

# 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 Markets 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. [Read more 1, 2, 3](#)

## 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 President & CEO are responsible for the management of the Group. The Group Executive Board and other management personnel assist the President & CEO in his 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 must be published in one or more Helsinki newspapers stipulated by the Board of Directors. Notice of a general meeting of shareholders must be deliv-

ered 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 gives 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 in 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 Board 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.

**2012** Lemminkäinen Corporation's 2012 Annual General Meeting was held in Helsinki on 2 April 2012. 114 shareholders attended the meeting, either in person or through an authorised representative, representing about 67 per cent of the company's total number of shares and votes. [Read more 4](#)

### 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 the bookkeeping and asset management is appropriate. The Board of Directors decides on matters of principle and on any issues that would have broad-ranging implications for the company. The Board's task is to steer the company's operations in a manner that will add the greatest possible value to the company's invested capital 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, and 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 do the CFO and the Executive Vice President of Corporate Business Development, who also acted as the Secretary of the Board. Other members of the Executive Board and the company's management attend meetings as required.

**2012** At the Annual General Meeting held on 2 April 2012, the following were elected as members of the Board of Directors: Berndt Brunow, Noora Forstén, Juhani Mäkinen, Mikael Mäkinen, Kristina Pentti-von Walzel, and Heikki Rätty. At its organisational meeting on 2 April 2012, the Board appointed from among its members Berndt Brunow as Chairman and Juhani Mäkinen as Vice Chairman. The Board of Directors met 14 times in 2012. Each member's attendance is shown in the table below. One of the Board's most important agenda topics was improving Lemminkäinen's profitability. The Board met to discuss updates to the Group's financing policy and ways to guarantee sufficient funding. In 2012, the Board also handled strategic mergers and acquisitions, organisational restructuring, and issues relating to the development of Lemminkäinen's operating model, such as the reorganisation of procurement.

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.

## Board committees

At its annual organisational meeting, the Board of Directors appoints three committees from among its members: the Audit Committee, Nomination Committee, and Remuneration 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 and interim 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 controls 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 for financial reporting.

The Audit Committee deals with reports and plans prepared by the internal control and internal audit units. 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.

**2012** The Audit committee convened four times in 2012. The members and their meeting attendance are presented in the table below.

In addition to mandatory items, other matters discussed by the Audit Committee included financing policy, financial arrangements, and progress in the working capital optimisation project. The committee also discussed measures aimed

## BOARD OF DIRECTORS

MEMBERS	Independent of the company	Independent of major shareholders	Board of Directors <sup>3)</sup>	Audit Committee <sup>3)</sup>	Nomination Committee <sup>3)</sup>	Remuneration Committee <sup>3)</sup>
Berndt Brunow, born 1950 M.Sc. (Econ.)	Yes	Yes	Chair (14/14)		Chair (2/2)	Member (5/5)
Juhani Mäkinen, born 1956 Counsellor of Law, Attorney	Yes	Yes	Vice (13/14)	Member (4/4)		
Noora Forstén <sup>1)</sup> , born 1981 Secondary School Graduate, entrepreneur	Yes	No	Member <sup>1)</sup> (11/11)		Member <sup>1)</sup> (1/1)	Member <sup>1)</sup> (4/4)
Mikael Mäkinen, born 1956 M.Sc. (Eng.) Director, Marine, Cargotec	Yes	Yes	Member (12/14)			Chair (4/5)
Kristina Pentti-von Walzel, born 1978 M.Sc. (Econ.), B.Sc. (Pol.Sc.)	Yes	No	Member (13/14)	Member (4/4)	Member (2/2)	
Heikki Rätty, born 1953 M.Sc. (Econ.), Helectron Oy Ab, Managing Director	Yes	Yes	Member (14/14)	Chair (4/4)		
Teppo Taberman <sup>2)</sup> , born 1944 M.Sc. (Econ.)	Yes	Yes	Member <sup>2)</sup> (1/3)		Member <sup>2)</sup> (0/1)	Member <sup>2)</sup> (1/1)

Chair=Chairman, Vice=Vice Chairman

<sup>1)</sup> As of 2 April 2012

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

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

The decisions of the AGM are available in full at:  
[www.lemminkainen.com/Investors](http://www.lemminkainen.com/Investors) >  
 Management and Corporate Governance > General meeting of shareholders.

at improving the profitability of international operations and ensuring proper risk management in these operations. The committee also focused on the potential financial implications of claims for damages in the case related to the violations of the Act on Competition Restrictions of asphalt industry companies.

### 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. Members of the Nomination Committee may not have an employment or service contract with the Lemminkäinen Group.

**2012** The Nomination Committee convened twice in 2012. The members and their meeting attendance are presented in the table on the previous page.

The Committee made a proposal containing a list of proposed nominees for Lemminkäinen's Board and a recommendation for the fees to be paid to both Board and Committee members. The

AGM approved the Nomination Committee's proposal, which was presented on 2 April 2012.

### Remuneration Committee

The Remuneration Committee handles matters relating to senior management's salaries and incentives, as well as other key terms and conditions of their service agreements. The Remuneration Committee also deals with Group-level remuneration, incentive and retention schemes. The Board of Directors makes the final decisions on the basis of the Committee's proposals.

The Remuneration Committee meets at least once per annum. It consists of a Chairman and between two and four members appointed by the Board of Directors. Members of the Remuneration Committee may not have an employment or service contract with the Lemminkäinen Group.

**2012** The Remuneration Committee convened five times in 2012. The members and their meeting attendance are presented in the table on the previous page.

At its meetings, the Remuneration Committee discussed updates to management incentive policies and practices, short- and long-term management incentives for 2011, and who falls

within the scope of the management incentive scheme in 2012 and 2013. The Committee also discussed the elements and earning criteria of short- and long-term incentives in 2012 and 2013 (the existing share-based scheme, the new share-based scheme, and pension schemes). The Committee drew up a list of 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.

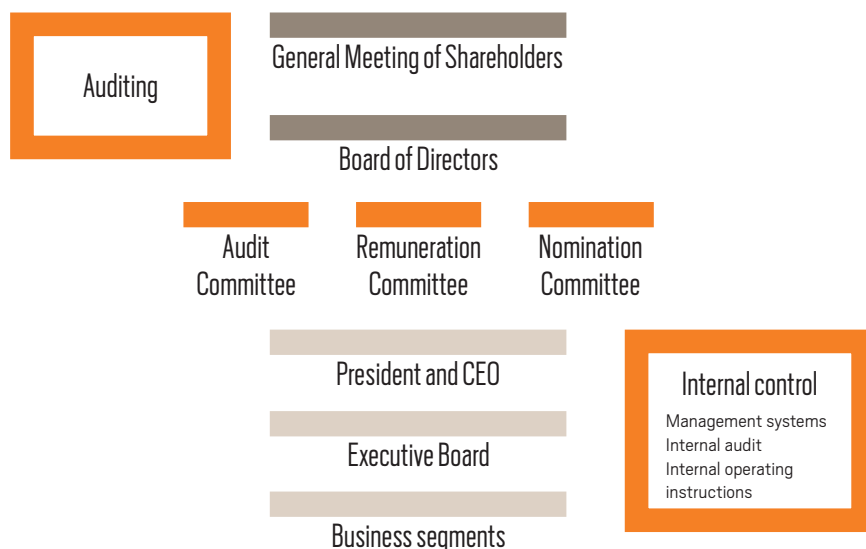
### Executive Board

Lemminkäinen's Group Executive Board 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 Board and appoints its secretary.

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

**2012** Timo Kohtamäki continued as Lemminkäinen's President & CEO and Chairman of the Executive Board. The other members of the Executive Board were Henrik Eklund, Executive Vice President, International Operations; Harri Kailasalo, Executive Vice President, Infrastructure Construction; Marcus Karsten, Executive

## LEMMINKÄINEN GROUP'S CORPORATE GOVERNANCE AND MANAGEMENT



The most significant risks and their management are described in greater detail on the company's website and on pages 82–83 of the annual report.

Vice President, Technical Building Services; Tiina Mellas, Executive Vice President, HR and ICT; Tiina Mikander, Executive Vice President, Corporate Business Development; Jukka Terhonen, Executive Vice President, Building Construction and Robert Öhman, CFO. On 19 March 2012, Jouni Pekonen (M.Sc. (Eng.), born 1963) was appointed Executive Vice President, Procurement, and joined the Executive Board. Kati Suurmunne, Senior Vice President, Communications and Marketing, was Secretary of the Executive Board.

The Executive Board convened 25 times in 2012. The Executive Board's key topics during 2012 were improving the profitability of operations and drawing up the company's new strategy for the period 2014–2018.

## CONTROLS

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

Internal controls 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 controls 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 business segment reviews and financial reports, as well as any substantial changes that have occurred in the company's business. The Board's Audit Committee also assesses the adequacy and appropriateness of internal controls and risk management.

The President & CEO is responsible for the practical organisation of internal controls. Among other duties, he or she ensures that the company's accounting practices comply 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 controls 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 at the business area, business segment and 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 policies 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 sufficiency 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 the top management of the business segments. The director in charge of risk management coordinates the implementation of the policy and process, and reports all risks to the President & CEO, the Group Executive Board, and the Board of Directors. Legal affairs are coordinated by a Group-level unit 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 under the scope of line operations and management, and training on them is also provided. The heads of business segments, units and functions are responsible for executing risk management in their own organisations. [Read more 5](#)

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

### Internal control of Lemminkäinen's financial reporting

Internal control aims to ensure that published interim reports and Financial Statements are prepared in accordance with the accounting and reporting principles adopted by Lemminkäinen, and that they are reliable and give an end-result consistent with expectations. The internal control function also monitors financial reporting to ensure that it is handled in accordance with set timetables.

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 and reporting are based on Lemminkäinen's application of the International Financial Reporting Standards endorsed by the European Union. 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.

The Group-level accounting function provides guidance for Group companies in drawing up their quarterly external Group reports. In addition to Group guidance, Group Controlling and the Group-level accounting function also support and co-ordinate the Financial Shared Services, the segments' business controller functions, and foreign financial units in their financial reporting. Business controller functions issue supplementary, segment-specific accounting and reporting instructions to both their own profit centres in Finland and foreign companies.

Group reporting employs both a standard chart of accounts and a reporting and consolidation system. Group Controlling provides instructions on internal accounting and reporting timetables. The segments' business controller functions ensure that their profit centres draw up monthly internal accounting reports in accordance with the specified principles and instructions. Internal and external accounting are reconciled every quarter to verify the reliability of financial information.

In Finland, Lemminkäinen's financial administration is organised into a joint Financial Service Desk and segment-specific business controller

Share ownership and transaction details for Lemminkäinen's public insiders are available at: [www.lemminkainen.com/Investors](http://www.lemminkainen.com/Investors) > Management and Corporate Governance > Insider administration > Insider Ownership

functions. Foreign subsidiaries have separate financial administration organisations. The Financial Service Desk uses two different basic bookkeeping systems, while foreign companies use local basic bookkeeping systems.

### The procedures used in the internal control of financial reporting are part of day-to-day operations and financial management

Project-type operations, in which the percentage-of-completion method of income recognition is 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 current project forecast and any updates, project risks, the degree of project completion, and income recognition are examined thoroughly in regular meetings at the company level. Recognition of income from construction projects is based on management's judgement and estimates.

The recording of business transactions is based on approved transactions. Approval instructions for investments are specified at the Group level. Approval instructions for transactions, such as purchasing and bookkeeping transactions, are specified at the Group company level. Other key control procedures in Group companies include the differentiation of tasks, reconciliations of ledgers and accounts, system controls, and analytic controls.

The control procedures used by Lemminkäinen's Group-level accounting function include the elimination of intra-Group transactions, Group eliminations, assurance of the continuity of consolidated equity, regular impairment testing of goodwill, and assessment of the logicity of reported numbers versus the comparative period.

Processes associated with financial reporting also fall under the scope of the internal audit. During the financial year, the internal audit unit has, for example, examined Group and project reporting processes, and internal controls and authorisations associated with financial administration systems.

The parent company's President & CEO and CFO participate in Board work at the segment level. The segments' Executive Boards hold monthly reporting meetings in addition to their Board meetings. Here, management presents internal ac-

counting reports, forecasts and deviations. These are dealt with and analysed, so that discrepancies can be identified and rectified. An external Group accounting report is also approved quarterly.

Group management, the Audit Committee and the Board of Directors receive a monthly package of internal Group accounting reports, which includes the income statement, profit forecast, key balance sheet items, investments, order book and operative key indicators by business segment. Material to be included in interim reports or Financial Statements is also reported quarterly. This includes the text and tabulated sections of interim reports or Financial Statements, as well as a detailed consolidated income statement, balance sheet and cash flow statement complete with comparative figures. The Board of Directors discusses, analyses and approves the interim reports, Financial Statement Bulletin, and Financial Statements.

### Internal audit

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 controls 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. Its operating principles are defined in the internal auditing instructions approved by the Board of Directors.

The internal audit unit is subordinate to the Board of Directors and operates under the supervision of the President & CEO. It consists of an audit manager 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.

### 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 Board 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. [Read more 6](#)

### 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 accounting period. The Auditor makes regular reports to the Audit Committee and submits an Auditors' Report to the Annual General Meeting. The Auditors' 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 on the basis of an invoice, in accordance with the Annual General Meeting's decision.

**2012** 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 2012, Lemminkäinen paid its auditor EUR 562,441 (2011: EUR 614,796) in auditing fees and EUR 473,201 in consultancy fees (EUR 269,601). ♦