilities	0.5	0.2
Current tax liabilities	0.3	0.1
Other liabilities	23.0	23.7
Accrued expenses and deferred income	62.7	62.1
Total	162.4	156.0
Accrued expenses and deferred income		
Liabilities related to personnel expenses	48.6	47.8
Other accrued expenses	14.1	14.3
Total	62.7	62.1

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

28. Financial assets and liabilities by category

	2018				2017			
MEUR	Amortised cost	Derivatives under hedge accounting	Carrying amounts by balance sheet item	Fair value hierarchy level	Amortised cost	Derivatives under hedge accounting	Carrying amounts by balance sheet item	Fair value hierarchy level
Non-current financial assets								
Finance lease receivables	0.1		0.1	2	0.3		0.3	2
Other receivables	1.9		1.9		2.4		2.4	
Current financial assets								
Trade and other receivables	120.8		120.8		128.7		128.7	
Finance lease receivables	0.2		0.2		0.6		0.6	
Derivative receivables		0.0	0.0			0.1	0.1	
Cash and cash equivalents	54.3		54.3		48.1		48.1	
Total financial assets	177.3	0.0	177.3		179.9	0.1	180.1	
Non-current financial liabilities								
Borrowings	124.5		124.5	2	125.6		125.6	2
Finance lease liabilities	20.3		20.3		15.3		15.3	
Current financial liabilities					22.6		22.6	
Borrowings	0.9		0.9		22.6		22.6	
Finance lease liabilities	3.5		3.5		2.4		2.4	
Trade and other payables	85.7		85.7		80.1		80.1	
Derivative liabilities		0.5	0.5	2		0.2	0.2	2
Total financial liabilities	234.9	0.5	235.5		246.0	0.2	246.3	

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

In the tables on the previous page, Non-current other liabilities do not include advances received, Trade and other receivables do not include tax receivables and accruals, and Trade and other payables do not include statutory liabilities (e.g. tax liabilities), as such classifications are required of financial instruments only.

Principles for determining fair values of financial assets and liabilities

Derivatives

Fair values of interest rate swaps are valued using a technique based on present value of future cash flows, which is supported by market interest rates at the balance sheet date. Fair values describe the prices that the Group would gain or should pay, if the derivative financial instruments were cancelled at the balance sheet date.

Bank and other borrowings

Fair values of borrowings are based on discounted cash flows measured at effective interest method. The discount rate is defined to be the interest rate the Group would pay for an equivalent loan at the balance sheet date. The overall interest is composed of a risk-free market interest rate and a company-based risk premium.

Finance lease liabilities

Fair value of finance lease liabilities is calculated by discounting future cash flows. The discount rate is defined to be the interest rate with which the Group could enter into an equivalent lease contract at the balance sheet date.

Trade and other receivables

Trade and other receivables, which are non-derivative financial assets, are recognised in the balance sheet at historical cost less credit adjustments and impairment losses. This corresponds with their fair value as the periods for payment are short and thus the discounting effect is not essential.

Trade and other payables

Trade and other current non-interest-bearing payables are recognised in the balance sheet at historical cost which corresponds with their fair value, as the discounted effect is not essential considering the maturity of the payables.

Fair value hierarchy of financial assets and liabilities measured at fair value

Financial assets and liabilities recognised at fair value must be categorised by using a three-level fair value hierarchy that reflects the significance of the input data used in fair value measurement. At L&T, 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.

29. Derivative financial instruments

Interest rate swaps

MEUR	2018 Nominal value	Fair value	2017 Nominal value	Fair value
Maturity of interest rate swaps under hedge accounting				
Not later than one year	0.9		1.8	
Later than one year and not later than five years	-		0.9	
Later than five years	30.0		30.0	
Total	30.9	-0.6	32.7	-0.3

The interest rate swaps are used to hedge cash flow related to a floating rate loan, and hedge accounting under IFRS 9 (IAS 39 for comparatives) 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 2018 were 0.8% (0.8). The floating interest rate was 6-month Euribor.

Commodity derivatives

MEUR	2018 Nominal value	Fair value	2017 Nominal value	Fair value
Maturity of diesel swaps under hedge accounting				
Not later than one year	1.6		1.2	
Later than one year and not later than five years	-		0.0	
Total	1.6	0.0	1.2	0.1

Commodity derivative contracts were concluded, for hedging of future diesel oil purchases. IFRS 9 -complient (IAS 39 for comparatives)-compliant hedge accounting will be applied to these contracts, and the effective change in fair value will be recognised in the hedging reserve within equity. The fair values of commodity derivatives are based on market prices at the balance sheet date. Prices have fluctuated between EUR 463.5 - 617.5.

30. Operating leases

MEUR	2018	2017
Maturity of minimum lease payments of non-cancellable operating leases		
Not later than one year	13.6	10.5
Later than one year and not later than five years	16.2	15.1
Later than five years	9.2	10.5
Total minimum lease payments	39.0	36.1

The Group has leased a part of the production and office premises, office equipment and vehicles. Most of the leases are index-linked and in conformity with local market practice.

31. Notes to the consolidated statement of cash flows

MEUR	2018	2017
Adjustments to cash flows from operating activities		
Taxes	8.7	8.9
Depreciation, amortisation and impairment	42.5	41.1
Finance income and costs	4.5	1.4
Provisions	-1.7	0.1
Other	1.6	0.2
Total	55.6	51.8

32. Related-party transactions

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

Lists of the Group's parent and subsidiary relationships, associated companies and joint ventures are presented in Note 15. 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 (0.7). The parent company has granted a EUR 0.1 million loan to Moppicom Oy. In the comparison period the parent company has granted a EUR 0.3 million convertible bond loan to Moppicom Oy. The loans has been fully written down during the reporting period.

Employee benefits of top management

MEUR	2018	2017
Salaries and other short-term employee benefits	2.0	2.2
Post-employment benefits	-	0.3
Share-based payment	0.3	0.2
Total	2.3	2.7

Top management consists of the members of the Board of Directors, President and CEO and the Group Executive Board. An expense of EUR 0.2 million (0.2) 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	2018	2017
Heikki Bergholm, Chairman of the Board	76	62
Sakari Lassila, Vice Chairman of the Board	53	43
Eero Hautaniemi	-	2
Teemu Kangas-Kärki	40	35
Laura Lares	39	34
Miikka Maijala	39	34
Laura Tarkka	39	33

On 21 March 2018, 5,326 shares were transferred to the members of the Board of Directors as part of the remuneration of the Board (31 March 2017: 3,896).

In 2018, the remuneration paid to the President and CEO totalled EUR 492 thousand (521), consisting of salaries and benefits of EUR 431 thousand (424) and a bonus of EUR 61 thousand (97). In addition, the President and CEO was paid rewards amounting to EUR 37 thousand on the basis of the achievement of the targets of the share-based incentive programme in 2017 (224). The shares paid to the President and CEO on the basis of the achievement of the targets of the share-based incentive programme in 2016 and 2017 will be returned to the company by virtue of the terms of the share-based incentive programme. The shares are booked as receivables.

The remuneration paid to the other members of the Group Executive Board totalled EUR 1,120 thousand (1,468), which includes salaries and benefits of EUR 1,024 thousand (1,300) and bonuses of EUR 96 thousand (167). In addition, the other members of the Group Executive Board were paid rewards amounting to EUR 53 thousand on the basis of the achievement of the targets of the share-based incentive programme in 2017 (351). 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 2018, EUR 5 thousand (6) 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 2018, 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 70 thousand (35).

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.

33. Auditing costs

MEUR	2018	2017
Auditing	0.2	0.2
Other assignments in accordance with the auditing act	-	0.0
Tax consulting services	-	0.0
Other services	0.0	0.4
Total	0.2	0.7

Non-audit services performed by the statutory auditor KPMG Oy Ab in the financial year 2018 totalled EUR 0.0 million (0.4).

34. Contingent liabilities

MEUR	2018	2017
Collaterals for own commitments		
Mortgages on rights of tenancy	0.1	0.1
Other securities	0.1	0.1
Bank guarantees required for environmental permits	10.2	10.6

Other securities are guarantee deposits

35. Financial risk management

The principles for L&T's financial risk management are defined in the treasury policy approved by the Board of Directors. The purpose of financial risk management is to mitigate significant financial risks and strive to reduce the unfavourable effects of fluctuations in the financial market and other risk factors on the Group's result.

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

Foreign exchange risk

L&T consists of a parent company operating in Finland and subsidiaries operating in Finland, Sweden 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, but not very significantly.

Transaction risk

The business operations of L&T'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, while minor amounts of purchases are also invoiced in Swedish kronas.

Translation risk

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

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

MEUR	2018	2017
SEK loans and accrued interests	5.3	9.5
RUB loans and accrued interests	0.1	-
Net	5.4	9.5

Changes in exchange rates in 2018 resulted in translation differences of EUR -3.4 million in equity (-2.7). Net investments by currency are presented in the table below.

Translation exposure of net investments

MEUR	2018	2017
SEK	28.3	26.7
RUB	1.0	1.3
Total	29.3	28.0

Price risk of investments

L&T has not invested in listed securities, the value of which changes as the market prices change, and L&T is thus not exposed to securities price risk. L&T has only a minor holding in unlisted shares, and there is no substantial price risk related to these shares.

Commodity price risk

The fluctuations of the world market price of crude oil are reflected in the price of fuel used in production equipment as well as in the purchase prices of environmental products through oil-based raw materials. In waste management, some customer contracts specify such invoicing periods and contract terms that the sales prices cannot be raised monthly. This means that the rise in fuel prices is passed on to service prices with a delay. The diesel price risk has been partly hedged with commodity derivatives. Hedge accounting under IFRS 9 (IAS 39 for comparatives) has been applied to these derivatives.

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

Interest rate risk

L&T's interest rate risk is primarily related to borrowings, which are tied to variable interest rates and create cash flows that vary with the interest rate level. As the demand for L&T's services or their prices are not significantly dependent on fluctuations in economic trends, L&T tries to keep interest costs steady. On account of this, over 50% of the cash flow associated with variable-rate borrowings is hedged against interest rate risk with interest rate swaps.

At 31 December 2018, 65,0% (56,2) of the company's borrowings were either fixed interest rate borrowings or hedged with interest rate swaps. Variable-rate borrowings accounted for 35,0% (43,8). 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 (IAS 39 for comparatives) is applied to all contracts. Most of L&T's net sales are generated by long-term service agreements. Due to good cash flow predictability, L&T's treasury policy specifies that the company shall seek to minimise the amount of interest-bearing assets in proportion to the current short-term financing requirements, and to invest in relatively short-term instruments.

Credit and counterparty risk

Financial instruments involve the risk of the counterparty being unable to fulfil its contractual commitments. Counterparty risk is managed by making financial and derivative contracts with major Nordic banks only and by making investments related to liquidity management only in certificates of deposit and commercial papers of issuers with a good credit standing in accordance with the counterparty list approved by the Board. No impairment is expected on any outstanding investments at the balance sheet date.

L&T has a wide customer base consisting of companies, industrial plants, office and business properties, institutional property owners, housing corporations, public sector organisations and households. Its accounts receivable consist mostly of a high number of relatively small receivables and there are no significant concentrations of credit risk. L&T has credit control guidelines to ensure that services and products are sold only to customers with an appropriate credit standing or, if a customer's creditworthiness is inadequate, prepayment is required. Most customer relationships are based on long-term service contracts, and customers are not generally required to provide collateral.

According to the requirements of the new expected credit loss model, loss allowance must be recognized based on expected credit losses. For Lassila & Tikanoja the new model is applied to trade receivables and contract assets including recognition of past credit losses. A simplified model is used for trade receivables and contract assets and the amount of expected credit losses is based on the lifetime 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. From receivables not yet due up to receivables which are overdue maximum 365 days, an expected credit loss of 0,4% - 53,2% is recognized is recognized depending on the age breakdown 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. 80 % (88) of net sales originated from Finland in 2018.

Analysis of trade receivables by age

MEUR	2018	2017
Trade receivables and contract assets	104.2	108.5
Past due 1-90 days	15.3	13.1
Past due 91-180 days	0.5	0.7
Past due 181-365 days	0.0	1.2
Past due over 365 days	0.0	3.4
Total	120.0	127.0

Expected credit loss

Trade receivables and contract assets by age	Trade receivables MEUR	Credit loss expected rate %	Expected credit loss, MEUR
Not past due	104.2	0.2	0.3
Past due below 90 days	15.3	1.9	0.3
Past due over 90 days	0.5	53.2	0.2
	120.0		0.8

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 6 Other operating income and expenses.

Financial assets are not collateralised. The criteria for recognising an impairment loss on a receivable include, based on the management's judgement, the debtor's substantial financial difficulties, corporate restructuring, a credit loss recommendation issued by a collection agency or extended default on payments. No impairment was recognised on other financial assets.

Credit risk related to financial assets

MEUR	2018	2017
Non-current finance lease receivables	0.1	0.3
Other non-current receivables	1.9	2.6
Trade receivables	88.1	96.0
Contract assets	31.9	30.9
Other current receivables	12.2	11.2
Prepayments	0.6	0.5
Derivative receivables	0.0	0.1
Cash and cash equivalents	54.3	48.1

Liquidity and refinancing risk

Liquidity risk management ensures that L&T continuously will be able to answer for its financial obligations associated with operations at the lowest possible cost. L&T seeks to maintain good liquidity through efficient cash management and by investing in money market instruments that can be realised quickly. The liquidity situation is monitored in real time and predicted using cash flow forecasts. The netting of the Finnish Group companies' liquidity is done using Group bank accounts, and the Group's financial management is responsible for investing any excess liquidity. To ascertain the availability of funding, L&T uses several banks in its financial operations. Refinancing risk is managed by a broad-based maturity profile of loans and by maintaining the level of the average duration of the loan portfolio at two years.

L&T seeks to keep its cash assets fairly small, while ensuring sufficient credit limits for liquidity management purposes. To meet any temporary need for cash arising from cash flow fluctuations, L&T has committed credit limits (totalling EUR 30 million) and a commercial paper programme (EUR 100 million). At 31 December 2018, the Group's liquid assets and investments amounted to EUR 54.3 million (48.1). The commercial paper programme was in all unused (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.

Maturity of financial liabilities

31 December 2018 MEUR	Carrying amount	Contractual cash flows	2019	2020	2021	2022	2023	2024 and later
Bank borrowings and loans from pension institutions	75.8	78.6	1.5	25.5	0.4	0.4	0.4	50.4
Bonds	52.6	56.2	3.7	0.6	0.6	0.6	50.6	-
Financial lease liabilities	23.8	25.2	3.8	4.0	4.0	4.0	4.0	5.5
Derivative liabilities	0.5	0.5	0.1	0.1	0.1	0.1	0.1	0.1
Trade and other payables	85.7	85.7	85.7					
Total	238.4	246.2	94.8	30.2	5.1	5.1	55.1	56.0

31 December 2017 MEUR	Carrying amount	Contractual cash flows	2018	2019	2020	2021	2022	2023 and later
Bank borrowings and loans from pension institutions	98.3	101.5	3.3	21.5	25.5	0.4	0.4	50.4
Bonds	29.9	31.3	0.6	30.6				
Commercial paper liabilities	20.0	20.1	20.1					
Financial lease liabilities	17.7	18.7	2.6	2.6	2.6	2.6	2.6	5.7
Derivative liabilities	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Trade and other payables	80.1	80.1	80.1					
Total	246.3	251.9	106.7	54.8	28.1	3.1	3.1	56.1

Maturity of financial lease liabilities

MEUR	2018	2017
Finance lease liabilities		
– minimum lease payments by maturity		
Not later than one year	3.8	2.6
Later than one year and not later than five years	15.9	10.5
Later than five years	5.5	5.7
Total minimum lease payments	25.2	18.7
Future finance charges	-1.4	-1.0
Present value of finance lease liabilities	23.8	17.7
Maturity of present value of finance lease liabilities		
Not later than one year	3.5	2.4
Later than one year and not later than five years	14.9	9.7
Later than five years	5.5	5.6
Total	23.8	17.7

The only asset meeting the characteristics of a finance lease, are heavy machinery equipment and it is handled as a finance lease liability in the financial statements.

Breakdown of borrowings

	31.12.2018			31.12.2017		
MEUR	In use	Undrawn	Total	In use	Undrawn	Total
Bank borrowings and loans from pension institutions	75.8		75.8	98.3		98.3
Bonds	52.6		52.6	29.9		29.9
Committed credit facility maturing in 2020	-	30.0	30.0	-	30.0	30.0
Commercial paper programme	-	100.0	100.0	20.0	80.0	100.0
Financial lease liabilities	23.8		23.8	17.7		17.7
Total	152.2	130.0	282.2	165.9	110.0	275.9

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 at 31 December 2018 (31 December 2017), including financial assets and liabilities as well as derivative contracts. Changes in the fair value of derivative contracts under hedge accounting are assumed to be allocated entirely to equity, while changes in the fair value of other derivative contracts are assumed to be allocated entirely to the income statement.

The following assumptions have been used in calculating sensitivity to changes in the interest rate level:

- The change in the interest rate level is assumed to be a rise of +0.5 percentage point and a decrease of -0.2 percentage point.
- The change in the price level of Diesel is assumed to be a rise of +10 percentage point and a decrease of -10 percentage point.
- The exposure underlying the calculation includes interest-bearing financial liabilities

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

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

	2018		2017	
MEUR	Profit after tax	Equity	Profit after tax	Equity
+ 0.5% change in market interest rates	-0.2	0.5	-0.3	0.6
- 0.2% change in market interest rates	0.0	-0.1	0.0	-0.2
+ 10% change in diesel oil CIF CARGO NWE price*)		0.1		0.2
- 10% change in diesel oil CIF CARGO NWE price*)		-0.1		-0.2
*) price level in euros				
+10% change in SEK exchange rate	0.6		1.1	
-10% change in SEK exchange rate	-0.5		-0.9	
+10% change in RUB exchange rate	0.0		-	
-10% change in RUB exchange rate	0.0		-	

36. 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.

37. Events after the balance sheet date

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

INCOME STATEMENT OF THE PARENT COMPANY

MEUR	2018	2017	Note
Net sales	**556.3**	540.9	1
Other operating income	**6.3**	7.0	4
Change of inventory	**0.3**	-0.5	
Materials and services	**-161.6**	-152.4	
Employee benefit expenses	**-238.0**	-236.6	2
Other operating expenses	**-87.7**	-83.1	3,4
Depreciation and impairment	**-35.9**	-36.1	
Operating profit before goodwill amortisation	**39.8**	39.3	
Goodwill amortisation	**-1.6**	-1.5	
Operating profit	**38.2**	37.7	
Financial income and expenses	**-2.9**	-0.1	5
Profit before appropriations and taxes	**35.3**	37.7	
Appropriations			
Increase/decrease in accumulated depreciation	**2.4**	3.2	
Group contribution	**1.2**	2.1	6
Income tax	**-4.6**	-8.8	7
Profit for the period	**34.3**	34.2	

BALANCE SHEET OF THE PARENT COMPANY

MEUR	2018	2017	Note
ASSETS			
Fixed assets			
Intangible assets			8
Intangible rights	**1.4**	1.3	
Goodwill	**2.6**	3.9	
Other intangible assets	**18.5**	16.2	
Advance payments and construction in progress	**0.6**	3.6	
	23.0	25.0	
Tangible assets			9
Land	**4.5**	4.6	
Buildings and constructions	**31.6**	35.3	
Machinery and equipment	**97.6**	101.2	
Other tangible assets	**0.0**	0.0	
Advance payments and construction in progress	**5.2**	1.9	
	138.9	143.1	
Financial assets			10
Shares in Group companies	**30.2**	30.2	
Receivables from Group companies	**12.5**	-	
Shares in joint ventures	**0.0**	0.5	
Other shares and holdings	**0.5**	0.5	
	43.2	43.7	
Total fixed assets	**205.1**	211.8	

MEUR	2018	2017	Note
Current assets			
Inventories			
Raw materials and consumables	**2.3**	1.8	
Finished products/goods	**1.3**	1.2	
Other inventories	**3.6**	3.9	
	7.3	6.9	
Non-current receivables			
Loan receivables from Group companies	**105.7**	-	
Loan receivables from Associated companies	**0.0**	-	
Loan receivables	**0.4**	0.7	
Prepayments	**0.3**	0.3	
	106.4	107.1	
Current receivables			11
Receivables from Group companies	**4.0**	9.0	
Trade receivables from Associated companies	**0.0**	0.1	
Trade receivables	**68.2**	68.7	
Other receivables	**0.7**	0.7	
Prepaid expenses and accrued income	**6.9**	5.3	
	79.7	83.8	
Cash and cash equivalents	**44.6**	40.1	
Total current assets	**238.1**	237.9	
Total assets	**443.2**	449.7	

BALANCE SHEET OF THE PARENT COMPANY

MEUR	2018	2017	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	**67.1**	68.0	
Profit for the period	**34.3**	34.2	
Total shareholders' equity	**121.5**	122.3	
Accumulated appropriations			
Depreciation difference	**24.2**	26.7	
Obligatory provisions			13
Non-current	**5.0**	5.3	
Current	**0.2**	1.1	
	5.3	6.5	

MEUR	2018	2017	Note
Liabilities			14
Non-current			
Bank borrowings	**75.0**	95.9	
Pension institution loans	**0.0**	0.0	
Bonds	**49.6**	30.0	
Finance lease liabilities	**20.3**	15.3	
Accrued income	**0.3**	0.3	
	145.2	141.5	
Current			
Bank borrowings	**0.9**	22.6	
Bonds	**2.9**	0.0	
Finance lease liabilities	**3.5**	2.4	
Advances received	**10.0**	9.9	
Trade payables	**47.8**	41.3	
Trade payables to Associated companies	**0.0**	0.1	
Liabilities to Group companies	**24.6**	18.7	
Other liabilities	**16.9**	17.6	
Accruals and deferred expenses	**40.3**	40.2	
Accruals and deferred expenses on commodity derivatives	**0.1**	0.0	
	147.1	152.7	
Total liabilities	**292.3**	294.3	
Total shareholders' equity and liabilities	**443.2**	449.7	

CASH FLOW STATEMENT OF THE PARENT COMPANY

MEUR	2018	2017
Operations		
Operating profit	**38.2**	37.7
Adjustments:		
Depreciation and amortisation	**37.5**	37.6
Gains and losses on sales	**0.0**	-1.3
Provisions	**-1.7**	0.2
Other adjustments	**0.2**	0.1
Cash flow before change in working capital	**74.1**	74.5
Change in working capital		
Increase/decrease in current non-interest-bearing receivables	**4.2**	26.4
Increase/decrease in inventories	**-0.4**	0.5
Increase/decrease in current non-interest-bearing liabilities	**6.0**	0.3
Cash flow from operations before financial income/expenses and tax	**83.9**	101.7
Interest expenses and other financial expenses	**-1.1**	-0.3
Interest income from operations	**0.1**	0.1
Direct taxes paid	**-6.4**	-9.0
Cash flow from operating activities	**76.4**	92.5
Investments		
Investments in subsidiaries and associated companies and acquired businesses minus cash at the time of acquisition	**0.2**	-1.8
Investments in tangible and intangible assets	**-24.6**	-22.6
Proceeds from sale of tangible and intangible assets	**2.2**	1.7
Proceeds from/repayments of current liabilities to Group companies	**0.6**	0.0
Dividends received from investments	**6.2**	-109.0
Cash flow from investing activities	**-15.3**	-131.7

MEUR	2018	2017
Financing		
Paid Group contributions	**-0.3**	-0.3
Received Group contributions	**2.4**	5.3
Proceeds from short-term loans	**10.0**	40.0
Repayments of short-term borrowings	**-32.6**	-20.0
Proceeds from long-term loans	**49.6**	69.9
Repayments of long-term loans	**-47.6**	-2.6
Repayments of leasing liabilities	**-2.9**	-1.6
Capital repayment and other distribution of profit paid	**-35.1**	-35.1
Cash flow from financing activities	**-56.5**	55.6
Changes in cash and cash equivalents	**4.6**	16.4
Cash and cash equivalents at 1 January	**40.0**	23.7
Cash and cash equivalents at 31 December	**44.6**	40.1
Cash and cash equivalents at 31 December		
Cash and cash equivalents	**44.6**	40.1
Overdraft facilities	**-**	-
	44.6	40.1

The items in the statement of changes in the financial position cannot be derived directly from the balance sheet owing, among other things, to mergers and dissolutions of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lassila & Tikanoja plc have been prepared in accordance with the Finnish Accounting Standards (FAS). Items in the financial statements are stated at cost.

Fixed assets

Tangible and intangible assets are stated in the balance sheet at direct acquisition cost less planned depreciation. Planned straight-line depreciation is calculated from the historical cost on the basis of probable economic life except for new landfills. The depreciation and amortisation periods are as follows:

Buildings and structures	5–30 years
Vehicles	6–15 years
Machinery and equipment	4–10 years
Goodwill	5–10 years
Intangible rights and other capitalised expenditure	5–10 years

In 2008 the Group started to apply the units of production method to new landfills. Landfills are depreciated on the basis of the volume of waste received. This method reflects more closely than the straight-line method the expected future benefits to be derived from the landfills. As the Kerava landfill is about to be filled up, it will be fully depreciated using the straight-line method.

Depreciation on fixed assets acquired during the financial year is calculated from the day on which they become operational.

Lease payments are recognised as expenses in the income statement. The assets are not stated in the balance sheet.

Investments are measured at cost.

Finance lease agreement

Assets leased under a finance lease are recognised in property, plant and equipment at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. They are depreciated over the term of the lease or over their expected useful lives, if shorter. However, when there is reasonable assurance that the ownership of the leased asset will transfer to L&T by the end of the lease term, the asset will be depreciated using the method applied for a corresponding asset owned by the company. Liabilities arising from the leases are recorded under loans. Each lease payment is apportioned between financial cost and loan repayment. Financial costs are allocated to each period of the leasing term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Inventories

Inventories are measured at the variable cost of production or the probable lower replacement or sales price. The inventories of Environmental Products are measured using the weighted average cost method. The value of other inventories is determined using the FIFO method. The cost of inventories produced by the company comprises, in addition to direct costs, a share of production overheads.

Items denominated in foreign currencies

Foreign currency transactions are recorded using the exchange rates for the dates of the transactions. Receivables and liabilities denominated in foreign currencies are translated into euros at the reference rate of the European Central Bank for the balance sheet date. Exchange rate differences are recognised in the income statement.

Derivatives

Swaps are used for hedging against the interest rate risk associated with variable-rate borrowings. Interest income and expenses arising from the swaps are allocated over the contract period and recognised as adjustments to the interest on the hedged item.

Commodity swap agreements are used for hedging against the commodity risk associated with cash flows from diesel purchases. As far as the ineffective portion of the hedging is concerned, changes in the fair values of these agreements are recorded in the income statement, and similarly when the agreements mature or the hedged risk materialises.

Currency forward agreements are used to hedge against foreign exchange risk. Changes in fair values are recorded in the income statement as financial income or expenses.

Net sales

Sales are stated net of indirect sales taxes, discounts and exchange rate differences. Sales freights and other costs incurred in sales and deliveries are recognised as either costs of goods sold or sales expenses. Bad debt is recognised under other operating expenses.

Research and development expenditure

Research and development expenditure is recognised as an expense.

Other operating income and expenses

Other operating income and expenses consist of items not included in regular service and product sales, such as gains and losses on the sale or disposal of fixed assets, recognition and recovery of bad debt as well as the annual discounts on purchases.

Income taxes

Current income tax is determined for the taxable profit for the period according to prevailing tax rates. Taxes are adjusted by current tax rates for previous periods, if any. Deferred tax liabilities are stated in the notes to the financial statements.

1. Net sales

MEUR	2018	%	2017	%
Net sales by division				
Environmental Services	245.8	44.2	237.4	43.9
Industrial Services	90.4	16.2	81.6	15.1
Facility Services	182.6	32.8	192.0	35.5
Technical Services	37.5	6.7	29.9	5.5
Total	556.3	100.0	540.9	100.0
Net sales by market				
Finland	545.2	98.0	531.2	98.2
Other countries	11.1	2.0	9.7	1.8
Total	556.3	100.0	540.9	100.0

2. Personnel and administrative bodies

	2018	2017
Average personnel		
Salaried employees	1,054	1,084
Non-salaried employees	4,644	4,675
Total	5,698	5,759

MEUR	2018	2017
Personnel expenses		
Salaries and bonuses	195.5	192.0
Pension expenditure	34.9	35.1
Other salary-related expenses	7.6	9.6
Total	238.0	236.7
Personnel services invoiced from the Group	0.0	-0.2
	238.0	236.6

Salaries, bonuses and pension benefits of the management are described in the Note 32 Related-party transactions of the consolidated financial statements. No loans were granted to the related parties of the Group companies.

3. Auditor's fees

MEUR	2018	2017
KPMG		
Auditing	0.1	0.1
Other assignments in accordance with the auditing act	-	0.0
Tax consulting services	-	0.0
Other services	0.0	0.4
Total	0.1	0.5

4. Other operating income and expenses

MEUR	2018	2017
Other operating income		
From Group companies		
Compensation for administration costs	2.0	1.9
From others		
Profit on sale of other fixed assets	0.9	1.3
Government grants	0.3	0.3
Recovery of bad debt	0.5	0.3
Annual discounts	1.5	1.7
Change in value of commodity derivatives	0.4	0.2
Other operating income	0.6	1.4
Total	6.3	7.0
Other operating expenses		
To others		
ICT costs	11.4	11.0
Travel costs	6.7	6.2
Vehicles and machinery	34.9	32.8
Rents and real estate costs	15.8	15.7
Expert fees	4.3	3.8
Voluntary social security costs	5.1	5.6
Other	9.5	7.9
Total	87.7	83.1

5. Financial income and expenses

MEUR	2018	2017
Dividend income	-	0.0
Other interest and financial income	0.5	1.9
Other interest and financial costs	-3.4	-1.9
Total financial income and costs	-2.9	-0.1
Financial income and costs include:		
Dividend income		
from Group companies	-	0.0
Interest income		
from Group companies	0.1	-
from others	0.4	0.2
Foreign exchange gains		
from others	0.0	1.7
Interest costs		
to others	-1.8	-1.6
Other financial expenses		
to others	-1.5	-0.4
	-2.9	-0.1

6. Appropriations

MEUR	2018	2017
Increase/decrease in accumulated depreciation		
Intangible assets		
Tangible assets	-1.1	-0.8
Total extraordinary income and expenses	3.5	4.0
	2.4	3.2
Group contribution		
Group contribution received	1.6	2.4
Group contribution paid	-0.4	-0.3
Total extraordinary income and expenses	1.2	2.1
Total appropriations	3.6	5.3

7. Income taxes

MEUR	2018	2017
Income taxes on operations for the financial year	4.6	8.6
Total	4.6	8.6
Deferred tax assets / liabilities		
From depreciation differences	-4.8	-5.3
Tax deduction from guarantee commitment (L&T Recoil Oy)	-	3.3
From other matching differences	1.8	1.9
Total	-3.0	-0.1

8. Intangible assets

MEUR	Intangible rights	Goodwill	Other intangible assets	Advance payments and construction in progress	Total
2018					
Cost at 1 January	10.00	113.4	53.9	3.6	180.9
Additions	0.41	0.3	0.6	3.5	4.8
Disposals	-0.13		-1.6		-1.7
Transfers between items	0.02		6.6	-6.5	0.1
Cost at 31 December	10.3	113.7	59.5	0.6	184.1
Accumulated depreciation at 1 January	-8.68	-109.5	-37.8		-156.0
Accumulated depreciation on disposals and transfers	0.13		1.6		1.7
Depreciation during the period	-0.30	-1.6	-4.9		-6.8
Accumulated depreciation at 31 December	-8.9	-111.1	-41.1		-161.0
Total book value	1.4	2.6	18.5	0.6	23.0
2017					
Cost at 1 January	9.7	112.2	51.4	0.7	174.0
Additions	0.4	1.2	0.9	4.6	7.0
Disposals	-0.1		0.0		-0.1
Transfers between items		0.0	1.7	-1.7	0.0
Cost at 31 December	10.0	113.4	53.9	3.6	180.9
Accumulated depreciation at 1 January	-8.5	-108.0	-33.4		-149.9
Accumulated depreciation on disposals and transfers		0.0	0.0		0.0
Depreciation during the period	-0.2	-1.5	-4.3		-6.1
Accumulated depreciation at 31 December	-8.7	-109.5	-37.8		-156.0
Total book value	1.3	3.9	16.2	3.6	25.0

Other intangible assets includes several ICT projects.

9. Tangible assets

MEUR	Land	Buildings	Machinery and equipment	Advance payments and construction in progress	Total
2018					
Cost at 1 January	4.6	95.5	358.5	1.9	460.5
Additions		0.46	21.65	5.89	28.0
Disposals	-0.10	-0.18	-24.14	-0.03	-24.4
Transfers between items		1.06	1.45	-2.57	-0.1
Cost at 31 December	4.5	96.8	357.5	5.2	464.0
Accumulated depreciation at 1 January		-60.2	-257.3		-317.4
Accumulated depreciation on disposals and transfers		0.10	22.90		23.01
Depreciation during the period		-5.21	-25.48		-30.69
Accumulated depreciation at 31 December		-65.3	-259.8		-325.1
Total book value	4.5	31.6	97.7	5.2	138.9
2017					
Cost at 1 January	4.6	91.6	345.3	5.3	446.8
Additions		0.9	27.7	2.6	31.2
Disposals		-1.9	-15.3		-17.2
Transfers between items		4.8	0.8	-5.9	
Cost at 31 December	4.6	95.5	358.5	1.9	460.5
Accumulated depreciation at 1 January		-56.0	-245.9		-301.9
Accumulated depreciation on disposals and transfers		1.1	14.9		16.0
Depreciation during the period		-5.2	-26.2		-31.5
Accumulated depreciation at 31 December		-60.2	-257.3		-317.4
Total book value	4.6	35.3	101.3	1.9	143.1

The additions of machinery and equipment includes EUR 8.9 million in assets leased under a finance lease contract (13.4).

10. Investments

MEUR	Shares in Group companies	Other shares and holdings	Capital loan receivable	Total
2018				
Cost at 1 January	30.2	1.0	12.5	43.7
Additions				
Transfers between items		-0.6		-0.6
Cost at 31 December	30.2	0.5	12.5	43.2
Total book value	30.2	0.5	12.5	43.2
2017				
Cost at 1 January	30.2	0.4		30.6
Additions	0.1	0.6	12.5	13.1
Transfers between items		0.0		0.0
Cost at 31 December	30.2	1.0	12.5	43.7
Total book value	30.2	1.0	12.5	43.7

	Holding of shares and votes, %
Holdings in Group companies	
Kiinteistö Oy Vantaan Valimotie 33, Helsinki	100.0
L&T Biowatti Oy, Helsinki	100.0
L&T Relations Oy, Helsinki	100.0
L&T Toimi Oy, Helsinki	100.0
L&T Korjausrakentaminen Oy, Helsinki	100.0
L&T Työllistämispalvelu Oy, Helsinki	100.0
Associated companies	
Suomen Keräystuote Oy, Helsinki	40.0
Moppicom Oy, Helsinki	43.7

11. Receivables

MEUR	2018	2017
From Group companies		
Loan receivables	3.2	7.0
Trade receivables	0.8	2.0
Total	4.0	9.0
Prepaid expenses and accrued income		
Employees' health care compensation	1.4	1.2
Statutory personnel insurance	2.0	1.7
Annual discounts	0.5	0.5
Licences	0.7	0.7
Other	2.2	1.2
Total	6.9	5.3

12. Shareholders' equity

MEUR	2018	2017
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	0.5
Expense recognition of share-based benefits	0.0	0.1
Invested non-restricted equity reserve 31 December	0.7	0.7
Retained earnings at 1 January	102.2	103.1
Dividend	-35.3	-35.3
Expense recognition of share-based benefits	0.1	0.2
Retained earnings at 31 December	67.1	68.0
Profit for the period	34.3	34.2
Shareholders' equity at 31 December	121.5	122.3
Distributable assets		
Retained earnings	67.1	68.0
Profit for the period	34.3	34.2
Invested non-restricted equity reserve	0.7	0.7
Total distributable assets	102.1	102.9

13. Obligatory provisions

MEUR	2018	2017
Environmental provision	4.4	5.8
Pension liabilities	0.5	0.6
Other provision	0.3	0.1
Total	5.3	6.5

Environmental provisions concern the site restoration costs of landfills.

14. Liabilities

Repayments of non-current liabilities in coming years

MEUR	2019*	2020	2021	2022	2023 and later
Bank borrowings	3.9	25.0	0.0	0.0	100.0

* In the balance sheet under current liabilities

MEUR	2018	2017
Liabilities to Group companies		
Trade payables	1.2	1.5
Other liabilities	23.4	17.2
Total	24.6	18.7
Accruals and deferred expenses		
Personnel expenses	38.4	37.9
Other matched expenses	2.0	2.3
Total	40.3	40.2

Maturity of financial lease liabilities

MEUR	2018	2017
Finance lease liabilities – minimum lease payments by maturity		
Not later than one year	3.8	2.6
Later than one year and not later than five years	15.9	10.5
Later than five years	5.5	5.7
Total minimum lease payments	25.2	18.7
Future finance charges	-1.4	-1.0
Present value of finance lease liabilities	23.8	17.7
Maturity of present value of finance lease liabilities		
Not later than one year	3.5	2.4
Later than one year and not later than five years	14.9	9.7
Later than five years	5.5	5.6
Total	23.8	17.7

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

15. Contingent liabilities

MEUR	2018	2017
For own commitments		
Mortgages on rights of tenancy	0.1	0.1
Other securities	0.1	0.1
Liabilities related to leasing and leases		
Falling due next year	7.8	7.4
Falling due in subsequent years	20.0	22.1
Total	27.8	29.5
For Group companies		
Guarantees	13.5	14.5
Bank guarantees required for environmental permits	10.2	10.6

16. Derivatives

Interest rate contracts

MEUR	2018	2017
Nominal value	30.9	32.7
Fair value	-0.6	-0.3

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	2018	2017
Nominal value of Diesel swaps	1.6	1.2
Fair value	0.0	0.1

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

PROPOSAL FOR THE DISTRIBUTION OF ASSETS

According to the financial statements, Lassila & Tikanoja plc's unrestricted equity amount to EUR 102,070,534.52 with the profit for the period representing EUR 34,330,916.99. There were no substantial changes in the financial standing of the company after the end of the period, and the solvency test referred to in Chapter 13, section 2 of the Companies Act does not affect the amount of distributable assets.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.92 per share be paid on the basis of the balance sheet to be adopted for the financial year 2018.

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, 18 March 2019. The Board of Directors proposes to the Annual General Meeting that the dividend be paid on 25 March 2019.

No dividend shall be paid on share held by the company on the record date of dividend payment, 18 March 2019.

On the day the proposal for the distribution of assets was made, the number of shares entitling to dividend was 38,405,922, which means

the total amount of the dividend would be	EUR 35,333,448.24
To be retained and carried forward	EUR 67,531,011.65
Total	EUR 102,070,534.52

Signatures to the Report of the Board of Directors and the Financial Statements for the year 2018:
Helsinki on 29 January 2019

Heikki Bergholm

Sakari Lassila

Teemu Kangas-Kärki

Laura Lares

Miikka Maijala

Laura Tarkka

Eero Hautaniemi
President and CEO

THE AUDITOR'S NOTE

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

Helsinki, 6 February 2019

KPMG Oy Ab
Authorised Public Accountants

Lasse Holopainen
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, 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, state-ment of changes in equity, state-ment 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, fi-nancial 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 Finan-cial 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 re-garding these services, and we have not provided any prohibited non-audit services referred to in Arti-cle 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided are disclosed in note 33 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 de-cisions 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 finan-cial 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 considera-tion of whether there was evidence of management bias that represented a risk of material misstate-ment due to fraud.

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

Acquisitions and impairment of goodwill and other intangible assets
(Accounting policies and Notes 4, 12 and 13 to the consolidated financial statements)

The Group expands its activities through ac-quisitions. As a result, the Group's assets in-clude a significant amount of goodwill and other acquisition-related intangible assets. At the year-end 31.12.2018 the Group had €151.5 million in goodwill and €19.7 million in other acquisition-related intangible assets. In 2017 Lassila & Tikanoja acquired Swedish company LT FM and disclosed the provisional amounts for the business combination. In 2018, as a final result of the negotiations for the agreement, €2.2 million of the purchase price was returned. Additionally, the value of acquired net assets was adjusted by €4.4 mil-lion. The final consideration transferred totalled €63.4 million. Goodwill arising from ac-quisition amounted to €36.6 million and €19.0 million was allocated to separately identifiable intangi-ble assets. In 2018 the Group made no signifi-cant acquisitions. Acquisition accounting requires the fair value of the acquired assets and liabilities at the acqui-sition date to be determined. This involved complex valuation considerations. There is a risk of inappropriate judgment in de-termining the fair value of assets acquired and use of inaccurate forecasted financial and op-erational data in the valuations.	We have performed audit procedures on the adjustments to consideration transferred and acquired opening balances, as well as evalu-ated assumptions made by management in preparing the final purchase price allocation of LT FM. Our audit procedures regarding goodwill im-pairment testing included, among others: • We evaluated the key assumptions used in respect of profitability levels, discount rate and long-term growth rate. • We involved KPMG valuation specialists when considering the appropriateness of the assumptions used by comparing to ex-ternal market and industry data, and to test the technical accuracy of the calcula-tions. In addition, we considered the appropri-ate-ness of the related notes to the consolidat-ed financial statements.
	Goodwill is tested for impairment annually. Estimating future cash flows in impair-ment tests involves a significant amount of man-agement judgment in respect of profita-bility, long-term growth rate and discount rates, among others. Overall, due to the high level of judgment in-volved, and the significant carrying amounts involved, valuation of goodwill is considered one of the key areas of our audit.

Revenue recognition
(Accounting policies and Notes 2 and 3 to the consolidated financial statements)

Revenue recognition is one of our focus areas for example due to following: • Revenue consists of numerous individual service transactions generated in multiple business locations. • Volumes of sales transactions processed in several IT systems are substantial. The Group also uses a number of service pricing models and client contract templates. • The collection of basic data for invoicing purposes is based on various processes and IT systems, too. • Partly due to the nature of business the user rights in the sales-related IT systems are relatively extensive.	Our audit procedures covered assessment of the sales-related internal control environment, as well as testing of the operating effec-tive-ness of the associated key controls. We also carried out both analytical audit proce-dures and test of details. Audit procedures included key person inter-views in order to obtain an understand-ing of the whole process and to assess the appro-priateness of the revenue recognition princi-ples and practices applied. We tested the functionality of the sales-re-lated 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. In addition, we considered the appropri-ate-ness of the Group's disclosures in respect of revenues.

Accounting of employee benefits
(Accounting policies and Notes 5 and 32 to the consolidated financial statements)

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

- The Group operates in highly labor-intensive business and accordingly signifi-cant part of the Group's operating ex-penses consists of employee-related costs.
- The collection of basic payroll data is car-ried out in numerous business locations using service line specific processes. Re-spectively, the number of individuals in-volved in the payroll process is high.
- Taking into account the above mentioned circumstances, the importance of control environment is emphasized when ensur-ing the correctness of the Group's finan-cial reporting.

Our audit procedures covered assessment of the payroll internal control environment and testing the operating effectiveness of the re-lated key controls.

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

In addition, we considered the appropri-ate-ness 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 Interna-tional 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 re-sponsible 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 Direc-tor 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 finan-cial statements are prepared using the going concern basis of accounting unless there is an inten-tion 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 assur-ance 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 in-cludes our opinion. Rea-sonable 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, individu-ally 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 ev-idence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detect-ing 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 proce-dures 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 ma-terial uncertainty exists related to events or conditions that may cast significant doubt on the par-ent 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 disclo-sures 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 state-ments. 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 in-ternal 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 pre-cludes 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 ap-pointment represents a total period of uninterrupted engagement of 7 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 ob-tained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Re-port 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 infor-mation identified above and, in doing so, consider whether the other information is materially incon-sistent 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 ap-plicable laws and regulations.

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

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

Other opinions

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

Helsinki 6 February 2019
KPMG OY AB
LASSE HOLOPAINEN
Authorised Public Accountant, KHT

CREATING VALUE BY MAKING THE CIRCULAR ECONOMY A REALITY

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