

# MALLIKANSI

Lemminkäinen

VUOSIKERTOMUS 2013

## Lemminkäinen in brief

We are known for our expertise in infrastructure construction, building construction and technical building services. We operate in northern Europe. With a hundred years of experience we create conditions that make living, working and travelling easy, safe and healthy. We aim to grow in to one of the leading providers of demanding infrastructure solutions in Northern Europe. We will also seek profitable growth in residential development and construction in Russia.

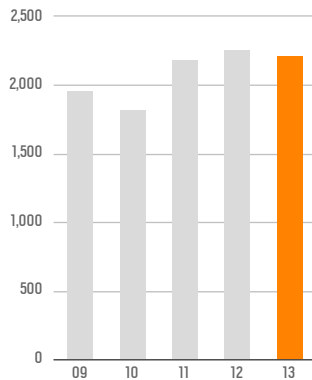
In 2013, Lemminkäinen Group's net sales were about EUR 2.2 billion, of which international operations accounted for roughly 42 per cent. We employ about 7,800 construction professionals. Lemminkäinen Corporation's share is quoted on NASDAQ OMX Nordic Exchange Helsinki.

KEY FIGURES	2013	2012	change, %
Net sales, EUR million	2,218.2	2,267.6	-2.2
of which operations abroad, EUR million	929.0	897.3	3.5
Operating profit, EUR million	-90.9	50.4	over 100
Profits for financial year, EUR million	-93.5	44.1	over 100
Operating margin, %	-4.1	2.2	over 100
Return on investment, %	-9.4	10.8	over 100
Return on equity, %	-24.4	11.1	over 100
Equity ratio, %	27.3	37.2	-26.6
Basic earnings per share, EUR	-5.06	2.04	over 100
Dividend per share, EUR	0.00 <sup>1)</sup>	0.60	
Gross investments, EUR million	71.2	64.5	10.4
Order book, EUR million	1,821.3	1,443.9	26.1
Average number of employees	7,823	8,180	-4.4
Accident frequency rate, accidents/ million working hours	16.3	22.0 <sup>2)</sup>	
Net Promoter Score	23.4	29.3	

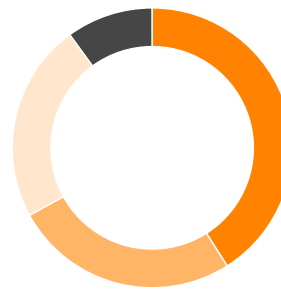
<sup>1)</sup> Board of Directors' proposal to the AGM

<sup>2)</sup> Excluding operations in Russia

### NET SALES, EUR million

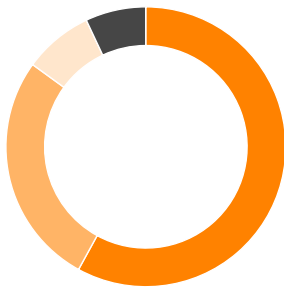


### NET SALES BY SEGMENT



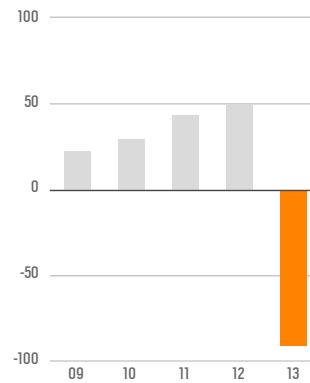
- International operations, 41% (38%)
- Building construction, 26% (28%)
- Infrastructure construction, 23% (24%)
- Technical building services, 10% (10%)

### NET SALES BY MARKET AREA

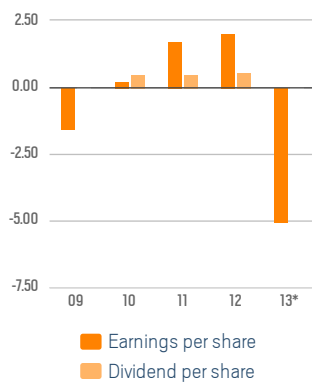


- Finland, 58%
- Other Nordic countries, 27%
- Russia and Eastern Europe, 8%
- Other countries, 7%

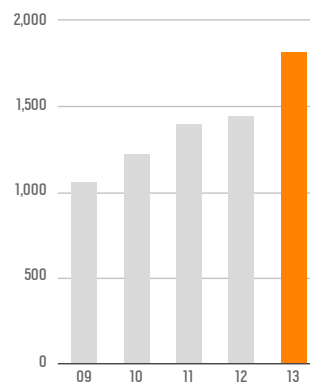
### OPERATING PROFIT, EUR million



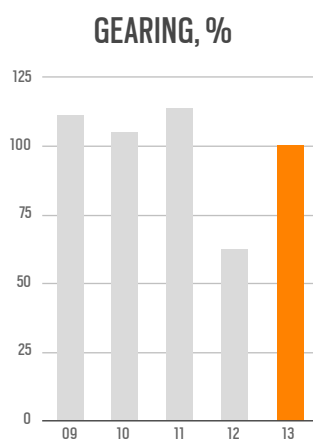
### EARNINGS PER SHARE, DIVIDEND PER SHARE, EUR



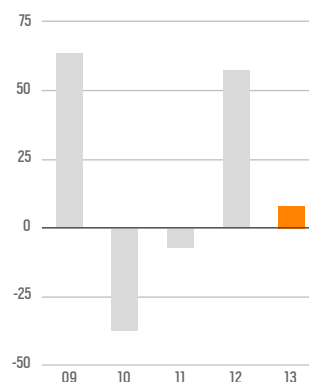
### ORDER BOOK, EUR million



\* Board of Directors' proposal to the AGM



**CASH FLOW FROM OPERATING ACTIVITIES, EUR million**



Year 2013 › CEO's review

## CEO's review

Dear Lemminkäinen shareholders,

In 2013, we focused on improving our operational

efficiency and preparing our new strategy aimed at 2018. The positive effects of the last couple of years' efficiency programmes were already visible in the operational result of our operations in Finland.

However, despite the activities made, I cannot be satisfied with the 2013 financial result. Challenges in international operations and significant non-recurring items made our result clearly negative. The largest non-recurring items included the damages related to the asphalt cartel case, decided in the District Court of Helsinki last November, and write-downs, related primarily to commercial properties.

The weak result affected our financial goals as well: the return on investment was negative and the equity ratio weakened considerably from the previous year.

## Ever more efficient

We have carried out two large efficiency programmes in Finland, and the results are beginning to show in our operational result. Our cost structure has become lighter, corporate structure simpler and service offering more consistent, and we have harmonised our business processes and information systems.

Efficiency programmes in other countries were started later, so the results from those will not be visible until this year. In addition to cost discipline, we have to improve our everyday operations, starting from project management, which last year failed in some projects. There is tremendous potential in improving efficiency and competitiveness, as the market situation in Russia, Norway, Sweden and Denmark is much better than in Finland.

It is obvious that we have to change the ways in which we operate.

- In order to minimise the effects of seasonal fluctuation we need to adjust the number of personnel, increase subcontracting and strengthen our year-round service offering.
- We will reduce project risks with better planning, more accurate pricing and improved project monitoring. We will deal with any irregularities promptly.
- We will continue to keep our costs down. In Finland and Norway, for instance, we will continue to reduce the number of our regional units in locations where the market situation is the most difficult and where we have not achieved our financial goals.

To increase the cash flow we will boost housing sales to both consumers and investors in Finland and Russia. We will also strengthen our position in specialised infrastructure

construction projects. We will make sure that the good results and best practices we have obtained in our working capital optimisation will continue to be applied.

When we do the everyday work right, our result for 2014 will be clearly better than in the previous years.

## Insightful solutions

Efficiency, profitability and solvency form the foundation on which we will build our strategy which extends to the year 2018. Our vision in the new strategy is to offer insightful solutions above ground and underground. With insightful solutions we will bring added value both to our customers and the users of the built environment. We believe that in this way we can be an even better partner and, at the same time, distinguish ourselves from conventional operators in the construction industry.

We have been actively involved in developing new kinds of operating models in this industry. In Tampere, we are renewing the Rantaväylä route in a unique alliance contract with customers. Together with Etera, we developed a cooperation model to build three modern office blocks in the Töölö Bay area in Helsinki. In addition, there was room for our residential development and construction as well. The parking facility which we built under the Finlandia Hall makes the area even more pleasant. In Kuopio and Oulu, we will assume the 25-year lifecycle responsibility for the maintenance of the schools we built. We believe that the best results are achieved when the customer and the service provider plan projects together in genuine cooperation, and all parties share the same vision of the objective and the end result. In the coming years, we wish to assume an even bigger role as an innovator of operating models for construction.

Insightful solutions are economical for our customers and profitable for us. Such solutions require also in the future critical evaluation and upgrading of conventional production techniques, efficient planning and project management as well as a network of competent partners, among other things. New kinds of expertise are also required of both customers and service providers. For example, the significance of sustainable development will increase, particularly in terms of energy and material efficiency. This requires that we continuously develop our production and services.

In addition to our customers, also our other stakeholders such as residential property investors, owners and decision makers are increasingly interested in sustainability issues. We believe that operating according to the principles of sustainable development will give us a competitive advantage.

## Construction concentrating in urban growth centres

Our new strategy is based on megatrends, particularly urbanisation, which continues to increase.

In Finland, residential construction focuses in urban growth centres, and major commercial construction projects in the Helsinki metropolitan area in particular. Worry for the vitality of other areas is emphasised. Furthermore, major infrastructure construction projects, also, are focused in urban growth centres. In addition to major traffic projects, basic infrastructure is improved. At the same time elsewhere in Finland, asphalt-paved roads are retrograded back into gravel roads because of cuts in public spending.

In Russia, also, roads between large population centres are being renovated. In large cities, the demand for centrally located, high quality housing continues to be steady despite the unstable economy. New residential areas and whole towns are arising near the traditional urban growth centres. Construction quality and energy efficiency are becoming more and more important.

Urbanisation has been fast in Norway, Sweden and Denmark than in Finland. In each of these countries the government has undertaken the responsibility to maintain national competitive advantage. Long-term investment programmes have been started to develop, for example, the energy supply sector and maintain and repair

the road and rail networks, particularly around and between urban growth centres.

At Lemminkäinen, we view the changes in the operating environment first and foremost as opportunities. We have experience and evidence of solutions for carrying out challenging projects in city centres—be it new housing, renovations of prestigious properties, underground parking facilities or traffic flows.

## Towards better times

Lemminkäinen is a 103-year-old company that does not want to be a prisoner of history. We have a strong will to reinvent ourselves and, at the same time, reshape the whole construction industry. After a difficult 2013, we know that we must first focus our efforts on building a strong foundation. On that foundation we will build an even more insightful and trustworthy Lemminkäinen.

I want to thank our employees for their hard efforts last year. Thanks to you, we started 2014 more efficiently than before, with a record-high order backlog. I thank our customers for good cooperation, which will hopefully become even closer in the years to come. My thanks also go to our shareholders for their patience and faith in us. It is now our task to repay that faith.

Timo Kohtamäki

## Year 2013 › Strategy

## Strategy 2010–2013

Our main targets in the strategy period 2010–2013 were the development of business operations, the strengthening of our financial position, the clarification of our company structure and the standardisation of operating methods in order to form one united Lemminkäinen. Through these measures, we sought a return on investment exceeding 18 per cent, an equity ratio of at least 35 per cent and an annual net sales growth at an average of 10 per cent over the long term.

## Background to the strategy period

The recession in the construction industry in 2008 and 2009 changed the Finnish market permanently. For example, commercial construction, the former cornerstone of Lemminkäinen's building construction, has not returned to its pre-recession level. The economic situation

of municipalities became more unstable, which decreased investments in construction.

Until 2009, Lemminkäinen was a holding company consisting of dozens of independent subsidiaries. This structure supported our growth during the economic boom that continued for an exceptionally long

time. However, the financial crisis showed that our previous structure and way of operating were no longer competitive. Lemminkäinen's development required the clarification

of our company structure and more standardised operating methods.

### Main financial targets for the strategy period 2010–2013

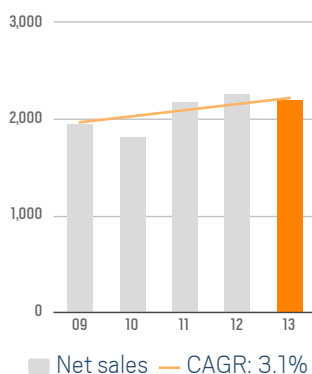
#### Target: Net sales growth at an average of 10 per cent

- During the strategy period, the total volume of construction in Finland developed more weakly than what we estimated in 2009.
- Towards the end of the strategy period, we reduced the amount of competitive contracting in building construction.
- We established prerequisites for net sales growth in Russia by acquiring plots in central locations for residential development and construction. In St Petersburg, the permit process slowed construction activities.
- We strengthened our infrastructure construction operations in Norway through corporate acquisitions. We returned to the Swedish paving market.
- We divested our roofing and concrete business operations.

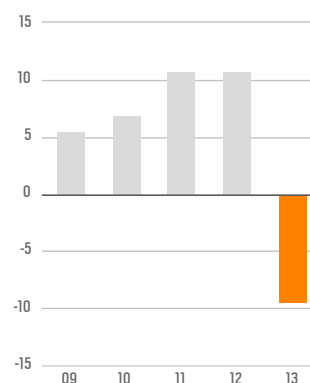
#### Target: Return on investment more than 18 per cent

- A return on investment of 18 per cent would have required an operating margin of approximately 5 per cent.
- Our profitability was impaired by, for example, investments related to the establishment of a united Group, challenges posed by growth in international project management and significant one-offs, the largest of them being the damages related to the asphalt cartel in the autumn 2013.
- In order to lighten our cost structure, we launched two efficiency programmes:
  - The aims of the 2011 programme included savings of approximately EUR 30 million by improving the efficiency of procurement and the lightening of the cost structure by approximately EUR 20 million starting from 2014.
  - The target of the 2013 programme was savings of approximately EUR 30 million by the end of 2014.
- The aim is to shift the focus of business operations to more profitable segments.

#### NET SALES, EUR million AND CAGR, %



#### RETURN ON INVESTMENT, %

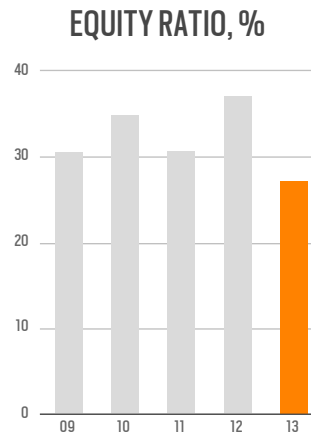


#### Target: Equity ratio more than 35 per cent

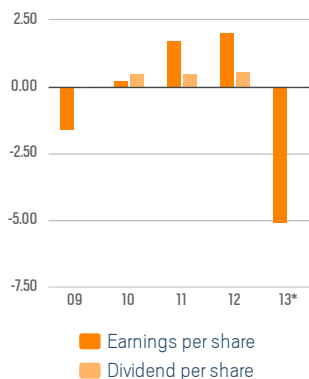
- Our equity ratio developed favourably during the strategy period. During the last year of the strategy period, it was impaired by failures in project management and significant one-offs.
- In spring 2012, a EUR 70 million domestic hybrid bond was issued.
- The divestment of roof and concrete business operations strengthened our equity ratio.
- We improved our working capital management.

### Target: Dividend distribution 40 per cent of net profit

- For 2013, the Board of Directors proposes to the Annual General Meeting that no dividend be distributed due to the clearly negative result.



### EARNINGS PER SHARE, DIVIDEND PER SHARE, EUR



\* Board of Directors' proposal to the AGM

### Development of business operations

During the strategy period, we sought growth in areas in which we had an opportunity to gain a significant position or which required special expertise. In addition, we wanted to strengthen our position in our core business operations. Consequently, we decided to divest business operations in which we had no prerequisites for profitable growth.

At the beginning of the strategy period, we defined infrastructure construction in Scandinavia, residential construction in Russia as well as renovation and technical building services as growth areas. Halfway through the strategy period, we further specified our strategy and defined residential development and construction and the upkeep and maintenance of technical building systems in Finland as new focus areas, alongside infrastructure construction in Scandinavia and residential construction in Russia.



We divested our roof and concrete business operations and much of our telecommunications network construction. The development of these operations would have required us to make extensive investments.

## Infrastructure construction in Finland

Public investments in construction and maintenance of roads in Finland decreased during the strategy period. Therefore, we actively sought new business opportunities from special infrastructure projects in which we have strong competence. We won several major underground infrastructure construction projects in urban growth centres. For example, in the Helsinki metropolitan area, Tampere and Oulu, we built underground parking facilities and other premises such as technical spaces and service tunnels.

We are involved in the construction of the West Metro (the Metro line between Helsinki and Espoo) in several projects from excavation to construction of stations. In addition, we participated in the construction of the Kehärata railway line in two different projects. During the strategy period, we were also involved in several mining projects in Finland and northern Sweden.

In the paving business, we improved our operational efficiency and simplified our operating model. In spite of tightened competition, we retained our position as the market leader.

## Infrastructure construction in Scandinavia

The States of Sweden and Norway have published extensive infrastructure development programmes. We have strong expertise in Finland, but public investments and market outlook have been modest. During the strategy period, we aimed to strengthen our position in the Scandinavian market, in part through acquisitions and in part by utilising the resources in Finland.

During the entire strategy period, our net sales in the Scandinavian infrastructure market increased by nearly EUR 300 million. A significant portion of this growth comes from the corporate acquisition made in 2010 in which we acquired Mesta Industri, a company operating in the paving and mineral aggregates sector, from the State of Norway. The integration of Mesta into Lemminkäinen has been more demanding than we originally estimated. Regardless of efficiency measures, we have not yet been able to turn these operations profitable.

We have been granted many special infrastructure projects by the mining and energy industry, for example. In the future, we aim to grow into one of the leading providers

of demanding infrastructure solutions in Northern Europe.

## Residential construction in Russia

Our aim was to create prerequisites to start the residential development and construction of approximately 1,000 apartments each year in St Petersburg. During the strategy period, we acquired plots in central locations in the centre of St Petersburg. Business development has been more slow than estimated, as the permit process postponed the start of construction and the sales of apartments. Nevertheless, we started the residential development and construction of nearly 800 apartments in St Petersburg in 2013.

In our new strategy, one of our aims is to extend the residential development and construction business from St Petersburg to other selected urban growth centres. We will also explore opportunities to increase our infrastructure construction offering in Russia.

## Building construction in Finland

In order to improve our profitability, towards the end of the strategy period we have invested especially in strengthening residential development and construction. Our aim was to increase the share of residential development and construction to more than 50 per cent of the net sales of building construction in Finland. In 2013, the share of residential development and construction was 40 per cent.

We reduced the amount of competitive contracting. In renovation, we are increasingly concentrating on demanding projects mainly in the Helsinki metropolitan area.

In the coming strategy period, we will continue to invest in residential development and construction. Instead of the former aim of nationwide coverage, we will focus on residential construction in selected urban growth centres.

## Technical building services in Finland

The smaller volume of building construction decreased the demand for contracting in technical building services. We strengthened our upkeep and maintenance services alongside contracting. At the end of the strategy period, the share of the upkeep and maintenance services was 30 per cent of the net sales of the technical building services business.

## A united Lemminkäinen

In the strategy period, we harmonised our operations, clarified our Group structure and gathered our operations under the Lemminkäinen brand. The aim was to improve our customer service and operational flexibility and efficiency.

We standardised our business processes and information systems and improved customer relationship management and the customer experience. In addition, we developed support services and procurement, for example.

Since the beginning of the strategy period, sustainability was an essential part of Lemminkäinen's development.

We created reporting and monitoring channels for the sustainability themes that are the most significant for our operations, such as the Code of Conduct, occupational safety and energy efficiency.

Our new strategy shifts the focus of the development of a united Lemminkäinen to outside Finland.

## Year 2013 › Strategy › The new strategy for 2014–2018

# The new strategy for 2014–2018

We published our new strategy in October 2013. We will focus on insightful customer solutions, especially in infrastructure construction in Northern Europe. We will also seek profitable growth in residential development and construction in Russia. During the previous strategy period, we established the foundation in Scandinavia and Russia for achieving these targets.

Our vision is to offer insightful solutions above the ground and underground. We aim to grow into one of the leading providers of demanding infrastructure solutions in Northern Europe. This will mean an enhanced offering especially for the traffic and energy industry and urban infrastructure projects. In Russia, we will extend the residential development and construction business from St Petersburg to other selected urban growth centres. We will also explore opportunities to increase our infrastructure construction offering in Russia. We will examine strategic options for technical building services.

## Our targets for the strategy period 2014–2018

Our financial targets are:

- Return on investment of 18 per cent over the cycle

- Equity ratio of at least 35 per cent

We estimate that our net sales at the end of the strategy period will be slightly higher than in 2013.

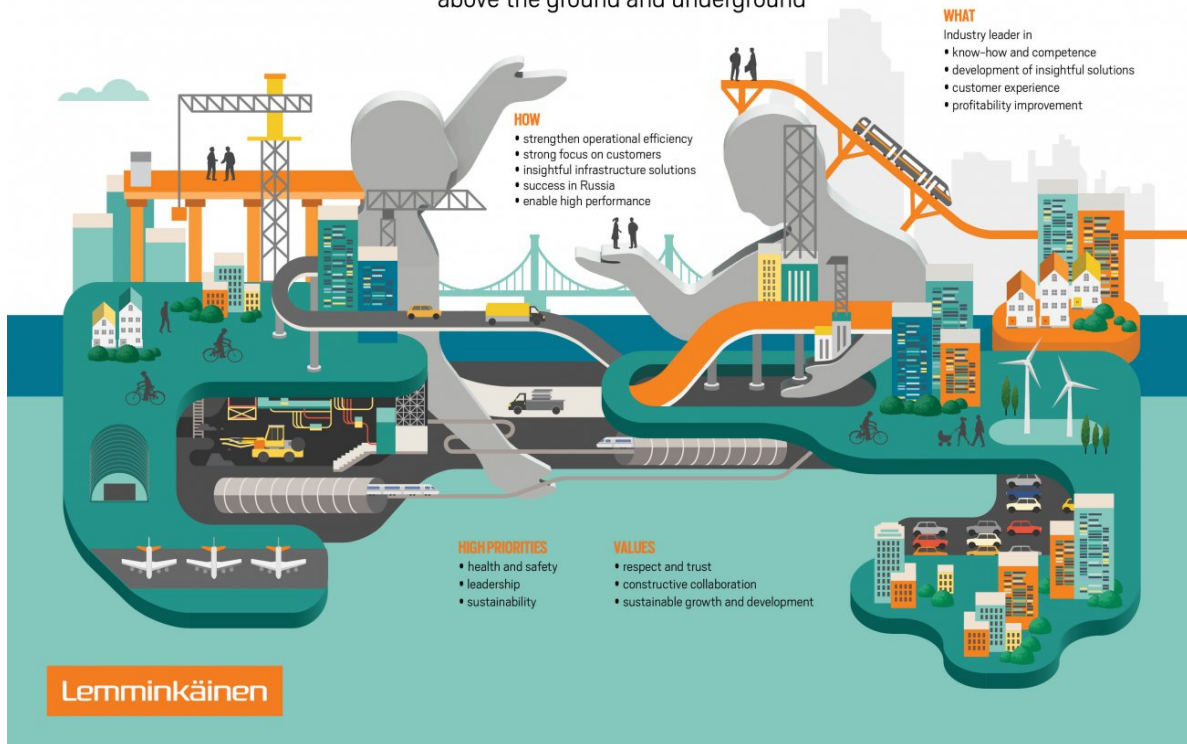
We are aiming for a stable distribution of dividends, with at least 40 per cent of the profit for the financial year distributed to shareholders.

We have defined four strategic targets that we must achieve by the end of 2018. These are:

- to be the most competent company in the industry
- to offer the most insightful solutions
- to offer the best customer experience
- to achieve the strongest profitability improvement in the industry

In order to accelerate the achievement of these targets, we launched the first five strategic development programmes (must-win battles) in spring 2014. These phased programmes finish at the end of 2015 and guide all of our operations.

### VISION Insightful solutions above the ground and underground



In 2014, we will concentrate especially on strengthening our operational efficiency, as our target is to improve our profitability and equity ratio quickly. Required measures include:

- Ensuring and strengthening housing sales in Finland and Russia

- Continuing efficiency measures in Scandinavia and Russia
- Improving project management in all operations

Year 2013 › Strategy › The new strategy for 2014–2018 › A closer look: Russia offers many opportunities

## A closer look

**Maaret Heiskari**, Executive Vice President, Russia  
maaret.heiskari@lemminkainen.com

### Russia offers many opportunities



Russia is currently of great interest to international construction business. The oil price has kept the volume of construction high and major international events have speeded up infrastructure projects, in particular.

Lemminkäinen is seeking profitable growth in Russia primarily from residential development and construction.

#### Boosting housing sales

Residential development and construction forms the key segment of our Russian operations. Since 2010, we have completed 986 apartments in St Petersburg and there are 963 apartments currently under way in central areas of the city.

There is a shortage of high-quality housing in Russia. We build homes mainly for the expanding middle-class, who value Nordic quality, that their homes are built according to the plans and completed on time. We are acquiring plots in areas with good transport connections and well-developed urban infrastructure.

We have an established position in St Petersburg

housing markets, where several international firms are operating. According to a survey we made, we are the leader in construction quality. We want the apartments that we build to have long life-cycles. Our technical solutions are designed to improve energy efficiency, which has become increasingly important in Russia.

#### Systematic risk management and operating environment observation

The most significant risks for our profitable growth in Russia are the volatile exchange rate of the rouble, changes in administration that may affect permit policy and changes in construction legislation.

The decline of the rouble exchange rate and thus the rising interest rate presents a major risk as it affects the purchasing power of home buyers, subcontractor pricing and loan interest rates. In the worst case, unfavourable exchange rates may significantly slow down housing sales. We manage this risk by acquiring plots in central locations, where demand of apartments is more stable and through our housing pricing. We have also made agreements with new banks, so that we can offer our customers a wider range of mortgage

options. 90 per cent of our costs are denominated in roubles.

A change in administration, which in turn may affect permit policies, is always a factor to be considered in Russia. This risk can be contained by being properly prepared and by good project planning. We may also speed up the completion of projects by building in two shifts.

We are also focusing our resources in Russia on improved project management. We are training our project management personnel at different levels of the organisation and follow up more systematically on the progress of each project, resulting in better predictability.

We are also affected by changes in building legislation. In Russia, the legal obligation to support the urban infrastructure often leads to a decrease in the number of our marketable housing. These obligations must be taken into account at the planning stage and often they can be translated into unique selling points. For example, as part of our Tapiola project, we are building a kindergarten for 60 children in addition to apartments.

## All set for growth

Lemminkäinen has set it as its goal the creation of approximately 20 per cent of its total net sales from Russian operations by the end of the strategy period. Our aim is to extend the residential development and construction business from St Petersburg to other selected urban growth centres.

We are also exploring opportunities to increase our infrastructure construction offering. So far, we have concentrated on carrying out specialist construction work as a subcontractor to larger construction companies in projects such as the M4 motorway from Moscow to Sochi. We are also seeking controlled profitable growth in the area of infrastructure construction in selected areas. We are examining different operative models as well as partnership options.

We want to expand our Russian operations to growth centres that will be in line with our overall strategy and where we can best utilise our comprehensive expertise.

### Year 2013 › Strategy › Work for the winter

## CASE

### Work for the winter

The paving and mineral aggregates businesses in particular consist of seasonal work that comes to a halt in midwinter. In 2013 in Finland, we focused on finding permanent solutions for levelling off seasonal fluctuations.

To minimise the effect of seasonal fluctuations, we increase year-round road and outdoor area maintenance as well as earthworks projects.

In 2013, we signed multi-year outdoor area contracts with the City of Espoo, the University of Helsinki, the Construction Establishment of the Finnish Defence Administration and the Jokela district in the city of Tuusula. These contracts offer work around the year. In addition,

we were awarded the winter maintenance contracts for the cities of Kaarina, Vihti and Järvenpää as well as the Riihikallio and Kellokoski districts of Tuusula.

"Outdoor area maintenance contracts are ideally round-year arrangements and thus a good way to utilise our fleet in the winter and balance the use of workforce outside the peak season. During the past few years, we have successfully grown these business operations in Southern Finland," says Markus Kalliomaa, Senior Vice President, Paving, Southern Finland.

### Year 2013 › Financial performance and targets 2013

## Financial performance and targets 2013

### We concentrated on operational efficiency

The construction market situation in Finland remained

challenging and construction activity concentrated in urban growth centres and their immediate surroundings. Our net sales in Finland decreased when compared

to the previous year. Our business volume reduced most in building construction contracting where the margin level has been low in the past few years. However, the construction of underground city-centre premises increased, which kept demand for specialised contracting in infrastructure construction, one of our core businesses, at a good level.

In the Scandinavian countries and Russia, the general market situation in construction was brighter than in Finland. In Sweden, Norway and Denmark, demand for infrastructure construction was boosted by the investments in infrastructure development made by the public sector as well as by increasing investments in the energy supply sector. The growing Scandinavian infrastructure market has attracted plenty of construction companies from around Europe, which has intensified price competition in the industry.

Our business volume in infrastructure construction in Scandinavia has already reached the EUR 500 million milestone, but our result in 2013 was negative. In addition to intensified competition, our result was burdened by **project failures**, unprofitable maintenance contracts and expense items related to internal efficiency measures, among other things.

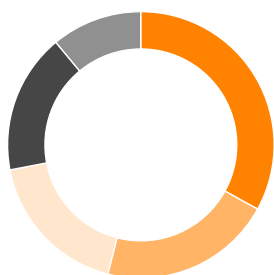
The decline in the Russian economy and the downward trend in the exchange rate of the rouble did not decrease demand for comfort-class apartments in St Petersburg. The official permit process in St Petersburg has returned to normal, which could also be seen as an increase in our residential construction activity in 2013. In the Baltic countries and Russia, demand for infrastructure construction remained roughly on a par with the previous year.

### Net sales, operating profit and order backlog by business segment, EUR million

	2013	2012	Change
<b>Net sales</b>	<b>2,218</b>	<b>2,268</b>	<b>↓</b>
International operations	931	903	↑
Building construction	593	682	↓
Infrastructure construction	533	537	↓
Technical building services	222	230	↓
Other operations and Group eliminations	-61	-84	
<b>Operating profit</b>	<b>-91</b>	<b>50</b>	<b>↓</b>
International operations	-22	15	↓
Building construction	5	17	↓
Infrastructure construction	9	22	↓
Technical building services	-2	4	↓
Corporate functions	-81*	-8	
<b>Operating profit without non-recurring items</b>	<b>-5</b>	<b>50</b>	<b>↓</b>
<b>Order backlog</b>	<b>1,821</b>	<b>1,444</b>	<b>↑</b>
International operations	730	575	↑
Building construction	544	527	↑
Infrastructure construction	459	235	↑
Technical building services	88	108	↓

\* Includes EUR 66 million as expenses from the District Court's decision on damages related to the asphalt cartel.

### DISTRIBUTION OF NET SALES BY BUSINESS IN 2013



- Paving, 33%
- Other infrastructure construction, 21%
- Building construction, contracting, 18%
- Building construction, development, 17%
- Technical building services, 11%

## Net sales by country, EUR million

	2013	2012	Change
Finland	1,289	1,370	↓
Scandinavia	604	570	↑
Sweden	263	249	↑
Norway	257	233	↑
Denmark	84	88	↓
Russia	164	146	↑
Baltic countries	145	135	↑
Estonia	67	81	↓
Latvia	27	21	↑
Lithuania	52	33	↑
Other countries	15	46	↓

## GROWTH

## Net sales and order backlog

Our net sales remained roughly on a par with the previous year. The most significant change took place in contracting for building construction in Finland, the net sales of which were nearly EUR 100 million lower than in the previous year. The business operations outside Finland continued to grow steadily and, in 2013, they accounted for 42 per cent (40) of our Group's net sales.

During the past three years, the share of infrastructure construction has been more than 50 per cent of all of our business operations. Currently, our single largest business area is paving, accounting for approximately a third of our Group's net sales. We are the second largest paving contractor in our market area.

Our order backlog continued to grow and, at the end of the financial period, it was nearly EUR 400 million above the previous year's level. In Finland, our order backlog was increased by specialised contracting in infrastructure construction and in Russia and Sweden by building construction.

## PROFITABILITY

## Negative result

Challenges in international operations and significant one-offs made our result clearly negative in 2013. The prolonged and snowy winter delayed the start of the paving season in particular and increased costs in all of our operating countries. We could not fully close this gap during the excellent third quarter of the year. In addition, due to the slow permit process in St Petersburg, our residential construction



in Russia got off to a good start only towards the end of the year.

In 2013, there were also several non-recurring expense items, the largest of these being EUR 66 million for damages related to the asphalt cartel and EUR 20 million of impairments mainly related to commercial properties. Furthermore, we recorded in our result approximately EUR 16 million in costs related to efficiency measures and the divestment of parts of the telecommunications network business.

Right at the end of the year, we were forced to make margin impairments in projects in Russia, Sweden and Norway. The declining margins were due to failures in project and risk management, two factors which we have now paid particular attention to. For example, we have reviewed the decision-making authorisations of our different organisations, increased consideration of risks at the tender calculation phase and improved the efficiency of margin control during projects.

Building construction in Sweden and infrastructure construction in the Baltic countries achieved better results than in the previous year. In building construction in Finland, the operational result without inventory impairments also improved year-on-year.

The improvement of operational efficiency is still the most important goal for us. The efficiency programme launched in the autumn aims at lightening of the cost structure by approximately EUR 30 million in the latter half of 2014. As a part of the efficiency measures, we will reduce our personnel by approximately 500 man-years. By the end of the year, the reduction in Finland was nearly 300 man-years and in other countries approximately 100 man-years. In some of our operating countries, the process is still ongoing. In addition, we closed or merged 13 business units in Finland and 11 in Norway. In 2014, efficiency measures will still be continued outside Finland and especially in Russia.

## SOLVENCY

### The negative result also had an impact on our solvency

The negative result impaired our shareholders' equity and had an impact on our solvency. In 2013, our equity ratio did not meet our long-term strategic target, standing at 27 per cent (37). Our gearing increased and was 101 per cent (63). We will continue improving operational efficiency; our primary goal is to improve profitability and to strengthen our equity ratio. Our means for achieving this goal are improving project

management, ensuring efficiency measures especially outside Finland and accelerating housing sales both in Finland and in Russia.

## CASH FLOW

### Positive cash flow through more efficient working capital management

Despite the clearly weaker result, our 2013 cash flow was positive: EUR 8 million (58). Our cash flow was increased by efficiency measures targeted at working capital management, for example. Our working capital decreased and stood at EUR 325 million (427) at the end of the year. We have paid particular attention to the timeliness of invoicing and the optimisation of the turnover of trade receivables and trade payables.

## FINANCING

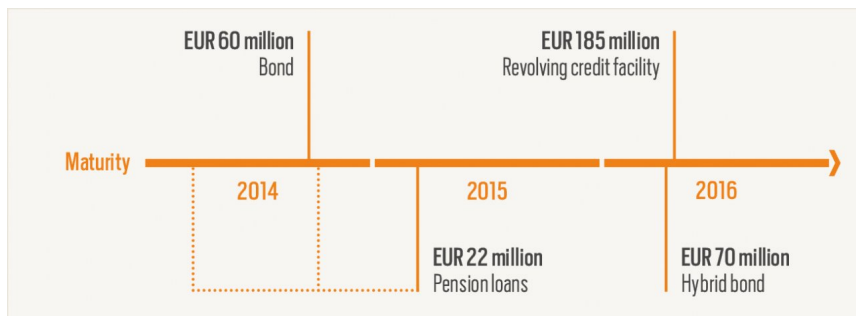
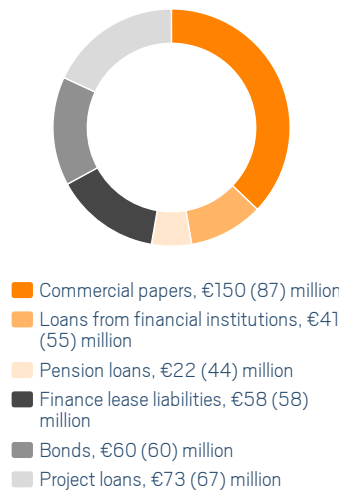
### Our debt portfolio is centred around commercial papers; we made provisions for damages

Our interest-bearing debt increased to EUR 408 million (371). Of this, the share of short-term debt was 85 per cent. For us, the single most important debt instrument is commercial papers, accounting for more than a third of our debt portfolio. At the end of the financial period, we also had binding, unused credit limits amounting to EUR 175 million (140). In 2014, we will face the refinancing of the EUR 60 million bond that will mature in the autumn.

In March, we agreed on a financing arrangement totalling EUR 255 million and comprising two separate (EUR 185 million + EUR 70 million) syndicated credit facilities. This arrangement replaced the EUR 160 million credit facility that was agreed earlier. With these arrangements and sufficient cash reserves, we prepared ourselves for damages related to the asphalt cartel. At the beginning of January 2014, we used our cash reserves to pay EUR 60 million in damages, in accordance with the District Court's decision. In addition, we made a EUR 6 million cost provision concerning claims that are still waiting to be processed in the District Court. At the end of 2013, we terminated the EUR 70 million credit facility, considering it unnecessary.

Our net finance costs increased and amounted to EUR 27 million (21). The increase in interest-bearing debt, increasing currency hedging costs and increasing financing limits renewed in March contributed to the increase in finance costs.

## OUR DEBT PORTFOLIO ON 31 DECEMBER 2013



Year 2013 › Financial performance and targets 2013 › A closer look: More efficient operations through systematic procurement

## A closer look

**Jouni Pekonen**, Executive Vice President, Procurement  
[jouni.pekonen@lemminkainen.com](mailto:jouni.pekonen@lemminkainen.com)

### More efficient operations through systematic procurement

The development of procurement plays a significant role in the improvement of efficiency and profitability of operations throughout Lemminkäinen. This requires that we operate according to common rules.



In 2011, Lemminkäinen launched an efficiency programme aimed at lightening our cost structure by EUR 50 million as of 2014. In this goal, the share of procurement was EUR 30 million. We achieved the procurement savings target, thanks to successful project purchases and competitive bidding of annual agreements. In the future, we will measure the realisation of procurement savings separately for annual agreements and for project purchases. However, the procurement gains were not fully realised in the company's result due to intensified competition.

Lemminkäinen's extensive partner network and decentralised procurement have posed challenges. The starting points in the development of procurement have been the establishment of standardised working methods and the improvement of supplier relationship management. These enable us to improve the efficiency of our procurement and purchase processes and to harness economies of scale and the benefits of centralisation.

### **We take advantage of procurement synergy potential**

The aim is that in future we will be able to take even greater advantage of our size and total volume in procurement. This requires that we continuously develop cooperation between the centralised procurement unit and businesses across country borders, too. Currently, the extent to which we use foreign suppliers is very limited. Over the long term, our goal is to significantly increase both our volume of global sourcing and number of direct suppliers.

During 2013, we carried out several successful pilot projects in which we analysed potential suppliers outside Finland for project purchases. In addition, we tighten cooperation in procurement with our key operating countries .

### **Clear internal work distribution**

In our operations in Finland, the centralised procurement unit is responsible for annual agreements and the business segments for project purchases. In 2013, we also started scrutinising common working methods in our other operating countries.

In addition, we develop common working methods, purchase and procurement tools and indicators. They will increase the efficiency and transparency of our operations and improve our supplier relationship management.

One of our most significant goals for 2014 is the implementation of a common ERP system throughout our procurement organisation. The system will harmonise

our operations and improve their efficiency, increase the transparency of purchases, improve the predictability of operations and support the online procurement and purchase process.

### **Our supplier cooperation is based on long-term partnerships and active competitive bidding**

A key goal is to improve supplier relationship management. Long-term cooperation with selected partners enables both parties to benefit from greater cost-effectiveness and economies of scale.

We select all our contract partners and project suppliers through competitive bidding. We actively monitor our suppliers' performance, such as delivery reliability and the number of reclamations. We primarily audit our suppliers when we want to ensure the performance of a potential major supplier or when we want to identify areas for development with our current suppliers.

We require that all of our suppliers and partners adhere to legislation, international regulations concerning human rights, employment rights and the environment as well as our Code of Conduct. We require our subcontractors to adhere to the Act on the Contractor's Obligations and Liability When Work Is Contracted Out, and we monitor how all new and existing operators comply with it.

A significant part of the improvement of supplier relationship management is the reduction in the number of suppliers. We aim to reduce our suppliers to about 5,000 over the coming years. In 2013, we trimmed our network of over 17,500 suppliers by about 3,000.

Year 2013 › Operating environment

## Operating environment

Geo-graphical area	BUSINESS SEGMENT	GROWTH DRIVERS	OUTLOOK FOR THE NEAR FUTURE	COMPETITIVE FIELD
FINLAND	BUILDING CONSTRUCTION	Urban growth centre development Ageing building stock Solutions that improve energy efficiency Migration and population growth	A weak market situation in new construction outside urban growth centres  No major changes in the number of units started  Uncertainty associated with economy and funding slows down commercial construction  Growth in renovation continues	5–7 major players in new construction.  The renovation sector is fragmented.
	INFRA-STRUCTURE CONSTRUCTION	Urban growth centre development Growth in repair debt  Construction related to energy production and energy networks	Growth in infrastructure construction postponed to 2015  Demand is reduced by slow economic growth, challenges in public and municipal sector finances and the decline in building construction  Ongoing large-scale projects and development projects in city centres are boosting demand for specialised contracting	5–7 major players in infrastructure construction.  An increased number of foreign players.
	TECHNICAL BUILDING SERVICES	Growth in renovation in building construction  Increased energy efficiency requirements and stricter regulations  Outsourcing and centralisation in the upkeep and maintenance in technical building services	Demand for upkeep and maintenance is at a good level  The market situation in contracting weak due to declining new construction; increasing renovation is compensating	Contracting in technical building services is highly fragmented.  The three largest players have a market share of less than 20 per cent.  Significantly fewer players in upkeep and maintenance.
SCANDINAVIA	INFRA-STRUCTURE CONSTRUCTION	Multi-year national investment programmes  Basic renovation and new investments required in the energy supply sector  Road and rail networks around and connecting urban growth centres require modernisation and basic improvements	Infrastructure construction continues to grow steadily in all countries	The five largest players in paving have a market share of about 80 per cent.  The number of Central and Eastern European players is increasing.
RUSSIA	RESIDENTIAL CONSTRUCTION (COMFORT CLASS, ST PETERSBURG)	A wealthier middle class, increased purchasing power  Increased demands with regard to living space and comfort  Mortgage market development	The long-term need for new housing is high  Construction activity is at a good level, growth is expected to continue in the near future	Three Nordic players in residential construction in addition to several local players.  Demand and supplier quality varies a lot.
	INFRA-STRUCTURE CONSTRUCTION	Major projects between urban growth centres  Weak traffic infrastructure  A multi-year State investment plan to improve the highway network  Upcoming major sports events	The volume of infrastructure construction may increase significantly if the State implements its planned programme to develop road and rail networks	Mainly local players in the market.  The introduction of new technology gives foreign players a competitive edge.
BALTIC COUNTRIES	INFRA-STRUCTURE CONSTRUCTION	Limited road networks and traffic network in poor condition  EU funding  The potential launch of the Rail Baltica traffic project	Infrastructure construction trends in the near future will depend on the countries' economic situation and the availability of funding.  Growth potential particularly in road and rail construction as well as in construction related to energy production.	Infrastructure construction market shares are divided among several players, many local players.

## Increasing traffic flows demand functional infrastructure

As one of the major infrastructure construction companies in Northern Europe, we offer comprehensive services — from the construction of road, street and rail networks to basic paving maintenance and specialised contracting in infrastructure construction.

Although infrastructure construction has declined in Finland over several years, our order backlog and market share have developed favourably. In the future, we will pursue growth more strongly in other Nordic countries where the infrastructure market is growing. Our most important customers are public sector clients as well as other construction companies, industry and property owners.

In line with our new strategy, we aim to grow into one of the leading providers of demanding infrastructure solutions in Northern Europe.

### A specialist in demanding infrastructure construction

Our most significant project in 2013 was the agreement for the alliance contract for the Rantaväylä tunnel in Tampere, in central Finland, together with A-Insinöörit Design and Saanio & Riekkola Oy. When completed, the Rantaväylä tunnel will make the Tampere city centre more pleasant and attract new businesses by improving traffic arrangements in the area and rationalising land use. In the contract, a part of Rantaväylä road will be re-aligned into a tunnel, which will alleviate traffic jams and free up land by lake Näsijärvi for residential construction. The agreement was preceded by one year of planning in which our alliance developed a project implementation solution within the limits of the budget. Planning cooperation generated significant cost savings as well as solutions that will accelerate work. Joint development will also be continued in the implementation phase. Construction started in October 2013 and will continue until the end of 2017.

We continued the development of the city centre in Oulu, in northern Finland, where we are building Kivisydän, an approximately 900-space parking facility. In connection with the underground parking facility, there are maintenance premises for other city centre properties. The logistics for these properties can be handled through the underground premises, thereby alleviating the above-ground transportation. The Kivisydän project has accelerated the development of the whole city centre in Oulu.

In addition, we completed the construction of an underground parking facility in the Tapiola district of Espoo, in Finland, in summer 2013. As part of this project, we renovated the above-ground car park in Tapionaukio in accordance with architect Aarne Ervi's original design.

Working in city centres comes with a great number of requirements to ensure that the construction site causes minimal disturbance to the surrounding life. We develop our know-how and working methods in order to minimise the harmful environmental effects of dust, vibration and noise caused by the construction site. We also pay attention to the planning and control of construction site traffic so that trucks disrupt other traffic as little as possible. We provide residents and companies with information on the progress of construction.

We also offer services for energy infrastructure construction. In summer 2013, we started the renovation of an old dam and a power plant in Tisleifjord, Norway. We also continued the repair work at the Bergforsen hydro-electric power plant in Sweden. The construction of a new spillage route will increase the power plant's current production capacity.

### A road network builder and repairer

We manufacture approximately six million tonnes of asphalt each year, about 40% of this in Finland. We are the market leader in Finland, and our network covers the entire country. In 2012, we combined the paving, earthworks and mineral aggregates business organisations. During the reporting year, we received extremely positive feedback on this approach that makes it easier for our customers to work with us.

We won several bridge renovation contracts, especially in the Helsinki metropolitan area and in the Oulu region, in northern Finland. In these projects, our strength is our competent personnel: they enable us to allocate resources to sites so that work flows smoothly. We have developed various techniques making work easier and allowing projects to be completed faster. In December 2013, we started the construction of the Turvesolmu graded interchange

and the Turveradantie street in Espoo.

In Norway, approximately 30% of our net sales in paving came from state-funded projects. In addition, we started paving and renovation work at the Andøya airbase in northern Norway for the company in charge of Norwegian Armed Forces' properties. We also participated in several other airport contracting projects.

In Sweden, our paving business concentrated especially on central and northern Sweden. We introduced a solution that enables us to improve the quality of road repair. We use a technique in which the surface of the road is broken by using a stabilisation method, and then reinforced and paved. This extends the road's service life more than the mere renewal of paving and thus reduces lifecycle costs. This is particularly suitable for sections of road with heavy goods traffic but low traffic volumes. Thanks to the new solution, we won several road network renovation contracts.

In the Baltic countries, we expanded our service offering from paving and road construction to specialised foundation engineering. For example, we started container terminal expansion contracts in Estonia and Lithuania. In addition, we renovated sections of roads. In Russia, we received yet another paving contract for the M4 highway that connects Moscow and Sochi.

In Denmark, we started paving the new highway being built around the city of Silkeborg. As part of the contract, we innovated a working method that makes it possible to spread a larger amount of asphalt at one go. This sped up our work while also improving quality.

We are establishing a paving business development programme that covers all of our operating countries. We want to provide our customers with the highest quality of service in the industry. Our strengths include long experience, highly competent personnel and equipment expertise. Our goal is to improve the operational efficiency and the sharing of best practices across borders. We believe that this also helps us to better manage the seasonal fluctuations that are typical of the industry.

## We offer public transport solutions

In 2013, we won two new contracts in the West Metro project in the Helsinki metropolitan area: the construction of the Tapiola and Matinkylä metro stations. Both of these stations are key traffic hubs, with 20,000–30,000 passengers expected to travel through them every day. In the construction of metro stations, we make use of our strong and versatile expertise in foundation and civil engineering. We also participated in the excavation work for the West Metro track and service tunnels at the Ruoholahti, Koivusaari and Urheilupuisto stations.

In April 2013, we started two projects associated with the Ring Rail Line project in the Helsinki metropolitan area: interior construction work for a section of tunnel and the construction of a station reservation for the Viinikkala station. During the summer, we replaced the Vantaankoski line's superstructure between Kannelmäki and Myyrmäki.

Business › Travelling › A closer look: More expertise

## A closer look

**Harri Kailasalo**, Executive Vice President, infrastructure construction  
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## More expertise!

New approaches are sorely needed in order to catch up with the increasing repair backlog of the Finnish traffic network. No compromises can be made with regard to expertise..



The deterioration of the Finnish traffic network is accelerating. We have to invest in its development and maintenance even though the public sector is now under enormous pressure to cut costs.

Before, Finland's excellent infrastructure used to attract investments. Are we now facing the danger that our neighbours, who are putting a lot of money into the development of their infrastructure, will beat us in the international competition for investors?

Solutions for the sustainability gap, savings and improvement of national competence must be sought in new operating models—and quickly. The worse the traffic network is allowed to become, the more laborious and expensive repairing it will be. By developing design solutions and optimising the quality level, we can achieve significantly more with the same amount of money.

To find such innovative solutions, new kinds of expertise will be required from both us as service providers and our customers.

## Innovation curbed by shortage of expertise, not legislation

The success of a construction project often depends on how well the targets of the project are defined. All is well if the client knows exactly what it wants, orders designs accordingly and decides on changes when and if the need arises. Optimally, the client and the service provider together search for solutions which best meet the goals set for costs, quality and user satisfaction.

The legislation on public contracts, which some people say curbs public works, provides us with an opportunity to carry out infrastructure projects in an economical and innovative way. However, we cannot have new solutions without new kinds of expertise, both on the client and service provider side. It is nearly impossible for an outsourced consultant to determine the other party's intention or vision with sufficient clarity if their own expertise is lacking.

## Novel approaches are required

At the moment, construction expertise and resources in Finnish public administration have been run down through efficiency programmes. The situation is particularly difficult in small municipalities and towns, which are seldom in a position to provide professionals with job opportunities that are interesting enough. To exaggerate a bit, the same person working for the technical department should also hoist the flag at a school and master EU-compliant procurement provisions.

For a good example of updated operating models, we can look to Sweden, where project expertise in public administration is strong and resources are sufficient. In Sweden, it has been empirically shown that in projects in which the design work is included in the contract, i.e. the contractor is allowed to innovate, the total costs are reduced by 10–15% on average. Our own findings from the alliance contract for the Rantaväylä tunnel in Tampere are similar. Good planning and co-operation allowed us to come up with savings of almost 20% in the Tampere project.

One solution could be to merge the technical departments of small municipalities into larger organisations. In this way, even smaller locations could provide interesting positions for professionals and, consequently, project expertise in the public sector could be strengthened throughout Finland.

One way of releasing funds for planning and execution is to outsource municipalities' technical services production to commercial operators. In my opinion, municipal resources are far better spent finding new solutions for infrastructure projects than carrying out road works, for example.

## Service providers must rise to the challenge

In Finland, large projects have been carried out successfully and, on the whole, the quality of infrastructure construction is considered good. So, we do have expertise but the problem is that as service providers we are not fully utilising it. When a customer gives us an opportunity to come up with a novel approach or versatile solution, we must rise to the challenge.

Instead of talking about how money is scarce, we must offer new insights and operating models. We must strengthen our expertise in order to develop Finland's infrastructure and the construction industry as a whole.

My ideal project is one in which the client sets the budget and explains in broad terms what the basic requirements are. Service providers can together find a solution which results in improved functionality and satisfied end users. I believe this would be profitable for all parties concerned.





Business › Travelling › Metro stations in Matinkylä and Tapiola

## CASE

### Metro stations in Matinkylä and Tapiola

Lemminkäinen is in charge of building the busiest stations on the West Metro line. Approximately 20,000–30,000 passengers are expected to travel through the Matinkylä and Tapiola stations every day.

In 2013, we started the construction of the Matinkylä and Tapiola stations, the West Metro stations with the highest number of passengers, in Espoo. The estimate is that more than 30,000 passengers will travel daily through the Matinkylä station, the final station in the first phase of the West Metro. According to forecasts, the station will be the busiest of the entire West Metro, a traffic hub where a new bus terminal and more parking space will also be built. At the same time, the shopping centre Iso Omena will be expanded.

"In Matinkylä, we will build not only the station building but also a maintenance tunnel, two parallel track tunnels of approximately 700 metres and two shafts. Furthermore, we will build the driving and bridge structures that lead from Suomenlahdentie to the metro station. For example, we will carry out bridge and concrete construction tasks as well as finishing of surfaces and structures," says Vesa Noutia, Construction Manager at Lemminkäinen.

The centre of Tapiola will also develop in the slipstream of the metro. Approximately 20,000 passengers are expected to travel through Tapiola station every

day. The shopping centre above the metro station can be easily accessed from the station. New commercial premises, apartments and parking facilities will be built and old ones will be modernised.

"In the extensive Tapiola metro station project, we will build the metro station located directly below the shopping centre as well as a track tunnel, a cable tower, technical facilities under Merituulentie, pressure equalisation shafts and a water-tight barrier wall," Noutia adds.

The construction of busy metro stations in an urban centre creates a construction site that requires versatile foundation and civil engineering expertise and where management of entities and coordination of different work phases play an important role. People live and work next to both sites so particular attention must be paid to safety, and in Matinkylä also to the smooth flow of traffic.

The station contracts began in 2013 and are estimated to continue until late 2015. Lemminkäinen has been involved in building the West Metro right from the beginning. The blasting and quarrying contract for the Koivusaari metro tunnel and station, which started in 2011, was completed in November 2013. The blasting and quarrying contract for the Urheilupuisto metro tunnel and station, which began in 2012, also continued throughout 2013.

Business › Travelling › The Rantaväylä tunnel will boost Tampere's vitality

## CASE

### The Rantaväylä tunnel will boost Tampere's vitality

A 4-kilometre section of the Rantaväylä road in Tampere in central Finland will be re-aligned, and the longest road tunnel in Finland will be excavated along the route. The project will contribute to the development of Tampere city centre and improve the flow and safety of traffic.

Tampere's Rantaväylä is the main artery for traffic flow in the city. In the autumn 2013, it became the site for a construction project that re-aligns a 4.3-kilometre section of the road. In addition, a 2.3-kilometre road tunnel and the related graded interchanges and road arrangements will be built on Rantaväylä.

The new Rantaväylä tunnel will free up valuable plots by lake Näsijärvi, enabling the construction of apartments for approximately 3,600 residents. It will improve the flow of traffic and reduce the environmental hazards caused by traffic. At the same time, lakeside areas will become available for recreational use.

The enormous project will be carried out by an alliance formed by Lemminkäinen, the City of Tampere, the Finnish Transport Agency, the engineering office Saanio & Riekkola Oy and A-Insinöörit Suunnittelu Oy.

This alliance is a pioneering project implementation model in Finland. In this model, the customer and the service providers design and implement the project together, as a joint organisation. The parties share the risks and opportunities associated with the project and follow the principles of open information while working in close cooperation.

Innovation plays a key role in an alliance-based contract. Through jointly created innovations we will be able to reduce

the disturbance caused by the construction site, create cost savings and accelerate processes. Innovation will be continued throughout the entire project.

The Rantaväylä tunnel project is divided into two separate phases. The project's development phase took place in 2012–2013 and the implementation phase began in October 2013. The tunnel will be opened to traffic in 2017.

#### Business › Travelling › Improving dam safety in leaps and bounds

### ↘ CASE

## Improving dam safety in leaps and bounds

We have constructed a new spillage route for Bergforsen Kraft AB's hydro-electric power plant in Timrå, Sweden. The new route increases spillage capacity and significantly improves the dam safety of the power plant reservoir.

The construction project encompasses temporary cofferdams, concrete structures for the gate systems, open pit excavation for the surge tank and a railway underpass which was used throughout the project.

Heavy concrete structures, special excavation, mass hauling and landscaping required versatile expertise in engineering and practical execution as well as coordination of different aspects. In addition, the construction of cofferdams that resists high water pressure and the 50-metre deep surge

tank built next to a residential area demanded strong know-how.

The majority of hydro-electric power plants in Sweden were built before the 1960s. Revised safety regulations and preparations for climate change have increased a need for making major improvements to them. The goal is to clearly improve their safety level. The Bergforsen power plant is owned by Vattenfall AB and Eon Vattenkraft Sverige AB.

Construction started in summer 2011 and the entire project will be completed in spring 2014. The gates were installed in August 2013.

#### Business › Travelling › Norwegian airport project – good co-ordination is a key factor

### ↘ CASE

## Norwegian airport project – good co-ordination is a key factor

From the moment the first asphalt was milled on August 2013, the runway renovation project at the Andøya air base has run according to schedule; in fact, work has stayed ahead of the plan. Good organisation and project co-ordination have been key factors.

The project is about groundwork as much as paving. It includes the milling and repaving of the 3,000-metre-long and 45-metre-wide runway. In addition, the runway will be widened, and its technical facilities, lighting and rainwater gullies moved. The contract also includes the repair of the airport's concrete deck and the partial repavement of the parking area.

Andøya air base continues to be fully operational throughout this renovation project, with commercial traffic from both Norwegian and Widerøe, and traffic connected to the Norwegian Armed Forces.

"We have completed Phase 1 in accordance with the initial plan and without affecting air traffic," states Lemminkäinen's project manager Stian Andreassen.

Andreassen stresses the importance of clear organisation and hands-on co-ordination at all stages of the work. "We have meetings with the builder every other day. In addition, we have construction meetings every fortnight, and are in close touch with the Air Wing unit and the commercial users."

"We have invited the land developer's site supervisor in our administration team. This means that we have cut out an intermediary, making for much closer co-ordination," notes Andreassen.

Safety is given great importance. "We are very preoccupied with all employees and sub-contractors operating safely and properly on our sites.," says Andreassen.

"By the time we complete the project in November 2014, we will have used approximately 44 000 tonnes of asphalt in paving the runway," says Andreassen.

## Business › Travelling › Renovating bridges amid busy traffic

### ↘ CASE

## Renovating bridges amid busy traffic

The majority of the Finnish bridges built in the 1960s or the 1970s have reached the age when renovation is needed. This will require a major renovation effort that is made more urgent by the decree entered into force in October 2013 that allows larger and heavier trucks to drive on Finnish roads. Logistically efficient routes that also enable the smooth flow of traffic must be repaired quickly for these new "super trucks".

In 2013, Lemminkäinen renovated 12 bridges in the Helsinki metropolitan area: three in the Lauttasaari district of Helsinki, the Ruoholahti bridge over the Mechelininkatu street, a bridge on the Vihdintie road and the railway bridges and underpasses on the railway between Kannelmäki and Myyrmäki.

"In practice, a bridge's actual need for repair can be determined only after work is started, so communicating with the customer is crucial. We need to communicate changes immediately and plans must be made for how, in the light of the new information, the renovation can be carried out with high quality and cost efficiency," says Jani Laru, supervisor at Lemminkäinen.

The planning of traffic arrangements is particularly important, especially in the Helsinki metropolitan area. For example, the Ruoholahti bridge is crossed by 30,000–40,000 vehicles daily, it is located in one of the most significant motor traffic hubs in Finland. "When a site

is being renovated, it always affects the traffic in the entire area. It is in the best interests of the residents, the developer and us that sites like this are repaired at one go. We certainly don't want to return there to disturb the traffic again," Laru comments, referring to the contract completed in December.

"In the railway project between Kannelmäki and Myyrmäki, the schedule was tight, too, as a brisk pace of construction is the best way to reduce the disturbance caused to traffic. In two months, we renovated two railway bridges and five pedestrian and bicycle underpasses. We stayed on schedule; in fact, the contract was completed early," says Laru.

"We have a seamless, competent and committed bridge renovation crew that can take care of bridge renovation contracts around Finland," Laru says.

In 2014, we will continue work on the renovation contract of the Lauttasaari bridge. We agreed with the customer to postpone until spring 2014 the renovation of one bridge in order to minimise the disturbance to the traffic in the surrounding area. In late 2013, we started the construction of the Turvesolmu graded interchange and the Turveradantie street in the Mankkaa district of Espoo. In addition to six new bridges, the contract covers major earthworks and civil engineering work. Work at Turvesolmu will continue until 2015.

## Business › Living

## Cosy living in central locations

In Finland, we focus on residential construction in urban growth centres. In Russia, we are exploring opportunities to expand our residential construction to include other cities in addition to St Petersburg.

In 2013, we launched the construction of 1,815 (1,019) new, residential development units. We offer residences for consumers and for residential and other property investors in Finland and Russia.

## We focus on urban growth centres

We have a broad range of plots that enables the rapid launch of new projects in the coming years, if necessary. Most of our plots are located in urban growth centres in Finland and in St Petersburg. Our presence in urban growth centres in Finland and our long-term local expertise help us find interesting plots for our new residential projects.

We primarily acquire plots that are located either in the city centre or near it in an area with good traffic connections. For example, in the Helsinki metropolitan area, we seek to acquire plots where our residential properties are located within walking distance to commuter or light rail stops.

## Versatile housing production

In 2013, we continued to develop the Jätkäsaari area in Helsinki. This new residential area near the Baltic Sea and the centre of Helsinki has raised a lot of interest among. By 2016, we will have built approximately 430 apartments in the area. Currently, we are the only builder offering owner-occupied apartments in the area. At the end of the reporting year, we won a new plot from the City of Helsinki in an architectural competition. In the coming years, we will build low-rise apartment blocks on the plot.

We are also building apartments in the centre of Helsinki, in the Töölö Bay area. This central location will feature a unique combination of apartments, services and commercial premises. The residents of the first property moved into their new homes in February 2013, and the second property will be completed in spring 2014. Many people have been interested in the chance to live in a green central location in the heart of the city.

In spring 2013, we started the renovation, restoration and conversion into apartments of the Asunto Oy Helsingin Kivipalatsi premises in the centre of Helsinki. The renovation of this partly protected building is being carried out in cooperation with the Helsinki City Museum. In April 2014, a total of 28 new apartments will be completed in Kivipalatsi. We believe that the conversion of old commercial premises into residential use will increase in the future, especially in the fully built-up city centres.

We continued regional development in northern Finland by starting the construction of the fifth and final

apartment block in the Rakka area in Rovaniemi and the second apartment block in the Louhi area in Oulu, in September 2013. Both areas are located near the city centre and our focus has been particularly on comfort, accessibility and low living costs.

In the autumn, we started the development of the Lehtoniemi area in Kuopio. In 2013–2015, we will build 79 owner-occupied apartments and one property consisting of rental apartments. The area is located near outdoor recreation areas, which makes living there even more comfortable.

## Interest in Finnish construction in Russia

In 2013, we started new residential project in St Petersburg. The first phase of the Tapiola project consists the construction of 339 apartments along the Obvodny canal near Moskovsky Prospekt. We also continued the construction of the 470-apartment Aino apartment block on Vasilyevsky Island.

In the St Petersburg market, being Finnish is one of the key differentiators. Our primary target group is the increasingly wealthy Russian middle class that appreciates Finnish reliability, quality and functional floor plans. For our customers, this means energy efficiency, high-quality sound and water insulation as well as modern automation systems. Our residential construction has been of interest to property investors, too.

In order to improve our service, we have negotiated on financial arrangements with several local banks to improve the availability of mortgages to our customers. The apartment under construction can be used as a security of the mortgage.

We also operate as a contractor in Russia. In 2013, we expanded our operation to the Moscow region as we signed an agreement with the Russian company OOO Mikrorayon Kantri on the construction of a 46-house residential area in the city of Istra near Moscow. The masterplanning, design and construction of the area will emphasise Nordic comfort of living, energy efficiency and quality. We will also construct the infrastructure, road network and landscaping in the area. In addition, we are building an elite residential building for Tetra Invest in Kamennyi Ostrov, St Petersburg.

## Personalised service

We have our own housing sales organisation in Finland and Russia. Working in cooperation with the housing sales organisation, our alteration engineers help our customers to find the desired space solutions and surface

materials in their new home. At the same time, our customers constantly receive up-to-date information about the progress of the construction process. In addition, our customers may use the online Nettikoti tool to manage the alterations

to their home. Our goal is to have this option available in each of our major apartment block projects in Finland.

Business › Living › A closer look: Building quality

## A closer look

**Casimir Lindholm**, Executive Vice President, Building Construction  
[casimir.lindholm@lemminkainen.com](mailto:casimir.lindholm@lemminkainen.com)

### Building quality

Purchasing an apartment is one of the largest personal investments people make, and consequently it entails a lot of emotions. The significance of quality is emphasised when one is looking for a home in a new residential property. When one buys a new apartment, it must be absolutely faultless.



We want to provide our customers with safe, healthy and functional homes that are handed over in impeccable condition. In 2013, we reinforced the importance of quality assurance in our management system.

Quality assurance is an integral part of our entire construction process. In Lemminkäinen's residential development and construction, quality assurance starts with the plot acquisition. We want that the apartments we build are in what the buyers consider the best locations in urban growth centres. One cannot overemphasise the significance of location as the foundation of the quality experienced by the customer.

In the planning phase, quality assurance ensures the desired outcome in terms of the apartment's functional and technical quality. In the construction phase, quality assurance culminates in a successful pre-handover inspection.

During the past year, we have harmonised and fine-tuned the scheduling of the pre-handover inspection process as well as the way it is done. In the pre-handover inspection, the apartment is always inspected from an outsider's perspective by one of our employees from another construction site. By fine-tuning the process, we want to ensure customer satisfaction and achieve cost savings.

The final experienced quality is sealed by customer service. In 2013, the implementation of Nettikoti, a web-based additional work and alteration service, was one of our key quality assurance measures. Nettikoti helps us to expand and diversify our customer service alongside the provision of personal service. In addition, Nettikoti makes for a smoother flow of information between the customer, the sales personnel and the construction site. In 2014, we will further expand the use of this service in Finland.

We will continue our determined quality assurance work in the coming years, too. In 2014, quality will be one of our key performance indicators.

Business › Living › Restoring a prestigious premises to its former glory

## CASE

### Restoring a prestigious premises to its former glory

We are building new apartments in Kivipalatsi, a building completed in 1896 and located on Lönnrotinkatu, right in the heart of Helsinki. The renovation of old buildings is a responsible manner to revitalise city centres.

New plots in city centres are rarely, if ever, available. Consequently, there is great demand for renovation in which existing properties are renewed so that their space solutions and technical aspects meet modern needs. At the same time, the use of properties can be altered.

Kivipalatsi was constructed as a residential building on Lönnrotinkatu in 1896. As the years have gone by, the premises have been altered for use as both office and commercial space. We are now participating in returning these premises, designed and developed by architect Florentin Granholm, to their original use and restoring them to their former glory. In April 2014, a total of 28 new apartments will be completed in the renovated Asunto Oy Helsingin Kivipalatsi's property.

"We have specialised in carrying out renovations to prestigious historic buildings, often located in city centres. Working in city centres, in busy and built-up environments,

without disturbing those in the immediate vicinity, forms part of our core expertise," says Kalevi Stenman, head of renovation at Lemminkäinen.

In this project, we are modernising Kivipalatsi and restoring its old details with the greatest respect for the original look. The renovation includes work on the roof, repairs to intermediate floors, structural improvements, and the renewal of insulation and interior surfaces. New structural solutions will improve the building's fire safety and sound proofing. The property's electrical, telecommunications, pipe, ventilation and control systems will be completely renewed.

The height of the attic will be increased. We will build also five roof terraces, skylights and balconies for the apartments. In addition, we will renew the existing elevators and construct an entirely new elevator shaft to house a third elevator.

The building is partly protected, and renovations are being carried out in cooperation with the Helsinki City Museum. The property's owner and developer is Rakennus Oy Kivipalatsi, which is owned by Ahlström Capital Oy and HGR Property Partners Oy.

Business › Living › Joining forces for a better urban infrastructure

## CASE

### Joining forces for a better urban infrastructure

In Russia, both the authorities and construction companies contribute to the development of the urban infrastructure. In St. Petersburg city centre, we are building not only apartments but also a kindergarten.

In summer 2013, we started the construction of 757 apartments in the centre of St. Petersburg. The project is called Tapiola and it is located by the Obvodny canal close to Moskovsky Prospekt.

Tapiola is one of our residential development and construction projects in which we are responsible for the design, construction and sales. In addition to apartments, the plot will accommodate approximately 4,000 square metres of office and commercial premises, which will be

sold separately, as well as 360 underground parking spaces. Furthermore, we will design and build a kindergarten in the area. In September 2013, we signed an agreement with the City of St. Petersburg, providing them with the kindergarten premises for free.

"These types of services increase the area's vitality, so they can be developed together by the authorities and business life," comments Vice President Juha Vättö at Lemminkäinen.

The first 339 apartments should be completed by the end of 2014, and the entire area is scheduled for completion by the end of 2015.

The new kindergarten will accommodate 79 children.

The kindergarten and its playground will be opened at the beginning of 2016 when all the apartments in the area have been completed.

In future, we will continue to seek solutions that promote the development of the urban infrastructure and support our housing sales.

Business › Living › Nature and the city meet in Jätkäsaari

## CASE

### Nature and the city meet in Jätkäsaari

A new residential area for 17,000 inhabitants will be constructed at the southern tip of Helsinki. Be built on the site of a former freight harbour, Jätkäsaari will be an integral part of downtown Helsinki. We will build four housing cooperatives in the Saukonpaasi area in the north-western part of Jätkäsaari.

Saukonpaasi is in a unique location near the city centre and the sea. Our new apartments will offer urban homes in the best location of the capital city for people who appreciate nature, quality and active lifestyle. Various services and recreational facilities are within walking distance. In the centre of the area, there will be a 2.5-kilometre park ending at a beach. In addition, a marina will be built next to the residential blocks.

The floor plans of the new apartments are designed to be flexible, making them equally suitable for singles, couples and families and also as corporate housing for high flying employees.

The apartments will have a great deal of details that increase their living comfort. They will be fully equipped and their

floor plans are flexible. All homes have radiant floor heating, balconies with glazing and a district cooling system for cooling down the apartments in the summertime, among other features. Courtyards will be built to be garden-like and spacious. Part of the parking spaces of the housing cooperatives will be in a parking facility that will be built under a deck in the yard.

Waste management in the area is based on a modern pipe collection system. The residents will take their sorted waste to the housing cooperative's collection point from where waste will be transferred through an underground pipe to a collection station located outside the area. The system will make yard areas more pleasant and safe, eliminating the need for traditional waste containers and for garbage trucks accessing the area.

In 2013, we started the construction of the first of our apartment complexes, Asunto Oy Saukonpaaden Merituuli, which will be completed in 2014. The rest of our apartment complexes, Asunto Oy Helsingin Ruori, Kompassi and Loisto, will be completed by 2016.

Business › Living › Comfortable living in the vicinity of a metropolis

## CASE

### Comfortable living in the vicinity of a metropolis

In addition to being a housing developer, we also operate as a building contractor in Russia. In January 2013, a Russian investment company OOO "Mikrorayon Kantri" invited us and Bank ZENIT to discuss an interesting housing development project. Subsequently, we decided to take part in the SAMPO project in the capacity of main contractor. Our decision was largely based on the talks with Bank ZENIT, which is financing the project. The project includes the planning and construction of a complex of 46 detached or semi-detached houses with associated social and administrative facilities.

Our cooperation with Bank ZENIT started in 2004 in Kazan when we built an ice-hockey arena, which is one of the first arenas in Russia to meet international quality standards. The project was financed by Bank ZENIT. "The bank was satisfied with our cooperation. On the basis of that experience, both parties felt confident about entering into a new contract," says Maaret Heiskari, Lemminkäinen's Executive Vice President, Russia. "I believe that our good cooperation also guarantees that the project will progress as planned and the new residents can move in as scheduled."



According to Stanislav Pashchenko, Deputy Chairman of Bank ZENIT's Management Board, "Our customer recognised in the project an opportunity to build high-quality detached or semi-detached houses. The goal is to produce international quality in a cost-efficient manner. At the bank, we understood that, in addition to the conventional financial risks involved in the investment, there are also risks associated with the main contractor. Therefore, we said that we will arrange the financing on the condition that we have a say in the selection of the main contractor. The bidding process produced no result — none of the participants offered a solution that met our requirements. Then we remembered Lemminkäinen, which is one of the leading companies in its field in Northern Europe, and we suggested that Mikrorayon Kantri initiate negotiations with them. On the basis of Lemminkäinen's experience

and the quality of their housing projects, we expect that this project will also be a success."

We will build 46 three-storey detached or semi-detached houses as well as a kindergarten and an administrative building in a new and popular neighbourhood in Istra. We are also responsible for the design of the houses. The housings will be primarily marketed to the middle class who hold Nordic comfort of living, energy efficiency and quality in high regard.

In cooperation with the customer, we will also construct the infrastructure and road network for the area and carry out landscaping for an area of 29 hectares. The project is expected to be completed in autumn 2016. The total value of the contract is over EUR 100 million.

## Business › Working

# Solutions for a comfortable working environment

We build commercial properties in Finland and Russia. In addition, we modernise existing premises to meet the current needs of working life. Technical building solutions enable us to improve the comfort level of properties.

We want to provide our customers with comfortable working environments. There are many factors that impact the comfort level of premises: modifiable space solutions, good indoor air, high-quality lighting and excellent traffic connections.

## Versatile commercial premises

In 2013, only a few commercial construction projects were launched outside the Helsinki metropolitan area in Finland. An exception was the border district in eastern Finland. For example, there is a lot of construction activity in Lappeenranta. In 2013, we built a 4,000 square metre commercial premises for Disa's Fish in Nuijamaa, among other projects.

Our largest commercial construction project in 2013 was the three-block construction site in Töölönlahti in the centre of Helsinki that we started in 2011. All of these new office premises will comply with the criteria of the international LEED environmental certification programme. Certificates will be applied after the projects are completed. During the construction phase, we are paying particular attention to the planning of work so that the construction site does not disrupt the heavy traffic flows in the city centre.

The consortium we formed with Skanska, Freeway, started the construction of the S Group's new logistics centre for daily consumer goods in Sipoo, in southern Finland, in June. At the moment, the logistics centre is one of the largest construction projects in Finland. In its planning and execution, special attention is being paid to environmental aspects.

We are a strong partner for Finnish companies in Russia, too. We have solid experience in the construction of production facilities, for example. During the year, we started the construction of a new paint factory for Teknos in St Petersburg. In autumn 2013, we completed the first phase of Paroc's new production facility in Tver, northwest of Moscow. We also completed the construction of the additional building for Technopolis in St Petersburg. The building complies with the LEED certification criteria.

## We also modernise old premises

We have extensive expertise and a lengthy track record in the renovation projects of old properties. Our goal is to carry out the projects with minimal disruption to the daily life in the property's surroundings.

Towards the end of 2013, we were selected to renovate



the University of Helsinki-owned Aleksis property in the centre of Helsinki. The project will continue until the end of 2014. Once completed, the property will offer new and comfortable premises for the Finnish Ministry of the Environment.

The renovation of Stora Enso's head office in Helsinki was completed in April 2013. We refurbished the cultural-historically valuable interior, designed by Alvar Aalto, in three phases so that daily work at the head office could be continued throughout the renovation project. In the centre of Tapiola in Espoo, Finland, Kiinteistö Oy Biens' commercial building was completed, and the Ainoa shopping centre opened its doors in October. Ainoa is part of the development project of the centre of Tapiola, which aims to preserve Tapiola's status as a cultural and business centre.

## We want to develop new models of cooperation

We are actively involved in the development of the construction industry. We are developing new models of cooperation for circumstances in which public-sector investments are hindered by a lack of funding while the need for renovation and refurbishment of building stock increases.

One solution to this is the PPP model (Public Private Partnership) in which the service provider has the responsibility, among other things, for planning, implementing and maintaining the property throughout the term of the service agreement. These projects are often based on private funding, and the service provider may also participate in the arrangement of funding.

In 2013, we completed the construction work in an extensive PPP project in Kuopio, Finland. The project comprised the new construction and renovation work of four schools and a day-care centre. The last of the new buildings was completed in summer 2013. We will be in charge of the property's upkeep and maintenance for the next 25 years.

We also continued the Kastelli community centre project in Oulu, started in 2012. Kastelli will house a day-care centre, morning and afternoon care, a comprehensive school, upper secondary schools for young people and adults, a library, a youth centre, an auditorium and extensive exercise facilities. The centre will include facilities for approximately 1,500 children and young people. The construction project is scheduled for completion in 2014, after which we will be in charge of the property's upkeep and maintenance for the next 25 years.

## Technical building solutions help you save energy

Appropriately designed and properly maintained technical building systems allow us to improve the conditions and comfort level in a property. Our strengths in technical building solutions include a nationwide service network and a diverse range of services. We offer a wide variety of services, from contracting to upkeep and maintenance. Our preventative upkeep and maintenance services, in particular, enable us to help our customers save energy.

In February 2013, we assumed responsibility for the upkeep and maintenance of technical building systems in 47 shopping centres and commercial properties owned by Citycon in Finland. Through preventative upkeep and maintenance, we help the customer save energy and create comfortable conditions for people using the property. In October 2013, we also assumed responsibility for the upkeep and maintenance of Itis, the largest shopping centre in the Nordic countries, located in Helsinki.

We signed an agreement with Ilmarinen on the provision of maintenance services for its properties in the Helsinki metropolitan area. The multipart agreement covers several technical building services. In addition to basic maintenance, the agreement also includes the nationwide operational management services of electrical systems.

### Business › Working › Far-sighted property maintenance

## CASE

### Far-sighted property maintenance

Since 2008, we have been responsible for the upkeep, maintenance and repair services of LocalTapiola Group's head office buildings' technical building systems. Our good cooperation continued in 2013.

Since September, we have also been responsible for technical property maintenance, scheduled maintenance of the technical building systems and repair work services in several commercial properties. Most of the properties

included in the agreement are located in the Helsinki metropolitan area.

With systematic and planned maintenance and repair services, we can extend the life cycle of LocalTapiola's properties, improve risk and conditions management and also ensure the development of the value of the properties.

Expanded cooperation also enables us to further

tailor our service concept to serve the needs of both LocalTapiola and the tenants using its properties.

"Lemminkäinen offered services with a competitive price-quality ratio. In particular, the ability to serve tenants, energy efficiency and customer reporting are emphasised in the services," says Pia Akselin, Head of Business Unit at Corbel Oy, the company that manages LocalTapiola's properties.

#### Business › Working › Growth centre Lappeenranta

## ↘ CASE

### Growth centre Lappeenranta

We want to participate closely in the development of growth centres. In Lappeenranta, we build traffic connections and shopping opportunities for the rapidly increasing number of tourists.

In July 2013, a new record was set at the border crossing points of Southeast Finland (Nuijamaa, Imatra, Vaalimaa and Vainikkala): more than a million border crossings a month. In the autumn, we constructed a truck lane on the narrow Nuijamaantie road to alleviate traffic jams.

"When it comes to construction, Lappeenranta is the most active region in Finland outside the Helsinki Metropolitan Area," says regional manager Arto Heikkinen, Paving at Lemminkäinen.

Cross-border traffic between Finland and Russia is predicted to quadruple from the current level by 2025, so there will be a great demand for road construction at border crossing points, too. The 16-lane passport boulevard constructed by us at the Imatra frontier station was completed in 2013.

According to Heikkinen, infrastructure construction

companies have had plenty of work since the beginning of the contract for broadening Highway 6 to four lanes in 2008 and, judging from the growth rate in building construction, it seems that this state of affairs will continue.

"In the next two years, approximately 150,000 floor square metres of commercial space will be completed," Heikkinen summarises. In 2013, we started for example earthworks for the new IKEA in Lappeenranta.

Previously, construction activities concentrated alongside Highway 6, where our work can be seen in the Myllymäki area with its shopping centres, and largely built by Lemminkäinen. Nevertheless, the area does not detract from the appeal of the city centre. For three years in a row, Shopping Centre Galleria, built by us in 2007, has been the number one shopping centre in Finland as far as tax-free shopping by tourists is concerned. We have just completed two residential/commercial buildings next to Galleria and the third will be completed in spring 2014. In addition, there are plans for a new office building and a new residential/commercial building right in the city centre.

#### Business › Working › A living room for the inhabitants of Helsinki

## ↘ CASE

### A living room for the inhabitants of Helsinki

Töölönlahti in the centre of Helsinki is one of the largest and most visible construction projects in Finland. It is also a workplace, a home and a recreational area for many people visiting or living in central Helsinki.

In 2010, Lemminkäinen and the developer Etera won the plots of three blocks in Töölönlahti in a site

allocation competition. This marked the start of one of the largest construction projects in Finland. The first building to be completed was Alma Media's building next to the railroad tracks in 2012. The media company's specific needs were carefully taken into account in the building. The fact that floors form large entities facilitates open plan office solutions and close internal cooperation.

KPMG's office building next to the railway station will be completed in 2014. This colourful eye-catcher of a building has a 200-metre-long wavy facade – there will be plenty of those coveted desks by the window. The building's other structures will follow the shape of the facade: even the radiators will be curved. In 2013, the building was selected as the best building construction site in a competition arranged by Rakennuslehti, a Finnish construction industry magazine. The review highlighted the quality of work and the attention paid to safety – after all, the building is located right next to the railway tracks and several other construction sites. The smooth flow of operations on the site was promoted by the use of data modelling and diligent, appropriately timed stakeholder communications.

Ernst & Young's premises will be completed in 2014 on the northern edge of the area, next to a park. An increasingly mobile and flexible working culture requires premises that are modifiable, which improves their utilisation rate.

Töölönlahti is also a residential area. Housing company Aalto, which consists of 22 apartments, was completed in 2013, and housing company Alvar, which will be completed in May 2014, consists of 15 households. All apartments are within a stone's throw of the Helsinki railway station, the Helsinki Music Centre, the Museum of Contemporary Art Kiasma, and the coming Central Library. The pedestrian and bicycle route Baana passes through the area, and there is a jogging path around the bay.

All of the new properties fulfil the requirements of the LEED environment certificate.

## A new approach to building a parking facility

P-Finlandia, a 650-car parking facility, transformed the cityscape by moving the former outdoor parking area in front of Finlandia Hall underground. In addition to the parking facility completed in 2012, we built service connections for Finlandia Hall and the Helsinki Music Centre as well as pedestrian routes in four different directions.

We managed to fit in all the required facilities into a space 25 per cent smaller in cubic volume without sacrificing functionality. The efficiency of space utilisation was improved by turning some of the driving routes into parking spaces and combining the service facilities of Finlandia Hall into one entity. Particular attention was paid to the ease of use and clarity.

"We noticed that it is worthwhile investing in the surface materials and lighting in the areas in front of elevators and in pedestrian tunnels," says Project Manager Hannu Leppävuori. "After all, in a large project, it is quite a small investment that nevertheless affects the everyday life of many people as well as the functionality of the outcome."

### Business › Working › Energy-efficient logistics centre

## CASE

## Energy-efficient logistics centre

As a consortium with Skanska, we are building a logistics centre for daily consumer goods for S Group in Sipoo. This is one of the largest construction projects in Finland, with a gross surface area of approximately 190,000 square metres. When completed, the logistics centre is more than thirty times as big as the Finnish Parliament House. The maximum number of employees at the construction site is 500.

"In 2010–2012, we built a logistics centre for durable goods for S Group in the same area, and thanks to the experience gained in that project, we can provide the customer with a skilled and experienced team for this new project. We have strong expertise in the construction of even demanding logistics centres," says Construction Manager Heikki Schemeikka.

"The project has been divided into five different phases, and the planning of some of these will continue after the beginning of construction. We invest particularly in planning management and implementation planning, in cooperation with the customer, subcontractors and suppliers in order to ensure that the project proceeds smoothly and yields the best outcome. The new logistics centre will be fully inaugurated in 2018."

The logistics centre features energy-efficient engineering and will apply for BREEAM certification.

"The certification requires that we take environmental aspects into account in material choices, for instance," says Schemeikka.

The aim is to construct a building that is carbon neutral when it comes to heating and cooling energy. Geothermal heat and condensing heat are utilised in the heating and cooling of the building. For colder weather, a pellet power plant will be built in the logistics centre.

"Geothermal heat and condensing heat are utilised in the cooling of the building, in addition, with an approximately

50% share a pellet energy is being used for the heating. The whole building has been designed to use renewable energy and cause only little emission," says SOK's Construction Project Manager Juha Äijälä.

## Business › Customer cooperation

# We develop customer cooperation

Through new kinds of cooperation models and closer interaction, we can anticipate our customers' needs better and develop solutions that serve them in the best possible manner.

In 2013, we developed customer cooperation. An example of a new type of cooperation is the alliance contract for the Rantaväylä tunnel in Tampere in which the customer and the service providers design and implement the project as a joint organisation and share the risks and opportunities associated with the project. Through jointly created innovations, we will can reduce the disruption caused by the construction site, create cost savings and accelerate processes.

## Dialogue generates new ideas

The management's key customer meetings, launched in 2012, have become an established practice. The meetings enable us, together with our customers, to identify the customers' needs at an early stage and define the most essential development areas related to them.

In 2014, we will develop particularly the systematic utilisation of customer and market data.

## Development on the basis of customer feedback

In 2013, we conducted our third international NPS (Net Promoter Score) customer satisfaction survey. The net promoter score is the key indicator of our customer satisfaction that measures the probability of whether consumers, companies and public administrations will recommend Lemminkäinen.

In 2013, we conducted the NPS survey in Finland, Sweden, Norway, Denmark and the Baltic countries. Russia was not included in the survey this time.

In 2013, our net promoter score decreased to 23.4 (2012: 29.3). However, the share of unsatisfied

customers did not increase. Instead, the number of neutral customers increased; in other words, the customer commitment rate decreased.

There were significant business- and country-specific differences in our net promoter score. For example, in many of our infrastructure construction businesses, the score continues to be at an excellent level or close to it. On the basis of the feedback received in the survey, we defined business-specific development measures in order to improve the customer experience. We will advance these measures in 2014.

We continued development activities to improve customer service, customer interaction and cooperation in 2013. For 2014, we have highlighted customer communications and the quality perceived by the customer as the most significant focus areas, and we have launched development measures regarding both of these aspects. We will conduct the next NPS survey in summer 2014.

In addition to the NPS survey, we also measure project-specific customer satisfaction by enquiring from our customers about their satisfaction after each completed project.

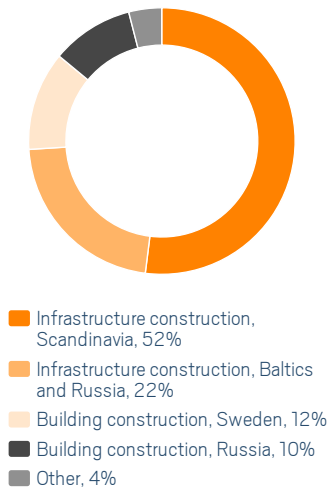
## Better service on the Internet

In 2013, we launched our Group's renewed Finnish and English websites. This renewal developed our online service. The feedback received from a user survey indicates that it is now much easier for the website users to find the information they are looking for. The website development is continuing in 2014 with the renewal of our housing website in Finland and the continued development of our country-specific sites.

## Business segment review

### International operations

#### NET SALES



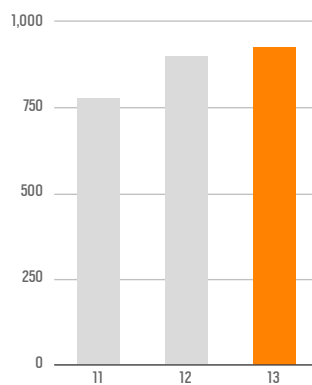
#### ORDER BOOK, EUR million



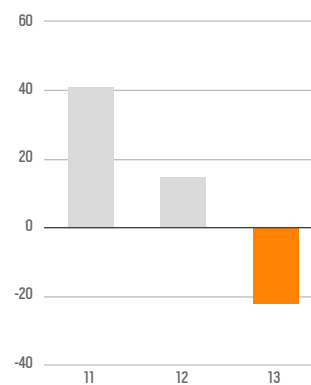
#### PERSONNEL



#### NET SALES, EUR million

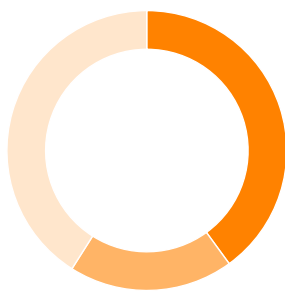


#### OPERATING PROFIT, EUR million



### Building construction

#### NET SALES



- Residential development, 40%
- Commercial development, 19%
- Contracting ja other operations, 41%

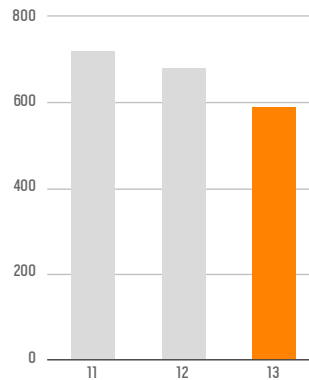
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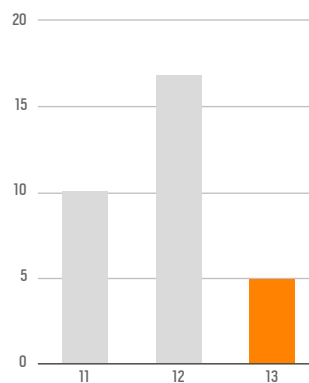
### PERSONNEL



### NET SALES, EUR million

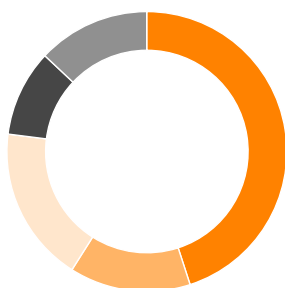


### OPERATING PROFIT, EUR million



## Infrastructure construction

### NET SALES



- Paving, 45%
- Mineral aggregates, 14%
- Earthworks, 18%
- Rock engineering, 10%
- Foundation engineering, 13%

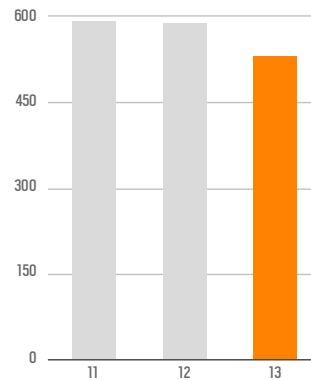
### ORDER BOOK, EUR million



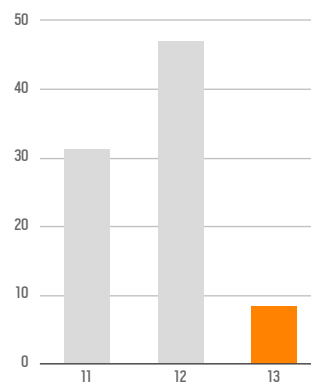
### PERSONNEL



### NET SALES, EUR million

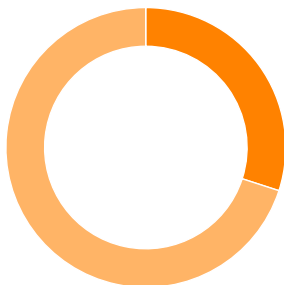


### OPERATING PROFIT, EUR million



## Technical building services

### NET SALES



- Upkeep and maintenance, 30%
- Contracting, 70%



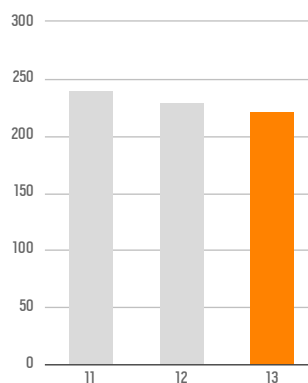
### ORDER BOOK, EUR million



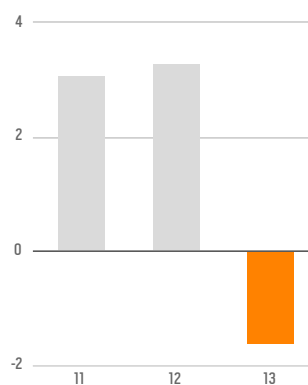
### PERSONNEL



### NET SALES, EUR million



### OPERATING PROFIT, EUR million



## Our way of working

Our goal is to develop our operations profitably and responsibly over the long term. We want to create conditions that make living, working and travelling functional, safe and healthy, while also respecting the environment.

We base our operations on our values:

- Respect and trust
- Constructive collaboration
- Sustainable growth and development

### We comply with our Code of Conduct

Our operations are guided by our Code of Conduct. The Code is based on international regulations, such as the UN's Declaration of Human Rights and the Global Compact's ten principles that are related to human rights, labour law, the environment and anti-corruption. The Code also adheres to the ILO's employment rights and principles, the OECD's operational guidelines for multinational companies, and the International Chamber of Commerce's (ICC) recommendations. In addition, our Code of Conduct acts as a set of guidelines for our partners.

Our Code of Conduct is supplemented by various policies and guidelines, such as a competition law guidebook, insider and entertainment guidelines and sponsorship principles. According to the 2013 employee survey, 76 per cent of Lemminkäinen employees feel that they know how to apply our Code of Conduct. We regularly communicate

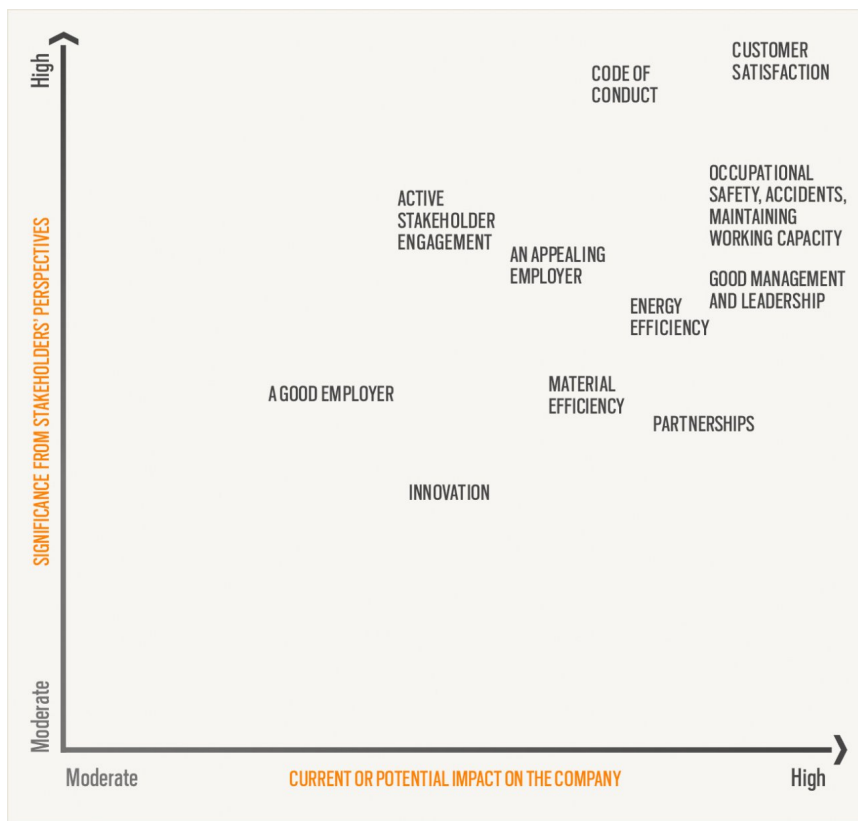
about our Code of Conduct to our personnel. Currently we offer our employees online training in competition law. Our goal for 2014 is to expand online training to cover our Code of Conduct in its entirety.

We encourage all Lemminkäinen employees to report to their own supervisors or to internal audit any suspected malpractice or behaviour that does not comply with our Code of Conduct. The internal audit unit investigates all reports it receives. In addition, its tasks include conducting regular audits of business operations and reporting its findings to the Board of Directors' Audit Committee.

In 2013, we introduced the SpeakUp service for Lemminkäinen employees and external stakeholders to report any suspected malpractice anonymously. Suspected cases are handled in accordance with all relevant legislation and Lemminkäinen's internal practices, while respecting personal privacy and the rights of all parties.

In 2013, the internal audit unit launched further investigations into 10 cases of suspected malpractice, six of which led to further action. The cases of malpractice did not have a significant financial impact.

### Materiality matrix



## Cooperation with stakeholders

Continuous engagement with our stakeholders is an important means of developing our operations. New, insightful solutions will not become reality without close cooperation with our customers and partners.

In all stakeholder cooperation, we adhere to our Code of Conduct as well as to local and international commitments and legislation. Our stakeholders are current and potential customers, current and potential employees, shareholders and investors, analysts, financiers, partners and the media. Our business units have the main responsibility for customer relations and our centralised procurement organisation for the partner network. Our Group functions are responsible for relations with investors, shareholders, financiers, the media, industry associations, decision makers and authorities.

### Continuous dialogue

In 2013, our stakeholders were particularly interested in the development of services and solutions, our new strategy as well as our financial result and the outlook in the operating environment.

As a significant employer and buyer of services, we engage in a continuous dialogue with local authorities and decision makers. At the planning and launching phase of large construction projects, we also arrange town hall meetings for those stakeholders whose daily lives will be affected by our projects.

We regularly collect customer feedback, which enables us to develop our business in the right direction. For example, in the Infrastructure construction business segment, we continued to unify the organisations of the paving, mineral aggregates and earthworks businesses, as we have received a lot of positive feedback from our customers regarding the operating model where all necessary services can be acquired in one place.

During the reporting year, we renewed Lemminkäinen Group's website. Through the new website, we can offer our stakeholders easy-to-find, up-to-date information about Lemminkäinen as well as about our products and services. During the next few years, we will renew our country-specific websites. In 2014, we will chart our stakeholders' behaviour in social media and consider ways to serve them better.

### We monitor the results of stakeholder cooperation annually

In order to develop our operations, we measure the results of stakeholder cooperation regularly. The most important Group-wide surveys that we conduct are:

- the net promoter score measuring customer satisfaction (annually)
- the employee survey (annually)
- the employer image survey (annually for different student groups)
- the brand survey (every two years).

According to the survey results, Lemminkäinen is considered a company with professional and skilled personnel and high-quality products and services. Our personnel are satisfied with Lemminkäinen as an employer, and Lemminkäinen is regarded as an interesting employer among the key student groups.

A stakeholder survey, which was intended in autumn 2013, was postponed to 2014 so that we could fully utilise our new strategy, published in October 2013, in the survey.

### We support non-profit associations

Our sponsorship principles are based on our values and Code of Conduct. In 2013, we focused on supporting children and young people. Our main sponsorship partners were the Finnish National Skills Competition Taitaja and the Myrsky project of the Finnish Children and Youth Foundation.

In addition, we made a donation to the New Children's Hospital 2017 project and, at the same time, challenged other players in the construction industry to contribute to the launch of the project. As in previous years, instead of sending Christmas greetings, we supported a charity. The charity chosen for 2013 was Baltic Sea Action Group's Throw Your Christmas Gifts to the Baltic Sea campaign.

[Link to the customer text](#)

### Table of stakeholders

Stakeholder	Expectations	Actions 2013
Industry associations, such as the Confederation of Finnish Construction Industries RT	<ul style="list-style-type: none"> <li>Continuous development in the industry</li> <li>Promoting common interests</li> </ul>	<ul style="list-style-type: none"> <li>Active participation in associations' work, work groups and projects</li> </ul>
Customers	<ul style="list-style-type: none"> <li>High-quality, reliable and sustainable solutions</li> <li>Good project management, delivery reliability, transparency, and the right price-quality ratio</li> <li>Understanding customer needs, customer service, and customer relations management</li> </ul>	<ul style="list-style-type: none"> <li>Face-to-face meetings</li> <li>Customer events</li> <li>Dialogue at industry trade fairs and other events</li> <li>Newsletters and online services</li> <li>Customer magazine</li> <li>Customer satisfaction surveys</li> </ul>
Personnel	<ul style="list-style-type: none"> <li>Good leadership, management and supervisory work</li> <li>Motivating remuneration and opportunities for training and personal development</li> <li>Equality and openness within the organisation</li> <li>Occupational safety and well-being</li> </ul>	<ul style="list-style-type: none"> <li>Developing supervisory work, management and leadership</li> <li>Training and competence development</li> <li>Employee survey</li> <li>Developing remuneration</li> <li>Continual development of occupational safety and well-being</li> <li>Open communications and building an open corporate culture</li> </ul>
Media	<ul style="list-style-type: none"> <li>Reliable and up-to-date information about the company's operations</li> <li>Open communications culture</li> </ul>	<ul style="list-style-type: none"> <li>Stock exchange and press releases</li> <li>Press conferences and visits by editorial staff</li> <li>Interviews and off-the-record meetings</li> <li>Easy to contact</li> </ul>
Shareholders and investors	<ul style="list-style-type: none"> <li>Sufficient return on their investment and a sufficient analysis of the company's risk management</li> <li>Open and timely information about the company's financial position and outlook</li> </ul>	<ul style="list-style-type: none"> <li>Investor and analyst meetings</li> <li>Annual General Meeting</li> <li>Stock exchange and press releases; regular, open reporting</li> <li>Website</li> </ul>
Students and job applicants	<ul style="list-style-type: none"> <li>Interesting and challenging tasks</li> <li>Comprehensive information about career opportunities offered by Lemminkäinen</li> </ul>	<ul style="list-style-type: none"> <li>Summer jobs and trainee positions, opportunities for writing theses, and cooperation with educational institutions</li> <li>Dialogue at trade fairs</li> <li>Visibility in student and professional publications</li> <li>Employer image surveys</li> <li>Cooperation with Taitaja, a competition run by Skills Finland</li> <li>Amis-Dialogi project with vocational students</li> </ul>

Decision makers and opinion leaders	<ul style="list-style-type: none"> <li>• Compliance with laws and regulations</li> <li>• Transparency and minimising hazardous impacts</li> <li>• Regular reporting</li> <li>• Increasing employment; good corporate citizenship</li> <li>• Payment of taxes</li> </ul>	<ul style="list-style-type: none"> <li>• Dialogue through industry organisations in, for example, political decision making</li> <li>• Local meetings with decision makers</li> <li>• Stock exchange and press releases; regular, open reporting</li> </ul>
Partners	<ul style="list-style-type: none"> <li>• Safeguarding earnings and growth</li> <li>• Opportunities for networking and developing operations</li> <li>• Operational reliability and continuity</li> </ul>	<ul style="list-style-type: none"> <li>• Meetings and direct contacts</li> <li>• Supplier audits</li> <li>• Development of procurement systems</li> </ul>

### Sustainability › Financial responsibility

## Financial responsibility

### Distribution of economic value added to our stakeholder groups

For us, it is important to grow and develop our company's business responsibly over the long term. We want to create value added for our stakeholders in a manner that benefits all parties. This requires considerable investments in the development of our personnel's competence and in customer relations management so that we are able offer our customers the best services in the market.



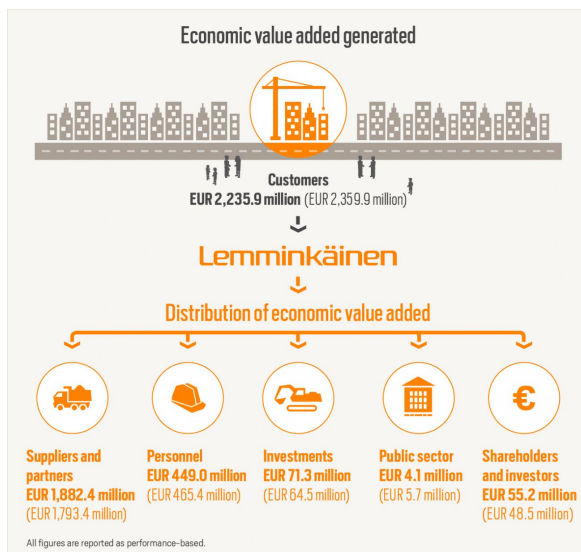
**Customers**  
**EUR 2,235.9 million** (EUR 2,359.9 million)

#### Direct impact

- We offer our customers high-quality, reliable and sustainable solutions.

#### Indirect impact

- Our solutions create conditions that make living, working and travelling functional, safe and healthy.
- Continuous operational development leads to the introduction of new, cost-effective and sustainable solutions.
- For example:
  - The upkeep and maintenance of technical building systems help our customers to optimise their properties' energy consumption – even without investments in new equipment.
  - Low-temperature and recycled asphalts reduce the environmental footprint of infrastructure projects, as their manufacture consumes less energy or virgin materials.



### Distribution of economic value added 2013

### Economic value added generated 2013



**Suppliers and partners**  
**EUR 1,882.4 million** (EUR 1,793.4 million)

**Direct impact**

- We purchase construction-related raw materials, products and services from our partners.

**Indirect impact**

- We are a significant local service buyer. Our purchases create jobs and open up new business opportunities for our partners.
- We seek long-term cooperation agreements that give our suppliers and partners the opportunity to develop their business over the long term.
- We are continuously developing new cooperation models that enable the sharing of expertise.



**Investments**  
**EUR 71.3 million** (EUR 64.5 million)

**Direct impact**

- We invest in operational development in all of our operating countries.

**Indirect impact**

- We create new business opportunities to improve our competitiveness. At the same time we safeguard jobs through investments.
- Our investments in new, environmentally friendly production methods help to reduce our environmental footprint.



**Public sector**  
**EUR 4.2 million** (EUR 5.7 million)

**Direct impact**

- We pay income taxes.

**Indirect impact**

- We support social well-being by paying taxes and making other mandatory payments. In addition, our personnel pay income taxes from their salaries.
- We are a significant employer in many countries locally and our purchases from partners also support employment.
- We support the development of local communities through, for example, sponsorship and cooperation with educational institutions.



**Personnel**  
**EUR 449.0 million** (EUR 465.4 million)

**Direct impact**

- We employ about 7,800 persons in 8 countries.
- We make social security and employer contributions.

**Indirect impact**

- We continuously develop our personnel's competence and offer interesting career paths.
- We are a significant employer in many region.
- We invest in our personnel's occupational safety and well-being, which lengthens careers.
- We provide our personnel with retraining opportunities.



**Shareholders and financiers**  
**EUR 55.2 million** (EUR 48.5 million)

**Direct impact**

- For 2013, a dividend of EUR 0.00 per share\* (EUR 0.60 per share) is proposed.
- We pay interest to financiers.

**Indirect impact**



- We seek to increase shareholder value by offering a steady flow of dividends to our shareholders.



\* The Board of Directors' proposal

## Sustainability › Environmental responsibility

# We reduce our environmental footprint

We minimise any environmental impact of our operations, use natural resources sparingly, and generate as little waste as possible. In addition, we offer our customers products and services that enable them to reduce their own energy consumption in particular.

In our daily business, we consider both the direct and indirect impact of our operations on the surrounding community. We constantly strive to reduce the environmental impact of our own production.

## Our environmentally friendly products and services

Construction has a major impact on the environment. According to studies, the use of buildings accounts for approximately 30 per cent, construction for 6 per cent and traffic for 20 per cent of all carbon dioxide emissions in Finland. We develop solutions that will help our customers to reduce their environmental impact.

## Focus on energy efficiency

The Nordic countries pay particular attention to energy-efficient construction. For example, many property investors require their commercial properties to be very energy-efficient and executed in a manner that allows them to obtain general construction industry environmental certification, such as BREEAM or LEED. We consider these requirements already during design management. In 2013, we had four ongoing projects for which we will apply for environmental certification. The sites are located in Töölö Bay (in Helsinki), in Sipoo (in the Helsinki metropolitan area), in Oulu (northern Finland) and in St Petersburg.

Technical building solutions allow us to influence the energy consumed by a building while it is in use. This energy consumption creates the greatest environmental impact of a building's entire lifecycle. We invest in the upkeep and maintenance services for technical building systems, since preventative measures and optimised adjustments are the best way to reduce the energy consumption of technical building equipment in properties. Regular maintenance also extends the service life of this equipment and

consequently reduces the need for new investments. With appropriately optimised technical building systems, our customers can reduce their energy consumption by up to 30 per cent. In 2013, we started nationwide upkeep and maintenance cooperation with the property investor Citycon in 47 of their properties, among other cooperation projects.

## We develop our paving business in an environment-oriented manner

Most of our environmental footprint comes from our own production, especially our paving and mineral aggregates business. During the last 20 years, our paving business development has concentrated particularly on sustainability, for example on energy efficiency and the utilisation of recycled materials.

In order to reduce our own energy consumption, we track the energy consumption of our asphalt plants regularly, optimise the production temperature of asphalt and invest in equipment that makes it possible to increase the production volumes of low-temperature asphalt. In the production of low-temperature asphalt, bitumen is mixed into the asphalt mass by turning it into foam with water, which allows the production temperatures to be lowered further.

In all of our operating countries, our goal is to increase the use of reclaimed asphalt. In Finland, the regulation governing the utilisation of reclaimed asphalt was amended in late 2012, making the use of recycled raw materials easier. In all our operating countries, the use of recycled materials is regulated by the authorities.

In recycled asphalt, milled paving is used as raw material. By recycling, we reduce the need for virgin materials as well as material transportations. The use of recyclable raw material also reduces noise and dust impacts



during production at asphalt plants and in their surroundings.

Our goal is to use natural gas as the energy source at our asphalt plants whenever this option is available. Natural gas is the most energy-efficient and environmentally friendly of all the options in use. By using it, we can also reduce our transportation-related emissions, as gas is delivered through the gas network directly to the asphalt plant.

## Use of mineral aggregates a large part of our environmental footprint

As a major Northern European construction group, we use large volumes of different mineral aggregates as raw material. For this reason, we have approximately 300 mineral aggregate areas around our operating countries. The quarrying of mineral aggregates requires an environmental permit. We have an ongoing dialogue with the authorities in order to develop the environmental permit process and to find the best and most ecological solutions for quarrying mineral aggregates.

In line with our strategy that was published in October 2013, our goal is to reduce the number of mineral aggregate quarrying sites that are far from urban growth centres. Instead, we aim to invest in large, long-term mineral aggregate quarrying sites near urban growth centres.

As the raw material transportation distances become shorter, the environmental impact of construction becomes smaller. Furthermore, long-term quarrying sites allow us to make investments that reduce the impact caused in their immediate surroundings. These include noise and protection barriers and dust filters. We can utilise these areas as recycling centres, when the permits allow it. In 2013, the Ministry of Environment revised the interpretation of the regulation governing the re-use of blasted rock and clean excavated soil in Finland. Consequently, we are able to store blasted rock from tunnel construction sites, for example, and re-use it as raw material in foundation engineering and asphalt production. This reduces the need for virgin materials.

Our goal is to constantly develop the recycling of raw materials and to utilise waste, such as blasted rock, generated as a by-product of construction projects to an increasing extent. We are developing the entire industry in cooperation with authorities and other industry players. For example, we are involved in the UUMA2 programme, launched in 2013, in which authorities and industry players join forces to look for solutions on how to promote the use of recovered materials in earthworks and thus decrease the use of virgin materials and the environmental effects of earthworks.

Sustainability › Environmental responsibility › Paving on the environment's terms

## CASE

### Paving on the environment's terms

The aim of the paving development programme, established in 2013, is to promote the environmental friendliness of the paving business and to transfer best practices among our operating countries.

As the most significant development steps, we have identified the increasing use of recycled asphalt as raw material, lower asphalt production temperatures and better planning of tasks in the production phase. Through systematic development and standardised, more environmentally friendly operating methods, we also improve our operational efficiency and profitability.

The use of recycled asphalt as raw material has become an established practice in Finland and Denmark. Our aim is that, in 2014, the use of recycled asphalt as raw material will be increased in all of our operating countries. By

recycling, we reduce the need for virgin materials. The use of recyclable raw material also reduces noise and dust effects during production at asphalt plants and in their surroundings. For our customers, recycled asphalt offers an opportunity to get a more environmentally friendly product with the same quality and durability properties than when asphalt mass is made of virgin materials.

Norway has been pioneering the production of low-temperature asphalt. Now we intend to increase its production in all of our operating countries. In the production of low-temperature asphalt, bitumen is turned into foam with water, which allows it to be mixed into the asphalt mass at a lower temperature than in normal asphalt production. A lower production temperature reduces our energy consumption and emissions.

In 2014, we will also pay attention to smoother planning of work. The better we optimise the transportation of asphalt mass to construction sites, for instance, the less idling and unnecessary waiting there is. The reduction of idling reduces our emissions and need for energy. In 2014, we will start using a new work planning tool, at first launching it at

selected sites and then gradually expanding its use during the next few years. The new tool enables us to plan production phase and transportation schedules so that they form a more harmonised whole.

Sustainability › Social responsibility › Personnel

## Success through good supervisory work

In 2013, our HR goals included, first and foremost, clarifying supervisors' roles and increasing the competence of our employees for the new strategy period.

Our goal is to be the best employer in the construction industry. We pursue this goal by developing leadership, management, supervisory work and by offering Lemminkäinen employees opportunities to continuously develop their expertise.

### Employee survey yielded positive results

In our employee survey, conducted annually in all of our operating countries, we look into matters related to, among other things, leadership, management and supervisory work, personnel commitment, occupational well-being and safety, and work with customers. The 2013 response rate improved to 69 per cent, up by one percentage point. Among salaried employees, the response rate was 74 per cent and among hourly paid employees 63 per cent.

In general, the overall result was more positive than before, and especially the results from hourly paid employees have improved clearly. According to respondents, the most significant improvements have been achieved in occupational safety, environmental protection and the application of the Code of Conduct. The number of career development discussions conducted and the handling of the employee survey results in teams increased from the previous year.

### We invest in developing leadership

Leadership has been defined as one of Lemminkäinen's key corporate responsibility aspects, and it is also one of the most significant aspects of HR. In the construction industry, project work and changing work locations pose challenges for management and supervisory work.

Career development discussions are an important leadership and management tool for us. During the discussion, an employee and his/her supervisor agree on the

employee's targets. The career development discussions help Lemminkäinen employees understand their role in the implementation of the strategy. According to our experience, the discussions have a clear impact on personnel satisfaction, efficient organisation of tasks and labour productivity. In 2013, we placed special emphasis on the career development discussions of hourly paid employees.

In 2013, we started the clarification of supervisory roles and tasks. This work will be continued in 2014. In order to support supervisory work, we have also standardised and developed the HR practices related to recruitment, the beginning and end of an employment relationship, payroll administration and travel management, for example. Standardised operating methods also support equality.

According to the employee survey, management and supervisory work at Lemminkäinen has improved. Our result is also good when compared to other manufacturing organisations. On the basis of the survey results, we have identified the lowest performers among our supervisors and now support them in various ways.

In the autumn of 2013, the global HR management team started its work. The team makes decisions on HR guidelines that apply to Lemminkäinen employees in all of our operating countries and affect supervisory work. The next areas for which we will be defining common guidelines include remuneration and personnel reporting.

### Key personnel's leadership skills assessed

For the implementation of the new strategy, we wanted to gain a good overall picture of leadership competence and its development needs at Lemminkäinen. Therefore, more than 40 members of the key personnel were assessed in summer 2013.

The assessment showed that Lemminkäinen's key personnel were very dedicated and leading operations in line with our values. According to the key personnel, Lemminkäinen's strengths include high professional competence, the company's growth opportunities and its strong history. Challenges are posed by, for example, last years' change speed. There is also room for improvement in cooperation between different businesses and operating countries. In the assessment, change management, ability to change and people leadership were considered important competence requirements of key personnel.

## People planning helps to ensure competence

Through people planning, we ensure that our businesses have a sufficient number of the right kinds of experts in the coming year.

People planning helps us to organise and plan key tasks, identify current and future key talents, conduct succession planning and make potential new recruitments. With the aid of the plan, we identify competence development needs, define remuneration guidelines and develop the management of risks related to working capacity.

## We develop our employer image

The most important element in the development of Lemminkäinen's employer image is to ensure that our current employees enjoy their work and are satisfied with Lemminkäinen. Our employee survey provides us with information on our internal employer image.

In Finland, we monitor our external employer image through the annual employer image survey conducted by T-Media. In 2013, questions related to Lemminkäinen were answered by approximately 12,000 respondents. According to the survey, approximately 88 per cent of the respondents know Lemminkäinen as an employer. Our goal is to be the best employer in the Finnish construction industry. The survey showed that we are the most interesting employer among university students interested in the construction industry and the second most interesting employer among technical vocational degree students. In 2014, we will assess our employer image in our other operating countries, too.

One of the goals of Lemminkäinen's employer image activities in 2013 was to increase our attractiveness as an employer. We searched for summer employees through a recruitment campaign in which we also provided information about Lemminkäinen as an employer. We want to ensure that Lemminkäinen's summer employees have a useful and enjoyable work experience. Therefore, we participated again

in the Responsible Summer Jobs (Vastuullinen kesäduuni) campaign. The campaign challenges employers to offer young people more – and better – summer jobs. We provide various forms of support to supervisors in recruitment as well as in the guidance of trainees and summer employees. In 2013, we had about 350 summer employees working in Finland.

## Dialogue with vocational students

Our goal is to make Lemminkäinen a more interesting employer option especially among vocational students. In 2013, we participated in the Amis-Dialogi project in which we, together with vocational students and six other companies, explored ways to further improve work practices.

In the project, a better working life was considered from four different points of view: which skills are useful when working; how to attract good employees to where there are jobs available; what good work is like; and how companies can be encouraged to hire new graduates and thus reduce youth unemployment. The final report of the Amis-Dialogi will be published in spring 2014.

## Cooperation and dialogue with students and student organisations

We support the activities of construction industry student organisations. At the beginning of 2013, we organised a campaign involving these organisations as well as online resources to help construction industry students learn more about Lemminkäinen and our operations.

The Finnish National Skills Competition Taitaja is the biggest annual event for vocational students in Finland. The competition is intended for vocational students aged 20 years or under; in 2013, it was held in Joensuu in eastern Finland. We have sponsored the Taitaja competition for several years, and in 2013, our sponsored disciplines were air conditioning installation, plumbing, and masonry and tiling work.

Cooperation with Taitaja gives us an opportunity to meet potential future employees of Lemminkäinen. It also offers us a chance to tell young people more about Lemminkäinen as an employer and about our employees as colleagues.

## We support competence development

In career development discussions, we evaluate the needs for the personnel's competence and career development. A total of 71 per cent of the Lemminkäinen employees that took the employee survey had taken part in a career development discussion during the preceding year. Our goal

is for every Lemminkäinen employee to have a career development discussion.

In order to support competence development, we offer customised training to all personnel groups in Finland. The PAKKI training promotes occupational safety and skills that ensure top-quality results. The VILLA training offers additional coaching on various topics, such as competition law, improvement of operational efficiency and management of development projects.

As part of the Lemminkäinen supervisors' academy LEKA, supervisors and management are trained in topics related to Lemminkäinen's common operating models, supervisory work and the implementation of the strategy, for example.

### We transfer experiences and competence

Lemminkäinen's first mentor-mentee and master-journeyman pairs began the approximately 6-month programme in Finland in spring 2013. In the mentoring and master-journeyman programmes, an experienced expert (the mentor or master) advises, supports and advances a less-experienced colleague who is eager to develop his or her skills.

The programme will help develop the professional skills of the mentee or journeyman, as well as the transfer of expertise and tacit knowledge. It will prepare new people for positions that cannot be filled by those coming directly from educational institutions. It is also suitable for training people for new positions when their working capacity is at risk. Mentoring is aimed at salaried employees, while the master-journeyman model is for hourly paid employees.

Our experiences with the programme were good. The participants considered it an inspiring way to

learn new things and to transfer their own expertise. A new group started in the programme in November 2013.

### Personnel negotiations in autumn 2013

During 2013, we continued the harmonisation of our employer-employee cooperation practices in Finland. In June, we organised the first joint staff representative event in our Finnish operations. From now on, the joint staff representative event will be organised once a year.

In August 2013, we initiated extensive personnel negotiations concerning the entire Group and all personnel groups. The aim was to continue the lightening of the cost structure in order to reduce the impact of seasonality and to improve our competitiveness in an increasingly difficult market situation. At the same time, it was necessary to adjust the number of personnel to align with the lower volume of business operations.

With the new efficiency measures, we are pursuing savings of EUR 30 million. As a part of the efficiency measures, we will reduce our personnel by approximately 500 man-years. By the end of the year, the reduction in Finland was nearly 300 man-years and in other countries approximately 100 man-years. In some of our operating countries, the process is still ongoing.

In Finland, Lemminkäinen offers dismissed personnel outplacement coaching that aims to support them in the change and in finding suitable new employment as quickly as possible. Customised change support has also been provided to individual teams, when necessary.

Sustainability › Social responsibility › Personnel › Highlighting vocational students' views on working life

## CASE

### Highlighting vocational students' views on working life

In the Amis-Dialogi project in 2013, we learnt more about the views and hopes of vocational students—a student group that is important for us with regard to future working life.

The project investigated the kinds of hopes and attitudes vocational students have for working life and the kinds of hopes companies such as ours have with regard to them. At the same time, we got information about our

employer image among vocational students. According to them Lemminkäinen has a good working atmosphere and remuneration, it takes care of its employees and offers good career opportunities. In addition Lemminkäinen's employees enjoy their work. Lemminkäinen's weakness lies in the flexibility of work.

In addition to Lemminkäinen, six other partner companies

and ten vocational education institutes from different parts of Finland participated in this nationwide project. The project started in autumn 2013 with a survey at vocational education institutes. After this, a tour was organised to these institutes, during which students were provided with information about different opportunities in working life and they were asked about their views on and hopes for working life.

In November 2013, an extensive workshop was arranged as part of Amis-Dialogi. In it, our representatives, together with vocational students, contemplated different ways to improve working life.

"Young people demand a lot from themselves and enter working life with a humble attitude. They want to learn from more experienced people but, at the same time, they also expect supervisors to provide them with proper induction training and constructive feedback instead of just giving them commands," says Jani Pentti, Head of HR, Infrastructure construction, who participated in the workshop.

"The students emphasised the significance of cooperation between educational institutes

and companies during studies. A young student has only a vague idea of the types of tasks available in different companies. A good approach is to arrange our employees to visit their former educational institutes. Young people also appreciate mentors or persons already in working life who can guide them in practical issues," adds Eero Lahtinen, Workforce and Safety Manager, Building construction.

In February 2014, an extensive research report was published on the basis of information gathered during the project. The students share the desire to work and they have faith in one's own expertise and future combined the students. 78% of participants believe that they will be employed directly after graduation.

### What is Amis-Dialogi?

Each year, Amis-Dialogi looks into and improves daily work together with companies, their employees and students. The goal is a better working life. In Amis-Dialogi, the companies that sat down around the same table with vocational students in 2013 in order to shape future work included, in addition to Lemminkäinen, Hartwall, Helsingin Energia, ISS Palvelut, McDonald's and Metsä Group.

Sustainability › Social responsibility › Occupational well-being

## We develop occupational well-being

We believe that healthy employees accomplishes the best results and are satisfied with their work. In 2013, we concentrated on developing the early support model and improving ergonomics.

The majority of our personnel work in physically demanding conditions at construction sites. This leaves them susceptible to occupational diseases and injuries and increases the risks of disability and early retirement. Therefore, we develop our occupational healthcare and occupational well-being services. Our occupational healthcare is arranged in accordance with the local operating model in each of our operating countries.

### Good results in improving occupational health and well-being through the early support model

In particular, we focus on preventive measures and the early identification of potential risks to working capacity. We believe that healthy and contented employees accomplish the best results and are satisfied with their work.

In Finland, we use the early support model for working capacity, which helps us to improve occupational well-being and lengthen the careers of our personnel. In addition, we identify persons with reduced working capacity in conjunction with the annual people planning process and through a regular health survey. We want to find the tasks that are suitable for everyone's own working capacity.

The adoption of the early support model has proceeded well. For example, sickness absences have decreased steadily for a couple of years in a row. In 2013, the sickness absence percentage in Finland was 3.32 per cent (2012: 3.60 per cent). The number of occupational healthcare consultations is still rising. During a consultation, the employee and his/her supervisor, together with the occupational healthcare service, discuss solutions to support working capacity. We offer our employees the opportunity to retrain

or help them to reorganise their current duties with the help of coaching. The number of job trials and retraining arrangements in Finland in 2013 was approximately 30 (20). In 2013, the number of Lemminkäinen employees retiring on disability pension in Finland was 34 (36).

### **We reduce the risk of injuries with correct working positions**

Construction industry work entails tasks that cause a lot of physical strain. Muscles and joints may become overburdened. A common injury is pulling one's back muscles due to sudden or incorrect movement. With the correct working positions, we can reduce the risk of injuries.

In the spring 2013, we published a video that advises employees on ergonomics. The video introduces correct lifting techniques and safe working positions for various tasks in the construction industry. In addition, it provides tips for muscle care at the work site. The video is used at on-site weekly meetings and in induction training in Finland. In 2014, we will also publish other language versions of the video.

Sustainability › Social responsibility › Occupational safety

## **Safety – the most important issue in a working day**

At Lemminkäinen, the theme for 2013 was occupational safety. We are pursuing our zero-accident target through mandatory weekly meetings on construction sites and by paying attention to the use of protective equipment.

In 2013, our site accident frequency rate was 16.3 (22.0). The figure does not include accidents during commuting or occupational diseases. Although we are advancing in the right direction, our long-term target is zero accidents by 2020. Unfortunately, one fatal accident involving an employee of a subcontractor occurred at one of our sites in Finland in 2013.

The business segment management teams and the Group's Executive Team regularly monitor the development of the accident frequency rate, its causes and the measures we take to improve the rate. The business segment management teams discuss every serious accident at their meetings. We also report on occupational safety to Lemminkäinen's Board of Directors. In addition, the accident frequency rate is one of the bases for the payment of performance bonuses in our business segments.

In 2013, we harmonised the reporting of the accident frequency rate in all of our operating countries and monitored the classification of accidents more closely. However, we were not able to expand the monitoring of the subcontractors' accident frequency rate to all of our operations. We started the subcontractors' accident frequency rate reporting in 2014.

### **We implemented weekly meetings in every country**

We constantly plan and take measures to improve occupational safety. To accelerate this development, we designated occupational safety as the theme for 2013. During the year, occupational safety was brought to centre stage in all of our activities. Supervisors relayed the message in the daily work, and the Group's and business segments' management participated in on-site occupational safety reviews.

At the end of 2012, we introduced weekly meetings at our sites in Finland. These meetings are also attended by our subcontractors and their employees. During the reporting year in Finland, the weekly meetings rate was 81 per cent. In early 2013, this practice was also launched in our other operating countries. Our goal is for all of our sites to hold weekly meetings in 2014. Monthly reports on the weekly meetings are submitted to the Group's Executive Team.

During 2013, we increased the number of site safety audits. The segment safety managers, together with the site manager, are responsible for the safety audits. In 2013, the management participated in the audits, too. Throughout the year, we conducted more than 100 safety audits during which we carefully review the site-specific risks and agree on concrete measures to avoid accidents.

such as slipping. We pay particular attention to the construction sites where there is most room for improvement in occupational safety practices.

We collect safety observations in many different ways. In line with our target, we enhanced our electronic safety observation system by introducing a text message application in all of our business segments in Finland. With the application, our personnel can send safety observations as either pictures or text messages. In fact, the number of safety observations in Finland increased by 33 per cent during the reporting year. In our other operating countries, we increased the awareness of the importance of safety observations through safety audits and supervisor communications, among other measures. Consequently, the number of safety observations increased tenfold.

In September 2013, we held the traditional occupational safety week. The activities organised at construction sites during the week included first-aid training, reminders on the appropriate use of protective equipment, rescue drills and employee interviews on occupational safety issues. In addition, the Group's management conducted on-site safety rounds. In 2014, we will hold the occupational safety week in May together with other companies in the construction industry.

We continuously train our personnel in occupational

safety issues. Training helps us to reduce the risk of accidents and ensure that the required protective equipment is used appropriately.

## We will standardise protective equipment practices

Personal protective equipment is mandatory at all of our construction sites. The rules also apply to our subcontractors and their employees.

In 2013, we updated our protective equipment catalogue. Our protective equipment supplier toured our construction sites, providing guidance and assistance in the use of protective equipment in Finland. With these actions, we aim to reduce the accidents caused by inappropriate equipment. For example, many of the accidents that occur at our construction sites are the result of neglecting to use cut-resistant gloves; in most cases, they could have been prevented with the proper protective equipment. We also invest in the development of working methods constantly and pay attention not only to ergonomics but also to the order and phasing of work so that sites do not have areas without the necessary railings, for instance.

During 2014, we will harmonise our protective equipment practices in all of our operating countries.

Sustainability › Social responsibility › Occupational safety › Occupational safety is improved each week

## CASE

### Occupational safety is improved each week

Lemminkäinen started weekly employee meetings at all of its Finnish construction sites in December 2012. At the sites located in Jyväskylä, meetings were already launched in 2011 and the region has broken records in the number of accident-free days.

At the construction site for the Harjunportti apartment block in the centre of Jyväskylä, the meetings are held every Monday morning, led by general foreman **Perttu Aarniolehto**.

"The way of thinking on the site has changed significantly. Safety gear and equipment were already good before, but now they are used, too," construction worker **Timo Åkerman** says.

Aarniolehto has noticed that occupational safety issues are discussed daily to a greater extent and more openly than before. "And there is hardly any need to remind people about the use of personal protective equipment; they have become self-evident."

At the meetings, the team goes through the latest occupational safety issues and announcements. The meetings are also attended by wage employees, electricians and subcontractors, who also have a separate subcontractor meeting. The meeting proceeds briskly and lasts 15–40 minutes, offering everyone an opportunity to voice their opinion. The occupational safety and risk management measurements from the previous week are reviewed together. Accidents and hazards, if any, are discussed and it is determined how they can be avoided in future. For example, a



hazard was caused at the Harjunportti site by a crowbar falling when a mould was being dismantled. In future, safety zones will be fenced off in order to avoid accidents.

Following the discussion of safety issues, the meeting proceeds to the plans for the coming week. "There are fewer disruptions at construction sites when each week's tasks, working methods and material needs are reviewed in advance," says Aarniolehto.

According to the results of the employee survey, employees' access to information has improved clearly since the weekly meetings were introduced. The accident frequency rate has also decreased; however, this is also the result of other safety improvements having been carried out during the year.

## Sustainability › GRI › GRI table

### GRI table

We have declared that our reporting is compliant with Application Level B+ of the GRI G3 Guidelines. PricewaterhouseCoopers Oy has checked our reporting and has confirmed it is compliant with Application Level B+.

- Reported
- Partly reported
- Not reported

GRI Content	Reporting	Remarks	Pages
<b>1. Strategy and Analysis</b>			
1.1 CEO's statement	●		CEO's review
1.2 Key impacts, risks and opportunities	●		Strategy Operating environment Risk management
<b>2. Organizational Profile</b>			
2.1 Name of the organization	●		Lemminkäinen in brief
2.2 Primary brands, products and services	●		Business segment review
2.3 Operational structure incl. main divisions, operating companies, subsidiaries, joint ventures	●		Operating segments Shares and holdings
2.4 Location of organization's headquarters	●		Accounting principles applied in the IFRS consolidated financial statements
2.5 Number of countries and names of countries with major operations or that are relevant to sustainability issues	●	The number of major operating countries of Lemminkäinen is 8: Finland, Sweden, Norway, Denmark, Russia, Estonia, Latvia and Lithuania.	
2.6 Nature of ownership and legal form	●		Corporate Governance Statement
2.7 Markets served (geographic breakdown, sectors served, types of customers/beneficiaries)	●		Business segment review Financial performance and targets 2013
2.8 Scale of the reporting organization (Number of employees, number of operations, net sales, total capitalization by debt and equity, quantity of products/services provided)	●		Lemminkäinen in brief
2.9 Significant changes regarding size, structure or ownership (location of, or changes in operations, incl. facility openings, closings, and expansions; and changes in share capital structure)	●	No significant changes during the reporting period.	



2.10	Awards received in the reporting period	●	No awards that GRI requires to be reported during the reporting period.		
<b>3. Report Parameters</b>					
<b>Report profile</b>					
3.1	Reporting period	●		Reporting principles	
3.2	Date of most recent report	●	Lemminkäinen's annual report 2012 was published 19 March 2013.		
3.3	Reporting cycle	●		Reporting principles	
3.4	Contact point for questions regarding the report or its content	●		<a href="http://www.lemminkainen.com/Lemminkainen/Contacts/">http://www.lemminkainen.com/Lemminkainen/Contacts/</a>	
<b>Report scope and boundary</b>					
3.5	Process for defining report content (materiality, prioritizing topics and stakeholders using the report)	●		Reporting principles	Our way of working
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	●		Reporting principles	
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	●		Reporting principles	
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	●		Reporting principles	
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	●		Reporting principles	
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/ acquisitions, change of base years/periods, nature of business, measurement methods).	●		Reporting principles	
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods	●		Reporting principles	
<b>GRI content index</b>					
3.12	Table identifying the location of the Standard Disclosures in the report.	●			
<b>Assurance</b>					
3.13	Policy and current practice with regard to seeking external assurance for the report.	●		Reporting principles	Independent assurance report
<b>4. Governance, Commitments and Engagement</b>					
<b>Governance</b>					
4.1	Governance structure of the organisation, incl. committees under the highest governance body (mandate and composition incl. number of independent members and/or non-executive members) (report % of individuals by gender within the highest governance body, broken down by age group and minority group membership/ other indicator of diversity)	●		Corporate Governance Statement	Board of Directors

4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	●	Corporate Governance Statement
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	●	Board of Directors
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.		Corporate Governance Statement
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	●	Remuneration
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	●	Corporate Governance Statement
4.7	Process for determining the composition, qualifications and expertise of the Board of Directors and its committees, including any consideration of gender and other indicators of diversity	●	Corporate Governance Statement
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	●	Sustainability management systems
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	●	Sustainability management systems Corporate Governance Statement
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	●	Corporate Governance Statement
<b>Commitments to External Initiatives</b>			
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	●	Risk management
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	●	Sustainability management systems
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	●	Our way of working
<b>Stakeholder Engagement</b>			
4.14	List of stakeholder groups engaged by the organization.	●	Cooperation with stakeholders
4.15	Basis for identification and selection of stakeholders with whom to engage.	●	Cooperation with stakeholders

4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	Cooperation with stakeholders	
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	●	Cooperation with stakeholders Customer cooperation	Personnel
<b>Economic Performance Indicators</b>				
	<b>Management approach to economic responsibility</b>	●	Corporate Governance Statement	Risk management Sustainability management systems
	<b>Economic Performance</b>		Group strategy	
EC1*	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	●	Financial responsibility	Cooperation with stakeholders
EC2*	Financial implications and other risks and opportunities for the organization's activities due to climate change.	●	Economic performance indicators	
EC3*	Coverage of the organization's defined benefit plan obligations.	●	Pension obligations	
EC4*	Significant financial assistance received from government.	●	Economic performance indicators	
	<b>Market presence</b>			
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	●		
EC6*	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	●		
EC7*	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	●		
	<b>Indirect Economic Impacts</b>			
EC8*	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	●		
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	●	Financial responsibility	Economic performance indicators
<b>Environmental Performance Indicators</b>				
	<b>Management approach to environmental responsibility</b>	●	Sustainability management systems	Environmental responsibility
	<b>Materials</b>			
EN1*	Materials used by weight or volume	●		
EN2*	Percentage of materials used that are recycled input materials	●	Environmental responsibility	
	<b>Energy</b>			
EN3*	Direct energy consumption by primary source	●	Environmental performance indicators	
EN4*	Indirect energy consumption by primary source	●	Environmental performance indicators	
EN5	Energy saved due to conservation and efficiency improvements	●		

	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	●	Environmental responsibility
EN6			
	Initiatives to reduce indirect energy consumption and reductions achieved	●	
EN7			
	<b>Water</b>		
			Environmental performance indicators
EN8*	Total water withdrawal by source	●	
	Water sources significantly affected by withdrawal of water (incl. value/importance of water source to local communities)	●	
EN9			
	Percentage and total volume of water recycled and reused	●	
EN10			
	<b>Biodiversity</b>		
	Location and size of land holdings in areas of high biodiversity	●	
EN11*			
	Description of significant impact of activities, products, and services on biodiversity	●	
EN12*			
	Habitats protected or restored	●	
EN13			
	Managing impacts on biodiversity (incl. engagement with relevant stakeholders)	●	Environmental performance indicators
EN14			
	Species with extinction risk with habitats in areas affected by operations	●	
EN15			
	<b>Emissions, Effluents and Waste</b>		
	Total direct and indirect greenhouse gas emissions	●	Environmental performance indicators
EN16*			
	Other relevant indirect greenhouse gas emissions	●	
EN17*			
	Initiatives to reduce greenhouse gas emissions		
EN18			
	Emissions of ozone-depleting substances	●	
EN19*			
	NOx, SOx, and other significant air emissions	●	
EN20*			
	Total water discharge by quality and destination	●	
EN21*			
	Total amount of waste by type and disposal method	●	Environmental performance indicators
EN22*			
	Total number and volume of significant spills	●	
EN23*			
	Transported, imported, exported, or treated hazardous waste	●	
EN24			
	Water bodies and habitats affected by discharges of water	●	
EN25			
	<b>Products and Services</b>		
	Mitigating environmental impacts of products and services	●	Environmental responsibility
EN26*			
	Percentage of products sold and their packaging materials reclaimed by category	●	
EN27*			
	<b>Compliance</b>		
	Significant fines and sanctions for non-compliance with environmental regulations	●	Environmental performance indicators
EN28*			
	<b>Transport</b>		
			Environmental performance indicators
EN29	Environmental impacts of transportation	●	
	<b>Overall</b>		
	Total environmental protection expenditures and investments	●	
EN30			

Social Performance Indicators				
<b>Labor Practices and Decent Work</b>		●	Sustainability management systems	Personnel
<b>Management approach to labor practices and decent work</b>			Occupational well-being	Occupational safety
<b>Employment</b>				
LA1*	Total workforce by employment type, employment contract and region, broken down by gender	●	Social performance indicators	Board of Directors' report
LA2*	Total number and rate of new employee hires and employee turnover by age group, gender and region	●	Social performance indicators	Board of Directors' report
LA3	Benefits to full-time employees that are not provided to temporary or part-time employees	●		
<b>Labor/Management Relations</b>				
LA4*	Coverage of collective bargaining agreements	●	Social performance indicators	
LA5*	Minimum notice period regarding operational changes	●	Lemminkäinen complies with local legislation.	Social performance indicators Personnel
<b>Occupational Health and Safety</b>				
LA6	Percentage of employees represented in joint health and safety committees	●	Social performance indicators	
LA7*	Rates of injury, occupational diseases, lost days, fatalities and absenteeism by region, and by gender	●	Social performance indicators	Occupational safety
LA8*	Education and prevention programmes regarding serious diseases	●	Social performance indicators	Occupational well-being
LA9	Health and safety topics covered in formal agreements with trade unions		Occupational safety	
<b>Training and Education</b>		●		
LA10*	Average training hours per year per employee by gender and by employee category			
LA11	Programmes for skills management and lifelong learning	●		
LA12	Employees receiving regular performance and career development reviews, by gender	●	Social performance indicators	
<b>Diversity and Equal Opportunity</b>		●	Social performance indicators	
LA13*	Composition of governance bodies and breakdown of employees			
LA14*	Ratio of basic salary of men to women by employee category	●	Social performance indicators	
LA15*	Return to work and retention rates after parental leave, by gender	●		
<b>Management approach to human rights</b>		●	Sustainability management systems	Our way of working
<b>Investment and procurement practices</b>				
HR1*	Percentage and number of significant investment agreements and contracts that include human rights clauses or that have undergone human rights screening	●		
HR2*	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening and actions taken	●	Social performance indicators	
HR3*	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, incl. percentage of employees trained	●		
<b>Non-discrimination</b>				

HR4*	Incidents of discrimination and actions taken	●		
	<b>Freedom of association and collective bargaining</b>			
HR5*	Operations and significant suppliers identified in which the right to exercise freedom of association or collective bargaining may be at significant risk and actions taken to support these rights	●		Social performance indicators
	<b>Child labor</b>			
HR6*	Operations and significant suppliers identified as having significant risk for child labor and measures taken to contribute to the elimination of child labor	●		Social performance indicators
	<b>Forced and compulsory labor</b>			
HR7*	Operations and significant suppliers identified as having significant risk for forced or compulsory labor and measures taken to contribute to the elimination of forced or compulsory labor	●		Social performance indicators
	<b>Security practices</b>			
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	●		
	<b>Indigenous rights</b>			
HR9	Number of incidents involving rights of indigenous people and actions taken	●		
	Assessment			
HR10*	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments	●		
	Remediation			
HR11*	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms	●		
<b>Society</b>				
	<b>Management approach to society</b>	●	Sustainability management systems	Our way of working
	<b>Local community</b>			
S01*	Percentage of operations with implemented local community engagement, impact assessments, and development programs	●	Environmental performance indicators	
	<b>Corruption</b>			
S02*	Percentage and total number of business units analyzed for risks related to corruption	●		
S03*	Percentage of employees trained in anti-corruption policies and procedures	●		
S04*	Actions taken in response to incidents of corruption	●	Social performance indicators	
	<b>Public Policy</b>			
S05*	Public policy positions and participation in public policy development and lobbying	●	Social performance indicators	
S06	Total value of financial and in-kind contributions to political parties, politicians and related institutions	●	Social performance indicators	
S07	Number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	●	Social performance indicators	Legal proceedings
	<b>Compliance</b>			
S08*	Monetary value of significant fines and number of non-monetary sanctions for non-compliance with laws and regulations	●	Social performance indicators	

S09*	Operations with significant potential or actual negative impacts on local communities	●		
S010*	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities	●		
<b>Product Responsibility</b>				
	<b>Management approach to product responsibility</b>	●	Sustainability management systems	Cooperation with stakeholders
	<b>Customer Health and Safety</b>			
PR1*	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	●		
PR2	Number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	●		
	<b>Product and Service Labeling</b>			
PR3*	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	●		
PR4	Number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	●		
PR5	Practices related to customer satisfaction and results of customer satisfaction surveys	●	Social performance indicators	Customer cooperation
	<b>Marketing Communications</b>			
PR6*	Programs for adherence to laws, standards and voluntary codes related to marketing communications, advertising, promotion and sponsorship	●	Social performance indicators	
PR7	Number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, advertising, promotion, and sponsorship	●		
	<b>Customer Privacy</b>			
PR8	Number of substantiated complaints regarding breaches of customer privacy and losses of customer data	●		
	<b>Compliance</b>			
PR9*	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	●		

\* GRI Core indicator

## Sustainability › GRI › Reporting principles

# Reporting principles

Lemminkäinen's combined annual report and sustainability report covers the period 1 January–31 December 2013. Our annual report is geared towards our most important stakeholders: shareholders, investors, analysts, financiers, the media, customers, partners, and personnel. This is our fourth sustainability report and it complies with the GRI G3.1 reporting framework. We report on sustainability annually.

The materiality matrix guides Lemminkäinen's sustainability reporting; the company focuses on those themes that are highlighted in the materiality evaluation. Lemminkäinen's latest materiality matrix is from 2012. Lemminkäinen's goal is to perform a stakeholder survey in 2014; the company will update the materiality matrix based on that survey.

Lemminkäinen's consolidated financial statements are drawn up and presented in accordance with IFRS standards. Consolidated financial statements provide the majority of the key economic responsibility figures. The consolidated financial statements have been drawn up in accordance with EU-approved IAS and IFRS standards, and the SIC and IFRIC interpretations in effect on 31 December 2013. The notes to the consolidated financial statements are also drawn up in compliance with the Finnish accounting and corporate legislation supplementing the IFRS standards. Segment reporting is based on management reporting, as per IFRS 8, and therefore deviates in part from the consolidated accounting principles. Comparison figures for 2012 are presented in brackets.

Personnel and remuneration data has been obtained during financial reporting and is also published in the financial statements. The data on Finnish employees is supplemented with information from the HR data system. Occupational health figures cover Lemminkäinen's operations in Finland, and occupational safety figures cover all of Lemminkäinen's operations. Absences due to sickness and accidents are calculated on theoretical, regular working hours.

Environmental reporting for 2013 covers operations in Finland. The reporting of waste, electricity and water covers the production facility operations subject to permits. The figures have not been adjusted in proportion to production volumes. Lemminkäinen head office in Helsinki implements an environmental management system. The system has WWF Finland's Green Office label.

Lemminkäinen also participates in the Carbon Disclosure Project (CDP) survey. The CDP is an international, non-profit organisation of institutional investors that studies the impact of climate change from an investor's perspective.

Calculation principles as well as any exceptions in and limitations to the calculation methods used have been noted next to the figures in question. If there have been any changes in the key figures reported, or to their scope, boundaries or measurement techniques, these have also been noted next to the figures in question.

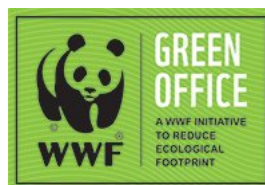
The Finnish-language sustainability reporting's numeric sustainability data has been assured by an independent third party, PricewaterhouseCoopers Oy, which has also checked the English-language version for conformity.

Lemminkäinen has declared that its reporting is compliant with Application Level B+ of the GRI G3 Guidelines. PricewaterhouseCoopers Oy has checked Lemminkäinen's reporting and has confirmed it is compliant with Application Level B+.

### CARBON DISCLOSURE PROJECT



WE SUPPORT







## Sustainability management systems

Lemminkäinen wants to grow and develop the company's business sustainably over the long term. The company operates responsibly and takes the expectations of customers, personnel and other stakeholders into account.

The starting point of sustainability management is Lemminkäinen's strategy, and it is based on the company's values, Code of Conduct, and policies and principles defined at the Group level. The President and CEO is responsible for leading sustainability. The Group's Executive Team discusses these matters regularly, and they are also reported to the Board of Directors.

Lemminkäinen adheres to current legislation in all its operating countries. The most significant international regulations and agreements that guide the company's operations are:

- the UN's Declaration of Human Rights;
- the UN's Global Compact initiative in the field of corporate responsibility, promoting human rights, labour rights, environmental protection and anti-corruption;
- The ILO's employment rights and principles;
- the OECD's operational guidelines for multinational companies; and
- International Chamber of Commerce (ICC) recommendations.

### Financial responsibility management systems

A detailed description of the financial responsibility management systems can be found in the [Corporate Governance Statement](#).

### Environmental and safety management systems

Responsibility for the Group's environmental and occupational safety issues is held by an Executive Team member and at the business segment level by an environmental and/or quality manager. The Head of Environment and Safety, coordinates operations at the Group level and between businesses. In addition, she leads the EHSQ group in which the EHSQ managers of the businesses meet on a regular basis. At the EHSQ meetings, Lemminkäinen's operations are developed across business boundaries and best practices are shared.

Lemminkäinen is committed to the Confederation of Finnish Construction Industries RT's target of zero accidents by 2020.

In the daily management of environmental and safety issues Lemminkäinen utilises management systems that meet the requirements of the international standards ISO 9001:2008 (quality management system), ISO 14001:2004 (environmental management system) and OHSAS 18001:2007 (occupational health and safety management system).

The management systems ensure also that there are the required resources for every stage of the projects and that work is completed on time and in accordance with the customer's order. Lemminkäinen has separate management systems for each business segment.

### Social responsibility management systems

Lemminkäinen's social responsibility management has been decentralised. Human resources management is led by the Executive Vice President, HR and ICT. Lemminkäinen's HR policy aims to ensure that the company has the competent, motivated and satisfied personnel required by the operational targets.

The goal of Group-level policies and principles, such as the equality action plan, is to promote fairness and to ensure equal treatment. Compliance with Group-level policies and principles is managed and monitored within the scope of line operations.

Also Lemminkäinen's partner and supplier network is expected to comply with laws, international human rights, labour rights, environmental regulations and Lemminkäinen's Code of Conduct. In addition, Lemminkäinen requires all its subcontractors to adhere to the Act on the Contractor's Obligations and Liability When Work Is Contracted Out when operating in Finland. The Executive Vice President, Procurement, is responsible for the partner and supplier network.

Legal affairs are coordinated by a Group-level unit

in order to promote consistent practices. The Senior Vice President, Legal Affairs, is responsible for this. Furthermore, more detailed guidelines about competition law and insider issues are provided to complement the Code of Conduct. Business management is responsible for monitoring compliance with these guidelines, and internal training on them is also provided. Lemminkäinen has zero tolerance with regard to activities violating the competition legislation.

Lemminkäinen uses the SpeakUp service through which both Lemminkäinen employees and external stakeholders can report any suspected violation of the Code of Conduct.

Product responsibility is led by Executive Vice Presidents of Lemminkäinen's business segments. They are responsible for customer service and they supervise that Lemminkäinen's products and marketing comply with law and regulations.

## Sustainability › GRI › Economic performance indicators

# Economic performance indicators

## EC1 Direct economic value generated and distributed

Lemminkäinen analyses the economic impact of its operations at the Group level. The company's key stakeholders are customers, employees, shareholders and financiers, suppliers and partners and the public sector.

More detailed information on Lemminkäinen's financial impact can be found in the section discussing economic responsibility.

## EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change

Climate change risk analyses and financial impact assessments have been integrated into Lemminkäinen Group's risk management processes. Lemminkäinen has not defined the financial implications of climate change in euros.

In 2010, Lemminkäinen started to calculate its energy efficiency and carbon footprint at the Group level. At the moment, these calculations cover the production facilities in Finland. Lemminkäinen's goal is to extend these indicators to cover project production throughout Finland and then all operating countries as soon as the Group's information systems allow. Lemminkäinen aims to calculate how efficiently it uses energy in its processes. With this information, Lemminkäinen will be able to make estimates of future trends in our energy consumption and emissions. Production facilities, traffic and transportation are the most notable sources of the company's emissions.

Risks associated with the availability of exhaustible raw materials have an impact on Lemminkäinen's costs. Rises and fluctuations in the price of raw materials

also have an effect on the costs of the company's contracts. Of these raw materials, bitumen is the most important. Bitumen is one of Lemminkäinen's biggest purchases on the annual level. The price of bitumen is tied to the global price of oil. A rise in the price of bitumen affects the profitability of the company's paving production. Lemminkäinen manages the bitumen price risk with oil derivatives and contractual terms. In order to protect the company from this risk, the use of alternative materials in the production must also be researched.

Lemminkäinen continuously develops the material and energy efficiency of its production. In mineral aggregate extraction, for example, the company takes an area's potential after-use into consideration already at the planning stage. By recycling asphalt, the company also saves virgin materials. Waste is one of the most significant environmental impacts caused by construction sites, and Lemminkäinen is striving to achieve a high level of waste sorting at its sites. This enables the company to reduce the amount of waste that ends up in landfill sites and ensures effective re-use and recycling of materials.

Climate change – and unusual weather conditions in particular – may have an effect on Lemminkäinen's working conditions by, for example, interrupting or delaying the projects or the start of the operational season, which can reduce the profitability of projects. The cold, snowy winters of recent years have increased heating costs and have shortened the company's standard operational season. In 2013, the prolonged winter delayed the start of the paving season in all of our operating area. In order to reduce the impact of weather conditions to its paving operations, Lemminkäinen has started to offer non-seasonal maintenance in both Finland and the company's other operating countries.

Legislation and voluntary certification (such as LEED, BREEAM and PromisE) have an impact on the energy efficiency of buildings and infrastructure. Due to the risks and assumptions arising from climate change, uncertain outlooks and the changing socio-economic situation, increasingly stricter legislation is being employed to promote energy-efficient products, services and construction. Stricter legislation – and also customers' and consumers' growing demands – may have a significant cost impact for products and services. For example, an increase in fuel tax or fuel prices may lower the cost-effectiveness of Lemminkäinen's production facilities and transportation. Lemminkäinen strives to minimise this risk by enhancing its traffic and transportation logistics.

Lemminkäinen takes into account its customers', investors', consumers' and partners' increased interest in environmentally friendly products and material and energy efficiency. Lemminkäinen has, for example, developed a dense asphalt that protects the ground from chemicals and other hazardous substances. Lemminkäinen aims to constantly increase the percentage of low-temperature and recycled asphalts in its production. The company is stepping up to meet the challenges posed by climate change with the aid of new technical solutions that enhance the quality and energy efficiency of construction, and by developing end-to-end solutions to improve the energy efficiency of buildings.

Lemminkäinen believes that meeting the challenges of climate change with new energy-efficient solutions, services and products will also give the company a competitive advantage.

### EC3 Coverage of defined benefit plan obligations

Lemminkäinen's pension schemes are discussed in connection with the management's remuneration and in the notes to the financial statements under Pension obligations.

### EC4 Significant subsidies received from the government

In 2013, Lemminkäinen received EUR 113,677 (2012: EUR 281,927) in financial assistance for development projects from the Finnish government.

### EC9 Significant indirect economic impacts

Lemminkäinen contributes to general well-being in society by, for example, providing employment and paying taxes, salaries and social security contributions.

More detailed information on Lemminkäinen's economic impact can be found in the section discussing economic responsibility.

Sustainability › GRI › Environmental performance indicators

## Environmental performance Indicators

### EN3 Direct energy consumption

Lemminkäinen uses non-renewable energy sources as its direct energy sources.

#### Direct energy consumption, Finland

GWh	2013	2012	2011
Light fuel oil	138	162	133
Heavy fuel oil	84	85	101
Natural gas	38	60	59
Liquefied petroleum gas*	2	2	n/a
Total	262	309	293

\* Liquefied petroleum gas (LPG) was added to the data for 2012–2013

### EN4 Indirect energy consumption

**Indirect energy consumption, production facilities Finland**

GWh	2013	2012	2011
Electricity	26	26	19
District heating*	n/a	n/a	1.7
Total	26	26	20.7

\* District heating was removed from the 2012–2013 reporting, as it was used only at concrete plants

Our indirect energy consumption is based on consolidated Group purchases for 2013.

**EN8 Total water withdrawal by source**

During the reporting year, Lemminkäinen used an estimated 294,000 m<sup>3</sup> (155,000) of water in the production facilities of the paving and mineral aggregates operations. The company use some water for dust suppression and for drilling in rock engineering. Whenever possible, Lemminkäinen's construction sites use also surface water, which the company cannot accurately measure.

Lemminkäinen's business operations do not currently employ any processes that consume high volumes of water.

**EN14 Managing impacts on biodiversity**

Lemminkäinen's mineral aggregates and paving operations in Finland require permits. At Lemminkäinen, these permits are coordinated by a separate team that supports production. In Finland, Lemminkäinen has a total of 306 permits, including mineral aggregates and environmental permits as well as registrations of asphalt plants.

In 2013, Lemminkäinen was granted 41 new permits for our operations. The Environmental Protection Act defines those projects that also require a separate

environmental impact assessment (EIA). Lemminkäinen did not launch any EIA projects during the reporting year. The EIA procedures and careful planning helps Lemminkäinen to safeguard biodiversity.

Lemminkäinen conducts our own environmental risk assessment for projects that do not legally require an environmental permit. These assessments seek to predict any detrimental environmental impact, enabling the company to target the necessary precautions correctly.

Lemminkäinen continually monitor the impact its operations have on the environment. To the company's knowledge, no serious environmental incidents occurred in 2013. At Lemminkäinen's site in Forssa, an oil spill occurred in connection with refuelling. The surroundings have been cleaned of the traces of the incident in cooperation with authorities.

**EN16 Total direct and indirect greenhouse gas emissions**

Lemminkäinen continually seeks to reduce airborne emissions from its production facilities. Lemminkäinen aims to employ the industry's best available technology, such as chimney filters, which reduce the volume of rock dust, sulphur and nitrogen dioxide released into the air.

**Calculated emissions, Finland**

t	2013	2012	2011
Scope 1, From energy consumed and own transportation	76,600	86,100	83,000
Scope 2, From purchased electricity and district heating*	5,200	5,700	4,600
Total CO <sub>2</sub> emissions, Scopes 1 + 2	81,800	91,800	87,600

The following CO<sub>2</sub> emissions coefficients have been used when calculating the emissions for these forms of energy:

Light fuel oil 267 g/kWh; heavy fuel oil 284 g/kWh; natural gas 198 g/kWh, diesel 265 g/kWh and petroleum 265g/kWh (source: Motiva)

\* Electricity, purchased 203 g/kWh (source: IEA, 5-year average 2009–2011).

The coefficient for purchased electricity is obtained annually from data published by the IEA.

We have defined CO<sub>2</sub> as the most significant greenhouse gas. These emissions are generated by both transportation and energy consumption in our own operations.

Scope 1 emissions cover the entire Group's energy consumption and all the vehicles and fuel cards that we own.

Scope 2 covers the emissions generated during the production of electricity and district heating at our production facilities.

Our scope 3 coverage is currently being defined.

In addition to CO<sub>2</sub>, we also cause environmental loading through, for example, noise, dust, vibration and odour pollution, and SO<sub>x</sub>, NO<sub>x</sub> and small particle emissions.

**EN22 Total amount of waste by type and disposal method**

## Waste, production facilities Finland

	2013
<b>Production facilities</b>	
Recycled, reused and incinerated waste, %	73.4
Recycle, reuse and incinerated waste, t	756,000
Landfill waste, %	26.6
Landfill waste, t	274,000

The recycling, reuse and incineration rate includes all waste that is recycled, reused and incinerated as a percentage of total waste.

The landfill rate includes all waste that ends up in landfills as a percentage of total waste.

Hazardous waste has been included in recycling, as it is being reused.

Reports do not include demolition waste and excavated materials. The amount of mixed waste is based on capacity of waste container / emptying.

## EN26 Mitigating environmental impacts of products and services

Read more about the environmental impacts of Lemminkäinen's products and services.

## EN28 Significant fines and sanctions for non-compliance with environmental regulations

Lemminkäinen received no significant fines or sanctions in 2013.

In autumn 2013, the National Bureau of Investigation launched an investigation with regard to the terms and conditions of the environmental permit of Lemminkäinen's asphalt plants in Sammonmäki. Lemminkäinen is cooperating with the authorities in this matter.

## EN29 Environmental impacts of transportation

Lemminkäinen is continually striving to optimise transportation and ensure its efficiency. Lemminkäinen utilises systems that enable the company to reduce unnecessary driving and pay attention to idling.

Lemminkäinen uses videoconferencing to reduce business travel. Emissions caused by business trips are reported as part of our head office's Green Office reporting. They account for an estimated 1–2 per cent of the total emissions caused by Lemminkäinen's operations in Finland.

The emissions limit for company vehicles is 150g CO<sub>2</sub>/km.

## Traffic and transportation

GWh	2013	2012	2011
Energy consumption	31	27	25

Transportation causes CO<sub>2</sub>, SO<sub>x</sub>, and NO<sub>x</sub> emissions as well as noise and dust pollution. CO<sub>2</sub> emissions are reported as part of our EN 16 indicator (scope 1). Our reporting covers our own vehicles' fuel consumption in our domestic operations. Traffic and transportation includes all vehicles used on public highways. We reduce the environmental impact of traffic and transportation by paying attention to the optimisation and efficiency of transportation and by servicing our vehicles regularly. We avoid idling, and we choose machinery and equipment that are appropriate for the intended use.

We take extra care to protect the ground on aprons, to prevent oils, fuels and solvents from contaminating the soil and groundwater.

## EN30 Total environmental protection expenditures and investments

Lemminkäinen made environmental

investments of approximately EUR 100,000 million. They were associated with the operational improvements at our production facilities.

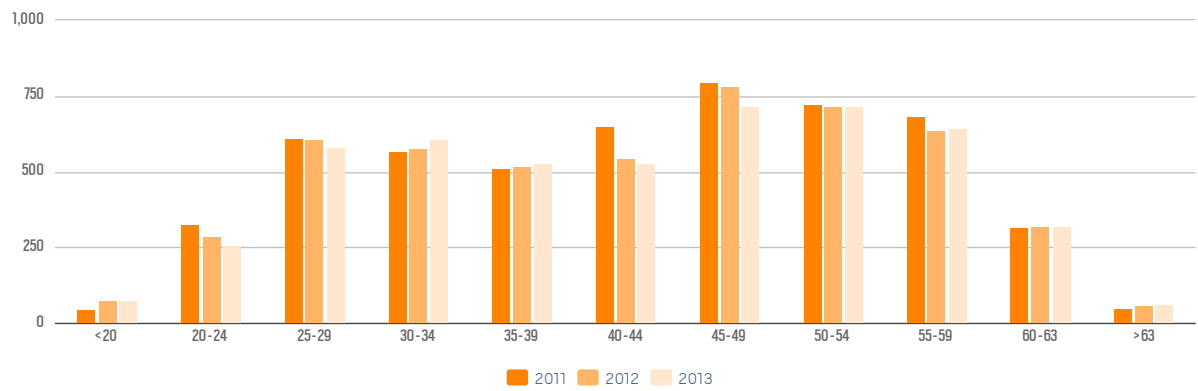
Sustainability › GRI › Social performance indicators

## Social performance indicators

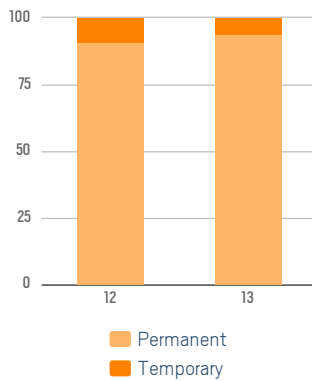
### LA1 Total workforce by employment type, employment contract and region

In 2013, Lemminkäinen employed an average of 7,800 experts (8,200) in 8 countries. 63% of Lemminkäinen employees worked in Finland.

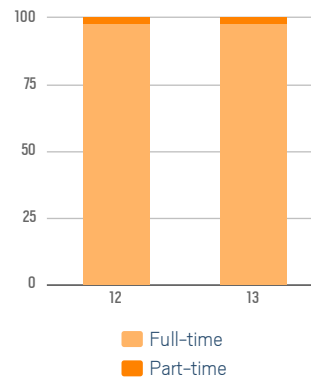
AGE DISTRIBUTION, FINLAND, AT 31 DEC.



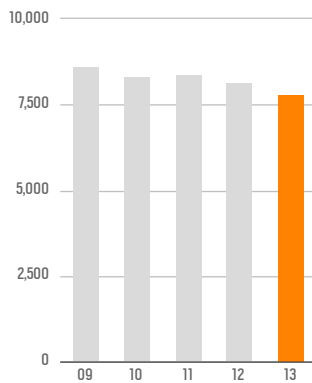
### PERMANENT AND TEMPORARY EMPLOYMENT, FINLAND, AT 31 DEC., %



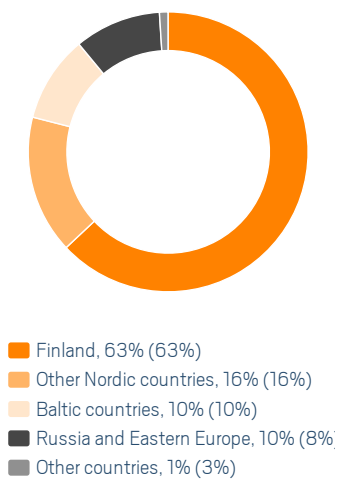
### FULL-TIME AND PART-TIME EMPLOYMENT, FINLAND, AT 31 DEC., %



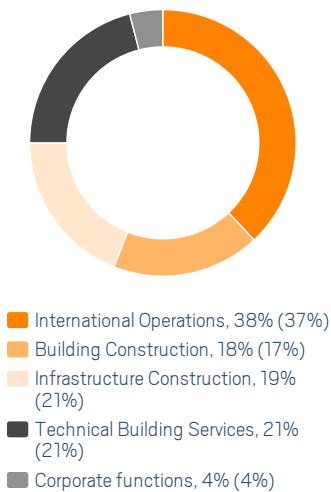
### PERSONNEL ON AVERAGE



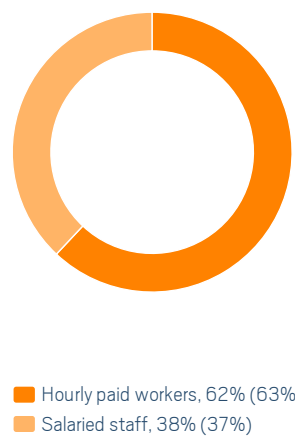
### PERSONNEL BY MARKET AREA



### PERSONNEL BY BUSINESS SEGMENT



### PERSONNEL BY EMPLOYMENT GROUP





## LA2 Total number and rate of employee turnover by age group, gender and region

### Personnel turnover, Finland, permanent employees

%	2013	2012
<b>Personnel turnover (outgoing)</b>		
Employments ended / number of personnel at 31 Dec.	10.6	12.0
<b>Personnel turnover (ingoing)</b>		
Employments began / number of personnel at 31 Dec.	9.6	7.6
<b>Average personnel turnover</b>		
Employments ended and began / 2 / number of personnel at 31 Dec.	10.1	9.8
<b>Reason for departure (permanent personnel) by category, %</b>		
Due to retirement	13.3	14.1
At own request	46.1	52.3
Employer ended	40.0	33.2
Due to death	0.6	0.5

Due to the seasonal nature of our business, the number of our employees varies monthly and is at its lowest level at the end of the year.

The information by agegroup, gender or region breakdown is not available.

## LA4 Coverage of collective bargaining agreements

Our employment contracts comply with current labour legislation. In 2013, all of our hourly paid and salaried employees in Finland – over 89 per cent of the Finnish personnel – were covered by collective labour agreements. No collective labour agreements, nor any other collective agreements, have been agreed on with senior salaried employees and management.

## LA5 Minimum notice period regarding operational changes

All of Lemminkäinen's employees' employment contracts contain a period of notice equal to at least the minimum

required by labour legislation and collective labour agreements. Minimum periods of notice vary depending on the employees' collective agreements and the length of time they have worked for Lemminkäinen.

## LA6 Percentage of employees represented in joint health and safety committees

Occupational safety and health committees enable Lemminkäinen's employees to have a say in issues related to safety and health care in their workplace. 100% of Lemminkäinen's employees are represented in the committees. A joint meeting of all of the Group's occupational safety and health committee representatives is held once a year.

## LA7 Rates of injury, occupational diseases, lost days, fatalities and absenteeism

### Absence due to accident, Finland

	2013	2012	2011	2010
All personnel	0.29	0.24	0.32	0.47
Salaried employees	0.02	0.06	0.08	0.03
Hourly paid employees	0.46	0.34	0.49	0.73
Corporate functions	0.04	0.04	0.01	0.02
Building Construction	0.35	0.32	0.32	0.57
Infrastructure Construction	0.23	0.17	0.26	0.27
Technical Building Services	0.36	0.23	0.44	0.65
International Operations, personnel on the payroll in Finland	0.07	0.18	0.00	-

### Accident frequency rate

	2013	2012	2011	2010
Lemminkäinen Group*	16.3	22.0	n/a	n/a
Lemminkäinen's domestic operations	23.2	28.7	35.4	32.1
Corporate functions	0.0	3.9	0.0	2.5
Building construction	19.1	33.1	34.3	33.9
Infrastructure construction	14.4	18.4	17.4	17.8
Technical building services	41.6	41.1	62.6	52.5
International operations*	5.3	5.1	n/a	n/a
Fatal accidents	0.0	1.0	0.0	0.0

Accident frequency rate: the number of accidents resulting in an absence of more than one day per million working hours. Includes own staff.

\* Operations in Russia were not included in 2012 reports.

### Absence due to sickness, Finland

%	2013	2012	2011	2010
All personnel	3.32	3.60	3.80	3.89
Salaried employees	1.52	1.81	1.84	1.82
Hourly paid employees	4.42	4.68	4.93	5.10
Corporate functions	2.35	2.85	2.43	2.46
Building Construction	3.07	3.19	3.29	3.55
Infrastructure Construction	2.57	2.77	2.87	2.89
Technical Building Services	4.52	4.99	5.40	5.54
International Operations, personnel on the payroll in Finland	0.78	0.94	1.94	-

## LA8 Education and prevention programmes regarding serious diseases

Lemminkäinen believes that the best results can be achieved with the combination of the early support model, professional rehabilitation and occupational healthcare. Through regular monitoring, Lemminkäinen evaluates the risks associated with the personnel's work capacity and implement preventive measures. In Finland Lemminkäinen conducts a Sante health survey as part of health check-ups and comprehensive occupational healthcare. According to the survey, Lemminkäinen's personnel's greatest health risks are excess weight, diabetes, sleeping disorders, alcohol and smoking. The most common symptom predicting work disability is musculoskeletal disorders. Lemminkäinen's occupational healthcare unit supports the solving of health problems either individually or in groups.

In 2013, Lemminkäinen launched two new ASLAK groups, for salaried employees in Finland. ASLAK is the

Social Insurance Institute of Finland's early rehabilitation for minor health problems.

Lemminkäinen support its personnel's leisure-time exercise in many ways. For example, in Finland Lemminkäinen offers all of its personnel an exercise card.

## LA11 Programmes for skills management and lifelong learning

In order to support competence development, we offer customised training to all personnel groups. Our personnel also have the chance to participate in other training organised by our external partners. Due to Lemminkäinen's efficiency measures in 2013, training was reduced.

The PAKKI training programme promotes occupational safety and skills that ensure top-quality results – in short, it provides mandatory competence training. A total of 926 (984) people attended PAKKI courses held in 2013.

The Lemminkäinen supervisor academy LEKA was established to support supervisors in implementing Lemminkäinen's strategy. As the previous strategy period ended in 2013, training was organised only early in the year. A total of 86 (367) supervisors and managers took part in LEKA training.

The VILLA programme supplements LEKA training. Training organised in 2013 was related to Lean Six Sigma, competition law and project management, for instance. There were in total of 287 (666) participants in VILLA courses. In addition, Lemminkäinen organised training related to new enterprise resource planning system.

Read more about competence development.

### LA12 Employees receiving regular performance and career development reviews

Development discussions are an important management tool for Lemminkäinen. They help the company to set personal and team targets, monitor the achievement of these goals, and evaluate personnel's development needs.

The goal is for each Lemminkäinen employee to have an annual career development discussion.

### LA13 Composition of governance bodies and breakdown of employees

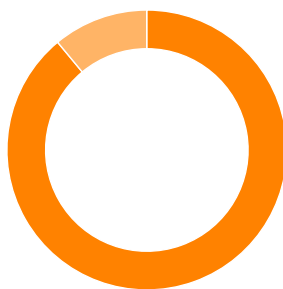
Lemminkäinen's Code of Conduct requires our personnel to be treated equally. Lemminkäinen does not condone any form of discrimination on the basis of race, religion, political beliefs, gender, age, nationality, language or sexual orientation.

In addition, Lemminkäinen has a separate equality action plan as well as guidelines to identify and prevent workplace bullying. Lemminkäinen's equality action plan promotes a diverse personnel structure, salary consistency, the suitability of working conditions for the entire personnel and equal opportunities for career development, among other things. Lemminkäinen follows the realisation of equality in employee survey annually.

The share of women in the Group's Executive Team was 22 per cent. In 2013, the Executive Team had nine members, two of them were women.

The share of women in the Lemminkäinen Board of Directors was 33 per cent. In 2013, Lemminkäinen's Board of Directors had six members, two of them were women.

### GENDER DISTRIBUTION, FINLAND, 31 DEC.



Male, 89%  
Female, 11%

### HR2 Suppliers and contractors that have undergone human rights screening and actions taken

In accordance with its Code of Conduct, Lemminkäinen requires all of its supplier to comply with legislation and international regulations concerning human rights, employment rights and the environment.

Lemminkäinen audits its suppliers when the company wants to ensure the performance of a potential major supplier, or when the company wants to identify areas for development with current suppliers. There was no need for auditing in 2013.

## **HR5 Operations identified in which the right to exercise the freedom of association or collective bargaining may be at significant risk and actions taken to support these rights**

Lemminkäinen has not identified operations nor significant suppliers, where the right to exercise the freedom of association or collective bargaining would be at significant risk.

## **HR6 Operations identified as having significant risk of child labour and measures taken to contribute to the elimination of child labour**

Lemminkäinen has not identified operations nor significant suppliers, which are involved significant risks of child labour.

## **HR7 Operations identified as having significant risk of forced or compulsory labour and measures taken to contribute to the elimination of forced or compulsory labour**

Lemminkäinen has not identified operations nor significant suppliers, which are involved significant risks of forced labour.

## **S04 Actions taken in response to incidents of corruption**

Lemminkäinen's Code of Conduct prohibits corruption. The company regularly communicate about our Code of Conduct to our personnel.

In 2013, no incidents of corruption were detected at Lemminkäinen.

## **S05 Public policy positions and participation in public policy development and lobbying**

Lemminkäinen exercises political influence in general through the industry's advocacy groups. Lemminkäinen actively participates in the Confederation of Finnish Construction Industries RT and other associations that represent its business segments, such as Infra ry and the Building Construction Association. Lemminkäinen is also involved with corresponding associations in other operating countries.

During the planning and implementation of some significant projects, Lemminkäinen's representatives meet also decision makers.

## **S06 Contributions to political parties, politicians and related institutions**

Lemminkäinen does not donate money to political parties or activities, religious organisations, authorities, municipalities, or local administrations.

## **S07 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices**

On 28 November 2013, the District Court of Helsinki gave its decisions on the legal proceedings concerning damages related to the asphalt cartel. For Lemminkäinen, the decisions given concerned the claims of 38 municipalities and the Finnish state. According to the District Court, Lemminkäinen's share of the damages is approximately EUR 48 million (damages of approximately EUR 26 million as well as interest and legal expenses of approximately EUR 22 million). Lemminkäinen paid damages to 35 municipalities, but not to the Finnish state.

Lemminkäinen has deemed the claims for damages to be without foundation. Lemminkäinen and other parties have until 31 March 2014 to submit possible appeals to the Court of Appeals.

## **S08 Significant fines and sanctions for non-compliance with laws and regulations**

Lemminkäinen Infra Oy was ordered by a District Court to pay a EUR 30,000 corporate fine for a breach of occupational safety that was related to a subcontractor accident at one of Lemminkäinen's sites in 2009.

## **PR5 Practices related to customer satisfaction and results of customer satisfaction surveys**

Lemminkäinen tracks its customer satisfaction with international NPS (Net Promoter Score) customer satisfaction survey. In 2013, the survey was conducted in Finland, Sweden, Norway, Denmark and the Baltic countries. Russia was not included in the survey this time.

In 2013, Lemminkäinen's net promoter score decreased to 23.4 (29.3). However, the share of unsatisfied customers has not increased. Instead, the number of neutral customers has increased; in other words, the customer commitment rate has decreased.

The survey results are used to draw up country- and business segment-specific action plans, which Lemminkäinen uses to continuously develop its operations.

## PR6 Adherence to laws, standards and voluntary codes related to marketing communications, advertising, promotion and sponsorship

In addition to meeting with the customers, Lemminkäinen also keeps them informed about current issues through

the web pages, customer magazine and newsletters. The advertising focuses on creating recognition for the range of solutions and services, and it complies with the guidelines of the International Chamber of Commerce ICC.

Sustainability › GRI › Independent Assurance Report

## Independent Assurance Report

(Translation from the Finnish original)

### To the Management of Lemminkäinen Corporation

We have been engaged by the Management of Lemminkäinen Corporation to perform a limited assurance engagement on the numeric information on economic, social and environmental responsibility for the reporting period January 1, 2013 to December 31, 2013, disclosed in the Annual Report 2013 of Lemminkäinen Corporation (hereinafter "Responsibility Reporting").

### Management's Responsibility

The Management of Lemminkäinen Corporation is responsible for preparing the Responsibility Reporting in accordance with the Reporting criteria as set out in the Lemminkäinen Corporation reporting instructions and the G3.1 Sustainability Reporting Guidelines of the Global Reporting Initiative.

### Practitioner's Responsibility

Our responsibility is to express a conclusion on the Responsibility Reporting based on our work performed. Our assurance report has been made in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Lemminkäinen Corporation for our work, for this report, or for the conclusions that we have reached.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that cause us to believe that the Responsibility Reporting has not been prepared, in all material respects, in accordance with the Reporting criteria.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the Responsibility Reporting. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the Responsibility Reporting. Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of Lemminkäinen Corporation
- Visiting the Head Office of Lemminkäinen Corporation as well as four sites in Finland
- Interviewing employees responsible for collection and reporting of the information presented in the Responsibility Reporting at the Lemminkäinen Group level and at the different sites where our visits took place
- Assessing how Lemminkäinen Group employees apply the Lemminkäinen Corporation reporting instructions and procedures
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis
- Testing the consolidation of information and performing recalculations on a sample basis.

### Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the Responsibility Reporting has not been prepared, in all material respects, in accordance with the Reporting criteria. When reading our assurance report, the inherent limitations to the accuracy and completeness of sustainability information should be taken into consideration.

Helsinki, 6 March, 2014

Sirpa Juutinen  
Partner Director,  
Sustainability &  
Climate Change

**PricewaterhouseCoopers Oy**

Maj-Lis Steiner  
Authorised Public Accountant  
Sustainability &  
Climate Change

## Corporate Governance Statement

Lemminkäinen Corporation is a Finnish public listed company whose administration complies with current legislation, such as the Finnish Companies Act, the Accounting Act and the Finnish Securities Market Act, and the company's Articles of Association. We also observe the rules, regulations and guidelines of NASDAQ OMX Helsinki Ltd and the Finnish Financial Supervisory Authority, and we adhere to the Finnish Corporate Governance Code.

### Lemminkäinen's administrative bodies

The General Meeting is where shareholders exercise their voting rights and is Lemminkäinen's highest decision-making body. The Annual General Meeting (AGM) elects the Board of Directors, which in turn appoints the President & CEO. The Board of Directors and the President & CEO are responsible for the management of the Group. The Group Executive Team and other management personnel assist the President & CEO in his or her duties. The Board of Directors decides on the Group's administrative systems and ensures compliance with good governance principles.

### Annual General Meeting

Lemminkäinen's AGM is held annually within six months of the end of the previous financial year on a date determined by the Board of Directors. An Extraordinary General Meeting may be held if the Board of Directors deems it necessary, or if one is legally required.

Notice of a general meeting of shareholders is published on the company's website. In addition, the Board of Directors may decide to publish the notice in a newspaper. Notice of a general meeting of shareholders must be published no earlier than three months and no later than three weeks prior to the meeting, and in any case at least nine days before the meeting's record date. All of Lemminkäinen's shareholders have the right to attend general meetings, as long as they follow the instructions given in the notice. Shareholders may either attend in person or authorise a representative to represent them. Each share carries one vote at a general meeting.

The AGM carries out all of the tasks stipulated in the Companies Act, such as adoption of the Financial Statements, profit distribution, granting discharge from liability to the members of the Board of Directors and the President & CEO, and making any potential changes

to the company's Articles of Association. The AGM also elects the members of the Board of Directors and the auditors, and decides on their remuneration.

Lemminkäinen aims to have the President & CEO, the auditor, and all members of the company's Board of Directors and Group Executive Team present at the AGM. Unless there is a pressing reason for their absence, any prospective members of the Board of Directors who have been nominated for the first time should be present at the AGM that votes on their nomination.

**2013** Lemminkäinen Corporation's Annual General Meeting was held in Helsinki on 9 April 2013. Ninety-seven shareholders attended the meeting, either in person or through an authorised representative, representing about 65 per cent of the company's total number of shares and votes.

### Board of Directors

Lemminkäinen Corporation's AGM elects at least four and at most eight members each year to serve on the company's Board of Directors, which elects a Chairman and Vice Chairman from among its members. The Board members' terms of office end upon the conclusion of the first AGM held after their election.

The Board of Directors handles the company's administration and the appropriate arrangement of its operations. The Board also ensures that the supervision of bookkeeping and asset management is appropriate. The Board of Directors decides on matters of principle and on any issues that would have wide-ranging implications for the company. The Board's task is to steer the company's operations in a manner that adds the greatest possible value to the capital invested in the company over the long term. The Board appoints and dismisses the President & CEO, supervises his or her actions, and decides on his or her remuneration and other terms and conditions of service. The Board also approves the Group's strategy, operating principles and guiding values, as well as ensures that they are up-to-date and correctly implemented. The Board also ensures that the Group has a functional system of internal controls and that the Group's risk management principles have been defined. It also ensures that key business risks have been identified and are being systematically monitored. The Board approves the operational guidelines and annual plan for the internal audit, and also assesses its effectiveness.

Lemminkäinen's President & CEO attends the Board's meetings to present matters for the Board's consideration, as does the CFO. Other members of the Executive Team and the company's management attend meetings as required.

**2013** At the Annual General Meeting held on 9 April 2013, the following were elected as members of the Board of Directors: Berndt Brunow, Noora Forstén, Finn Johnsson, Juhani Mäkinen, Kristina Pentti-von Walzel and Heikki Rätty. At its organisational meeting on 9 April 2013, the Board appointed from among its members Berndt Brunow as Chairman and Juhani Mäkinen as Vice Chairman. The Board of Directors met 13 times in 2013. Each member's attendance is shown in the table below. The Board's

most important agenda topics included approving the new strategy for 2014–2018, improving Lemminkäinen's profitability and strengthening its financial position. At its meetings, the Board also discussed updates to the Group's treasury policy and financial reporting processes. In addition, the Board discussed the legal proceedings concerning damages related to the asphalt cartel and their impact on Lemminkäinen.

The Board carried out a self-assessment of its structure, working methods, and compliance with its rules of procedure. The results of this self-assessment are used to develop the Board's working methods. The Board also assessed the independence of its members.

## Members of the Board of Directors

Members	Independent of the company	Independent of major shareholders	Board of Directors	Audit Committee	Nomination Committee	HR Committee
Berndt Brunow, born 1950 B.Sc. (Econ.)	Yes	Yes	Chair (13/13)		Chair (2/2)	Member <sup>2)</sup> (1/1)Chair <sup>1)</sup> (4/4)
Juhani Mäkinen, born 1956 Counsellor of Law, Attorney	Yes	Yes	Vice (13/13)	Member (4/5)		
Noora Forstén, born 1981 Secondary School Graduate, entrepreneur	Yes	No	Member (13/13)		Member (2/2)	Member (5/5)
Finn Johnsson <sup>1)</sup> , born 1946 M.Sc. (Econ.)	Yes	Yes	Member <sup>1)</sup> (9/9)			
Mikael Mäkinen <sup>2)</sup> , born 1956 M.Sc. (Eng.), Director, Marine, Cargotec	Yes	Yes	Member <sup>2)</sup> (4/4)			Chair <sup>2)</sup> (1/1)
Kristina Pentti-von Walzel, born 1978, M.Sc. (Econ.), B.Sc. (Pol.Sc.), Director, Libera	Yes	No	Member (13/13)	Member (5/5)	Member (2/2)	Member <sup>1)</sup> (4/4)
Heikki Rätty, born 1953, M.Sc. (Econ.), Managing Director, Helectron Oy Ab	Yes	Yes	Member (13/13)	Chair (5/5)		

Chair=Chairman, Vice=Vice Chairman

<sup>1)</sup> As of 9 April 2013

<sup>2)</sup> Until 9 April 2013

<sup>3)</sup> Attendance rate in brackets

## Board committees

At its annual organisational meeting, the Board of Directors appoints three committees from among its members: the Audit Committee, Nomination Committee, and HR Committee. These committees assist the Board of Directors by preparing and drawing up proposals and recommendations for the Board's consideration. The Board of Directors has approved the rules of procedure governing these committees.

### Audit Committee

The Audit Committee monitors and supervises Lemminkäinen's annual statements and financial reporting processes and the statutory audit of the consolidated and parent company's Financial Statements. The Committee monitors the adequacy and effectiveness of the Group's risk management, internal control and internal auditing. It also handles the section of the Group's Corporate Governance Statement that describes the main features of the internal control and risk management systems associated with



the financial reporting process.

The Audit Committee deals with reports and plans prepared by the internal audit. It also assesses the independence of the statutory auditor or firm of authorised public accountants and, in particular, the provision of ancillary services to the audited firm. The Audit Committee evaluates potential auditors and submits a proposal for the Board of Directors' consideration.

The Audit Committee meets at least four times per annum. It comprises a Chairman and at least two members appointed by the Board of Directors. The company's auditor, internal auditor and management representatives are also invited to meetings. Members of the Audit Committee must be independent of the company, and at least one member must also be independent of the company's major shareholders. All members must be competent in the Audit Committee's task domain, and at least one member must have expertise in accountancy, bookkeeping or auditing in particular.

**2013** The Audit Committee convened five times. The members and their meeting attendance are presented in the Members of the Board of Directors table.

In addition to mandatory items, other matters discussed by the Audit Committee included treasury policy, financial arrangements, and progress in the Group's efficiency improvement programme. The Committee also discussed the progress of the implementation of the ERP system and other measures aimed at the improvement of financial reporting. The Committee also evaluated the financial implications of legal proceedings concerning damages related to the asphalt cartel.

#### Nomination Committee

The Nomination Committee makes preparations for the AGM by drawing up a list of proposed nominees for the Board of Directors and making a recommendation for their fees.

The Nomination Committee meets at least once per annum. It consists of a Chairman and between two and four members appointed by the Board of Directors. The majority of the members of the Nomination Committee must be independent of the company. The President & CEO and other members of the company's management may not be members of the Committee.

**2013** The Nomination Committee convened twice. The members and their meeting attendance are presented in the Members of the Board of Directors table.

The Committee made a proposal containing a list of proposed nominees for Lemminkäinen's Board and a recommendation for the fees to be paid both to Board and Committee members. The AGM approved the Nomination Committee's proposal, which was presented by the Chairman of the Board of Directors on 9 April 2013.

#### HR Committee

The HR Committee handles matters relating to senior management's salaries and incentives, as well as other key terms and conditions of their service agreements. The Committee also deals with Group-level remuneration, incentive and retention schemes as well as other HR issues.

The HR Committee meets at least once per annum. It consists of a Chairman and between two and four members appointed by the Board of Directors. The majority of the members of the HR Committee must be independent of the company. The President & CEO and other members of the company's management may not be members of the Committee.

**2013** The HR Committee convened five times. The members and their meeting attendance are presented in the Members of the Board of Directors table.

At its meetings, the HR Committee discussed management incentive practices, short- and long-term management incentives for 2012 and 2013, the elements and earning criteria of short- and long-term incentives in 2014, and who falls within the scope of the management incentive scheme in 2013 and 2014. The Committee drew up a list of remuneration recommendations, which was approved by the Board of Directors.

## Management

#### President & CEO

The President & CEO is responsible for the day-to-day management of the company in line with the Board of Directors' guidelines and instructions. He or she is responsible for the Group's day-to-day administration and business planning. The President & CEO undertakes the execution of measures approved by the Board of Directors and handles preparations for any measures that are strategically important at the Group level. The President & CEO makes sure that the Group has adequate management resources and the company's bookkeeping complies with legislation. He or she also ensures the appropriate arrangement of the Group's administration and asset management.

Timo Kohtamäki, Lic. Tech., (b. 1963) has served as President & CEO of Lemminkäinen Corporation since 2009.

### Executive Team

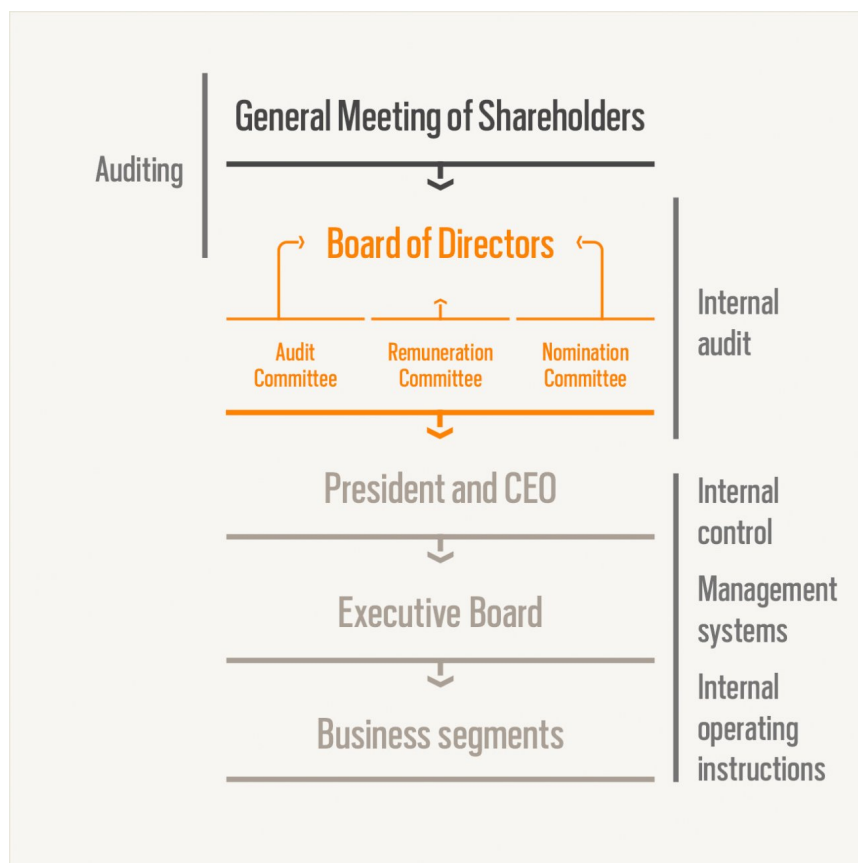
Lemminkäinen's Group Executive Team consists of the parent company's President & CEO and other members appointed by the Board of Directors. The President & CEO is Chairman of the Executive Team and appoints its secretary.

The Executive Team meets at least once a month and supports the President & CEO in, for example, the preparation and execution of strategic matters, operating plans as well as matters of principle and any other significant matters. The Executive Team also assists the President & CEO in ensuring information flow and smooth internal cooperation.

**2013** Timo Kohtamäki continued as Lemminkäinen's President & CEO and Chairman of the Executive Team in 2013. The other members of the Executive Team were Executive Vice Presidents Harri Kailasalo (Infrastructure

construction in Finland, the Baltic countries and project exports); Marcus Karsten (Building construction in Finland); Casimir Lindholm (Building construction in Finland) as well as Tiina Mellas, Executive Vice President, HR and ICT; Tiina Mikander, Chief Strategy Officer; Jouni Pekonen, Executive Vice President, Procurement; and Robert Öhman, CFO. Henrik Eklund, Executive Vice President, International Operations, was a member of the Executive Team until 8 August 2013. On the same date, Executive Vice President Timo Vikström (Scandinavia) and on 1 January 2014 Executive Vice President Maaret Heiskari (Russia) became new members of the Executive Team.

The Executive Team met regularly on a monthly basis as well as held additional meetings dealing with strategy and business planning. The Executive Team's key topics during 2013 were improving the efficiency of operations, lightening the cost structure and the company's new strategy for 2014–2018.



### Controls

The principles of the internal control, risk management and internal audit adhered to by Lemminkäinen Corporation have been approved by the Board of Directors.

Internal control and risk management seek to ensure that the company's business is efficient and profitable, that reporting is consistent and reliable, and that applicable laws, regulations and the Group's operating principles are observed.

## Internal control

The Board of Directors is responsible for ensuring that the Group's internal control and risk management are adequate for the scope of the company's business operations, and that their supervision is appropriately organised. The Board supervises the President & CEO to ensure that he or she handles the company's business operations and administration in accordance with the guidelines and instructions issued by the Board of Directors. In order to ensure adequate risk management, the Board of Directors discusses the Group's financial reports, business segment reviews and any substantial changes that have occurred in the company's business. The Board's Audit Committee also assesses the adequacy and appropriateness of internal control and risk management.

The President & CEO is responsible for the organisation of internal control. Among other duties, he or she ensures that the company's bookkeeping complies with the law and that asset management is handled in a reliable manner.

Lemminkäinen's business is organised into business segments whose Executive Vice Presidents report to the President & CEO. The Group's other directors and managers are responsible for internal control within their own areas of responsibility.

Lemminkäinen controls and monitors its functions to ensure their efficiency and appropriateness, primarily through financial reports and business reviews prepared by management in the business area, business segment and at the Group level.

## Risk management

Risk management is an essential part of Lemminkäinen's business operations. Risk management seeks to ensure that strategic and operational targets are achieved and shareholder value is increased.

Lemminkäinen's risk management is based on the risk management policy approved by the Board of Directors in 2011. The Board also supervises the implementation of risk management. The Board defines the Group's risk appetite and risk tolerance in conjunction with its

strategy and annual planning processes and through its decisions. The Board's Audit Committee monitors the adequacy and effectiveness of the Group's risk management in accordance with the annual Action Plan.

The President & CEO is responsible for the implementation of risk management. The CFO holds primary responsibility for managing financial risks with support from business segment management. Legal affairs are coordinated in a centralised manner in order to promote consistent practices and to ensure the management of legal risks. Personnel receive regular training in legal and contractual matters. Detailed guidelines for different areas, such as competition law and insider issues, have also been drawn up. Monitoring compliance with these guidelines falls within the scope of line operations and management, and internal training on them is also provided. The heads of business segments, units and areas are responsible for executing risk management policy in their own organisations.

## The main features of internal control and risk management systems associated with the financial reporting process

Internal control associated with the financial reporting process aims to ensure that the company's management has sufficient and accurate information available for leading the company and that the financial reports published by the company give a true view of the company's business development and financial position. The internal control function also monitors reporting to ensure that it is handled in accordance with set timetables.

## The structure and management of Lemminkäinen's financial reporting process

In Finland, Lemminkäinen's financial administration is organised into the Financial Shared Services function (including the Group-level accounting function), the Group Controlling function and segment-specific business controlling functions. Foreign subsidiaries have separate financial administration organisations. All of the units mentioned above report to the Group's CFO.





Lemminkäinen's financial reporting process consists of internal and external accounting. Internal accounting focuses on the monitoring and forecasting of the Group's profit performance and measures, whereas external accounting fulfils the information presentation requirements of the International Financial Reporting Standards endorsed by the European Union and, with regard to the notes to the financial statements, the presentation requirements set by the Finnish accounting and community legislation. The Board of Directors' Report and the parent company's Financial Statements are prepared in accordance with the Finnish Accounting Act and the instructions and statements issued by the Finnish Accounting Standards Board.

Group reporting employs both a standard chart of accounts and a reporting and consolidation system. The accounting principles used in internal and external accounting are consistent except for the presentation of discontinued operations.

In Finland, a single financial administration system is used in all financial reporting, and foreign companies use local systems. In 2013, the SAP business management system was implemented in Finland. In foreign financial units, the SAP system will be gradually implemented over the next few years.

#### **Main features and control environment of internal control of the financial reporting process**

The company publishes an external accounting interim report quarterly (each year's final quarter is reported as part of the financial statements bulletin). The interim report includes a description of the business development and financial position in the review period with comparative figures as well as a short-term forecast about the development of the operating environment and the result. The Board of Directors discusses and approves the interim reports, the financial statements bulletin as well as the financial statements and the report of the Board of Directors.

Group Controlling provides instructions on internal accounting reporting timetables and content and combines financial information from different business segments to prepare a monthly management report. The monthly management report includes the Group's and the business segments' income statement, key balance sheet items, investments, order backlog, operative key indicators and a description of the most business-critical events. In addition, the report contains a rolling forecast of the development of the Group's and the business segments' financial position. The Group's Executive Team, the Group's

Board of Directors and the Board's Audit Committee monitor the development of the financial position and assess the achievement of targets monthly.

The Group-level accounting function, operating as part of Financial Shared Services, provides guidance for Group companies in drawing up their quarterly external accounting Group reports. In addition to Group guidance, the Group-level accounting function and the Group Controlling function also support and coordinate the Financial Shared Services, the business segments' business controlling functions, and subsidiaries in their financial reporting. The business segments' business controlling functions also ensure that their profit centres draw up the monthly internal accounting report in accordance with the specified principles and instructions. The Group Controlling function reconciles internal and external accounting every quarter to verify the reliability of financial information.

The internal audit unit, too, monitors processes associated with financial reporting. In 2013, the internal audit unit examined Group and project reporting processes as well as internal controls and authorisations associated with financial administration processes and systems. In addition, the internal audit unit assessed measures related to the implementation of the new business management system in the Finnish units.

#### **Risk management associated with the financial reporting process**

Risk management seeks to identify threats associated with the financial reporting process, the realisation of which would lead to a situation in which the management would not have sufficient and accurate information available for leading the company and the financial reports published by the company would not give materially true information about the company's business development and financial position. The Group's CFO is responsible for the identification and assessment of risks associated with financial reporting.

Lemminkäinen manages the risks associated with the financial reporting process with instructions related to accounting, reporting and investments and the Group's treasury policy. One of the aims of the unified financial administration reporting system is to harmonise and simplify the financial reporting process and to mitigate the risks related to the management of several parallel systems.

Project-type operations, in which the percentage-of-completion method and the recognition-on-completion method of revenue recognition

are applicable, are characteristic of Lemminkäinen's business. Approval authorisations determined by the magnitude and risks of the undertaking are defined for projects. The day-to-day financial control of construction projects is supervised by the project organisation. The business segment management regularly examines the current project forecast and any updates, project risks, the degree of project completion, and revenue recognition. Recognition of revenue from construction projects is based on the management's judgement and estimates.

## Internal audit

The internal audit unit is subordinate to the Board of Directors and operates under the supervision of the President & CEO. It consists of the Head of Internal Audit and as many internal auditors as are required for the unit to carry out its work. Internal auditing resources are strengthened as required by procuring internal auditing services from external service providers. Its operating principles are defined in the internal auditing instructions approved by the Board of Directors.

The internal audit unit assists the Board of Directors in its supervisory role by obtaining information on the adequacy and functionality of risk management and internal control in the Lemminkäinen Group and its business units. The internal audit unit assesses the economy and efficiency of resource usage, the reliability of reporting, the protection and security of assets, and compliance with regulations, operating principles and guidelines. Malpractice reports are regularly submitted to the Board of Directors' Audit Committee.

**2013** The audits focused on the functionality of business processes, project management and internal control of financial reporting, among other areas.

## Insider administration

Lemminkäinen observes NASDAQ OMX Helsinki Ltd's insider guidelines, which are supplemented by the insider guidelines approved by Lemminkäinen's Board of Directors. The company maintains a public and company-specific register using Euroclear Finland Oy's Sire system.

Insiders subject to disclosure requirements are the members of Lemminkäinen's Board of Directors, the President & CEO, and the chief auditor of the accounting firm. The company also defines the members of Lemminkäinen's Group Executive Team as insiders subject to disclosure requirements. The share ownership of all insiders subject to disclosure requirements has been made public.

Lemminkäinen also maintains permanent company-specific

registers of people who regularly receive inside information due to their position or duties. Their share ownership has not been made public. When necessary, registers of project-specific insiders are also kept.

## Auditing

Lemminkäinen has one auditor, which must be a firm of authorised public accountants approved by Finland's Central Chamber of Commerce. The Annual General Meeting elects the auditor for a term of office that runs until the end of the following Annual General Meeting.

The scope of the audit encompasses the Group's accounting, administration, Financial Statements and Board of Directors' Report for each financial year. The Auditor makes regular reports to the Audit Committee and submits an Auditor's Report to the Annual General Meeting. The Auditor's Report contains a statement as to whether the Financial Statements and the Board of Directors' Report give a true and fair view, as defined in the rules governing financial reporting, of the Group's operative result and financial position, and as to whether the information contained in the Board of Directors' Report is consistent with the Financial Statements. The auditor's fee is paid annually, in accordance with the Annual General Meeting's decision.

**2013** PricewaterhouseCoopers Oy, a firm of authorised public accountants, has been Lemminkäinen's auditor since 2004. Kim Karhu has been chief auditor since 2011. In 2010, Lemminkäinen invited bids from firms of authorised public accountants.

In 2013, Lemminkäinen paid its auditor EUR 657,373 (2012: EUR 562,441) in auditing fees and EUR 358,217 in consultancy fees (EUR 473,201).

## Remuneration

### Remuneration – Board of Directors

Lemminkäinen Corporation's Annual General Meeting elects the members of the Board of Directors on an annual basis and also determines their fees. These fees are paid entirely as monetary compensation. The Board members' terms of office end upon the conclusion of the first Annual General Meeting held after their election.

Members of Lemminkäinen's Board of Directors do not fall within the scope of the company's share scheme, nor do they have an employment contract with Lemminkäinen.

decided that the Chairman of the Board is paid a fee of EUR 10,000 per month (2012: EUR 10,000) and Board members each receive EUR 3,000 per month (EUR 3,000). Members of the Board also received an attendance fee of EUR 500 per meeting (EUR 500).

The Chairman of the Audit Committee was paid an attendance fee of EUR 1,000 (EUR 1,000) and members EUR 500 (EUR 500) per Committee meeting.

The members residing abroad were paid the attendance fee increased by EUR 1,000.

**2013** The Annual General Meeting

Travel expenses were reimbursed as invoiced.

<b>Fees – Board of Directors</b>	<b>1 Jan – 31 Dec 2013</b>	<b>1 Jan – 31 Dec 2012</b>
EUR per annum		
Board of Directors		
Berndt Brunow	120,000	120,000
Juhani Mäkinen	36,000	36,000
Noora Forstén <sup>1)</sup>	36,000	27,000
Finn Johnsson <sup>2)</sup>	26,143	-
Mikael Mäkinen <sup>3)</sup>	9,857	36,000
Kristina Pentti-von Walzel	36,000	36,000
Heikki Rätty	36,000	36,000
Teppo Taberman <sup>4)</sup>	-	9,000
<b>Total</b>	<b>300,000</b>	<b>300,000</b>

<sup>1)</sup> From 2 April 2012

<sup>2)</sup> From 9 April 2013. Fees have been paid in Swedish kronas, do not include possible exchange rate difference.

<sup>3)</sup> Until 9 April 2013

<sup>4)</sup> Until 2 April 2012

<b>Meeting fees – Board of Directors</b>	<b>1 Jan – 31 Dec 2013</b>	<b>1 Jan – 31 Dec 2012</b>
EUR per annum		
Board of Directors		
Berndt Brunow	6,500	7,000
Juhani Mäkinen	8,500	8,500
Noora Forstén <sup>1)</sup>	6,500	5,500
Finn Johnsson <sup>2)</sup>	13,500	-
Mikael Mäkinen <sup>3)</sup>	2,000	6,000
Kristina Pentti-von Walzel	9,000	8,500
Heikki Rätty	11,500	11,000
Teppo Taberman <sup>4)</sup>	-	
<b>Total</b>	<b>57,500</b>	<b>47,000</b>

1) From 2 April 2012

2) From 9 April 2013. Fees have been paid in Swedish kronas, do not include possible exchange rate difference.

3) Until 9 April 2013

4) Until 2 April 2012



## Remuneration – Management

On the basis of a proposal submitted by the HR Committee, Lemminkäinen's Board of Directors decides on the salaries, short- and long-term incentives and other benefits received by the President and CEO and the Group Executive Team.

According to the remuneration policy adopted by the Board of Directors, the remuneration of the President and CEO, the members of the Group Executive Team and other management personnel consists of a fixed basic salary, other benefits, annual short-term incentives (a performance bonus), and long-term incentives (share-based incentives and pension schemes).

A fixed basic salary denotes monthly monetary compensation, which is determined by the nature of the position and the person's experience and performance. In addition to meal benefits and the use of a company car and mobile phone, management personnel also have extended insurance coverage for accidents and travel during their leisure time. Total remuneration therefore consists of both a basic salary and benefits (excluding the meal benefit). The meal benefit is generally available to persons whose employment started before 1 January 2012.

Each year, Lemminkäinen's Board of Directors decides on indicators and targets for short- and long-term incentives, which seek to support the achievement of the strategic targets. On the basis of a proposal by the President and CEO, the Board decides on the targets to be reached and the size of the incentives.

## Short-term incentives

Management's short-term incentives are based on the opportunity to receive an annual performance bonus. The size of this reward depends on whether or not the financial and operational targets specified at the beginning of each year have been achieved. Lemminkäinen's management is divided into five (2012: four) groups, which determine the maximum percentage applicable to each individual. Individuals are allocated to these groups on the basis of their position in the organisational hierarchy and the nature and commercial value of their position.

**2013** The size of management's performance bonus was based on the Group's operating profit, the Group's return on investment and the achievement of other growth and development targets, such as those associated with the improvement of customer satisfaction and operational efficiency. Performance bonuses for the Executive Vice Presidents of business segments were

also based on each segment's operating profit and return on restricted equity. Achievements were monitored every six months. The maximum performance bonus payable to the President and CEO was 80 per cent of his annual salary, and 60 per cent for other members of the Group Executive Team.

## Share-based incentive plan

### The 2013–2015 incentive plan

At the end of 2012, Lemminkäinen Corporation's Board of Directors decided to introduce a new share-based incentive plan for key personnel. The plan consists of both a performance-based and a conditional reward. The conditional reward seeks to encourage the Group's key personnel to increase their holding in the company. The Board of Directors recommends that the President and CEO and members of the Group's Executive Team retain ownership of half of all the shares they receive through the plan until the value of their holding corresponds to half of their annual salary. They should maintain this holding during the validity of employment or service.

A reward paid through this plan may correspond to the value of a maximum of 700,000 Lemminkäinen Corporation shares (including the monetary portion). The value of the reward will be determined by the market price of the reward shares on the payment date. The Lemminkäinen shares handed over as rewards will be bought from the stock market. Therefore, the incentive plan will not have a diluting effect on the value of the shares.

### Performance-based reward

The plan consists of three earning periods: the calendar years 2013, 2014 and 2015. The company's Board of Directors decides on the plan's earning criteria and the targets to be set at the beginning of each earning period.

A possible performance-based reward for the earning period will be paid out partly in company shares and partly in cash. The cash portion will cover any taxes and tax-related costs arising from the reward. The shares may not be transferred during the commitment period of approximately two years. If a key person's employment or service contract ends during the commitment period, they will generally have to return any reward shares to the company without compensation.

### Conditional reward

In addition to the performance-based reward, the above-mentioned individuals also have the opportunity to receive a conditional reward based on share ownership and

a continuation of their employment or service contract. In order to receive the conditional reward, a key person must already own or acquire a specified number of company shares, or a percentage thereof, by a specified date. The number and date are set by the Board of Directors. If they do so, key personnel will then be granted one share for each share acquired, as long as their employment or service contract remains valid and they retain ownership of these shares until the conditional reward is paid. The earning period for the conditional reward is the calendar years 2013–2015. The conditional reward will be paid by the end of April 2016, partly in shares and partly in cash.

**2013** About 45 people fall within the scope of the plan during the 2013 earning period.

The performance-based reward was based on Lemminkäinen Group's operating profit and its return on investment. The 2013 targets for the performance-based reward were not achieved, and consequently, no reward will be paid.

In order to receive the conditional reward, a key person had to own or acquire a specified number of company shares, or a percentage thereof, by 30 June 2013. The number was set by the Board of Directors.

## Pension plan

As of 1 January 2010, supplementary pension plans for the President and CEO and the Group Executive Team have been based on a defined contribution plan and obtaining a paid-up policy. Contributions are calculated as a percentage of annual salary.

The President and CEO is entitled to retire upon reaching 60 years of age.

Other members of the Group Executive Team are entitled to retire either upon reaching 60 years of age (under the old system) or upon reaching 63 years of age (under the new system, which came into force on 15 September 2011).

## The President and CEO's contract of service

The President and CEO's contract of service may be terminated with six months' notice. Upon termination of the contract by the company, the President and CEO shall be entitled to receive a one-off severance payment equivalent to 18 months' salary in accordance with his or her salary rate at the time of termination.

Remuneration and fees – President & CEO	1 Jan – 31 Dec 2013	1 Jan – 31 Dec 2012
EUR per annum		
Monetary salary	486,720	491,400
Benefits	24,627	19,992
Performance-based incentives	0	87,603
Pension schemes	249,166	196,363
Total	760,513	795,358
Share-based incentive (shares, no.)	0	10,220

Remuneration and fees – Executive Team members (Excluding the President & CEO)	1 Jan – 31 Dec 2013	1 Jan – 31 Dec 2012
EUR per annum		
Monetary salary	1,565,226	1,460,313
Benefits	98,223	115,423
Performance-based incentives	0	206,820
Pension schemes	586,030	555,331
Total	2,249,479	2,337,887
Share-based incentive (shares, no.)	0	26,249





### Berndt Brunow

b. 1950, M.Sc. (Econ.)

Chairman of the Board since 2008 and a member of the Board since 2002

Chairman of the Nomination Committee and the HR Committee

Independent of the company and its major shareholders



### Juhani Mäkinen

b. 1956, Counsellor of Law, Attorney

Vice Chairman and member of the Board since 2008

Member of the Audit Committee

Independent of the company and its major shareholders



### Noora Forstén

b. 1981, Secondary School Graduate

Member of the Board since 2012

Member of the Nomination Committee and the HR Committee

Independent of the company and non-independent of its major shareholders



### Finn Johnsson

b. 1946, M.Sc. (Econ.)

Member of the Board since 2013

Independent of the company and its major shareholders





### Kristina Pentti-von Walzel

b. 1978, M.Sc. (Econ.), B.Sc. (Pol.Sc.)

Member of the Board since 2007

Member of the Audit Committee, the Nomination Committee and the HR Committee

Independent of the company and non-independent of its major shareholders



### Heikki Rätty

b. 1953, M.Sc. (Econ.)

Member of the Board since 2009

Chairman of the Audit Committee

Independent of the company and its major shareholders

More detailed information about Board members can be found at:

[http://www.lemminkainen.com/Investors/Management\\_an...](http://www.lemminkainen.com/Investors/Management_an...)

Corporate Governance › Executive Team

## Executive Team



### Timo Kohtamäki

b. 1963, Lic. Tech

President & CEO and member of the Executive Team since 2009, Group employee since 1996.

Kohtamäki was previously the Managing Director of Lemminkäinen Infra Oy and Head of the Infra Unit at Lemcon Ltd.





### Maaret Heiskari

b. 1966, B.Sc. Linguistics, JOKO 57 Executive education

Executive Vice President, responsible for business in Russia, member of the Executive Team since 2013, Group employee since 2013.

Before joining Lemminkäinen, Heiskari was Regional Director for Russia at KONE Corporation.



### Harri Kailasalo

b. 1969, M.Sc. (Eng.), eMBA

Executive Vice President, responsible for infrastructure construction in Finland and in Baltic countries, project export as well as environmental leadership and occupational safety, member of the Executive Team since 2012, Group employee since 1995.

Kailasalo previously held a variety of executive positions in infrastructure construction at Lemminkäinen, most recently as Senior Vice President of Business Operations.



### Marcus Karsten

b. 1966, M.Sc. (Econ.)

Executive Vice President, responsible for technical building services in Finland, member of the Executive Team since 2010, Group employee since 2002.

Karsten was previously both Managing Director and Marketing & Development Director of Tekmanni Service Oy.







### Casimir Lindholm

b. 1971, M.Sc. (Econ.), MBA

Executive Vice President, responsible for building construction in Finland, member of the Executive Team since 2013, Group employee since 2013.

Before joining Lemminkäinen, Lindholm worked at Eltel Networks as President Fixed Telecom and as CEO of Eltel Networks in Sweden.



### Tiina Mellas

b. 1960, M.Sc. (Econ.)

Executive Vice President, HR and ICT, member of the Executive Team since 2009, Group employee since 2009.

Mellas was previously Executive Vice President, Human Resources at Lemminkäinen. Before joining Lemminkäinen, she had a long career at TietoEnator (now Tieto).



### Tiina Mikander

b. 1967, Master of Laws, MBA

Chief Strategy Officer, responsible for strategic development as well as communications and marketing, member of the Executive Team since 2009, Group employee since 1998.

Mikander was previously Legal Counsel and Director, Legal Affairs at Lemminkäinen.





### Jouni Pekonen

b. 1963, M.Sc. (Eng.)

Executive Vice President, Procurement, member of the Executive Team since 2012, Group employee since 2012.

Before joining Lemminkäinen, Pekonen held executive positions in procurement at several companies, most recently at Rautaruukki.



### Timo Vikström

b. 1968, B.Sc. (Eng.), eMBA

Executive Vice President, responsible for business in Scandinavia, member of the Executive Team since 2013, Group employee since 2001.

Vikström previously held a variety of executive positions in infrastructure construction at Lemminkäinen, most recently as Senior Vice President for the Scandinavian paving and mineral aggregates business.



### Robert Öhman

b. 1959, M.Sc. (Econ.)

Chief Financial Officer, responsible for finance, legal affairs and investor relations, member of the Executive Team since 2009, Group employee since 2009.

Before joining Lemminkäinen, Öhman held executive positions in finance at several companies, most recently as Chief Financial Officer at Sponda.

More detailed information about the members of the Executive Team can be found at:

[http://www.lemminkainen.com/Investors/Management\\_an...](http://www.lemminkainen.com/Investors/Management_an...)

Corporate Governance › Risk management

## Risk management

Risk management seeks to predict future risks, ensure that strategic and operational targets are reached, and safeguard operations amid changing conditions.

Our risk management is based on the risk management policy approved by the Board of Directors of Lemminkäinen Corporation. We define a risk as an external or internal uncertainty factor that, if realised, would either positively or negatively affect our potential to achieve our strategic and financial targets in a sustainable and ethical manner. We evaluate a risk's significance on the basis of its probability and financial impact.

We seek to forecast, identify, analyse, evaluate and control significant strategic, operative, financial and accident risks. The Board of Directors defines the Group's risk appetite and risk tolerance in conjunction with its strategic and annual planning processes and through its decisions. The Board's Audit Committee monitors the adequacy and effectiveness of the Group's risk management in accordance with the annual Action Plan.

## Risk management responsibilities

The President and CEO is responsible for risk management. The CFO holds primary responsibility for managing financial and funding risks with support from business management. Operative risks fall under the responsibility of business management, which reports them to the President and CEO.

The heads of the business segments, units and areas are responsible for executing the risk management policy in their own organisations. Every employee is responsible for identifying any risks relating to their own work and bringing them to the attention of their supervisor.

## Lemminkäinen's major risks

### Strategic risks

#### Business risks

Fluctuations in global economic trends and changes in our operating environment affect the demand for our products and services and their cost levels. We continually monitor economic trends and changes in the economy. We aim to forecast them through, for example, scenario exercises during strategic and operational planning. Our goal is to minimise any associated risks.

#### Risks associated with climate change

Unusual or harsh weather can weaken the profitability of our operations by interrupting or delaying projects.

#### Risks associated with the price of oil

We use great amounts of oil-based products in

asphalt production, which accounts for more than a third of our net sales. The price of bitumen is tied to the global price of oil. Lemminkäinen manages the bitumen price risk with oil derivatives and contractual terms. We use over 300,000 tonnes of bitumen annually, more than half of which is hedged using the above-mentioned methods.

#### The economic situation in Russia and the development of the rouble exchange rate

The prices of oil and gas also influence the development of the Russian economy. The development of the rouble exchange rate and the rising interest rate have a direct impact on consumers' purchasing power and housing demand.

We manage this risk by acquiring plots in central locations, where demand of apartments is more stable. We also control the share of our Russian operations' net sales in the Group's net sales. Our target is that during the strategy period 2014–2018, its share will not exceed 20 per cent of the Group net sales.

#### Legislative and compliance risks

Legislative changes can affect market development and, consequently, the profitability of our business operations. We continuously monitor and analyse our operating environment.

Legislative and compliance risks become increasingly important when we are expanding our operations into new markets and strengthening our foothold in our current markets. We invest in the implementation of our Code of Conduct and competition law training. In this way, we manage the risk of malpractice and corruption.

### Operative risks

#### Project-specific risks

The significant risks associated with projects involve cost and implementation management. In particular, the large, demanding projects require good project management. We manage this risk by developing our personnel's project management expertise. We continuously develop our contractual expertise and project management practices during the tender and implementation stage. In 2014, we will revise our management models and decision-making powers, increase the number of risk reviews and intensify the projects' margin follow-up.

Mistakes and defects in production also pose a risk for us. Our management systems support project management and help us to ensure the quality of products.

**Plot and sales risks**

In our residential and commercial development projects, we are responsible for the entire implementation of the project, starting with plot acquisition. We buy plots in Finland and Russia from both the private and public sectors. We manage risks associated with plot acquisition by determining plot ownership rights and any planning restrictions.

The company's residential development and construction involves both sales and price risks. As unsold residential units tie up capital, the company only starts new housing construction if a sufficient number of units have been reserved in advance. Reservation and sales rates are being constantly monitored. We also manage the risk by selling entire properties or parts thereof to investors, which enables us to apply the percentage-of-completion method in project revenue recognition. When undertaking commercial development, business premises are usually sold to property investors in the early stages of construction at the latest, thereby reducing sales risks.

Market changes and, for example, a rapid rise in interest rates increase the sales risk.

**Personnel risks**

The success of our projects is greatly affected by the availability and commitment of competent personnel. With a consistent HR policy, we aim to safeguard our personnel's expertise and performance and maintain an appropriate age structure. We encourage employee commitment through fair and motivational remuneration, interesting tasks and career development opportunities.

Along with our new strategy, we need new kinds of experts in order to increase the share of insightful infrastructure solutions in our net sales. We manage personnel risks by developing our current personnel's expertise and employer image.

The new strategy period also increases the need for successful change management. This risk is managed by supporting supervisory work and providing training.

**Financial risks**

In our business operations, we are exposed to financial risks, the major ones being interest rate, foreign exchange rate, liquidity, credit and funding risks.

Our management of financial risks is based on the treasury policy approved by the Board of Directors, which defines the operating principles and division of responsibility in financial

risk management and funding activities.

More detailed information on financial risks is presented in the notes to the 2013 financial statements.

**Accident risks**

Risks associated with occupational safety and the environment pose an accident risk for us. The majority of our environmental impact stems from our production facilities, construction, and transportation. We regularly monitor our environmental impact. We constantly seek to reduce our environmental impact by, for example, enhancing our production methods and optimising transportation more efficiently. Our Group-level environmental policy, compliance with our management systems and training of our personnel help us to manage our environmental risks.

Risks associated with occupational safety are managed by providing regular training for our personnel and by reporting any safety observations. Our Group Executive Team monitors the development of occupational safety on a monthly basis. We have a Group-level safety policy.

Accidents and damage involving IT systems, personnel security and information security may also pose accident risks for us. We manage these risks by making plans for exceptional circumstances. The implementation of new IT systems also involves risks, which we manage through careful planning and training.

**Legal proceedings**

An isolated risk is posed by the legal proceedings concerning damages related to the asphalt cartel, about which the District Court of Helsinki gave its decisions on 28 November 2013. For Lemminkäinen, the decisions given concerned the claims of 38 municipalities and the Finnish state. According to the District Court, Lemminkäinen's share of the damages is approximately EUR 48 million (damages of approximately EUR 26 million as well as interest and legal expenses of approximately EUR 22 million). Lemminkäinen paid damages to 35 municipalities, but not to the Finnish state.

In addition to the claims that the District Court decided on, 14 claims against Lemminkäinen and other asphalt companies for damages are pending. Lemminkäinen has made a provision worth EUR 6 million for these. The amount also includes interest and legal expenses related to the damages.

Lemminkäinen has deemed the claims for damages to be without foundation. Lemminkäinen and other parties have until 31 March 2014 to submit possible

appeals to the Court of Appeals.

[www.lemminkainen.com/investors](http://www.lemminkainen.com/investors).

More information on the asphalt cartel and the related damages can be found in the Board of Directors' report on 2013 as well as on the company's website at

## Major risks in 2014

Risk type	Examples of risk management measures
Project-specific risks	Complying with the business management system, continual monitoring of production and financing, contractual expertise
The economic situation in Russia and the Central location of plots, securing sales by, for example, investor sales development of rouble rate	
Financial risks	The efficiency programme, diverse funding sources, implementing the working capital optimisation project to all operating countries
Reputation risks and ethical malpractices	A reporting channel for malpractices, review of management modes, continuous communication of the Code of Conduct

