
Fortum Waste Solutions A/S

Lindholmvej 3, DK-5800 Nyborg

Annual Report for 1 January - 31 December 2019

CVR No 34 48 44 14

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
31/08-2020

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 2019.

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 2019 of the Company and of the results of the Company operations for 2019.

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 August 2020

Executive Board

Lotte Stenderup

Ellen Frier

Board of Directors

Kalle Severi Saarimaa
Chairman

Mika Juhani Sappinen

Andreas Rudolf Ture Tiedtke

Inge-Lise Ubbesen Andersen
Staff Representative

Allan Rasmussen
Staff Representative

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 01.01.2019 - 31.12.2019, 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, except for the impact of the circumstances described in the Basis for qualified opinion paragraph, the financial statements give a true and fair view of the Entity's financial position at 31-12-2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019 in accordance with the Danish Financial Statements Act.

Basis for qualified opinion

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 is expected to be significant. A claim has been raised for reimbursement of 75 mDKK, and a provision of 22.5 mDKK has been taken into account. We qualify our Auditor's Opinion regarding the possibility that the repayment may exceed the provision made. We are not in a position to assess the outcome of the case. We refer to note 17.

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.

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.

Independent Auditor's Report

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.

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, 31-08-2020

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
Mika Juhani Sappinen
Andreas Rudolf Ture Tiedtke
Inge-Lise Ubbesen Andersen
Allan Rasmussen

Executive Board

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:

	2019	2018	2017	2016	2015
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key figures					
Profit/loss					
Revenue	377.916	352.386	351.863	349.357	350.432
Operating profit/loss	700	34.581	6.727	20.131	-53.832
Profit/loss before financial income and expenses	11.035	34.907	11.858	32.226	-45.640
Net financials	-59.360	-16.693	-17.257	-52.244	-8.882
Net profit/loss for the year	-44.060	12.242	-6.002	-25.624	-41.368
Balance sheet					
Balance sheet total	970.998	982.705	995.259	963.580	1.055.536
Equity	605.420	659.274	647.032	653.198	703.428
Investment in property, plant and equipment	51.221	21.399	18.636	12.422	5.377
Number of employees	165	157	159	163	170
Ratios					
Gross margin	45,4%	53,4%	45,8%	50,9%	31,1%
Profit margin	2,9%	9,9%	3,4%	9,2%	-13,0%
Return on assets	1,1%	3,6%	1,2%	3,3%	-4,3%
Solvency ratio	62,4%	67,1%	65,0%	67,8%	66,6%
Return on equity	-7,0%	1,9%	-0,9%	-3,8%	-5,2%

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 2019 shows a loss of DKK'000 -44,060, and at 31 December 2019 the balance sheet of the Company shows equity of DKK'000 605,420.

The main driver for the negative result was adjustment of the rates for calculating the provision for contaminated land, where especially the decreasing interest level, caused the provision to increase in total with 44,3 mDKK, which is included in the item Other external expenses and Financial expenses with 1,5 mDKK and 42,8 mDKK respectively.

Furthermore, a provision of 22,5 mDKK has been made to accommodate a possible reimbursement regarding the interpretation of a contract with a business partner. See note 17.

Looking aside from the change in provision, 2019 has been a successful year for Fortum Waste Solutions A/S.

The main driver behind the successful 2019 has been the limited available thermal treatment capacity in Europe. Most of the European thermal capacities in Municipal Waste Incinerators as well as High Temperature Incineration facilities has been 100% utilized, which has led to increased gate fee prices in 2019. The trend is expected to continue in 2020.

Safety has been the top priority again in 2019 and new procedures for personal risk assessment has been implemented during 2019 and will continue in 2020.

This and the effect of previous years implementations has successfully lowered the level of working accidents with following sick days to 0 (zero). Compared to 2017 the frequency was LWIF 6,1 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

In general, a high activity in the Hazardous waste market, utilized all available capacity during the year, and the revenue has increased compared to 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 increased from last year's low level and price during 2019, and also the purchase of external services was on a higher level. In total the variable cost was DKK'000 3,0 higher than last year.

The total fixed costs were increased with DKK'000 54,3 compared to last year. Main drivers for the increase were an explosion in one of the kilns, higher activity level in the production and provision for possible reimbursement.

This has resulted in a positive Operation profit of DKK'000 11,035, which is DKK'000 -23,9 lower 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 2019 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. Looking further into the future we believe that the competition in thermal treatment of hazardous waste will increase, and there is a need to continue developing new services and business areas. The logic behind this is the following predictions:

- Increased in-house treatment and a shift towards less hazardous raw materials will decrease the volume of hazardous waste generated in the future
- The emphasis on recycling/re-use, there comes a need to shift to new, clean, and innovative recovery systems, which will transform all the EU member states towards zero-waste economies
- Extended Producer Responsibility is a significant responsibility assigned to producers for waste treatment and disposal, which will improve segregation and waste minimisation at source and reduce waste generation

The Country Plan covers the activities within the business areas of hazardous waste, oily/water and environmental construction, and is developed to mitigate the foreseen market changes. 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

Management's Review

Targets and expectations for the year ahead

We will continue the journey with the "Country Plan" in 2020, and focus especially on the service development in e.g. tank-cleaning services, local facility services and tasks related to decommissioning of off-shore structures and ships. All these services are partly linked to each other, and at the same time closely linked to our existing core business.

In 2020 we will continue following our long term plan in developing and commercializing new treatment technologies, which at this point means investigating the potential in new waste streams and the relevant treatment technologies. This work is of course done in close cooperation with the Scandinavian colleagues in Fortum Recycling & Waste Solutions.

The profit for 2020 is expected to increase compared to 2019, due to the continuance of the implementation of the strategy.

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. A claim has been raised for reimbursement of 75 mDKK. Based on the management's assessment of the claim, and the hereby uncertainties, a provision of 22,5 mDKK has been taken into account. We refer to note 17.

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 2019, 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 2019, the Country Management Team (CMT) of Fortum Waste Solutions A/S consists of 12 individuals of which four (34%) are female managers and eight (66%) 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. The share of gender was changed, hence the shareholders elected a new board member with specific knowledge of the business.

Income Statement 1 January – 31 December

	Note	2019 DKK'000	2018 DKK'000
Revenue	1	377.916	352.386
Other operating income	2	10.335	326
Expenses for raw materials and consumables		-86.791	-83.749
Other external expenses		-129.819	-80.823
Gross profit/loss		171.641	188.140
Staff expenses	3	-92.364	-87.040
Depreciations	4	-68.242	-66.193
Profit/loss before financial income and expenses		11.035	34.907
Income from investments in subsidiaries		-5.855	-9.018
Financial income	5	26	-
Financial expenses	6	-53.531	-7.675
Profit/loss before tax		-48.325	18.214
Tax on profit/loss for the year	7	4.265	-5.972
Net profit/loss for the year	8	-44.060	12.242

Balance Sheet 31 December

Assets

	Note	2019 DKK'000	2018 DKK'000
Acquired licenses		55	313
Intangible assets	9	55	313
Land and buildings		29.153	26.644
Plant and machinery		545.506	575.978
Property, plant and equipment in progress		38.264	27.200
Property, plant and equipment	10	612.923	629.822
Investments in subsidiaries	11	-	1.012
Other investments	12	105	105
Fixed asset investments		105	1.117
Fixed assets		613.083	631.252
Raw materials and consumables		16.264	11.448
Inventories		16.264	11.448
Trade receivables		60.593	70.946
Receivables from group enterprises		4.540	2.447
Corporation tax		5.825	-
Other receivables		11.158	3.653
Prepayments		1.384	2.011
Receivables		83.500	79.057
Cash at bank and in hand		258.151	260.948
Currents assets		357.915	351.453
Assets		970.998	982.705

Balance Sheet 31 December

Liabilities and equity

	Note	2019 DKK'000	2018 DKK'000
Share capital		3.160	3.160
Reserve for revaluation		257.734	289.531
Retained earnings		344.526	356.789
Proposed dividend		-	9.794
Equity	13	605.420	659.274
Provision for deferred tax	14	63.984	83.590
Other provisions	15	166.701	115.051
Provisions		230.685	198.641
Trade payables		20.859	26.311
Payables to group enterprises		22.849	6.529
Corporation tax		-	4.100
Other payables		48.894	41.528
Deferred income	16	41.291	46.322
Prepayment		1.000	-
Short-term debt		134.893	124.790
Debt		134.893	124.790
Liabilities and equity		970.998	982.705

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	289.531	356.789	9.794	659.274
Dissolution of previous years' revaluation	-	-31.797	31.797	-	-
Net profit/loss for the year	-	-	-44.060	-	-44.060
Dividend re. 2018, paid out	-	-	-	-9.794	-9.794
Equity at 31 December	3.160	257.734	344.526	-	605.420

Notes to the Financial Statements

	2019 DKK'000	2018 DKK'000
1 Revenue		
Geographical segments		
Revenue, Denmark	271.355	258.224
Revenue, exports	106.561	94.162
	377.916	352.386
Business segments		
Sales income, waste treatment	326.495	298.130
Sales of heat	37.744	35.414
Sales of electricity	13.677	18.842
	377.916	352.386
2 Other Operating income		
Rent, income	315	326
Insurance compensation	8.040	-
Excise taxes regarding previous years	1.980	-
	10.335	326
3 Staff expenses		
Wages and salaries	84.210	79.681
Pensions	6.965	6.347
Other social security costs	1.189	1.012
	92.364	87.040
Including remuneration to the Executive Board and Board of Directors of:		
Executive Board	2.183	3.522
Board of Directors	30	30
	2.213	3.552
Average number of employess	165	157
4 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	155	776
Depreciation of property, plant and equipment	66.340	65.404
Gain/loss from sale and retirement of assets	1.747	13
	68.242	66.193

Notes to the Financial Statements

	2019 DKK'000	2018 DKK'000
5 Financial income		
Interest received from group enterprises	20	-
Other financial income	6	-
	26	-
6 Financial expenses		
Interest paid to group enterprises	14	71
Other financial expenses paid to group enterprises	7.170	6.201
Other financial expenses	46.347	1.403
	53.531	7.675
7 Tax on profit/loss for the year		
Current tax for the year	9.003	16.753
Deferred tax adjustments in the year	-19.606	-10.781
Adjustment of tax concerning previous years	6.338	-
	-4.265	5.972
8 Distribution of profit		
Proposed distribution of profit		
Proposed dividend	-	9.794
Retained earnings	-44.060	2.448
	-44.060	12.242
9 Intangible assets		
Acquired licenses		
Cost at 1 January	13.637	13.637
Additions for the year	-	-
Disposals for the year	-1.924	-
Cost at 31 December	11.713	13.637
Impairment losses and amortisation at 1 Januar	13.324	12.549
Amortisation for the year	155	775
Reversal of impairment and depreciation of sold assets	-1.821	-
Impairment losses and amortisation at 31 December	11.658	13.324
Carrying amount at 31 December	55	313

Notes to the Financial Statements

10 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	125.444	1.219.344	27.200	1.371.988
Additions for the year	3.714	36.352	51.221	91.287
Disposals for the year	-160	-23.058	-91	-23.309
Transfers for the year	-	-	-40.066	-40.066
Cost at 31 December	<u>128.998</u>	<u>1.232.638</u>	<u>38.264</u>	<u>1.399.900</u>
Revaluations at 1 January	-	655.571	-	655.571
Revaluations at 31 December	<u>-</u>	<u>655.571</u>	<u>-</u>	<u>655.571</u>
Impairment losses and depreciation at 1 January	98.800	1.298.937	-	1.397.737
Depreciation for the year	1.173	65.167	-	66.340
Reversal of impairment and depreciation of sold assets	<u>-128</u>	<u>-21.401</u>	<u>-</u>	<u>-21.529</u>
Impairment losses and depreciation at 31 December	<u>99.845</u>	<u>1.342.703</u>	<u>-</u>	<u>1.442.548</u>
Carrying amount at 31 December	<u>29.153</u>	<u>545.506</u>	<u>38.264</u>	<u>612.923</u>
Carrying amount if no revaluation had been made	<u>29.153</u>	<u>215.078</u>	<u>38.264</u>	<u>282.495</u>

Notes to the Financial Statements

	2019 DKK'000	2018 DKK'000
11 Investment in subsidiaries		
Cost at 1 January	205.895	213.284
Disposals	-	-7.389
Additions for the year	-	-
Cost at 31 December	<u>205.895</u>	<u>205.895</u>
Value adjustments at 1 January	-204.883	-202.914
Disposals	-	7.049
Net profit/loss for the year	-5.855	-9.018
Impairment losses of the year	4.843	-
Value adjustments at 31 December	<u>-205.895</u>	<u>-204.883</u>
Carrying amount at 31 December	<u>0</u>	<u>1.012</u>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	share capital	Votes and ownership	Result	Equity
Fortum Waste Solutions OW A/S	DK	600	100%	-5.855	-4.843

12 Other fixed asset investments

Cost at 1 January	105	105
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

	2019 DKK'000	2018 DKK'000
13 Equity		
The share capital consists of 316 shares of a nominal value of DKK'000 10. No shares carry any special rights.		
14 Deferred Tax		
Deferred Tax at 1 January	83.590	94.371
Changes in deferred tax in income statement	-19.606	-10.781
Deferred Tax at 31 December	63.984	83.590
Fixed assets	106.474	116.844
Inventories	3.268	2.248
Provisions	-36.674	-25.311
Waste balance	-9.084	-10.191
Deferred Tax at 31 December	63.984	83.590

15 Other provisions

Provisions at 31 December 2019 amount to kDKK 166,701 and constitute Management's judgement and assessment of anticipated costs for purification of Klintholm and Prøvestenen.

Provision at 1 January	115.050
Additions for the year	10.143
Utilized in the year	-1.296
Offset in present value	42.804
Change in discount rate	-
Other provisions at 31 December	166.701
Provisions, total future payments:	
Within 1 year	1.317
Between 1 and 5 years	5.267
After 5 Years	160.117
	166.701

16 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

17 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 a repayment of already recognized revenue. A claim has been raised for reimbursement of 75 mDKK. Based on the management's assessment of the claim, and the hereby uncertainties, a provision of 22,5 mDKK has been taken into account.

	<u>2019</u>	<u>2018</u>
	DKK'000	DKK'000

18 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	31.396	24.425
Guarantees in insurance company have been put up as security with rental liabilities; Prøvestenen and Klintholm	10.345	9.995

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:		
Within 1 year	3.327	2.810
Between 1 and 5 years	6.929	7.015
After 5 Years	<u>11.087</u>	<u>12.318</u>
	<u>21.343</u>	<u>22.143</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 payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company' liability.

The company has given a commitment to provide the necessary financing to the subsidiary Fortum Waste Solutions OW A/S and has submitted a statement of support to the subsidiary.

The company has an ongoing dialog with a business partner regarding the interpretation of a contract, which can lead to a repayment of already recognized revenue. A claim has been raised for reimbursement of 75 mDKK. Based on the management's assessment of the claim, and the hereby uncertainties, a provision of 22,5 mDKK has been taken into account.

Notes to the Financial Statements

19 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

	Parent	Subsidiary	Other Group Companies
There have been following transactions with related parties:			
Revenue	583	12.192	8.214
Expenses for raw materials and consumables	-	-8.897	-1.994
Other external expenses	-4.363	-3.295	-3.179
Financial income/expenses	-312	-	-3.928
Property, plant and equipment	-	-2.600	-
Provision	-	7.395	-
	-4.092	4.795	-887

Consolidated Financial Statements

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

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

https://www.fortum.com/sites/g/files/rkxjap146/files/investor-documents/fortum_sustainability_2019_2.pdf

20 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.

The outbreak and spread of COVID-19 at the beginning of 2020 has not and is not expected to have a significant impact on the company's financial position and development.

Notes, Accounting Policies

Basis of Preparation

The Annual Report of Fortum Waste Solutions A/S for 2019 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 2019 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. Revaluation is based on regular assessment of fair value.

Other property, plant and equipment are measured at cost, added revaluation, 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.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums etc.

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.

Notes, Accounting Policies

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. 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	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$

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Date: 2020-09-09 11:53:18

Deloitte

Lars Knage Nielsen

Lars Knage Nielsen

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Kalle Saarimaa

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On behalf of Fortum Waste Solutions A/S

Andreas Tiedtke

Andreas Tiedtke

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On behalf of Fortum Waste Solutions A/S

Mika Sappinen

Mika Sappinen

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Inge-Lise Ubbesen Andersen

Inge-Lise Ubbesen Andersen

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Allan Rasmussen

Allan Rasmussen

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On behalf of Fortum Waste Solutions A/S

Lotte Stenderup

Lotte Stenderup

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Ellen Frier

Ellen Frier