
Fortum Waste Solutions A/S

Lindholmvej 3, DK-5800 Nyborg

Annual Report for 1 January - 31 December 2018

CVR No 34 48 44 14

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
31/05-2019

Henrik Hinders
Chairman

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Independent Auditor's Report

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Fortum Waste Solutions A/S for the financial year 1 January - 31 December 2018.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and of the results of the Company operations for 2018.

We believe that the management's review contains a fair review and the affairs and conditions referred to therein.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Nyborg, 31th of May 2019

Executive Board

Olof Nordin

Lotte Stenderup

Ellen Frier

Board of Directors

Kalle Severi Saarimaa
Chairman

Jani Petteri Karikko

Andreas Tiedtke

Inge-Lise Ubbesen Andersen
Staff Representative

*) Allan Rasmussen
Staff Representative

*) Signed with the note that Annual Report is received only 2 working days before scheduled annual general meeting.

Independent Auditor's Report

To the shareholders of Fortum Waste Solutions A/S

Opinion

We have audited the financial statements of Fortum Waste Solutions A/S for the financial year 01.01.2018 - 31.12.2018, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31-12-2018 and of the results of its operations for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the financial statements* section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matters regarding the financial statements

The company has an ongoing dialog with a business partner regarding the interpretation of a contract, which can lead to repayment of already recognized revenue. The amount may be significant. We refer to note 16.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines 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, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Independent Auditor's Report

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Independent Auditor's Report

Statement on the management's review

Management is responsible for the management's review.

Our opinion on the financial statements does not cover the management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management's review and, in doing so, consider whether the management's review is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management's review.

Odense, 31-05-2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Lars Knage Nielsen
State-Authorised
Public Accountant
MNE-nr. mne10074

Company Information

The Company

Fortum Waste Solutions A/S
Lindholmvej 3
DK-5800 Nyborg

Telephone: + 45 63317100

Website: www.fortum.dk

CVR No: 34 48 44 14

Financial period: 1 January - 31 December

Municipality of reg. office: Nyborg

Board of Directors

Kalle Severi Sarimaa, Chairman
Jani Petteri Karikko
Andreas Tiedtke
Inge-Lise Ubbesen Andersen
Allan Rasmussen

Executive Board

Olof Nordin
Lotte Stenderup
Ellen Frier

Auditors

Deloitte
Statsautoriseret Revisionspartnerselskab
Tværkajen 5
DK-5000 Odense

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2018	2017	2016	2015	2014
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key figures					
Profit/loss					
Revenue	352.386	351.863	349.357	350.432	407.195
Operating profit/loss	34.581	6.727	20.131	-53.832	-19.745
Profit/loss before financial income and expenses	34.907	11.858	32.226	-45.640	-11.956
Net financials	-16.693	-17.257	-52.244	-8.882	-4.898
Net profit/loss for the year	12.242	-6.002	-25.624	-41.368	-13.778
Balance sheet					
Balance sheet total	982.705	995.259	963.580	1.055.536	1.303.576
Equity	659.274	647.032	653.198	703.428	885.220
Investment in property, plant and equipment	21.399	18.636	12.422	5.377	1.078.310
Number of employees	157	159	163	170	175
Ratios					
Gross margin	53,4%	45,8%	50,9%	31,1%	40,1%
Profit margin	9,9%	3,4%	9,2%	-13,0%	-2,9%
Return on assets	3,6%	1,2%	3,3%	-4,3%	-0,9%
Solvency ratio	67,1%	65,0%	67,8%	66,6%	67,9%
Return on equity	1,9%	-0,9%	-3,8%	-5,2%	-1,5%

Management's Review

Main activity and business model

Fortum Waste Solutions A/S main activity is waste incineration at plants complying with all applicable environmental requirements. We convert the energy content of the waste into green electricity and heating to the benefit of society large.

An industrial society produces hazardous waste, which cannot be allowed to pollute the air, water or soil. It is Fortum Waste Solutions A/S's mission to be able to manage the most hazardous and most complex types of waste, which cannot be managed by ordinary waste processing plants and which cannot be recycled.

Market overview

Fortum Waste Solutions A/S is operating in a fully liberalized market, nationally as well as internationally. The market is characterized by heavy competition between the many players in the Danish market for hazardous waste, where Fortum Waste Solutions A/S seeks to create a strong market foothold based on "State-of-the-art" treatment technology that none of the domestic competitors can offer to market.

Development in the year

The income statement of the Company for 2018 shows a profit of DKK'000 12,242, and at 31 December 2018 the balance sheet of the Company shows equity of DKK'000 659,274.

A local management team, CMT (Country Management Team), has been established with the purpose of securing alignment and development between the vertical organization structure and to take ownership on the local performance.

Safety has been the top priority again in 2018 and new procedures for personal risk assessment has been implemented during 2018.

This and the effect of previous years implementations has successfully lowered the level of working accidents with following sick days to 6,6. Compared to 2017 the frequency was LWIF 20 including external workers. The target was below LWIF 4,5.

Management's Review

The Past year and follow-up on development expectations from last year

The revenue was very much in line with last year, with higher waste fee, especially from international markets, but lower revenue from sale of energy compared to last year.

On variable cost side, the purchase of support fuel continued remaining on a low level and price during 2018, and also the purchase of external services was on a lower level. In total the variable cost was DKK'000 0,6 lower than last year.

Unplanned outages due to boiler leaks had a minor negative impact on the maintenance cost with an overspend of DKK'000 1,200 but the overall total fixed cost was in line with budget.

In general, a high activity in the Hazardous waste market, utilized all available capacity during the year. This, combined with the reduced variable cost and the continued synergies from the integration with Fortum, has resulted in a positive Operation profit of DKK'000 34,581, which is DKK'000 27,854 higher than last year.

On the downside there is a tendency, that the general recycling trend in the market, is decreasing the domestic market of hazardous waste for incineration. This results in a change in waste mix between Danish and international waste, leading to lower average prices

Capital resources

All shares in Fortum Waste Solutions A/S is owned by Fortum Waste Solutions Oyj.

Management's Review

Special risks - operating risks and financial risks

Fortum Waste Solutions A/S is exposed to a number of risks that affect the way in which the business is being operated. These risks include:

- Operating risks
- Environmental risks
- Financial risks

Operating risks primarily relate to the operation of incineration plants and other treatment plants, including the Klintholm landfill and Fortum Waste Solutions A/S's other processing activities. The company seeks to minimize these risks through responsible and prudent operational management as well as ongoing follow-up, control and maintenance of its plants.

Environmental risks are inherent in Fortum Waste Solutions A/S's activities and the Environment and Sustainability Report for 2018 provides a detailed description of our activities within this field. Given the nature of our business, this area has top priority at Fortum Waste Solutions A/S, and we aim at the highest possible levels of safety and responsibility.

The financial risks are related to three main areas:

- The first relates to interest rate risks associated with the company's interest-bearing debt. Risks connected with higher interest rates are largely hedged through interest-rate swaps, if relevant.
- The second relates to the company's financial assets. We try to minimize the risks in this area by means of an investment strategy focusing on low interest rate risks, high liquidity and high repayment certainty as regards our debtors.
- The third relates to Fortum Waste Solutions A/S's operations where the most significant risks relate to currency translation of Sales income from other countries. Foreign sales are mainly made in EUR and NOK. As these contracts are normally short term, foreign exchange risks are considered limited.

Management's Review

Market risks

Market risks relate to sales of hazardous waste incineration services end energy as well as the supply of intermediary products. No single customer or supplier involves a risk that could significantly affect Fortum Waste Solutions A/S's financial position. The most significant market risk is considered to be ratio of treatment capacity to deliveries of hazardous waste from Northern Europe.

-External regulation via EU law and Danish legislation

Fortum Waste Solutions A/S operating conditions are significantly affected by EU law and Danish legislation. Through responsible and reliable communication, we seek to influence future legislation by means of direct and indirect interaction with authorities and other interest groups.

Strategy

In connection with the launch of the overall strategy for the Recycling & Waste Solutions within Fortum, a Country Plan has been developed for the Danish business. The Country Plan covers the activities within the business areas of hazardous waste, oily/water and environmental construction. The plan is implemented in the period 2019 to 2023 and involves the following initiatives:

- Implementation of a new customer segmentation model
- Revitalization of the oily/water business area
- Launching new services: tank cleaning, "field service", decommissioning of offshore structures and ships, recovery of bottom ash
- Investment in new treatment technologies: Soil cleaning and fly ash recovery

Targets and expectations for the year ahead

The profit for 2019 is expected to be at same level as 2018. Due to lead time of the implementation, the new strategy is expected to give only limited result in 2019.

Uncertainty relating to recognition and measurement

The company has a future obligation in relation to the, clean-up of the leased land. The present value of the obligation is based on assumptions made on size and depth of contaminated areas, unit costs to treat the contaminated soil as well as the filling and construction expenses. The valuation is upon the assumptions subject to estimates.

The company has an ongoing dialog with a business partner regarding the interpretation of a contract, which can lead to repayment of already recognized revenue. The amount may be significant, but it is the management's assessment that the expected repayment will be between 5 to 10 mDKK. We refer to note 16.

Management's Review

Report on Corporate Social Responsibility, cf. Section 99 a of the Danish Financial Statements Act

Fortum Waste Solutions continuously work with social responsibility, and reports information and progress in that area to Fortum Oyj. On behalf of the whole group, Fortum annually prepares a Sustainability Report. Please find more information about this work in the Group sustainability report for 2018, which is available for download at:

<https://www.fortum.com/about-us/sustainability/sustainability-cleaner-world>

Corporate governance

The board of directors and executive management of Fortum Waste Solutions A/S constantly strive to ensure that the company's management structures and control systems are appropriate and work satisfactorily.

The framework for the planning of management's duties comprise the Danish Companies Act, the Danish Financial Statements Act, the company's articles of association and good practice for enterprises of the same size as Fortum Waste Solutions A/S.

The members of the board of directors meet 3-4 times a year according to a fixed schedule.

Report on the Gender Composition in Management, cf. Section 99 b of the Danish Financial Statements Act

Due to the line of business in which Fortum Waste Solutions A/S operates, there is a high representative of male employees in general in the company. It is Fortum Waste Solutions A/S policy to promote gender equality in all managerial levels, and the target is to have at least the same gender composition in the managerial levels as in the staff in general.

The company pursues to develop and ensure diversity. This objective is also valid for the managerial positions. In the recruitment process, HR has to ensure that candidates from the underrepresented gender are represented to the hiring manager, if possible. The professional qualifications and educational background are always essential in order to ensure the right competences are in place, though.

In 2018, the new established Country Management Team (CMT) of Fortum Waste Solutions A/S consists of 8 individuals of which three (37%) are female managers and five (63%) are male managers, which is higher than the gender composition in the company in general.

Fortum Waste Solutions A/S's Board of Directors comprises five members, of which three (three male members) are selected by the shareholders and two by the employees (one female and one male member). The target is to have one female member selected by the shareholders, therefore, Fortum Waste Solutions has an underrepresentation of the female gender on the Board of Directors.

Income Statement 1 January – 31 December

	Note	2018 DKK'000	2017 DKK'000
Revenue	1	352.386	351.863
Other operating income		326	5.131
Expenses for raw materials and consumables		-83.749	-84.388
Other external expenses		-80.823	-111.400
Gross profit/loss		188.140	161.206
Staff expenses	2	-87.040	-82.512
Depreciations	3	-66.193	-66.836
Profit/loss before financial income and expenses		34.907	11.858
Income from investments in subsidiaries		-9.018	-10.037
Financial income	4	-	1.790
Financial expenses	5	-7.675	-9.010
Profit/loss before tax		18.214	-5.399
Tax on profit/loss for the year	6	-5.972	-603
Net profit/loss for the year	7	12.242	-6.002

Balance Sheet 31 December

Assets

	Note	2018 DKK'000	2017 DKK'000
Acquired licenses		313	1.088
Intangible assets	8	313	1.088
Land and building		26.644	27.614
Plant and machinery		575.978	627.140
Property, plant and equipment in progress		27.200	5.800
Property, plant and equipment	9	629.822	660.554
Investments in subsidiaries	10	1.012	10.370
Other investments	11	105	105
Fixed asset investments		1.117	10.475
Fixed assets		631.252	672.117
Raw materials and consumables		11.448	12.184
Inventories		11.448	12.184
Trade receivables		70.946	63.939
Receivables from group enterprises		2.447	3.425
Other receivables		3.653	8.425
Prepayments		2.011	4.223
Receivables		79.057	80.012
Cash at bank and in hand		260.948	230.946
Currents assets		351.453	323.142
Assets		982.705	995.259

Balance Sheet 31 December

Liabilities and equity

	Note	2018 DKK'000	2017 DKK'000
Share capital		3.160	3.160
Reserve for revaluation		289.531	327.090
Retained earnings		356.789	316.782
Proposed dividend		9.794	-
Equity	12	659.274	647.032
Provision for deferred tax	13	83.590	94.372
Other provisions	14	115.051	117.025
Provisions		198.641	211.397
Trade payables		26.311	20.424
Payables to group enterprises		6.529	17.225
Corporation tax		4.100	10.453
Other payables		41.528	41.796
Deferred income	15	46.322	46.932
Short-term debt		124.790	136.830
Debt		124.790	136.830
Liabilities and equity		982.705	995.259

Statement of Changes in Equity

	Share capital	Reserve for re-valuation	Retained earnings	Proposed dividend	Total
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Equity at 1 January	3.160	327.090	316.782	-	647.032
					-
Dissolution of previous years' revalu:	-	-37.559	37.559	-	-
Net profit/loss for the year	-		2.448	9.794	12.242
Equity at 31 December	3.160	289.531	356.789	9.794	659.274

Notes to the Financial Statements

	2018 <small>DKK'000</small>	2017 <small>DKK'000</small>
1 Revenue		
Geographical segments		
Revenue, Denmark	258.224	284.072
Revenue, exports	94.162	67.791
	352.386	351.863
Business segments		
Sales income, waste treatment	298.130	293.694
Sales of heat	35.414	42.767
Sales of electricity	18.842	15.402
	352.386	351.863
2 Staff expenses		
Wages and salaries	79.681	75.636
Pensions	6.347	6.148
Other social security costs	1.012	728
	87.040	82.512
Including remuneration to the Executive Board and Board of Directors of:		
Executive Board	3.522	3.757
Board of Directors	30	30
	3.552	3.787
Average number of employess	157	159
3 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	776	1.280
Depreciation of property, plant and equipment	65.404	65.556
Gain/loss from sale and retirement of assets	13	-
	66.193	66.836

Notes to the Financial Statements

	<u>2018</u> DKK'000	<u>2017</u> DKK'000
4 Financial income		
Interest received from group enterprises	-	1.380
Other financial income	-	410
	<u>-</u>	<u>1.790</u>
5 Financial expenses		
Interest paid to group enterprises	71	496
Other financial expenses paid to group enterprises	6.201	6.740
Other financial expenses	1.403	1.774
	<u>7.675</u>	<u>9.010</u>
6 Tax on profit/loss for the year		
Current tax for the year	16.753	17.537
Deferred tax adjustments in the year	-10.781	-16.546
Adjustment of tax concerning previous years	-	-388
	<u>5.972</u>	<u>603</u>
7 Distribution of profit		
Proposed distribution of profit		
Proposed dividend	9.794	-
Retained earnings	2.448	-6.002
	<u>12.242</u>	<u>-6.002</u>
8 intangible assets		
Acquired licenses		
Cost at 1 January	13.637	12.885
Additions for the year	-	-
Transfers for the year	-	752
Cost at 31 December	<u>13.637</u>	<u>13.637</u>
Impairment losses and amortisation at 1 Januar	12.549	10.518
Amortisation for the year	776	1.280
Transfers for the year	-	751
Impairment losses and amortisation at 31 December	<u>13.325</u>	<u>12.549</u>
Carrying amount at 31 December	<u>313</u>	<u>1.088</u>

Notes to the Financial Statements

9 Property, plant and equipment

	<u>Land and buildings</u>	<u>Plant and machinery</u>	<u>Property, plant and equipment in progress</u>	<u>Total</u>
	DKK'000	DKK'000	DKK'000	DKK'000
Cost at 1 January	125.319	1.207.362	5.800	1.338.481
Additions for the year	-	-	35.140	35.140
Disposals for the year	-	-1.633	-	-1.633
Transfers for the year	125	13.615	-13.740	-
Cost at 31 December	<u>125.444</u>	<u>1.219.344</u>	<u>27.200</u>	<u>1.371.988</u>
Revaluations at 1 January	-	655.571	-	655.571
Revaluations at 31 December	-	655.571	-	655.571
Impairment losses and depreciation at 1 January	97.705	1.235.793	-	1.333.498
Depreciation for the year	1.095	64.309	-	65.404
Reversal of impairment and depreciation of sold assets	-	-1.165	-	-1.165
Impairment losses and depreciation at 31 December	<u>98.800</u>	<u>1.298.937</u>	<u>-</u>	<u>1.397.737</u>
Carrying amount at 31 December	<u>26.644</u>	<u>575.978</u>	<u>27.200</u>	<u>629.822</u>
Carrying amount if no revaluation had been made	<u>26.644</u>	<u>204.784</u>	<u>27.200</u>	<u>258.628</u>

Notes to the Financial Statements

	2018 DKK'000	2017 DKK'000
10 Investment in subsidiaries		
Cost at 1 January	213.284	213.284
Disposals	-7.389	-
Additions for the year	-	-
Transfers for the year	-	-
Cost at 31 December	<u>205.895</u>	<u>213.284</u>
Value adjustments at 1 January	-202.914	-192.983
Disposals	7.049	-
Net profit/loss for the year	-9.018	-9.931
Impairment losses of the year	-	-
Value adjustments at 31 December	<u>-204.883</u>	<u>-202.914</u>
Carrying amount at 31 December	<u>1.012</u>	<u>10.370</u>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	share capital	Votes and ownership	Result	Equity
Nordgroup Waste Management AB*	SE	-	0%	-	-
Fortum Waste Solutions OW A/S	DK	600	100%	-9.144	1.012

* sold in 2018

11 Other fixed asset investments

Cost at 1 January	<u>105</u>	<u>105</u>
Cost at 31 December	<u>105</u>	<u>105</u>
Carrying amount at 31 December	<u>105</u>	<u>105</u>

Notes to the Financial Statements

	<u>2018</u> DKK'000	<u>2017</u> DKK'000
12 Equity		
The share capital consists of 316 shares of a nominal value of DKK'000 10. No shares carry any special rights.		
13 Deferred Tax		
Deferred Tax at 1 January	94.372	110.918
Changes in deferred tax in income statement	-10.781	-16.546
Deferred Tax at 31 December	<u>83.591</u>	<u>94.372</u>
Fixed assets	116.844	128.057
Inventories	2.248	2.384
Provisions	-25.311	-25.744
Waste balance	-10.191	-10.325
Deferred Tax at 31 December	<u>83.590</u>	<u>94.372</u>
14 Other provisions		
Provisions at 31 December 2018 amount to kDKK 115,051 and constitute Management's judgement and assessment of anticipated costs for purification of Klintholm and Prøvestenen.		
Other provisions	<u>115.051</u>	<u>117.025</u>
	<u>115.051</u>	<u>117.025</u>

15 Deferred income

Deferred income comprises waste received, but not treated. Which will not be recognised as income until recognition criteria are satisfied.

Notes to the Financial Statements

16 Uncertainty relating to recognition and measurement

The company has a future obligation in relation to the, clean-up of the leased land. The present value of the obligation is based on assumptions made on size and depth of contaminated areas, unit costs to treat the contaminated soil as well as the filling and construction expenses. The valuation is upon the assumptions subject to estimates.

The company has an ongoing dialog with a business partner regarding the interpretation of a contract, which can lead to repayment of already recognized revenue. The recognized revenue relates to the years 2015-18, and amounts a total of apx. 100 mDKK, which is the maximum risk. It is the management's assessment that the expected reimbursement will be between 5 to 10 mDKK.

	<u>2018</u> DKK'000	<u>2017</u> DKK'000
17 Contingent assets, liabilities and other financial obligations		
Charges and security		
Guarantees in insurance company have been put up as security vis-à-vis the Danish Environmental Agency	24.425	21.818
Guarantees in insurance company have been put up as security with rental liabilities; Prøvestenen and Klintholm	9.995	9.995
Rental and lease obligations		
Lease obligations under operating leases. Total fure lease pauments:		
Within 1 year	2.810	2.956
Between 1 and 5 years	7.015	8.137
After 5 Years	<u>12.318</u>	<u>13.550</u>
	<u>22.143</u>	<u>24.643</u>

Other contingent liabilities

The Danish group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. Moreover, the Danish group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty pauments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company' liability.

The company has an ongoing dialog with a business partner regarding the interpretation of a contract, which can lead to repayment of already recognized revenue. The recognized revenue relates to the years 2015-18, and amounts a total of apx. 100 mDKK, which is the maximum risk. It is the management's assessment that the expected reimbursement will be between 5 to 10 mDKK.

Notes to the Financial Statements

18 Related parties

Controlling interest

Fortum Oyj (ultimate parent)
Fortum Waste Solutions Oy (parent)

Place of registered office

Espoo, Finland
Riihimäki, Finland

Transactions with related parties

	<u>Parent</u>	<u>Subsidiary</u>	<u>Other Group Companies</u>
There have been following transactions with related parties:			
Revenue	-	11.601	88
Expenses for raw materials and consumables	-	-1.356	-936
Other external expenses	-3.492	1.792	-2.413
Financial income/expenses	-197	-	-6.219
	<u>-3.689</u>	<u>12.037</u>	<u>-9.479</u>

Consolidated Financial Statements

Fortum Waste Solutions A/S and subsidiaries are included in the consolidated financial statements of Fortum Oyj.

The Group Annual Report of Fortum Oyj may be obtained at the following address:

<https://www.fortum.com/en/investors/reportsandpresentations/archive/pages/default.aspx>

19 Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Notes, Accounting Policies

Basis of Preparation

The Annual Report of Fortum Waste Solutions A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

There have not been any changes in the accounting policies from last year.

Financial Statements for 2018 are presented in DKK'000.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Fortum Oyj, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Fortum Oyj, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognized in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognized. Moreover, all expenses incurred to achieve the earnings for the year are recognized in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognized in the income statement.

Assets are recognized in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Notes, Accounting Policies

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognized in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognized directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognized in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Segment information on revenue

Segment information is disclosed on business areas. The segmentation is in accordance with the enterprise's internal reporting and fields of responsibility.

Income Statement

Revenue

In order to give a true and fair view of the year's activities, the revenue recognition criterion applied by the company is the percentage-of-completion. Consequently, waste treatment income is recognized as waste is handled and finally deposited. The amount which is subsequently recognized as income regarding deposited waste is made up at the average waste treatment price per ton of waste, net of freight charges. Income from sale of goods held for sale and finished goods is recognized in revenue at the time of delivery and when the risk passes to the buyer, provided that the income can be made up reliably.

Revenue related to sale of electricity and district heating is recognized when delivery has taken place.

Revenue is recognized exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the enterprise.

Other external expenses

Other external expenses comprise the year's expenses relating to the entity's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Notes, Accounting Policies

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment, including gains and losses on the sale of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company.

Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses are recognized in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognized in the income statement, whereas the tax attributable to equity transactions is recognized directly in equity.

The Company is jointly taxed with wholly owned Danish subsidiaries. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 5 years.

Development costs and costs relating to rights developed by the Company are recognized in the income statement as costs in the year of acquisition.

Notes, Accounting Policies

Property, plant and equipment

On acquisition property, plant and equipment are measured at cost comprising the acquisition price and costs of acquisition. The cost of own constructed property, plant and equipment comprises the acquisition price and expenses directly related to the acquisition, including costs of acquisition and indirect expenses for labour, materials, components and subsuppliers up until the time when the asset is ready for use. Interests are not included in cost.

Other property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost added revaluations and reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Production buildings	5-20 years
Plant and machinery	5-36 years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

Investments in subsidiaries are recognized and measured under the equity method.

The item "Investments in subsidiaries" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

Subsidiaries with a negative net asset value are recognized at DKK 0. Any legal or constructive obliga-

Notes, Accounting Policies

tion of the Parent Company to cover the negative balance of the enterprise is recognized in provisions.

Fixed asset investments

Investments which are not traded in an active market are measured at the lower of cost and recoverable amount.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of raw materials and consumables equals landed cost.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general provision is also made based on the Company's experience from previous years.

Provisions

Provisions are recognized when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include future obligations to clean-up contaminated land.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Notes, Accounting Policies

Any changes in deferred tax due to changes to tax rates are recognized in the income statement or in equity if the deferred tax relates to items recognized in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognized in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognized in the income statement in financial income and expenses.

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Deferred income comprises waste received, but not treated, which will not be recognized as income until recognition criteria are satisfied.

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$